

**Datametrex AI Limited**

Management's Discussion and Analysis

Three and Nine Months Ended

**September 30, 2018**

(Canadian dollars, unaudited)

# **Datametrex AI Limited**

## **Management's Discussion and Analysis for the Quarter Ended September 30, 2018**

(Canadian dollars, except share and unit information)

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The following discussion and analysis, prepared as of November 27, 2018, provides information that management believes is relevant to an assessment and understanding of the results of operations and financial conditions of Datametrex AI Limited, formerly Everfront Ventures Corp. (the "Company"). The Management's Discussion and Analysis ("MD&A") should be read in conjunction with the interim condensed consolidated financial statements for the three and nine months ended September 30, 2018 and the consolidated financial statements for the year ended December 31, 2017, including notes thereto and our management's discussion and analysis for the year ended December 31, 2017. Unless otherwise noted, all financial information in the MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in Canadian dollars unless otherwise indicated.

### **Forward Looking Statements**

This MD&A contains or incorporates forward-looking statements within the meaning of Canadian Securities legislation (collectively, "forward-looking statements"). These forward-looking statements relate to, among other things, revenue, earnings, changes in cost and expenses, capital expenditures and other objectives, strategic plans and business development goals, and may also include other statements that are predictive in nature or that depend upon or refer to future events or conditions, and can generally be identified by words such as "may", "will", "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions. In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances are forward-looking statements. These statements are not historical facts but instead represent only the Company's expectations, estimates, and projections regarding future events.

Although the Company believes the expectations reflected in such forward-looking statements are reasonable, such statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Undue reliance should not be placed on such statements. Certain material assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements.

The forward-looking statements contained in this MD&A are made as at the date of this MD&A and, accordingly, are subject to change after such date. Except as required by law, the Company, does not undertake any obligation to update or revise any forward-looking statements made or incorporated in this MD&A, whether as a result of new information, future events or otherwise.

### **Selected Financial Information**

#### **EBITDA and Adjusted EBITDA**

Management believes that EBITDA and Adjusted EBITDA are effective measures for analyzing the performance of the Company. The term "EBITDA" refers to earnings before deducting interest, taxes, depreciation and amortization. The Company calculates Adjusted EBITDA as earnings before deducting interest and accretion, taxes, depreciation and amortization, impairment charges, listing expense, other reverse take-over fees, acquisition related costs, and share based compensation. "EBITDA", "EBITDA per share", "Adjusted EBITDA", and "Adjusted EBITDA per share" are non-GAAP measures. The Company believes that Adjusted EBITDA is useful additional information to management, the Board and investors as it provides an indication of the operational results generated by its business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and amortization and it excludes items that could affect the comparability of our operational results and could potentially alter the trends analysis in business performance. Excluding these items does not necessarily imply they are non-recurring, infrequent or unusual. Adjusted EBITDA is also used by some investors and analysts for the purpose of valuing a company. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to operating earnings or net earnings determined in accordance with IFRS as an indicator of the Company's financial performance or as a measure of the Company's liquidity and cash flows. Adjusted EBITDA does not take into account the impact of working capital

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changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows.

The following table reconciles net loss to EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2018 and September 30, 2017:

	Three months ended September 30,		Nine months ended September 30,	
	2018 \$	2017 \$	2018 \$	2017 \$
<b>Net loss</b>	<b>(15,236,076)</b>	(1,153,173)	<b>(18,165,683)</b>	(2,612,929)
Income taxes	(93,446)	-	(289,759)	-
Depreciation and amortization	949,612	1,689	2,641,803	3,245
Interest and accretion	29,198	-	103,815	-
<b>EBITDA</b>	<b>(14,350,712)</b>	(1,151,484)	<b>(15,709,824)</b>	(2,609,684)
Share based compensation	49,937	317,550	1,266,457	317,550
Impairment of Ronin Mining Rigs	522,932	-	522,932	-
Impairment of Ronin Gosun Intangible	12,355,112	-	12,355,112	-
Listing expense	-	-	-	406,859
Other fees related to RTO	-	-	-	376,219
<b>Adjusted EBITDA</b>	<b>(1,422,731)</b>	(833,934)	<b>(1,565,323)</b>	(1,509,056)
<b>Weighted average number of common shares</b>	<b>200,373,925</b>	75,918,088	<b>198,624,384</b>	58,793,836
<b>Adjusted EBITDA per share</b>	<b>(0.007)</b>	(0.011)	<b>(0.008)</b>	(0.026)

Expressed in Canadian dollars, except for per common share amounts, and prepared in accordance with IFRS for the three and nine months ended September 30, 2018 and September 30, 2017:

	Three months ended September 30,		Nine months ended September 30,	
	2018 \$	2017 \$	2018 \$	2017 \$
Total revenue	589,648	-	3,642,856	100,517
Net loss	(15,236,076)	(1,153,173)	(18,165,683)	(2,612,929)
Net loss per share	(0.076)	(0.015)	(0.091)	(0.044)

### As at September 30, 2018 and December 31, 2017

- Total assets: \$10,037,005 and \$11,632,066
- Non-current financial liabilities: \$901,337 and \$1,334,827

Refer to the Summary of Operations section in this MD&A for further details.

### Business Overview

Datametrex AI Limited, formerly Everfront Ventures Corp., is a technology company focused primarily on collecting, analyzing and presenting structured and unstructured data using machine learning and artificial intelligence, and engaging in industrial scale cryptocurrency mining. The Company also has exposure to blockchain technology currently in

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development for the collection, storage, transfer, analysis and presentation of big data through its associate company, Graph Blockchain Limited ("Graph").

The Company is a publicly traded corporation, incorporated in the province of Ontario and its head office is located at 2161 Yonge St., Suite 210, Toronto, Ontario, M4S 3A6, Canada. The Company's common shares are listed on the TSX Venture Exchange ("TSXV") under the trading symbol "DM" and on the Frankfurt Stock Exchange under the trading symbol "D4G". The Company was incorporated under the laws of the Province of Ontario on March 4, 2011, and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSXV. The principal business of the Company at that time was to identify and evaluate assets or businesses with the view to completing a qualifying transaction (a "QT") under relevant policies of the TSXV. On June 7, 2017, the Company completed its QT pursuant to an agreement between the Company and Datametrex Limited ("Datametrex"). On September 26, 2017, the Company's name has been changed to Datametrex AI Limited.

### Summary of Operations

	Revenue	Net loss	Net loss per share
	\$	\$	\$
<b>Three months ended September 30, 2018</b>	<b>589,648</b>	<b>(15,236,076)</b>	<b>(0.076)</b>
<b>Three months ended September 30, 2017</b>	-	(1,153,173)	(0.015)
<b>Nine months ended September 30, 2018</b>	<b>3,642,856</b>	<b>(18,165,683)</b>	<b>(0.091)</b>
<b>Nine months ended September 30, 2017</b>	100,517	(2,612,929)	(0.044)

### Revenue

For the nine months ended September 30, 2018, revenue was \$3,642,856. The revenue results were as follows:

- \$1,937,973 from Artificial Intelligence, consulting, and management services provided to Graph, of which \$56,983 were earned during the three months ended September 30, 2018.
- \$859,858 from system integration services provided to Lotte Group, of which \$296,649 were earned during the three months ended September 30, 2018.
- \$693,647 from licensing fees earned for big data and Artificial Intelligence solutions, of which \$184,750 were earned during the three months ended September 30, 2018.
- \$79,439 from digital asset mining revenue, of which \$30,974 were earned during the three months ended September 30, 2018.
- \$71,939 from other services the Company provided, of which \$20,292 were earned during the three months ended September 30, 2018.

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### Expenses

For the three months ended September 30, 2018, \$2,947,680 of operating expenses were incurred. In addition, the Company expensed \$12,878,044 of impairment relating to Ronin Blockchain Corp. and the Cryptocurrency Mining segment. Certain significant items are noted:

- Impairment losses for the Ronin Gosun Intangible Asset and the Mining Rigs were recognized in the amounts of \$12,355,112 and \$522,932 respectively during the three months ended September 30, 2018. Refer to the Ronin section below for further discussion on these impairment charges.
- Other operating expenses in the amount of \$668,916 include \$290,485 of direct costs relating to delivering system integration services, \$130,963 of non-management consulting fees, \$93,799 of professional fees and \$42,831 of direct costs incurred in relation to Ronin operations.
- Salaries, benefits and consulting fees of \$669,914 and share based compensation of \$49,937 were incurred. Salaries and benefits include \$204,730 of research and development related costs.
- Intangible amortization of \$838,595 relates primarily to the amortization of the Gosun Intangible Asset.
- Office and general expenses of \$172,775 include \$38,772 of marketing, \$38,727 of occupancy and \$22,472 of travel expenses.
- Gain on remeasurement of the contingent consideration in the amount of \$52,933 was due to a change in estimate with respect to Nexalogy revenue targets.
- Share of loss from equity investees in the amount of \$528,205 relating to the Company's share of loss from the operations of Graph and a gain in the amount of \$3,417 relating to the dilution of the Company's ownership interest in Graph during the three months ended September 30, 2018.

For the nine months ended September 30, 2018, \$8,930,495 of operating expenses were incurred. In addition, the Company expensed \$12,878,044 of impairment relating to Ronin Blockchain Corp. and the Cryptocurrency Mining segment. Certain significant items are noted:

- Impairment losses for the Ronin Gosun Intangible Asset and the Mining Rigs were recognized in the amounts of \$12,355,112 and \$522,932 respectively during the three months ended September 30, 2018. Refer to the Ronin section below for further discussion on these impairment charges.
- Other operating expenses in the amount of \$2,101,410 include \$813,174 of direct costs relating to delivering system integration services, \$623,124 of non-management consulting fees, \$249,663 of professional fees, and \$103,753 of direct costs incurred in relation to Ronin operations.
- Salaries, benefits and consulting fees of \$1,802,166 and share based compensation of \$1,266,457 were incurred. Salaries and benefits include \$485,967 of research and development related costs.
- Intangible amortization of \$2,404,478 relates primarily to the amortization of the Gosun Intangible Asset.
- Office and general expenses of \$531,597 include \$131,025 of marketing, \$108,671 of occupancy and \$89,731 of travel expenses.

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- Gain on remeasurement of the contingent consideration in the amount of \$181,199 was due to a change in estimate with respect to Nexalogy revenue targets.
- Share of loss from equity investees in the amount of \$1,434,887 relating to the Company's share of loss from the operations of Graph and a gain in the amount of \$538,481 relating to the dilution of the Company's ownership interest in Graph during the nine months ended September 30, 2018.

### Summary of Quarterly Results

The following is a summary of the Company's quarterly results, beginning with the three months ended December 31, 2016 ("Q4 - 16"). For the period from September 6, 2016 (date of incorporation) to September 30, 2016, total revenue, net loss, and net loss per share were \$nil.

	Q3 - 18	Q2 - 18	Q1 - 18	Q4 - 17	Q3 - 17	Q2 - 17	Q1 - 17	Q4 - 16
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Total revenue</b>	589,648	1,809,829	1,243,379	127,502	-	60,597	39,920	10,409
<b>Net loss</b>	(15,236,076)	(1,042,458)	(1,887,149)	(2,706,410)	(1,153,173)	(1,114,016)	(345,740)	(173,212)
<b>Net loss per share</b>	(0.076)	(0.005)	(0.010)	(0.023)	(0.015)	(0.021)	(0.007)	(0.008)
<b>EBITDA</b>	(14,350,712)	(206,724)	(1,152,388)	(2,629,539)	(1,151,484)	(1,112,926)	(345,273)	(173,057)
<b>Adjusted EBITDA</b>	(1,422,731)	(131,469)	(11,123)	(1,735,046)	(833,934)	(329,848)	(345,273)	(173,057)

### Segment information

The Company has two operating and reportable segments as defined in note 2 to the interim condensed consolidated financial statements.

The Big Data, AI and Private Blockchain segment includes operations relating to big data and artificial intelligence services provided by Nexalogy, Datametrex and Datametrex Korea, as well as the Company's share of results from its investment in Graph for the collection, storage, transfer, analysis and presentation of big data using blockchain technology that is currently in development.

The Cryptocurrency Mining segment includes operations relating to the provision of transaction verification services within digital currency networks, for which the Company receives digital currency from each specific network in which it participates. The segment information presented comprises primarily the operating results of Ronin, a wholly owned subsidiary of the Company as defined in note 6 to the interim condensed consolidated financial statements.

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Segment information of the Company is summarized as follows:

	<b>Big Data, AI, and Private Blockchain \$</b>	<b>Cryptocurrency Mining \$</b>	<b>Consolidated totals \$</b>
<b>For the nine months ended September 30, 2018</b>			
<b>Revenue</b>	<b>3,563,417</b>	<b>79,439</b>	<b>3,642,856</b>
<b>Segment loss</b>	<b>(2,839,409)</b>	<b>(15,326,274)</b>	<b>(18,165,683)</b>
Depreciation and amortization	557,121	2,084,682	2,641,803
Interest and accretion	103,815	-	103,815
Share of loss from equity accounted investee	1,434,887	-	1,434,887
Share based compensation	1,266,457	-	1,266,457
Impairment of Ronin Mining Rigs	-	522,932	522,932
Impairment of Ronin Gosun Intangible	-	12,355,112	12,355,112
<b>Segment assets</b>	<b>9,910,417</b>	<b>126,588</b>	<b>10,037,005</b>
Equity accounted investee	1,103,594	-	1,103,594
Capital expenditure	98,207	766,870	865,077
<b>Segment liabilities</b>	<b>1,089,206</b>	<b>3,705,525</b>	<b>4,794,731</b>

For the nine months ended September 30, 2017, the Company only had one operating and reportable segment.

## Ronin

On January 15, 2018, the Company has signed the share purchase agreement and completed the acquisition of privately held Ronin Blockchain Corp. ("Ronin"), a global industrial scale blockchain platform with a specific focus on mining multiple cryptocurrencies (the "Ronin Transaction"). As a result of the Ronin Transaction, Ronin became a wholly-owned subsidiary of the Company (the "Ronin Acquisition").

Under the terms of the share purchase agreement, the Company acquired all of the issued and outstanding common shares of Ronin for an aggregate purchase price of \$13,630,000. The purchase price is paid in multiple installments, with the Company having issued to the vendors 22,000,000 common shares of the Company at \$0.415 per share and paid \$2,000,000 in cash at closing. The vendors will receive an additional \$2,500,000 worth of common shares on or before the first anniversary of the closing date of the Ronin Transaction, included in "Accounts payable and accrued liabilities" in the interim condensed consolidated statements of financial position, which will be issued upon the achievement of certain milestones at a price per share equal to the volume weighted average price of the Company's shares on the TSX Venture Exchange for the twenty-day period prior to the issuance of the shares.

In connection with the Ronin Transaction, the Company paid a finder's fee of 1,311,128 common shares to the individual responsible for introducing Ronin and the Company at \$0.415 per share for total consideration of \$544,118. All securities issued in connection with the Transaction are subject to a hold period of four months and one day from the date of issuance.

On January 12, 2018, in connection with the Ronin Acquisition, the Company completed non-brokered private placement as described in note 10 to the interim financial statements.

The Ronin Transaction is an acquisition of an intangible asset that does not constitute a business, as not all inputs, outputs and processes were in place at the time of acquisition. As such, it is being accounted for in accordance with IAS 38, Intangible Assets ("IAS 38").

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The intangible asset recognized related to certain rights Ronin had negotiated with Gosun Group ("Gosun") via a memorandum of understanding which included rights to hosting capacity at Gosun's facilities, utility pass-through pricing, and access to preferred pricing on cryptocurrency mining equipment (the "Gosun Intangible Asset").

The Gosun Intangible Asset was being amortized over a period of approximately 5 years. A definitive agreement with Gosun was signed on February 14, 2018 which gave the Company the right to host up to 50,000 servers or 100 megawatts in 2018 and up to 75,000 servers or 150 megawatts in 2019, with an effective term until December 31, 2019. On May 21, 2018, the Company successfully renegotiated certain terms and conditions of the agreement which include more favourable hosting rates, an extension of the effective term to May 21, 2023 and the right to host up to 150,000 servers or 300 megawatts starting in 2020. The revised agreement with Gosun is set to automatically renew for successive periods of one year starting in 2023 at no additional cost to the Company.

The Company incurred acquisition costs in the amount of \$617,337 relating to the Ronin Acquisition which were included in the cost of the Gosun Intangible Asset in accordance with IAS 38.

### Impairment of the Ronin Mining Rigs

During the nine months ended September 30, 2018, the Company had property and equipment additions of \$865,077 which include \$721,870 for graphics processing unit (GPU) based cryptocurrency mining machines (the "Mining Rigs"). The Mining Rigs had an estimated useful life of two years and were being depreciated on a straight-line basis.

The Company identified several market factors affecting its Cryptocurrency Mining segment that include a downtrend in the prices of digital assets, a significant increase in mining difficulty, and a negative outlook on mining profitability due to the introduction of new digital asset mining equipment that is more powerful, efficient and cost effective than the machines the Company acquired in the first quarter of 2018. Due to these deteriorating market conditions the Company has performed an assessment of the recoverable amount of its Mining Rigs.

In accordance with IAS 36, Impairment of Assets ("IAS 36"), the Mining Rigs should be written down to their recoverable amount, which is the higher of their value in use and their fair value less costs to sell.

The Company has determined that the value in use for the Mining Rigs is insignificant. Given the Company's largely fixed cost structure to operate the Mining Rigs, the Company is not expected to mine profitably unless significant investment is made to scale the operations. A material capital investment into the Company's Cryptocurrency Mining segment is not currently expected.

The Company has determined the fair value less costs to sell for the Mining Rigs to be \$14,382. The following key assumptions were used in this determination:

- The Mining Rigs generate total work output of approximately 14,200 MH/s (megahash per second, a measure of mining power) for the Ethash algorithm, which is used by Ethereum (a type of digital asset that the Company has been mining).
- Comparable mining equipment generating work output of 190 MH/s for the Ethash algorithm has a market price of approximately \$1,000 per unit. Management has obtained this value by viewing recent prices for the Bitmain Antminer E3 unit on the online Bitmain store (<http://shop.bitmain.com>). Given that the prices do not have a regular mark to market mechanism for setting fair value, the unit price is considered to be a Level 3 valuation under the Fair Value hierarchy.
- Given no material differences in electrical efficiency between the Mining Rigs and the Bitmain Antminer E3 units, the fair value was determined on a primarily pro-rata basis based on total work output. Approximately \$31,000 of further adjustments were made to decrease the value of the Mining Rigs due to their used condition and the increased cost of rent and maintenance compared to the Antminer E3 units.
- Costs to sell of \$30,000 have been determined to be reasonable based on sales efforts that would be expected.

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Given that the Mining Rigs had a carrying amount of \$537,314 on September 30, 2018 prior to any impairment charges, the Company recognized an impairment loss in the amount of \$522,932 during the three months ended September 30, 2018 to write the Mining Rigs down to their recoverable amount of \$14,382.

### **Impairment of the Ronin Gosun Intangible Asset**

Due to the deteriorating market conditions the Company has also performed an assessment of the recoverable amount of its Gosun Intangible Asset.

In accordance with IAS 36, the Gosun Intangible Asset should be written down to its recoverable amount, which is the higher of its value in use and its fair value less costs to sell.

The Company has determined that both the value in use and fair value less costs to sell for the Gosun Intangible Asset are insignificant. The key assumptions and factors used in making the determination are as follows:

- Due to market conditions, the Company has been unable to raise sufficient funds to scale its operations at the Gosun facilities. As such, the Company cannot recover the carrying amount of the Gosun Intangible Asset through its normal course of operations.
- Management does not expect material reversals in the electricity rates in China, with effective rates between 9.9 to 13.2 Canadian cents per kWh (exclusive of additional rental fees) for its Gosun facilities. These rates are not competitive compared with market electricity rates of 3.5 to 9.2 cents available to miners in North America.
- With the decrease in digital asset prices and significant increase in mining difficulty, combined with the relatively high operating expenses at the Gosun facilities, margins have decreased to a point where it is no longer profitable to operate in the current market environment.
- Management believes that the market has seen a significant shift in the value drivers for digital asset mining. When digital asset prices were at their peak early in 2018, the primary constraint to mining profitability was available operating capacity. The Gosun Intangible Asset provided a significant footprint with access of up to 300 MW by 2020. With the significant deterioration in mining profitability, management believes that low operating costs are now the key value driver.
- Given the current market environment, management believes that at this time there is no market or demand for the Gosun Intangible Asset.

The fair value assessment is a Level 3 valuation under the Fair Value hierarchy, with the key assumptions and factors listed above. When considering the costs that would have to be incurred to try to sell the Gosun Intangible Asset in the current market environment, management has determined that fair value less costs to sell is effectively \$nil.

Given that the Gosun Intangible Asset had a carrying amount of \$12,355,112 on September 30, 2018 prior to any impairment charges, the Company recognized an impairment loss in the full amount to write the Gosun Intangible Asset down to its recoverable amount of \$nil.

### **Equity accounted investee**

On November 21, 2017, the Company signed an agreement with Bitnine Global Inc. ("Bitnine") to create a joint venture company, Graph. Graph's mandate is to bring the value of the graph database technology to the blockchain environment where the Company and Bitnine identified a need in the market to enhance performance and present verified and authenticated data in unique ways. Graph's principal place of business is Canada but it also has operations in South Korea.

On January 10, 2018, Graph completed a non-brokered private placement (the "Graph Private Placement") for aggregate gross proceeds of \$3,455,376. Under the Graph Private Placement, Graph issued 42,803,413 shares in accordance with the terms and conditions of the subscription agreement representing a subscription price of \$0.083 per share. In connection with

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the Graph Private Placement, finder's fees were paid to arm's length parties in an amount equal to 8% of the size of the Graph Private Placement. This included cash commissions of \$124,146, the grant of 1,665,818 brokers' warrants and the issuance of 959,626 shares. Each whole broker's warrant shall be exercisable for one common share of Graph at a price of \$0.083 per broker warrant for a period of 24 months from the closing date.

Also, on January 10, 2018, the Company received 12,109,762 common shares valued at \$0.083 per share in exchange for management services rendered. The company initially recorded an increase to its investment in equity accounted investee in the amount of \$1,000,000, management fee revenue of \$884,956 included in "Service revenue" in the interim condensed consolidated statements of comprehensive loss, and commodity tax payable in the amount of \$115,044 included in "Trade and other receivables" in the interim condensed consolidated statements of financial position.

On April 1, 2018, Graph issued 2,421,952 common shares in escrow to an officer of Graph, vesting over eight quarterly instalments with April 1, 2018 as the first vesting date. During the nine months ended September 30, 2018, 605,488 common shares of Graph have vested.

On May 24, 2018, the Company received an additional 12,109,762 common shares valued at \$0.083 per share in exchange for management services rendered. The company initially recorded an increase to its investment in equity accounted investee in the amount of \$1,000,000, management fee revenue of \$884,956 included in "Service revenue" in the interim condensed consolidated statements of comprehensive loss, and commodity tax payable in the amount of \$115,044 included in "Trade and other receivables" in the interim condensed consolidated statements of financial position.

During the nine months ended September 30, 2018, the Company recognized a gain on the dilution of its investment in Graph in the amount of \$538,481. The Company also charged Graph rental fees of \$22,500 for the use of shared office space in the Company's Toronto office.

The Company's share of loss from Graph is \$1,434,887 for the nine months ended September 30, 2018, which includes the Company's share of loss carried forward from December 31, 2017 in the amount of \$13,640. As at September 30, 2018, the Company had a 29.90% ownership interest in Graph.

### **Liquidity, Capital Resources, and Cash Flow**

The Company has financed its operations to date through the issuance of common shares and warrants. The Company continues to seek capital through various means including the issuance of equity. The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

For the three months ended September 30, 2018, net cash used in operating activities was \$977,166 (2017 - \$784,608), net cash used in investing activities was \$26,628 (2017 - \$15,620), and net cash used in financing activities was \$34,200 (2017 - \$278,463 net cash provided from financing activities).

For the nine months ended September 30, 2018, net cash used in operating activities was \$2,295,876 (2017 - \$2,380,672), net cash used in investing activities was \$2,938,296 (2017 - \$154,835 net cash provided from investing activities), and net cash provided from financing activities was \$3,342,329 (2017 - \$2,199,699).

At September 30, 2018, the Company had working capital of (2,036,686) and a deficit of \$23,658,234, which includes \$12,878,044 of impairment losses. The Company's ability to continue as a going concern is dependent upon the ability of the Company to generate revenue and positive cash flows from its operations. Accordingly, the Company may need further financing in the form of debt, equity or a combination thereof for the next twelve months. There can be no assurance that additional funding will be available to the Company, or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may be required to delay or reduce the scope of any or all of its projects.

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These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

### **Related Party Transactions**

#### **a) Occupancy costs**

During the nine months ended September 30, 2018, the Company incurred occupancy costs of \$nil (nine months ended September 30, 2017 – \$10,500) for rent charged by a company controlled by a director and shareholder of the Company, which has been included in "Office and general" in the interim condensed consolidated statements of comprehensive loss. The Company also charged its associate company, Graph, rental fees of \$7,500 during the three months ended September 30, 2018 and \$22,500 during the nine months ended September 30, 2018 as disclosed in note 9 to the interim financial statements.

#### **b) Accounts payable and accrued liabilities**

As at September 30, 2018, an amount of \$71,409 (December 31, 2017 - \$12,135) included in accounts payable and accrued liabilities is due to officers of the Company.

#### **c) Trade and other receivables**

As at September 30, 2018, an amount of \$nil (December 31, 2017 - \$2,500) included in trade and other receivables is due from Graph, an associate company of the Company.

#### **d) Revenue from related parties**

The Company charged its associate company, Graph, a management fee in the amount of \$nil during the three months ended September 30, 2018 and \$1,769,912 during the nine months ended September 30, 2018 as disclosed in note 9 to the interim financial statements.

Also, the Company entered into a two year proprietary service agreement with a company ("Customer") that, at the time, had certain common directors and officers with the Company to provide ERP services. The agreement includes a one-time customization fee of \$130,000 to be paid in three installments, one-time installation fee of \$10,000, and a monthly service fee of \$12,000. The Company issued the Customer an invoice for \$60,266 for these ERP services on November 1, 2016, and \$48,966 on December 1, 2016, inclusive of HST (the "Indebtedness"). On December 31, 2016, the Company entered into a debt settlement subscription agreement with the Customer whereby the Customer issued 1,205,325 common shares to the Company at a deemed issue price of \$0.05 per share in partial satisfaction of the Indebtedness. Due to the uncertainty regarding the collectability of the receivable and the ultimate realization on the investment, no value was attributed to these transactions as at December 31, 2017 or September 30, 2018. During the nine months ended September 30, 2018, the Company terminated the service agreement with the Customer.

Also, the Company entered into a two year proprietary service agreement with another company that, at the time, had certain common directors and officers with the Company and is also a shareholder of the Company, to provide ERP services and other maintenance services. The agreement includes a one-time customization fee of \$90,000 to be paid in three installments, a one-time installation fee of \$10,000 and a monthly service fee of \$10,000. The Company recognized revenue of \$nil during the three months ended September 30, 2017 and \$100,517 during the nine months ended September 30, 2017 for ERP and other services provided. The Company no longer provides ERP services to this company.

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## e) Accounting service fees

During the nine months ended September 30, 2018, the Company incurred fees of \$nil (three months ended September 30, 2017 - \$nil and nine months ended September 30, 2017 – \$30,000) for professional accounting services rendered by a company controlled by a director and shareholder of the Company, which has been included in "Other operating expenses" in the interim condensed consolidated statements of comprehensive loss.

## f) Compensation of key management personnel

Key management includes members of the Board and executive officers of the Company. Compensation awarded to key management is listed below:

	Three months ended September 30, 2018		Three months ended September 30, 2017	
	Amount \$	Options awarded	Amount \$	Options awarded
Cash based compensation	253,000	-	155,000	-
Stock options (based on Black-Scholes)	10,895	-	317,550	7,300,000
	<u>263,895</u>	<u>-</u>	<u>472,550</u>	<u>7,300,000</u>
	Nine months ended September 30, 2018		Nine months ended September 30, 2017	
	Amount \$	Options awarded	Amount \$	Options awarded
Cash based compensation	615,500	-	501,214	-
Stock options (based on Black-Scholes)	999,820	4,465,081	317,550	7,300,000
	<u>1,615,320</u>	<u>4,465,081</u>	<u>818,764</u>	<u>7,300,000</u>

## Accounting Pronouncements Adopted in 2018

### Revenue from contracts with customers

Effective January 1, 2018, the Company adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 supersedes the existing standards and interpretations including IAS 18, Revenue and IFRIC 13, Customer Loyalty Programmes. IFRS 15 introduces a single model for recognizing revenue from contracts with customers with the exception of certain contracts under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs.

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The Company adopted IFRS 15 using the cumulative effect method, i.e. by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at January 1, 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 18.

The adoption of IFRS 15 did not materially affect the Company's cash flows from operating, investing, or financing activities, its financial position, or its results from operations. The Company's opening balance of retained earnings at January 1, 2018 does not require an adjustment as a result of the adoption of IFRS 15.

### **a) Services provided to customers**

The Company provides big data and artificial intelligence services to customers. Prior to January 1, 2018, the Company recognized revenue using the stage-of-completion method. If services under a single contract had multiple components, the Company allocated the consideration on a relative fair value basis between the different services.

Under IFRS 15, the total consideration for service contracts is allocated based on their stand-alone selling prices, and revenue is recognized over time as performance obligations are satisfied. The adoption of IFRS 15 did not materially affect revenue recognition for services provided to customers.

### **b) License fees**

The Company recognizes revenue from license fees over the terms specified in each contract, generally one year. The adoption of IFRS 15 did not materially affect revenue recognition for license fees.

### **c) Customer billings and deposits**

Billings or payments received from customers in advance of revenue recognition are recorded in deferred revenue in the interim condensed consolidated statements of financial position.

## **Financial instruments**

Effective January 1, 2018, the Company adopted IFRS 9, Financial Instruments ("IFRS 9"). IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39").

The adoption of IFRS 9 did not materially affect the Company's cash flows from operating, investing, or financing activities, its financial position, or its results from operations.

### **a) Classification of financial assets**

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on the three categories: amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). Financial liabilities are classified and measured in two categories: amortized cost or FVTPL. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amounts of financial assets and liabilities.

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The following table summarizes the classification impacts upon the adoption of IFRS 9:

	<b>Classification under IAS 39</b>	<b>Classification under IFRS 9</b>
Cash and cash equivalents	Loans and receivables	FVTPL
Trade and other receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Contingent consideration	Fair value	FVTPL
Long-term debt	Other liabilities	Amortized cost

## **b) Impairment of financial assets**

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" ("ECL") model. The ECL model requires judgement, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model is applied, at each reporting date, to the Company's financial assets measured at amortized cost. Impairment losses are recorded in office and general expenses with the carrying amount of the financial asset reduced through the use of impairment allowance accounts.

The adoption of the new impairment requirements under IFRS 9 did not result in significant changes in measurement or the carrying amounts of the Company's financial assets.

## **Future Accounting Pronouncements**

**IFRS 16 – Leases:** In January 2016, the IASB issued IFRS 16 which supersedes IAS 17, Leases. This Standard introduces a single lessee accounting model. The new standard will affect the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including for most leases which are currently accounted for as operating leases. The Standard is effective for annual periods beginning on or after January 1, 2019. The Company is assessing the impact of this standard on the consolidated financial statements.

## **Subsequent Events**

### **Options**

On October 9, 2018, the Company granted an aggregate of 6,150,000 incentive share options under the Company's share option plan to certain directors, officers and employees of the Company. The options are exercisable at \$0.07 per share, are not subject to vesting conditions, and shall be exercisable for a term of two years, in accordance the Company's share option plan. The value of these options was calculated using the Black-Scholes pricing model with the following assumptions: (i) expected option life of 2 years; (ii) risk free rate of 2.20%; (iii) dividend yield of nil; (iv) expected volatility of 130%; and (v) share price of \$0.055 at the time of grant for a valuation of \$0.033 per option.

In addition to the grant, the Company has made proposed amendments to the exercise price of certain previously granted options, subject to certain approvals, including:

- Reduction in exercise price from \$0.225 per share to \$0.10 per share for 3,200,000 options originally granted to certain directors and officers (expiring January 22, 2020); and
- Reduction in exercise price from \$0.20 per share to \$0.10 per share for 1,665,081 options originally granted to certain directors (expiring March 8, 2020).

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## **Issuance of shares**

Subsequent to September 30, 2018, the Company issued an aggregate of 1,300,000 common shares in satisfaction of an aggregate of \$91,000 of indebtedness at a deemed price of \$0.07 per common share.

## **Graph share split**

On September 4, 2018, a special resolution of the shareholders of Graph was made to subdivide all of the issued and outstanding common shares on the basis of 1.210976238250372 post-subdivision shares for every one pre-subdivision share with an effective split date of October 1, 2018. Any resulting fractional shares shall be either rounded up or down to the nearest whole number.

## **Graph's acquisition of Reg Technologies Inc.**

Subsequent to September 30, 2018, Graph entered into a definitive amalgamation agreement (the "Amalgamation Agreement") to acquire Reg Technologies Inc. ("RegTech") through a reverse takeover. Pursuant to the terms of the Amalgamation Agreement, RegTech will consolidate its outstanding shares on a ten to one basis, and acquire all of the issued and outstanding shares of Graph pursuant to a three-cornered amalgamation whereby 2659468 Ontario Inc., a wholly-owned subsidiary of RegTech, and Graph will amalgamate (the "Amalgamation") to form a newly amalgamated company ("Amalco"), and upon the Amalgamation, former shareholders of Graph ("Graph Shareholders"), which include the Company as disclosed in note 9 to the interim financial statements, will receive one new common share of RegTech for each one common share of Graph held and Amalco will become a wholly-owned subsidiary of RegTech (the "Graph RTO Transaction").

Upon completion of the Amalgamation, RegTech has become the parent and the sole shareholder of Amalco and thus will indirectly carry on the business of Graph. As a result, RegTech changed its name to "Graph Blockchain Inc."

The Graph RTO Transaction is considered to be a reverse takeover by Graph, the accounting acquirer, of RegTech, the accounting acquiree. A reverse takeover transaction involving a non-public operating entity and a non-operating company is considered to be in substance a share based payment transaction and is not a business combination. Any difference in the value of the shares deemed to have been issued by the accounting acquirer and the fair value of the acquiree's net assets will be expensed by Graph in the period of acquisition as a payment for a stock exchange listing.

## **Graph's private placement**

In connection with the acquisition of Reg Technologies Inc., Graph completed a non-brokered private placement on November 6, 2018 of 3,354,866 post-subdivision units to raise gross proceeds of \$1,006,460 that closed concurrently with the Graph RTO Transaction. Each unit was at a price of \$0.30 and consisted of one common share and one warrant of Graph. Each warrant shall be exercisable into one common share of Graph at a price of \$0.40 for a period of 18 months from the date of issuance. Certain dealers and arms-length finders were paid 8% of the gross proceeds. Share issuance costs of \$33,000 comprised of \$13,000 in respect of cash finders' fees, together with other cash expenses of \$20,000, resulting in net proceeds of \$973,460.

## **Graph issuance of shares**

Subsequent to September 30, 2018, Graph issued 5,000,000 common shares (post-subdivision) at \$0.21 per share to certain employees, officers and directors of Graph and certain employees of the Company who support Graph's sales efforts. The shares were valued based on financing transactions in close proximity to the issuance of the shares.

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## **Off Balance Sheet Arrangements**

The Company has not entered into any off balance sheet arrangements, such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

## **Outstanding Share Information**

The Company is authorized to issue an unlimited number of common shares with no par value. As at November 27, 2018, the Company had 201,673,925 shares outstanding, 19,446,470 share options granted and 75,924,809 warrants issued.

## **Risk Factors**

The Company is exposed to a number of risks and uncertainties that are common to other companies engaged in the same or similar businesses. The summary of the material risks that could significantly affect the financial condition, operating results or business of the Company, are set out in the Company's management's discussion and analysis for the fiscal year ended December 31, 2017.

Effective January 15, 2018, with the addition of the Cryptocurrency Mining operating segment, additional material risks that could significantly affect the financial condition, operating results or business of the Company are as follows:

### **The Company's cryptocurrency inventory may be exposed to cybersecurity threats and hacks**

Beginning with the second quarter of 2018, the Company began accumulating cryptocurrency inventory. As with any other computer code, flaws in the cryptocurrency codes have been exposed by certain malicious actors. Several errors and defects have been found and corrected, including those that disabled some functionality for users and exposed users' information. Discovery of flaws in or exploitations of the source code that allow malicious actors to take or create money have been relatively rare. A recent Ethereum ("ETH" or "Ether") hacking example occurred in late July of 2017. An unknown hacker exploited a critical flaw in the Parity multi-signature wallet on the ETH network and drained three large wallets that had a combined total of over \$31 million worth of ETH. If left undetected, the hacker could have been able to steal an additional \$150 million of ETH. Fortunately, the loss was limited to the \$31 million of ETH as white-hat hackers acted swiftly to protect the remaining accounts at risk.

### **Regulatory changes or actions may alter the nature of an investment in the Company or restrict the use of cryptocurrencies in a manner that adversely affects the Company's operations**

As cryptocurrencies have grown in both popularity and market size, governments around the world have reacted differently to cryptocurrencies with certain governments deeming them illegal while others have allowed their use and trade. On-going and future regulatory actions may alter, perhaps to a materially adverse extent, the ability of the Company to continue to operate.

The effect of any future regulatory change on the Company or any cryptocurrency that the Company may mine is impossible to predict, but such change could be substantial and adverse to the Company.

Governments may in the future curtail or outlaw, the acquisition, use or redemption of cryptocurrencies. Ownership of, holding or trading in cryptocurrencies may then be considered illegal and subject to sanction. Governments may also take regulatory action that may increase the cost and/or subject cryptocurrency companies to additional regulation. For example, on July 25, 2017, the United States Securities and Exchange Commission released an investigative report which indicates

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that the United States Securities and Exchange Commission would, in some circumstances, consider the offer and sale of blockchain tokens pursuant to an initial coin offering subject to U.S. securities laws.

Governments may in the future take regulatory actions that prohibit or severely restrict the right to acquire, own, hold, sell, use or trade cryptocurrencies or to exchange cryptocurrencies for fiat currency. By extension, similar actions by other governments, may result in the restriction of the acquisition, ownership, holding, selling, use or trading in the Resulting Issuer Shares. Such a restriction could result in the Company liquidating its cryptocurrency inventory at unfavorable prices and may adversely affect the Company's shareholders.

### **The value of cryptocurrencies may be subject to momentum pricing risk**

Momentum pricing typically is associated with growth stocks and other assets whose valuation, as determined by the investing public, accounts for anticipated future appreciation in value. Cryptocurrency market prices are determined primarily using data from various exchanges, over-the-counter markets, and derivative platforms. Momentum pricing may have resulted, and may continue to result, in speculation regarding future appreciation in the value of cryptocurrencies, inflating and making their market prices more volatile. As a result, they may be more likely to fluctuate in value due to changing investor confidence in future appreciation (or depreciation) in their market prices, which could adversely affect the value of the Company's inventory and the recoverability of the Company's cryptocurrency mining equipment and thereby affect the Company's shareholders.

### **Cryptocurrency exchanges and other trading venues are relatively new and, in most cases, largely unregulated and may therefore be more exposed to fraud and failure**

To the extent that cryptocurrency exchanges or other trading venues are involved in fraud or experience security failures or other operational issues, this could result in a reduction in cryptocurrency prices.

Cryptocurrency market prices depend, directly or indirectly, on the prices set on exchanges and other trading venues, which are new and, in most cases, largely unregulated as compared to established, regulated exchanges for securities, derivatives and other currencies. For example, during the past three years, a number of Bitcoin exchanges ("BTC Exchanges") have been closed due to fraud, business failure or security breaches. In many of these instances, the customers of the closed BTC Exchanges were not compensated or made whole for the partial or complete losses of their account balances in such BTC Exchanges. While smaller exchanges are less likely to have the infrastructure and capitalization that provide larger exchanges with additional stability, larger exchanges may be more likely to be appealing targets for hackers and "malware" (i.e., software used or programmed by attackers to disrupt computer operation, gather sensitive information or gain access to private computer systems) and may be more likely to be targets of regulatory enforcement action.

### **Banks may not provide banking services, or may cut off banking services, to businesses that provide cryptocurrency-related services or that accept cryptocurrencies as payment**

A number of companies that provide Bitcoin ("BTC") and/or other cryptocurrency-related services have been unable to find banks that are willing to provide them with bank accounts and banking services. Similarly, a number of such companies have had their existing bank accounts closed by their banks. Banks may refuse to provide bank accounts and other banking services to BTC and/or other cryptocurrency-related companies or companies that accept cryptocurrencies for a number of reasons, such as perceived compliance risks or costs. The difficulty that many businesses that provide BTC and/or other cryptocurrency-related services have and may continue to have in finding banks willing to provide them with bank accounts and other banking services may be currently decreasing the usefulness of cryptocurrencies as a payment system and harming public perception of cryptocurrencies or could decrease its usefulness and harm its public perception in the future. Similarly, the usefulness of cryptocurrencies as a payment system and the public perception of cryptocurrencies could be damaged if banks were to close the accounts of many or of a few key businesses providing BTC and/or other cryptocurrency-related

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services. This could decrease the market prices of cryptocurrencies and adversely affect the value of the Company's cryptocurrency inventory.

## **The impact of geopolitical events on the supply and demand for cryptocurrencies is uncertain**

Crises may motivate large-scale purchases of cryptocurrencies which could increase the price of cryptocurrencies rapidly. This may increase the likelihood of a subsequent price decrease as crisis-driven purchasing behavior wanes, adversely affecting the value of the Company's cryptocurrency inventory.

The possibility of large-scale purchases of cryptocurrencies in times of crisis may have a short-term positive impact on their prices. For example, in March 2013, a report of uncertainty in the economy of the Republic of Cyprus and the imposition of capital controls by Cypriot banks motivated individuals in 12 Cyprus and other countries with similar economic situations to purchase BTCs. This resulted in a significant short-term positive impact on the price of BTCs. However, as the purchasing activity of individuals in this situation waned, speculative investors engaged in significant sales of BTCs, which significantly decreased the price of BTCs. Crises of this nature in the future may erode investors' confidence in the stability of cryptocurrencies and may impair their price performance which would, in turn, adversely affect the Company's investments.

As an alternative to fiat currencies that are backed by central governments, cryptocurrencies such as Ether, which are relatively new, are subject to supply and demand forces based upon the desirability of an alternative, decentralised means of buying and selling goods and services, and it is unclear how such supply and demand will be impacted by geopolitical events. Nevertheless, political or economic crises may motivate large-scale acquisitions or sales of BTCs either globally or locally. Large-scale sales of cryptocurrencies would result in a reduction in their market prices and adversely affect the Company's operations and profitability.

## **The further development and acceptance of the cryptographic and algorithmic protocols governing the issuance of and transactions in cryptocurrencies is subject to a variety of factors that are difficult to evaluate**

The use of cryptocurrencies to, among other things, buy and sell goods and services and complete other transactions, is part of a new and rapidly evolving industry that employs digital assets based upon a computer-generated mathematical and/or cryptographic protocol. The growth of this industry in general, and the use of cryptocurrencies in particular, is subject to a high degree of uncertainty, and the slowing or stopping of the development or acceptance of developing protocols may adversely affect the Company's operations. The factors affecting the further development of the industry, include, but are not limited to:

- Continued worldwide growth in the adoption and use of cryptocurrencies;
- Governmental and quasi-governmental regulation of cryptocurrencies and their use, or restrictions on or regulation of access to and operation of the network or similar cryptocurrency systems;
- Changes in consumer demographics and public tastes and preferences;
- The maintenance and development of the open-source software protocol of the network;
- The availability and popularity of other forms or methods of buying and selling goods and services, including new means of using fiat currencies;
- General economic conditions and the regulatory environment relating to digital assets; and
- Negative consumer sentiment and perception of BTCs specifically and cryptocurrencies generally.

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## **Acceptance and/or widespread use of cryptocurrency is uncertain**

Currently, there is relatively small use of BTCs and/or other cryptocurrencies in the retail and commercial marketplace in comparison to relatively large use by speculators, thus contributing to price volatility that could adversely affect the Company's operations, investment strategies, and profitability.

As relatively new products and technologies, BTC, the Bitcoin Network, and its other cryptocurrency counterparts have not been widely adopted as a means of payment for goods and services by major retail and commercial outlets. Conversely, a significant portion of cryptocurrency demand is generated by speculators and investors seeking to profit from the short-term or long-term holding of cryptocurrencies. The relative lack of acceptance of cryptocurrencies in the retail and commercial marketplace limits the ability of end-users to use them to pay for goods and services. A lack of expansion by cryptocurrencies into retail and commercial markets, or a contraction of such use, may result in increased volatility or a reduction in their market prices, either of which could adversely impact the Company's operations, investment strategies, and profitability.

## **Possibility of the Ether algorithm transitioning to proof of stake validation**

Proof of stake is an alternative method in validating cryptocurrency transactions. Should the Ether algorithm shift from a proof of work validation method to a proof of stake method, mining ETH would require less energy and may render the Company's graphics processor unit ("GPU") based mining less competitive and may impact the recoverability of the Company's GPU based mining equipment.

## **The Company's coins may be subject to loss, theft or restriction on access**

There is a risk that some or all of the Company's coins could be lost or stolen. Access to the Company's coins could also be restricted by cybercrime (such as a distributed denial of service ("DDoS") attack) against a service at which the Company maintains a hosted online wallet. Any of these events may adversely affect the operations of the Company and, consequently, its investments and profitability.

The loss or destruction of a private key required to access the Company's digital wallets may be irreversible. The Company's loss of access to its private keys or its experience of a data loss relating to the Company's digital wallets could adversely affect its investments.

Cryptocurrencies are controllable only by the possessor of both the unique public and private keys relating to the local or online digital wallet in which they are held, which wallet's public key or address is reflected in the network's public blockchain. To the extent such private keys are lost, destroyed or otherwise compromised, the Company will be unable to access its coins and such private keys will not be capable of being restored by network. Any loss of private keys relating to digital wallets used to store the Company's cryptocurrency could adversely affect its investments and profitability.

## **Incorrect or fraudulent coin transactions may be irreversible**

Cryptocurrency transactions are irrevocable and stolen or incorrectly transferred coins may be irretrievable. As a result, any incorrectly executed or fraudulent coin transactions could adversely affect the Company's investments.

Coin transactions are not, from an administrative perspective, reversible without the consent and active participation of the recipient of the transaction. In theory, cryptocurrency transactions may be reversible with the control or consent of a majority of processing power on the network. Once a transaction has been verified and recorded in a block that is added to the blockchain, an incorrect transfer of a coin or a theft of coin generally will not be reversible and the Company may not be capable of seeking compensation for any such transfer or theft. Although the Company's transfers of coins will regularly

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be made by experienced members of the management team, it is possible that, through computer or human error, or through theft or criminal action, the Company's coins could be transferred in incorrect amounts or to unauthorized third parties, or to uncontrolled accounts.

## **If the award of coins for solving blocks and transaction fees are not sufficiently high, miners may not have an adequate incentive to continue mining and may cease their mining operations**

As the number of coins awarded for solving a block in the blockchain decreases, the incentive for miners to continue to contribute processing power to the network will transition from a set reward to transaction fees. Either the requirement from miners of higher transaction fees in exchange for recording transactions in the blockchain or a software upgrade that automatically charges fees for all transactions may decrease demand for the relevant coins and prevent the expansion of the network to retail merchants and commercial businesses, resulting in a reduction in the price of the relevant cryptocurrency that could adversely impact the Company's cryptocurrency inventory and investments.

In order to incentivize miners to continue to contribute processing power to the network, the network may either formally or informally transition from a set reward to transaction fees earned upon solving for a block. This transition could be accomplished either by miners independently electing to record on the blocks they solve only those transactions that include payment of a transaction fee or by the network adopting software upgrades that require the payment of a minimum transaction fee for all transactions. If transaction fees paid for the recording of transactions in the blockchain become too high, the marketplace may be reluctant to accept network as a means of payment and existing users may be motivated to switch between cryptocurrencies or back to fiat currency. Decreased use and demand for coins may adversely affect their value and result in a reduction in the market price of coins.

If the award of coins for solving blocks and transaction fees for recording transactions are not sufficiently high to incentivize miners, miners may cease expending processing power to solve blocks and confirmations of transactions on the blockchain could be slowed temporarily. A reduction in the processing power expended by miners could increase the likelihood of a malicious actor or botnet obtaining control in excess of 50 percent of the processing power active on the blockchain, potentially permitting such actor or botnet to manipulate the blockchain in a manner that adversely affects the Company's mining activities.

If the award of coins for solving blocks and transaction fees are not sufficiently high, miners may not have an adequate incentive to continue mining and may cease their mining operations. Miners ceasing operations would reduce collective processing power, which would adversely affect the confirmation process for transactions (i.e., decreasing the speed at which blocks are added to the blockchain until the next scheduled adjustment in difficulty for block solutions) and make the network more vulnerable to a malicious actor or botnet obtaining control in excess of 50 percent of the processing power. Any reduction in confidence in the confirmation process or processing power of the network may adversely impact the Company's mining activities, inventory of coins, and future investment strategies.

## **The price of coins may be affected by the sale of coins by other vehicles investing in coins or tracking cryptocurrency markets**

To the extent that other vehicles investing in coins or tracking cryptocurrency markets form and come to represent a significant proportion of the demand for coins, large redemptions of the securities of those vehicles and the subsequent sale of coins by such vehicles could negatively affect cryptocurrency prices and therefore affect the value of the inventory held by the Company.

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## **Risk related to technological obsolescence and difficulty in obtaining hardware**

To remain competitive, the Company will continue to invest in hardware and equipment required for maintaining the Company's mining activities. Should competitors introduce new services/software embodying new technologies, the Company recognizes its hardware and equipment and its underlying technology may become obsolete and require substantial capital to replace such equipment.

## **Risks related to insurance**

The Company intends to insure its operations in accordance with technology industry practice. However, given the novelty of cryptocurrency mining and associated businesses, such insurance may not be available, uneconomical for the Company, or the nature or level may be insufficient to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the Company.

## **Reliance on Gosun**

The Company has a definitive agreement with Gosun Group ("Gosun") for access to hosting capacity in Mongolia. The Company could be exposed to certain risks should Gosun fail to manage and secure the Company's mining equipment and operations.

## **Gosun contract governing law**

The Company's definitive agreement with Gosun is governed by and construed and interpreted in accordance with the laws of Hong Kong, and any disputes shall be referred to arbitration under the laws of Hong Kong. As such, the Company has exposure to international legal risks which could potentially have a material adverse effect on the Company.

## **Gosun electricity rates may become unfavourable**

The rates of electricity the Company pays materially impacts the Company's profitability from cryptocurrency mining operations. Under the definitive agreement with Gosun, Gosun and the Company would negotiate electricity rates with external power providers which would be passed onto the Company at cost. Failure by the Company to obtain favourable electricity rates could have a material adverse effect on the Company.

## **Other Information**

Additional information regarding the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com)