

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Consolidated Financial Statements

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

(Expressed in Canadian Dollars)

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF LUXXFOLIO HOLDINGS INC. (Formerly AX1 Capital Corp.)

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, 2019 and 2018;
- the consolidated statements of operations and comprehensive loss for the year ended August 31, 2019 and the initial 271-day period ended August 31, 2018;
- the consolidated statements of changes in shareholders' equity (deficit) for the year ended August 31, 2019 and the initial 271-day period ended August 31, 2018;
- the consolidated statements of cash flows for the year ended August 31, 2019 and the initial 271-day period ended August 31, 2018; 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the year ended August 31, 2019 and the initial 271-day period ended August 31, 2018 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 \$1,037,949 during the year ended August 31, 2019 and, as of that date, the Company had an accumulated deficit of \$2,138,211. 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 17, 2019

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LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	August 31, 2019	August 31, 2018
Assets (notes 5 and 11)		
Current		
Cash	\$ 109,623	\$ 405,406
Funds held in trust (note 6)	-	623,257
GST receivable	13,270	27,581
Prepaid expenses	32,253	118,410
Total Assets	\$ 155,146	\$ 1,174,654
Liabilities		
Current		
Accounts payable and accrued liabilities (note 4)	\$ 223,947	\$ 193,278
Subscriptions received (note 6)	-	708,257
	\$ 223,947	\$ 901,535
Shareholders' Equity (Deficit)		
Common Shares (note 6)	\$ 1,995,988	\$ 923,650
Warrants (note 6)	-	443,989
Reserves (note 6)	73,422	5,742
Deficit	(2,138,211)	(1,100,262)
	\$ (68,801)	\$ 273,119
Total Liabilities and Shareholders' Equity (Deficit)	\$ 155,146	\$ 1,174,654

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. (formerly AX1 CAPITAL CORP.)
Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian Dollars)

	For the year ended August 31, 2019	For the initial 271-day period ended August 31, 2018
Expenses		
Research and development (note 4)	\$ 218,571	\$ 178,019
Consulting (note 4)	181,694	80,797
Advertising and marketing	31,910	213,356
Management fees (note 4)	30,000	48,500
Professional fees (note 4)	64,580	41,505
Rent (note 4)	21,050	6,000
Travel and conventions	13,204	62,070
Interest and accretion expense (note 5)	74,040	-
Office and administration	11,633	3,210
Loss Before Other Items	(646,682)	(633,457)
Other Items		
Listing fees (note 7)	(391,418)	-
Write-down of note receivable (note 9)	-	(466,805)
Interest income	151	-
Net Loss and Comprehensive Loss for the Period	\$ (1,037,949)	\$ (1,100,262)
Basic and Diluted Loss per Share	\$ (0.08)	\$ (0.31)
Weighted Average Number of Common Shares Outstanding	12,502,185	3,537,915

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

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Consolidated Statements of Changes in Shareholders' Equity

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

(Expressed in Canadian Dollars)

	Notes	Number of Common Shares	Common Shares	Special Warrants	Reserves	Deficit	Total
Shares issued on incorporation, December 4, 2017		1	\$ -	\$ -	\$ -	\$ -	\$ -
Issuance of special warrants, net of issuance costs		-	-	1,367,639	5,742	-	1,373,381
Conversion of special warrants		9,320,000	923,650	(923,650)	-	-	-
Net loss		-	-	-	-	(1,100,262)	(1,100,262)
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	5	-	-	-	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)

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

The Statement of Changes in Shareholders' Equity has been retrospectively adjusted to reflect share exchange in connection with the Security Exchange Agreement (Note 1).

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

	For the year ended August 31, 2019	For the initial 271-day period ended August 31, 2018
Operating Activities		
Net loss for the period	\$ (1,037,949)	\$ (1,100,262)
Non-cash items		
Write-down of note receivable	-	466,805
Interest and accretion	64,721	-
Listing fees	347,903	-
Changes in non-cash working capital		
Accounts receivable	-	-
GST receivable	14,311	(27,581)
Prepaid expenses	86,157	(118,410)
Accounts payable and accrued liabilities	11,617	193,278
Cash used in operating activities	(513,240)	(586,170)
Investing Activities		
Cash acquired from reverse takeover transaction	47,349	-
Loan advance	-	(466,805)
Cash provided by (used in) financing activities	47,349	(466,805)
Financing Activities		
Issuance of non-escrowed special warrants	96,000	1,373,381
Issuance of escrowed special warrants	74,108	-
Subscriptions received	-	708,257
Funds held in trust	-	(623,257)
Proceeds from notes offering	526,000	-
Payment of notes offering	(526,000)	-
Cash provided by financing activities	170,108	1,458,381
Inflow (outflow) of Cash		
Cash, Beginning of Period	\$ (295,783)	\$ 405,406
Cash, End of Period	\$ 405,406	\$ -
Supplemental Cash Flow Information		
Subscriptions received for special warrants issued	\$ -	\$ 85,000
Refund of funds held in trust	\$ 623,257	\$ -
Accounts payable acquired on reverse takeover transaction	\$ 19,052	-
Amounts paid for interest	\$ 9,319	-
Amounts paid for taxes	\$ -	-

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

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Consolidated Financial Statements

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

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Luxxfolio Holdings Inc. (the “Company”) was incorporated under the *Business Corporations Act* (British Columbia) on October 10, 2017. On March 21, 2019, the Company’s shares began trading on the Canadian Securities Exchange (“CSE”), under the symbol LUXX. The head office of the Company is located at 212 – 1080 Mainland Street, Vancouver, British Columbia. The principal business of the Company is the development of an application to verify, insure and protect luxury goods through a blockchain-enabled authentication platform. On March 26, 2019, the Company changed its name from AX1 Capital Corp. to Luxxfolio Holdings Inc.

On August 24, 2018, the Company entered into a Security Exchange Agreement (the “Agreement”) with Luxxfolio Network Inc. (“Luxxfolio”), a private company incorporated under the *Business Corporations Act* (British Columbia), with respect to a proposed acquisition (the “Transaction”). The Transaction was structured by way of a reverse takeover (“RTO”) whereby the Company issued shares to the Luxxfolio security holders in exchange for securities of Luxxfolio. In consideration for all the issued and outstanding securities of Luxxfolio, the Company issued to Luxxfolio security holders one common share of the Company for each common share of Luxxfolio held by them and one share purchase warrant of the Company for each share purchase warrant of Luxxfolio held by them. Such share purchase warrants of the Company were issued with the same terms as the Luxxfolio share purchase warrants except that they are exchangeable for shares in the capital of the Company.

On March 20, 2019, the Company filed a long form prospectus with the securities regulatory authorities in the Provinces of British Columbia, Alberta, Nova Scotia and Ontario and with the CSE, qualifying the distribution of 12,998,656 common shares of the Company issuable upon the acquisition of the outstanding common shares of Luxxfolio or upon conversion of the special warrants and the share purchase warrants of Luxxfolio. On April 11, 2019, the Company completed the Agreement with Luxxfolio and Luxxfolio became a wholly-owned subsidiary of the Company. The Transaction is considered a RTO by Luxxfolio since the legal acquiree is the accounting acquirer, as the former shareholders of Luxxfolio obtain a controlling interest of the resulting entity after the completion of the Transaction. These 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, 2019, the Company realized a net loss of \$1,037,949 (2018 - \$1,100,262) and as at August 31, 2019 has an accumulated deficit of \$2,138,211 (2018 - \$1,100,262). 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.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Consolidated Financial Statements

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

(Expressed in Canadian Dollars)

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”).

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

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

(b) Basis of presentation and principles of consolidation

These 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 17, 2019.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Consolidated Financial Statements

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

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (continued)

(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.

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.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Consolidated Financial Statements

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

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (continued)

(d) Use of estimates and judgements (continued)

Critical judgements:

(i) Going concern assumption

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

(ii) Recoverability of deferred tax assets

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgements in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant tax authorities, which occurs subsequent to the issuance of the 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, 2019.

(iv) Transaction to acquire Luxxfolio

The determination of the acquirer in the Transaction is subject to judgement and requires the Company to determine which party obtains control of the combining entities. Management applies judgement in determining control by assessing the following three factors: whether the Company has power over Luxxfolio; whether the Company has exposure or rights to variable returns from its involvement with Luxxfolio; and whether the Company has the ability to use its powers over Luxxfolio to affect the amount of its returns. In exercising this judgement, Luxxfolio was deemed to be the acquirer in the Transaction.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Consolidated Financial Statements

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

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (continued)

(d) Use of estimates and judgements (continued)

(iv) Transaction to acquire Luxxfolio (continued)

Management has had to apply judgment relating to acquisitions with respect to whether the acquisition was a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of the acquisition in order to reach a conclusion. The Transaction was accounted for as a reverse asset acquisition and the difference between the fair value of net assets acquired and the consideration paid was recorded as a listing expense (Note 7).

(v) Notes receivable

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

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Company include the following:

(a) Foreign currency transactions

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

(b) Financial instruments

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

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Consolidated Financial Statements

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

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

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

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

Financial assets

(i) Recognition and measurement of financial assets

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

(ii) Classification of financial assets

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

Financial assets measured at amortized cost

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

- The Company's business model for the such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset 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.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Consolidated Financial Statements

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

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

(ii) Classification of financial assets (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. Accumulated gains or losses recognized through other comprehensive income and remain in accumulated other comprehensive income when the financial instrument is derecognized.

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

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

(iii) Derecognition of financial assets

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

Impairment of financial assets

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

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.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Consolidated Financial Statements

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

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

(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.

(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.

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Consolidated Financial Statements

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

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income taxes (continued)

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

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

(d) Research and development

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

(e) Impairment of non-financial assets

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Common Shares

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

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

(g) Share-based payments

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

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

(h) 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 share 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Compound financial instruments

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

(j) Future accounting pronouncements

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

IFRS 16 Leases

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

The main features of the new standard are as follows:

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

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

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

LUXXFOLIO HOLDINGS INC. (formerly AX1 CAPITAL CORP.)

Notes to the Consolidated Financial Statements

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4. RELATED PARTY TRANSACTIONS

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.

For the year ended August 31, 2019, the Company was charged management fees of \$24,000 (2018 - \$48,500), research costs of \$24,000 (2018 - \$48,500), and rental fees of \$21,050 (2018 - \$6,000), by a company controlled by a director and an officer of the Company. In addition, the Company was charged management fees of \$6,000 (2018 - \$nil), and consulting fees of \$31,500 (2018 - \$25,600) by a director and an officer of the Company. At August 31, 2019, \$40,205 (2018 - \$19,900) is included in accounts payable and accrued liabilities related to these services. Interest is not charged on outstanding balances and there are no specified terms of repayment.

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

5. PROMISSORY NOTES

On March 15, 2019, the Company raised \$526,000 through a private placement of 526 Units (the "Units") at a price of \$1,000 per Unit. Each Unit consists of one promissory note (the "Notes") and 1,000 share purchase warrants. Each Note bears interest at the rate of 8% simple interest per annum and is repayable 24 months from the date of issue and is secured against the assets of the Company. The Company has the right to repay the Note at any time during their 24-month term without penalty.

The Company bifurcated the notes into their components using a discounted cash flow model with an estimated fair value interest rate of 15% to estimate the fair value of the liability component amounting to \$461,279 with the remaining \$64,721 balance representing the equity component. Interest and accretion interest totaling \$74,040 was recorded for the year ended August 31, 2019 (2018 - \$nil).

On June 3, 2019, the Company repaid all the Notes outstanding for aggregate principal of \$526,000 and accrued interest of \$9,319.

6. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

The number of common shares issued has been retroactively adjusted to reflect the share exchange in connection with the Agreement (note 1). During the initial 271-day period ended August 31, 2018, the Company issued 9,320,001 common shares as follows:

- On December 4, 2017, the Company issued 1 common share at \$0.01.

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6. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued)

- On August 2, 2018, the Company issued 5,350,000 shares at \$0.05 per share upon the automatic conversion of non-escrowed special warrants issued on January 2, 2018 for a total amount of \$264,000 net of share issuance costs.
- On May 10, 2018, the Company issued 1,165,000 shares at \$0.10 per share upon the automatic conversion of non-escrowed special warrants issued on January 10, 2018 for a total amount of \$116,500.
- On May 12, 2018, the Company issued 227,500 shares at \$0.15385 per share upon the automatic conversion of non-escrowed special warrants issued on January 12, 2018 for a total amount of \$35,000.
- On July 1, 2018, the Company issued 2,477,500 shares at \$0.20 per share upon the automatic conversion of non-escrowed special warrants issued on March 1, 2018 for a total amount of \$489,550 net of share issuance costs.
- On July 28, 2018, the Company issued 100,000 shares at \$0.20 per share upon the automatic conversion of non-escrowed special warrants issued on March 28, 2018 for a total amount of \$18,600 net of share issuance costs.

During the year ended August 31, 2019, the Company issued 3,678,655 common shares as follows:

- On September 30, 2018, the Company issued 925,000 shares at \$0.20 per share 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.

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Notes to the Consolidated Financial Statements

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

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued)

- 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.
- 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 6(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

Escrow Special Warrants

During the initial 271-day ended August 31, 2018, the Company issued 3,209,000 escrowed special warrants pursuant to a subscription agreement for proceeds of \$641,800 and incurred issuance costs of \$43,544. These are funds held in trust that will be released to the Company upon conversion of these escrowed special warrants. Each escrowed special warrant entitles the holder thereof to automatically receive, without payment of additional consideration and without further action on the part of the holder, one common share five days following satisfaction of the Company obtaining a receipt to a final prospectus which qualifies the distribution of the common shares upon conversion of the special warrants, and the conditional listing of the Company's shares on the CSE (the "Conversion Date").

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.

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Notes to the Consolidated Financial Statements

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

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

(c) Special warrants (continued)

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.

Escrowed special warrants transactions and the number of escrowed special warrants outstanding are summarized as follows.

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

Non-Escrow Special Warrants

During the year ended August 31, 2019, the Company issued 1,030,000 (2018 – 11,568,655) non-escrowed special warrants pursuant to a subscription agreement for proceeds of \$206,000 (2018 - \$1,384,231). The Company incurred issuance costs of \$25,000 (2018 - \$10,850) and issued nil finder's warrants (2018 – 54,250) fair valued at \$nil (2018 – 5,742). \$85,000 of the proceeds were received on August 31, 2018. Each non-escrowed special warrant entitled the holder thereof to automatically receive, without payment of additional consideration and without further action on the part of the holder, one common share of the Company upon the earlier of (i) five days following the Conversion Date; or (ii) four months from the date of issuance. For the year ended August 31, 2019, 3,278,655 (2018 – 9,320,000) non-escrowed special warrants automatically converted into common shares.

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6. SHARE CAPITAL (continued)

(c) Special warrants (continued)

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

	Number of Non-escrowed Special Warrants	Weighted Average Exercise Price
Outstanding, December 4, 2017 (incorporation)	-	-
Issued	11,568,655	\$ 0.20
Converted to Luxxfolio common shares	(9,320,000)	\$ 0.20
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	-	

(d) Share purchase warrants

During the year ended August 31, 2019, the Company issued 554,000 (2018 – 54,250) share purchase warrants (the “Warrants”) comprised of 526,000 share purchase warrants (2018 – nil) and 28,000 finders’ warrants (2018 – 54,250). 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 (2018 - \$5,742) 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	2018
Risk-free interest rate	1.65%	1.82%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	100.00%	100.00%
Expected life in years	2.00	2.00

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6. SHARE CAPITAL (continued)

(d) Share purchase warrants (continued)

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 4, 2017 (incorporation)	-	-
Issued	54,250	\$ 0.20
Outstanding, August 31, 2018	54,250	\$ 0.20
Issued	554,000	\$ 0.20
Outstanding, August 31, 2019	608,250	\$ 0.20

The following Warrants were outstanding at August 31, 2019:

Issue Date	Expiry Date	Exercise Price	Number of Warrants
March 1, 2018	February 29, 2020	\$ 0.20	29,750
March 28, 2018	March 27, 2020	\$ 0.20	7,000
August 10, 2018	August 9, 2020	\$ 0.20	17,500
March 15, 2019	March 14, 2021	\$ 0.20	100,000
March 15, 2019	March 14, 2021	\$ 0.20	426,000
March 21, 2019	March 20, 2021	\$ 0.20	28,000
		\$ 0.20	608,250

The weighted average contractual life for warrants outstanding as at August 31, 2019 is 1.46 (2018 – 1.65) 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.

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7. ACQUISITION OF LUXXFOLIO NETWORK INC. (continued)

The following summarizes the RTO of the Company by Luxxfolio and the assets acquired, and liabilities assumed on April 11, 2019, the Transaction date:

Consideration paid:	
Fair value of 1,881,001 common shares issued at \$0.20 per share	\$ 376,200
	<u>376,200</u>
Transaction costs incurred:	
Legal fees	43,515
Net assets (estimated fair value) assumed:	
Cash	47,349
Accounts payable and accrued liabilities	(19,052)
	<u>\$ 28,297</u>

At the time of the Transaction, the Company's assets consisted primarily of cash and accounts payable and accrued liabilities, and it did not have any processes capable of generating outputs; therefore, Luxxfolio did not meet the definition of a business. Accordingly, as the Company did not qualify as a business in accordance with IFRS 3, *Business Combinations*, the Transaction did not constitute a business combination. The Transaction constituted a reverse acquisition of the Company by Luxxfolio and has been accounted for as a RTO in accordance with the guidance provided in IFRS 2, *Share-based payments* and IFRS 3, *Business combinations*.

As the acquisition was not considered a business combination, the excess value of consideration paid over the net assets assumed to the Company's shareholders, and additional transaction costs are expensed as a listing expense, as follows.

Consideration paid	\$ 376,200
Net assets assumed	(28,297)
Transaction costs incurred	43,515
Listing fees	<u>\$ 391,418</u>

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8. FINANCIAL INSTRUMENTS

(a) Fair value

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

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

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

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

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

(b) Credit risk

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

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk on an ongoing basis in accordance with policies and procedures in place. Cash flow projections are completed and reviewed on a regular basis to ensure the Company has enough cash flows to meet its financial obligations. The Company is exposed to liquidity risk in respect of its accounts payable and accrued liabilities and subscriptions received. Accounts payable and accrued liabilities are due within 90 days.

9. NOTE RECEIVABLE

During the initial 271-day period ended August 31, 2018, the Company advanced a loan to an unrelated party. The loan bears no interest, is unsecured and due in 2021. As at August 31, 2018, management determined there was risk of recoverability of this loan and the loan was written down.

	Total
Balance, December 4, 2017 (incorporation)	\$ -
Loan advance	466,805
Write-down of note receivable	(466,805)
Balance, August 31, 2019 and 2018	\$ -

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10. INCOME TAXES

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

	2019	2018
Net loss	\$ (1,037,949)	\$ (1,100,262)
Income tax at statutory rate	27%	27%
Expected income tax recovery	(280,246)	(297,071)
Items not deductible for tax purposes	111,408	123,858
Over provided in prior years	(10,322)	-
Unused tax losses and tax offsets not recognized	182,897	173,213
Origination and reversal of temporary differences	(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 at August 31, 2019 and 2018, the Company has not recognized the benefit of the following deductible temporary differences:

	2019	2018
Non-capital losses	\$ 1,259,000	\$ 641,000
Capital losses	-	467,000
Share issuance costs	60,100	46,300
Unrecognized deductible temporary differences	\$ 1,319,100	\$ 1,154,300

As at August 31, 2019, the Company had non-capital losses of approximately \$1,259,000 available for carry-forward to reduce future years' taxable income. The non-capital losses expire in 2038 and 2039. The capital losses expired as a result of the acquisition of Luxxfolio Networks Inc. (note 2).

11. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. As at August 31, 2019, the Company considers capital to consist of all components of shareholders' equity (deficit). The Company manages its capital structure and adjusts it considering changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue common shares, promissory notes, or dispose of assets or adjust the amount of cash on hand.

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11. CAPITAL MANAGEMENT (continued)

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 August 31, 2019 no amounts have been drawn down on the LOC.

At this stage of the Company’s development, in order to maximize ongoing operational development efforts, the Company does not pay dividends. There were no changes to the Company’s capital management approach for the year ended August 31, 2019.

12. SEGMENT INFORMATION

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

13. SUBSEQUENT EVENTS

(a) Debt settlements

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