



**LUXFOLIO HOLDINGS INC.**

Interim condensed consolidated Financial Statements  
For the three months ended  
November 30, 2020 and 2019  
(Expressed in Canadian Dollars)  
(unaudited)

Dated: January 28, 2021

**NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a) continuous disclosure requirement, if any auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements.

**LUXXFOLIO HOLDINGS INC.**

Interim condensed consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

(Unaudited)

	November 30, 2020	August 31, 2020
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 188,906	\$ 124,342
GST receivable	598	3,463
	\$ 189,504	\$ 127,805
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 4)	\$ 19,711	\$ 28,836
Subscription received (note 10)	32,000	-
	\$ 51,711	\$ 28,836
<b>Shareholders' Equity (Deficit)</b>		
Common Shares (note 5)	\$ 2,134,376	\$ 2,134,376
Special Warrants (note 5)	217,500	165,000
Reserves (note 5)	67,680	67,680
Deficit	(2,281,763)	(2,268,087)
	\$ 137,793	\$ 98,969
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 189,504</b>	<b>\$ 127,805</b>

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

Approved on behalf of the Board:

"Kelly Klatik"

Kelly Klatik, Director

"Anthony Wong"

Anthony Wong, Director

**LUXXFOLIO HOLDINGS INC.**

Interim condensed consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

(unaudited)

	<b>For the three months ended November 30, 2020</b>	<b>For the three months ended November 30, 2019</b>
<b>Expenses</b>		
Research and development (note 4)	\$ 750	\$ 3,856
Consulting (note 4)	5,625	9,000
Management fees (note 4)	750	3,750
Legal and professional fees	2,028	(7,852)
Rent (note 4)	1,500	3,000
Travel and conventions	-	2,107
General and administrative	3,023	2,833
<b>Net Loss and Comprehensive Loss for the Period</b>	<b>\$ (13,676)</b>	<b>\$ (16,694)</b>
<b>Basic and Diluted Loss per Share</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>17,647,415</b>	<b>15,475,092</b>

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

**LUXXFOLIO HOLDINGS INC.**

Interim condensed consolidated Statements of Changes in Shareholders' Equity

For the three months ended November 30, 2020 and 2019

(Expressed in Canadian Dollars)

(unaudited)

	Notes	Number of Common Shares	Common Shares	Special Warrants	Reserves	Deficit	Total
<b>Balance, August 31, 2019</b>		14,879,657	\$ 1,995,988	\$ -	\$ 73,422	\$ (2,138,211)	\$ (68,801)
Issuance of common shares for debt		1,806,153	90,308	-	-	-	90,308
Net loss		-	-	-	-	(16,694)	(16,694)
<b>Balance, November 30, 2019</b>		16,685,810	\$ 2,086,296	\$ -	\$ 73,422	\$ (2,154,905)	\$ 4,813
Issuance of common shares for debt		961,605	48,080	-	-	-	48,080
Issuance of special warrants		-	-	165,000	-	-	165,000
Expired share purchase warrants		-	-	-	(5,742)	5,742	-
Net loss		-	-	-	-	(118,924)	(118,924)
<b>Balance, August 31, 2020</b>		17,647,415	\$ 2,134,376	\$ 165,000	\$ 67,680	\$ (2,268,087)	\$ 98,969
Issuance of special warrants	5	-	-	52,500	-	-	52,500
Net loss		-	-	-	-	(13,676)	(13,676)
<b>Balance, November 30, 2020</b>		17,647,415	\$ 2,134,376	\$ 217,500	\$ 67,680	\$ (2,281,763)	\$ 137,793

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

**LUXXFOLIO HOLDINGS INC.**

Interim condensed consolidated Statements of Cash Flows  
(Expressed in Canadian Dollars)  
(unaudited)

	For the three months ended November 30, 2020	For the three months ended November 30, 2019
<b>Operating Activities</b>		
Net loss for the period	\$ (13,676)	\$ (16,694)
Changes in non-cash working capital		
GST receivable	2,865	2,898
Accounts payable and accrued liabilities	(9,125)	(43,906)
Cash provided by (used in) operating activities	(19,936)	(57,702)
<b>Financing Activities</b>		
Issuance of special warrants	52,500	-
Subscription received	32,000	-
Cash provided by (used in) financing activities	84,500	-
<b>Inflow (Outflow) of Cash</b>	<b>64,564</b>	<b>(57,702)</b>
Cash, Beginning of period	\$ 124,342	\$ 109,623
Cash, End of period	\$ 188,906	\$ 51,921
<b>Supplemental Cash-Flow Information</b>		
Non-cash transactions		
Shares issued for settlement of debt (Note 5)	\$ -	\$ 90,308

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

## LUXXFOLIO HOLDINGS INC.

Notes to the Interim condensed consolidated Financial Statements (unaudited)

For the three months ended November 30, 2020 and 2019

(Expressed in Canadian Dollars)

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### 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 (the “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 acquisition. These interim condensed consolidated financial statements are a continuation of the financial statements of Luxxfolio.

These interim condensed consolidated financial statements have been prepared on a going concern basis which assumes the Company will continue operating for the foreseeable future and will be able to realize a return on its assets and discharge its liabilities and commitments in the ordinary course of its business.

For the three months ended November 30, 2020, the Company realized a net loss of \$13,676 (2019 - \$16,694) and as of November 30, 2020, has an accumulated deficit of \$2,281,763 (August 31, 2020 - \$2,268,087). 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 interim condensed 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 interim condensed consolidated financial statements, the Company continues to explore all options for strategic alternatives with respect to the Company’s business, Platform, and other more broadly defined options, including changes to the capital structure, mergers and acquisitions, sales, and divestitures (the “Strategic Review”). 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 proposed acquisition 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.

**LUXXFOLIO HOLDINGS INC.**

Notes to the Interim condensed consolidated Financial Statements (unaudited)

For the three months ended November 30, 2020 and 2019

(Expressed in Canadian Dollars)

**1. NATURE OF OPERATIONS AND GOING CONCERN (continued)**

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.

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

**(b) Basis of presentation and principles of consolidation**

These interim condensed consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments classified as financial instruments at fair value through profit or loss, which are stated at fair value. In addition, these interim condensed consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Assets, liabilities, income and expenses of the subsidiary are included in the interim condensed consolidated financial statements from the date that the Company gains control until the date that the Company ceases to control the subsidiary. The Company controls an investee if the Company has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

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

**(c) Approval of the interim condensed consolidated financial statements**

These interim condensed consolidated financial statements were authorized for issue by the Audit Committee and Board of Directors on January 28, 2021.

**LUXXFOLIO HOLDINGS INC.**

Notes to the Interim condensed consolidated Financial Statements (unaudited)

For the three months ended November 30, 2020 and 2019

(Expressed in Canadian Dollars)

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**2. BASIS OF PRESENTATION (continued)**

(d) Use of estimates and judgements

The preparation of these interim condensed consolidated financial statements in accordance with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

*Critical accounting estimates:*

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

(i) Fair value of options and warrants

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

(ii) Fair value of consideration

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

(iii) Promissory notes

The promissory notes were separated into their liability and equity components on the interim condensed 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 consider all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

## LUXXFOLIO HOLDINGS INC.

Notes to the Interim condensed consolidated Financial Statements (unaudited)

For the three months ended November 30, 2020 and 2019

(Expressed in Canadian Dollars)

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### 2. BASIS OF PRESENTATION (continued)

(d) Use of estimates and judgements (continued)

(i) Going concern assumption (continued)

The Company is aware that material uncertainties related to events or condition may cast significant doubt upon the Company's ability to continue as a going concern.

(ii) Recoverability of deferred tax assets

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

(iii) Research and development expenditures

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

Management has had to apply judgment relating to acquisitions with respect to whether the acquisition was a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of the acquisition in order to reach a conclusion. The transaction was accounted for as a reverse asset acquisition and the difference between the fair value of net assets acquired and the consideration paid was recorded as a listing expense (Note 6).

## LUXXFOLIO HOLDINGS INC.

Notes to the Interim condensed consolidated Financial Statements (unaudited)

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(Expressed in Canadian Dollars)

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

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.**

Notes to the Interim condensed consolidated Financial Statements (unaudited)

For the three months ended November 30, 2020 and 2019

(Expressed in Canadian Dollars)

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**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 interim condensed 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.

**LUXXFOLIO HOLDINGS INC.**

Notes to the Interim condensed consolidated Financial Statements (unaudited)

For the three months ended November 30, 2020 and 2019

(Expressed in Canadian Dollars)

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**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 interim condensed consolidated statement of operations and comprehensive loss.

Financial assets and liabilities are offset and the net amount is presented in the interim condensed 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.

**LUXXFOLIO HOLDINGS INC.**

Notes to the Interim condensed consolidated Financial Statements (unaudited)

For the three months ended November 30, 2020 and 2019

(Expressed in Canadian Dollars)

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

## (b) Financial instruments (continued)

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

	<b>Classification</b>
<b>Financial Assets</b>	
Cash	FVTPL
<b>Financial Liabilities</b>	
Accounts payable and accrued liabilities	Amortized Cost

## (c) Income taxes

Income tax expense, consisting of current and deferred tax expense, is recognized in the interim condensed 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.

**LUXXFOLIO HOLDINGS INC.**

Notes to the Interim condensed consolidated Financial Statements (unaudited)

For the three months ended November 30, 2020 and 2019

(Expressed in Canadian Dollars)

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**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.

**LUXXFOLIO HOLDINGS INC.**

Notes to the Interim condensed consolidated Financial Statements (unaudited)

For the three months ended November 30, 2020 and 2019

(Expressed in Canadian Dollars)

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**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 interim condensed consolidated financial statements as the Company does not have any long-term leases.

**LUXXFOLIO HOLDINGS INC.**

Notes to the Interim condensed consolidated Financial Statements (unaudited)

For the three months ended November 30, 2020 and 2019

(Expressed in Canadian Dollars)

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**4. RELATED PARTY TRANSACTIONS**

During the three months ended November 30, 2020, the Company was charged management fees of \$750 (2019 - \$3,750), research costs of \$750 (2019 - \$3,750), and rental fees of \$1,500 (2019 - \$3,000) by a company controlled by a director and an officer of the Company. In addition, the Company was charged consulting fees of \$5,625 (2019 - \$3,000) by an officer of the Company. As at November 30, 2020, \$525 (2019 - \$48,080) was included in accounts payable and accrued liabilities relating to these services.

During the three months ended November 30, 2020, the Company issued 50,000 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 5).

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers and are included in the amounts described above.

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

**5. SHARE CAPITAL****(a) Authorized**

Unlimited number of common shares without par value.

**(b) Issued and outstanding**

During the three months ended November 30, 2020, the Company did not issue any common shares.

During the three months ended November 30, 2019, the Company issued 1,806,153 common shares in settlement of certain debts owed by the Company. Certain creditors of such debts were considered related parties.

- On October 31, 2019, the Company issued 1,806,153 common shares at \$0.05 per common 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.

**LUXXFOLIO HOLDINGS INC.**

Notes to the Interim condensed consolidated Financial Statements (unaudited)

For the three months ended November 30, 2020 and 2019

(Expressed in Canadian Dollars)

**5. SHARE CAPITAL (continued)**

## (c) Special warrants

***Escrow Special Warrants***

During the three months ended November 30, 2020 and 2019, the Company did not issue any escrowed special warrants. As at November 30, 2020, there were no escrowed special warrants issued and outstanding.

***Non-Escrow Special Warrants***

During the three months ended November 30, 2020, the Company issued 1,050,000 (2019 – nil) non-escrowed special warrants for proceeds of \$52,500 (2019 - \$nil). 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 three months ended November 30, 2020 and 2019, no non-escrowed special warrants were converted into common shares.

As at November 30, 2020, there were 4,350,000 (2019 – nil) non-escrowed special warrants issued and outstanding.

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, 2020	3,300,000	\$ 0.05
Issued	1,050,000	\$ 0.05
Outstanding, November 30, 2020	4,350,000	\$ 0.05

## (d) Share purchase warrants

During the three months ended November 30, 2020 and 2019, the Company did not issue any share purchase warrants (the “Warrants”). As at November 30, 2020, 554,000 (2019 – 608,250) Warrants were issued and outstanding. Each Warrant may be exercised into one common share of the Company at a price of \$0.20 per share expiring two years following the date of issuance.

**LUXXFOLIO HOLDINGS INC.**

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For the three months ended November 30, 2020 and 2019

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**5. 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, August 31, 2019	608,250	\$ 0.20
Outstanding, November 30, 2019	608,250	\$ 0.20
Expired	(54,250)	\$ 0.20
Outstanding, August 31, 2020	554,000	\$ 0.20
Outstanding, November 30, 2020	554,000	\$ 0.20

The weighted average contractual life of Warrants outstanding as at November 30, 2020 is 0.29 (2019 – 1.21) years.

**6. ACQUISITION OF LUXXFOLIO NETWORK INC.**

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

As a result of the RTO, 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 interim condensed 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 interim condensed 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 RTO 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>

**LUXXFOLIO HOLDINGS INC.**

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**6. ACQUISITION OF LUXXFOLIO NETWORK INC. (continued)**

At the time of the RTO, 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

**7. FINANCIAL INSTRUMENTS**

## (a) Fair value

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

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

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

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.

**LUXXFOLIO HOLDINGS INC.**

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**7. FINANCIAL INSTRUMENTS (continued)**

## (c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk on an ongoing basis in accordance with policies and procedures in place. Cash flow projections are completed and reviewed on a regular basis to ensure the Company has enough cash flows to meet its financial obligations. The Company is exposed to liquidity risk in respect of its accounts payable and accrued liabilities. The Company has cash of \$188,906 available to settle accounts payable and accrued liabilities which are due within 90 days.

**8. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. As at November 30, 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, except for the Bitcoin miners and related assets as described in note 10 Subsequent Events. The terms and conditions of LOC are consistent with those that may be available from a third-party lender. Further, the LOC becomes immediately due and payable should a change of control occur in the ownership of the Company's equity or the composition of the Board of Directors. No amounts have been drawn down on the LOC as at November 30, 2020.

At this stage of the Company's development, to maximize ongoing operational development efforts, the Company does not pay dividends. There were no changes to the Company's capital management approach for the three months ended November 30, 2020.

**9. SEGMENT INFORMATION**

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

## LUXXFOLIO HOLDINGS INC.

Notes to the Interim condensed consolidated Financial Statements (unaudited)

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(Expressed in Canadian Dollars)

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### 10. SUBSEQUENT EVENTS

(a) Special warrants

On December 2, 2020, the Company completed the sixth and final tranche of its previously announced non-brokered private placement of up to 8 million special warrants (the “Special Warrants”) at a price of \$0.05 per Special Warrant. The sixth and final tranche amounted to 650,000 Special Warrants for proceeds of \$32,500. \$32,000 of the \$32,500 total proceeds were received on November 24, 2020. A total of 10,000 of the 650,000 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) 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 expiry date of the stock options is December 16, 2025. The stock options vest over a 24-month period, at a rate of 25% after each 6 months, and have an exercise price of \$0.075 per share. 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.

(c) Non-brokered private placement

On December 30, 2020, the Company completed its previously announced non-brokered private placement of 4,000,000 common shares in the capital of the Company at a price of \$0.075 per common share. Additionally, as approved by the Canadian Securities Exchange, an over-allotment of 1,200,000 common shares was fully exercised, resulting in a total of 5,200,000 common shares issued for total gross proceeds of \$390,000. A total of 400,000 of the 5,200,000 common shares were issued to a related party. The securities are subject to a four-month and one day hold period under securities laws.

(d) Purchase of Bitcoin miners

On December 24, 2020, the Company placed an order for 590 Bitcoin miners (the “Assets”) at a total purchase price of \$1,174,100 USD. The purchase price was satisfied through a combination of cash and an asset backed lending structure (the “ABL”) provided by Arctos Credit, LLC. The 25% down payment of \$293,525 USD plus closing fees of \$17,612 USD were paid by the Company on December 30, 2020. The next 50% of the purchase amount, totaling \$587,050 USD, was financed by the ABL and also paid on December 30, 2020. The final 25% of the purchase amount, or \$293,525 USD, is financed by the ABL and due on the delivery of the Assets. The ABL financing carries an interest rate of 16% and a term of 19 months with interest only payments of \$7,827 USD for the initial four months, and principal and interest amounting to \$65,160 USD for the remaining 15 months of the term. Subsequent to the structuring of the ABL transaction, a related company, CHP Agent Services Inc., entered into a participation agreement to acquire a 100% participation interest in the ABL. Security for the ABL consists of a first priority charge on the Assets and any Bitcoin and related assets generated from the use of the Assets.

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**10. SUBSEQUENT EVENTS (continued)**

(e) Exercise of share purchase warrants

On January 4, 2021, the Company issued 426,000 common shares at an exercise price of \$0.20 per common share following the conversion of share purchase warrants issued on March 15, 2019 for total proceeds of \$85,200.