



**DelphX Capital Markets Inc.**  
**Management's Discussion and Analysis**  
**of the Financial Condition and Results of Operations**  
**Years ended December 31, 2018 and 2017**

**April 30, 2019**

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

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*This annual management discussion and analysis (“MD&A”) has been prepared based on information available to DelphX Capital Markets Inc. (“DelphX” or the “Company”) as at April 30, 2019. The Annual MD&A of the operating results and financial condition of the Company as at and for the years ended December 31, 2018 and 2017, should be read in conjunction with the Company’s audited annual consolidated financial statements and the related notes as and for years ended December 31, 2018 and 2017 (the “Consolidated Financial Statements”). The Consolidated Financial Statements have been prepared by management and are in accordance with International Financial Reporting Standards (“IFRS”) and all amounts are expressed in Canadian dollars unless otherwise noted. Other information contained in this MD&A has also been prepared by management and is consistent with the data contained in the Consolidated Financial Statements. Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company’s website at [www.DelphX.com](http://www.DelphX.com).*

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### **MANAGEMENT’S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING (“ICFR”)**

As the Company is a Venture Issuer (as defined under under *National Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings*) (“NI 52-109”), the Company and Management are not required to include representations relating to the evaluation, design, establishment and/or maintenance of disclosure controls and procedures (“DC&P”) and/or ICFR, as defined in NI 52-109, **nor has it completed such an evaluation**. Inherent limitations on the ability of the certifying officers to design and implement on a cost-effective bases DC&P and ICFR for the issuer may result in additional risks of quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS**

This document contains “forward-looking statements”, which may include, but are not limited to, statements with respect to the future financial or operating performance of DelphX or future events related to DelphX, which reflect expectations regarding growth, results of operations, performance, business prospects or opportunities or industry performance or trends. These forward-looking statements reflect DelphX’s current internal projections, expectations or beliefs and are based on information currently available to DelphX. Often, but not always, forward-looking statements can be identified by terminology such as “may”, “will”, “should”, “expect”, “intend”, “plan”, “anticipate”, “believe”, “predict”, “potential”, “continue”, “budget”, “schedule”, “estimate”, “forecast” or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements expressed or implied by the forward-looking statements to differ materially from those anticipated in such statements. Such factors include, among others: general business, economic, competitive, political and social uncertainties; changes in project parameters as plans continue to be refined; changes in labour costs and other costs of materials, equipment or processes to operate as anticipated; accidents, labour disputes and other risks; delays in obtaining governmental approvals or financing; or in the completion of research and development activities. A more fulsome summary of the risk factors is discussed in the **Financial instruments and risk management and Other risk factors** sections of this MD&A. Although DelphX has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and, unless otherwise required by applicable securities laws, DelphX disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

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### **General**

DelphX Capital Markets Inc. ("**DelphX**" or the "**Company**") was incorporated as Seaside Exploration Partners Corp. ("**Seaside**") on October 21, 2016, pursuant to the *Business Corporations Act* (British Columbia), and was a Capital Pool Company, pursuant to the policies of the TSX Venture Exchange ("**TSXV**"). On April 25, 2018, DelphX Corporation and Seaside completed a Qualifying Transaction ("**QT**"), as is defined pursuant to TSXV Policy 2.4, pursuant to a definitive share-exchange agreement dated December 12, 2017. The QT constituted a reverse take-over ("**RTO**") of Seaside. Details of the QT are disclosed in note 18 of the Consolidated Financial Statements. Prior to the QT, Seaside had a fiscal year end of January 31<sup>st</sup>, which has been changed to December 31<sup>st</sup> to coincide with the reporting year end of the DelphX Corporation (the reverse takeover accounting acquirer).

The principal address of the Company is 137 Glasgow St., Unit 445, Kitchener, Ontario, N2G 4X8. DelphX's principal business activity is to develop and operate a global facility for transparent offering, purchase, sale, collection and storage of certain fixed income securities and derivatives, and to manage data, research, analytics and valuations of such instruments.

The Consolidated Financial Statements have been prepared using International Financial Reporting Standards ("**IFRS**") applicable to going concern, which contemplates the realization of assets and settlement of liabilities as they fall due in the normal course of business for the foreseeable future. The Company is in the development stage and has not yet realized profitable operations and has relied on non-operational sources of financing to fund operations. DelphX's ability to continue as a going concern is dependent on successfully executing its business plan, which includes the raising of additional funds. The Company will continue to seek additional forms of debt or equity financing, but it cannot provide assurance that it will be successful in doing so. These material uncertainties lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness, ultimately, of the use of accounting principles applicable to a going concern. The Consolidated Financial Statements do not reflect the adjustments to the carrying amounts of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

### **Principal Business and Stated Business Objectives**

DelphX will be launching the DelphX ATS Platform, Bond Market 2.0, an SEC regulated ATS employing blockchain technology to enable anonymous negotiation, purchase and trading of new forms of digital smart contract securities that is anticipated to provide guaranteed risk protection, higher yields and the ability to convert outstanding corporate, municipal, sovereign and other bonds and fixed income securities to credit investments. DelphX will operate the DelphX ATS through its wholly-owned subsidiary, DelphX Services Corporation, a broker-dealer registered with the SEC and a member firm of FINRA.

The DelphX ATS addresses issues in the current bond market of default risk being too concentrated, non-transparency and too few issues being protected by providing guaranteed alternative credit protection, deeper market liquidity and enhanced investor yields. The DelphX ATS Platform will enable the anonymous negotiation, origination and trading of new forms of digital smart contract securities to be issued by Quantem Capital Corporation Ltd. ("Quantem"), a wholly-owned subsidiary of DelphX, that will provide a non-derivative alternative to Collateral Default Swap contracts. Transparently administered within an open Distributed Ledger, the two Quantem™ securities – Covered Put Options™ ("**CPO**") and Covered Reference Notes™ ("**CRN**") - will broadly diffuse risk among many holders through dynamic market-based pooling technology.

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

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### *Private placements*

#### **2018:**

- (i) In October 2018, the Company issued 2,280,000 common shares, raising proceeds of \$1,140,000. Pursuant to this issuance, the Company also issued 1,140,000 warrants to purchase 1,140,000 common shares at \$0.70 each for a period of 2 years after closing. The fair value of the issued warrants of \$225,124, was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.88%, term of 2 years, exercise price of \$0.70, volatility of 95% and share price of \$0.48. The Company also paid 7% cash commissions totalling \$86,910 and issued 159,600 finders' warrants, entitling the holders to exercise same at \$0.70 each for a period of 2 years after issuance. The fair value of the finders' warrants of \$21,085, was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.88%, term of 2 years, exercise price of \$0.70, volatility of 95% and share price of \$0.48. The fair value of the finders' warrants was allocated to common shares and warrants on a 2:1 basis.
- (ii) In August 2018, 132,253 common shares were issued with the exercise of an equal number of finder warrants. The exercise raised \$46,229 proceed and resulted in a fair value transfer of \$27,306 from warrants to share capital
- (iii) In June 2018, 108,162 common shares were issued with the exercise of an equal number of finder warrants. The exercise raised \$15,169 of proceeds and resulted in a fair value transfer of \$27,374 from warrants to share capital.
- (iv) In May 2018, 300,000 common shares were issued with the exercise of an equal number of options. The exercise raised \$30,000 of proceeds and resulted in a fair value transfer of \$86,100 from contributed surplus to share capital.
- (v) In April 2018, 852,714 common shares were issued at \$0.35 each, raising proceeds of \$298,450. Also, in April 2018, the Company completed the QT resulting in the issuance of 4,052,570 common shares with a deemed value of \$1,418,400, to the Seaside shareholders. Contemporaneous with the issuance to Seaside shareholders, the Company closed a subscription receipts financing whereby 11,453,000 common shares were exchanged for an equal number of subscription receipts with a gross value of \$4,008,550. Costs of this financing amounted to \$553,469, with such amount recorded as a reduction to share capital. The Company also issued 798,700 finders' warrants with a fair value of \$165,003, such amount recorded as a reduction to share capital and increase to warrants. The fair value of the finders' warrants was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free rate of 1.8%, term of 1.6 years (expiring on December 22, 2019), volatility of 126.28% and a share price of \$0.35.
- (vi) In February 2018, the Company issued 620,000 common shares at a grant-price of US\$0.00001 each, under a restricted stock-grant agreement to the Company's CFO. The Company holds a buy-back option of these shares from the holder at the same price as issuance. The buy-back option right will be released over the period of 4 years on a 25% basis at each anniversary date. The common shares have a grant-date fair value of \$190,456, subject to the repurchase option. The vested value of \$95,944 has been recorded to share capital during the year ended December 31, 2018. The fair value was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free rate of 2.07%, term of 4 years and a volatility of 113.53%.
- (vii) In January 2018, 1,142,857 common shares were issued at \$0.35 each, raising proceeds of \$399,986.

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- (viii) In addition to the amounts vesting from 620,000 shares, an additional \$61,074 has been recorded for the further vesting of the 760,000 shares and \$118,762 has been recorded for the further vesting of the 700,000 shares.

### 2017:

- (ix) On November 28, 2017, the Company issued 200,000 units (each a "Unit") to a service provider in settlement of debt with a fair value of \$70,000. Each Unit consisted of 1 common share and 1 warrant (each a "Warrant"). Each Warrant has an exercise price of \$0.35 and expires on November 28, 2019. The fair value of the issued warrants of \$44,308, was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.31%, term of 2 years and a volatility of a comparable listed entity.
- (x) On November 22, 2017, the Company completed a private placement of 2,857,571 common shares at a price of \$0.35 per share, generating gross proceeds of \$1,000,134.
- (xi) On October 6, 2017, the Company completed a 31-for-1 split of its common shares.
- (xii) On September 25, 2017, the Company issued 4,711,287 (post-split) common shares to convert shareholders' outstanding loan and interest thereon with a fair value of \$1,480,885.
- (xiii) Also, on September 25, 2017, the Company issued 7,378,155 (post-split) common shares with a fair value of \$2,201,892 to its employees and to certain service providers against their compensation rights for the period from February 18, 2016 to October 31, 2017, at a grant price of US\$0.00001 per share with certain restriction regarding sale or transfer. Out of this, 760,000 common shares were issued to 3 employees and are subject to a buy-back option at the same grant price, which will be released over a period of 4 years.
- (xiv) On September 27, 2017, under a restricted stock grant agreement, the Company issued 700,000 (post-split) common shares to one of its key executives as a signing bonus at a grant price of US\$0.00001 per share. The Company holds a buyback option of these shares from the holder at the same price as granted. The buy-back option right will be released over the period of 4 years on a 25% basis on each anniversary date. The common shares have a grant-date fair value of \$217,214, subject to the repurchase option. The 2017 vested value of \$14,770 has been recorded to share capital during the last quarter of 2017. The fair value was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free rate of 1.31%, term of 4 years and a volatility of 126.28%.

### ***Financial condition***

As at December 31, 2018, the Company had assets totaling \$719,308 and shareholders' deficiency of \$596,449. This compares with assets of \$4,346,486 and shareholders' equity of \$533,544, as at December 31, 2017.

During the year ended December 31, 2018, the Company's net assets decreased by \$1,129,993, the result of a decrease in assets of \$3,627,178, offset by a decrease in liabilities of \$2,497,185.

The change in the Company's net assets is detailed as follows:

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

Item	Change	Explanation of change
	\$	
Cash	(246,147)	Cash used for operating activities of \$1,807,397; cash used for investing activities of \$42,729; cash provided from financing activities of \$1,603,979.
HST recoverable	91,089	The Company became a HST registrant after completing the QT.
Restricted cash	27,500	The funds have been segregated and restricted cash that collateralizes the credit made available to the Company on bank credit cards issued to it.
Deposits and prepaid expenses	60,534	Office rent deposits increased by \$7,895; prepaid insurance by \$44,559 and investor relations by \$8,080.
Due from related party	51,660	Secured loan provided to the Company's CFO. Details disclosed in note 10 of the Consolidated Financial Statements or the <i>Transactions with related parties</i> section of this MD&A.
Funds held in escrow	(3,771,473)	Reduction reflects the completion of the QT.
Property and equipment	169,195	Purchase of office equipment of \$4,903; disposal of office equipment of \$6,177 leasehold improvement expenditures of \$196,869 on the Company's new Kitchener, Ontario offices; offset by depreciation of \$26,400.
Intangible assets	(9,536)	Amortization for the year.
Accounts payable and accrued liabilities	(1,035,021)	Increases in this category are entirely due to the Company's increased operations subsequent to the QT.
Due to related parties	(238,090)	Comprising salary and consulting charges due to senior officers of the Company. Details disclosed in note 10 of the Consolidated Financial Statements or the <i>Transactions with related parties</i> section of this MD&A.
Subscription rights	3,770,296	Reduction reflects the completion of the QT.
	<b>(1,129,993)</b>	

### ***Selected annual financial information***

	December 31, 2017	December 31, 2017
	\$	\$
<b>Consolidated statements of operations and comprehensive loss</b>		
Other revenue	-	12,057
Total operating expenses	<b>8,505,131</b>	2,100,065
Net loss	<b>(8,505,131)</b>	(2,088,008)
Comprehensive loss	<b>(8,713,861)</b>	(1,894,352)
Basic and diluted loss per common share	<b>(0.12)</b>	(0.04)
<b>Consolidated statements of cash flow</b>		
Cash used for operations	<b>(1,807,397)</b>	(4,441,144)
Cash provided from financing activities	<b>1,603,979</b>	4,890,783
Cash used for investing activities	<b>(42,729)</b>	(18,489)
Increase/(decrease) in cash	<b>(246,147)</b>	431,150

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

### Consolidated statements of financial position

Cash	187,634	433,781
Restricted cash	27,500	-
Cash held with escrow agent	-	3,771,473
Total assets	719,308	4,346,486
Shareholders' equity (deficiency)	(596,449)	533,544
Average number of common shares outstanding	73,375,156	46,660,879

### Summary of quarterly results

	4 <sup>th</sup> Quarter 2018	3 <sup>rd</sup> Quarter 2018	2 <sup>nd</sup> Quarter 2018	1 <sup>st</sup> Quarter 2018 <sup>1</sup>
Total revenues	-	-	-	-
Loss and comprehensive loss	(2,489,153)	(1,702,426)	(3,671,476)	(850,806)
Net loss per share – basic and fully-diluted <sup>2</sup>	(0.04)	(0.02)	(0.05)	(0.01)
Total assets	719,308	935,714	2,384,312	3,983,055
Long-term debt	-	-	-	-
Equity (deficiency)	(596,449)	687,720	2,121,537	143,769
Cash dividends declared per common share	-	-	-	-
	4 <sup>th</sup> Quarter 2017 <sup>1</sup>	3 <sup>rd</sup> Quarter 2017 <sup>1</sup>	2 <sup>nd</sup> Quarter 2017 <sup>1</sup>	1 <sup>st</sup> Quarter 2017 <sup>1</sup>
Total revenues	12,057	-	-	-
Income (loss) and comprehensive income (loss)	(2,237,844)	282,308	85,383	(24,199)
Net loss per share – basic and fully-diluted <sup>2</sup>	(0.05)	0.01	0.00	(0.00)
Total assets	4,346,486	107,697	87,766	87,878
Long-term debt	-	-	-	-
Equity (deficiency)	533,544	(775,343)	(1,773,401)	(1,773,140)
Cash dividends declared per common share	-	-	-	-

<sup>1</sup>DelphX Corporation only, the RTO Acquirer.

<sup>2</sup>Inclusion of outstanding warrants and options is anti-dilutive.

### Results of operations

The Company has not generated operating revenue (nominal in 2017) and therefore losses have been incurred throughout the years ended December 31, 2018 and 2017.

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**Year ended December 31, 2018**

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Certain comparative amounts have been reclassified to conform with current reporting classifications. These reallocations are limited to regrouping of expenses in the statement of loss and comprehensive loss for consistency with categories presented in the current year and have not affected previously-reported loss and comprehensive loss.

***Years ended December 31, 2018 and December 31, 2017***

Loss and comprehensive loss for the year was \$8,713,861 (2017 – \$1,894,352) or \$0.12 (2017 – \$0.04) loss per share. Operating costs increased by \$6,405,066 over 2017 and other comprehensive income (loss) decreased by \$402,386, over the year.

The significant changes are detailed below:

**Operating loss of \$8,505,131 (2017 - \$2,088,008)**

**Administrative expenses of \$1,369,470 (2017 - \$182,565)**

The increase of approximately \$1,187,000 was largely attributable to expenses incurred after the completion of the QT and for expanded areas of the Company's business since going public: Data subscriptions - \$182,000; D&O insurance - \$65,000; office supplies and expenses - \$289,000; administrative salaries (both actual and allocated) - \$262,000; rent expense - \$146,000; audit and accounting - \$191,000.

**Amortization and depreciation of \$35,936 (2017 – \$10,417)**

The increase of approximately \$25,500 was comprised mainly of the depreciation on newly-acquired leasehold improvements.

**Foreign exchange gains of \$168,456 (2017 – \$nil)**

The increase of approximately \$168,000, is a direct result of the Company completing the QT and commencing operations in Canada.

**Interest and bank charges of \$12,765 (2017 – \$177,479)**

The decrease of approximately \$165,000, was mainly due to the Company's convertible debt that was serviced in 2017 and converted to equity in 2018.

**Legal and regulatory of \$2,494,441 (2017 – \$48,248)**

The increase of approximately \$2,446,000, was comprised mainly of 2 items: Legal fees expended on completing the QT - \$331,000 and legal fees on the perfection of the Company's CPO and CRN securities' subscription agreements and the US regulatory requirements thereon - \$1,638,000. The remainder of the change resulted from increased payroll allocations to this category - \$477,000.

**Listing expense of \$1,359,804 (2017 – \$nil)**

The non-cash expense was entirely incurred as a result of completing the QT and RTO of Seaside. See note 18 of the Consolidated Financial Statements for complete details.

**Investor relations and public reporting costs of \$364,199 (2017 – \$nil)**

Costs for the year incurred entirely as a result of the Company completing the QT and becoming a reporting issuer.

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**Year ended December 31, 2018**

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**Marketing and advertising of \$686,742 (2017 – \$43,396)**

The increase of approximately \$643,000 were the result of the Company's marketing and advertising once completing the QT - \$6,000 and increased salary allocations to this category - \$637,000.

**Research and development expenses of \$1,706,448 (2017 – \$367,989)**

The increase of approximately \$1,340,000, were the result of increased direct expenditures on the Company's ATS - \$134,000 and increased salary allocations to this category - \$1,206,000.

**Other comprehensive loss of \$208,730 (2017 – gain of \$193,656)**

The charges result from Company translating its financial statements into its reporting currency (the Canadian dollar) from its functional currency (the United States dollar) and the increase in loss of approximately \$402,000 is a reflection of the reduction in net assets and increase in operating loss for the year.

***Transactions with related parties***

***Year ended December 31, 2018 and December 31, 2017***

***Due from related party***

As at December 31, 2018, amounts due to the Company comprise a secured loan in the amount of \$50,000 plus accrued interest of \$1,660, equal to \$51,660 provided to its Chief Financial Officer (2017 - \$nil). The maturity of the loan has been extended to December 31, 2019, and interest accrues at the rate of 6% per annum. Both principal and accrued interest are payable on or before the maturity date and the loan is secured by a promissory note from the borrower. As further security to the Company, the borrower agreed not to sell, pledge or otherwise encumber, 62,000 of the Company's common shares owned by him, until the full amount of the loan was repaid (including applicable interest). The borrower has also agreed to surrender the shares to the Company upon its request to do so.

As at December 31, 2018, \$1,660 (2017 – \$nil) of accrued interest income is included in the consolidated statements of loss and comprehensive loss.

***Due to related parties***

As at December 31, 2018, amounts due to related parties include \$238,090 (2017 - \$nil), comprising salary and consulting charges due to senior officers of the Company.

***Key management compensation***

Key management includes those individuals having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management includes the directors, named executive officers, being the chief executive officer and the chief financial officer, each of the Company's 3 remaining C-suite officers and 2 managing directors. Related-party compensation paid or payable to key management is detailed below:

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Year ended	December 31, 2018	December 31, 2017
	\$	\$
Compensation to key management	1,308,034	109,700
Share-based compensation	440,962	14,770

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The Consolidated Financial Statements include balances and transactions with directors and/or officers of the Company and/or companies related to or controlled by them. These transactions are measured and recorded at an arm's-length basis, being the amounts agreed to by the related parties.

### ***Financial instruments and risk management***

As at December 31, the Company held the following financial instruments:

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	2018	2017
	\$	\$
Financial assets		
Cash	187,634	433,781
Restricted cash	27,500	-
Deposits	11,507	-
Due from related parties	51,660	-
Funds held in escrow	-	3,771,473
	<b>278,301</b>	<b>4,205,254</b>
Financial liabilities		
Accounts payable and accrued liabilities	1,038,746	42,646
Due to related parties	229,563	-
Subscriptions receipts	-	3,770,296
	<b>1,268,309</b>	<b>3,812,942</b>

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The carrying and fair values of these financial instruments are approximately equivalent because of the short-term nature of these instruments.

### **Basis of fair values**

Assets and liabilities recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) observed 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).

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

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

The Company treats its cash and restricted cash as Level 1 financial assets and does not have any Level 2 or Level 3 financial assets or liabilities.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no significant transfers between levels during the year.

### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As at December 31, 2018, the Company had \$1,315,757 (2017 - \$3,812,942) of liabilities with a maturity of one year or less and a working capital deficiency of \$884,279 (2017 – working capital of \$405,373). The Company manages its liquidity risk by reviewing its growth plans on an ongoing basis.

### Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

### Currency risk

The Company's functional currency is the US dollar. DelphX also conducts business in Canadian dollars. Financial assets and liabilities denominated in foreign currencies will be affected by changes in the exchange rate between the functional currency and any foreign currencies. The assets and liabilities primarily affected are cash, accounts payable and accrued liabilities and due to related parties that are denominated in foreign currencies. The Company has recognized currency exchange activity during the year ended December 31, 2018, of a gain of \$168,456 (2017 - \$nil).

Management believes that at this stage of its development, foreign currency risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

The Company's funds are kept in Canadian and US dollars at a major Canadian and US financial institutions.

As at December 31, 2018, the Company's exposure to foreign currency balances is as follows:

Account	Foreign currency	Exposure (\$Cdn)	
		December 31, 2018	December 31, 2017
Cash	US dollar	98,324	262,736
Accounts payable and accrued liabilities	US dollar	(933,605)	(42,646)
		(835,279)	220,089

The Company believes that a change of 10% in foreign exchange rates would increase/decrease net income for the year by approximately \$83,528 (2017 – \$22,000).

The Company is not currently exposed to any significant credit risk and other price risk.

### Other risk factors

*The following are certain other risk factors relating to the Company. The information is only a summary of certain other risk factors and is qualified in its entirety by reference to, and must be read in conjunction with,*

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*the detailed information appearing elsewhere in this MD&A and the Company's Annual Information Form. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company, or that the Company currently deem immaterial, may also impair the operations of the Company. If any such risks actually occur, the business, financial condition and/or liquidity and results of operations of the Company could be materially adversely affected.*

### **Dependence on management and key personnel**

The success of DelphX for the foreseeable future will depend largely upon the ability of its management team and other key personnel. The loss of any one of these individuals could have a material adverse effect on its business, and DelphX would need to devote substantial resources to finding replacements. The Company currently does not carry "key-man" life insurance policies covering any of these officers.

Competition for qualified and experienced personnel in the technology field is generally intense, and DelphX will rely heavily on its ability to attract and retain qualified personnel in order to successfully implement its business objectives. The failure to attract or retain key executives and personnel could impact the DelphX's operations.

### **Additional funding requirements**

DelphX will require additional financing to implement its business plan. The Company may raise additional funds through gap financing, debt financing and/or subsequent equity financing. DelphX may also borrow funds from a financial institution(s) using the assets of the Company as security for said loan(s). DelphX may also obtain additional financing through certain government subsidies or tax incentives available in certain geographic areas, if available, at the Company's discretion. Failure to obtain such additional capital on terms acceptable to the DelphX could restrict its ability to implement its growth plans. Further, a shortage of funds may prevent or delay DelphX from launching its platform, achieving profitability or enabling it to pay distributions to its shareholders. There is no assurance that the DelphX will have adequate capital to conduct its business or satisfy its financial obligations.

The ability of DelphX to arrange financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of DelphX. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, if needed, or that such financing will be available on terms satisfactory to it. Additional financing raised by the issuance of shares from the treasury of DelphX may be dilutive to existing shareholders. There can be no assurance that DelphX will generate cash flow from operations necessary to support its continuing operations.

### **Conflicts of interest**

Certain of the directors and officers of DelphX are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies (including technology companies) and, as a result of these and other activities, such directors and officers of DelphX may become subject to conflicts of interest. The OBCA provides that in the event that a director has a material interest in a contract or proposed contract or agreement that is material to the issuer, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement, subject to and in accordance with the OBCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the OBCA. To management of DelphX's knowledge, as at the date hereof there are no existing or potential material conflicts of interest between the Company and a director or officer of DelphX, except as otherwise disclosed herein.

### **Market for securities and volatility of share price**

There can be no assurance that an active trading market for DelphX's securities will be sustained. The market price for the Company's securities could be subject to wide fluctuations. Factors such as announcements of

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quarterly variations in operating results, as well as market conditions in the industry, may have a significant adverse impact on the market price of the securities of DelphX. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

### **Adverse general economic conditions**

Events in the global financial markets in the past several years have had a profound and lasting impact on the global economy. Some of the key impacts of the financial market turmoil included contraction in credit markets resulting in a widening of credit risk, devaluations, high volatility in global equity, commodity, foreign exchange and precious metal markets and a lack of market liquidity. A similar slowdown in the financial markets or other economic conditions, including but not limited to, inflation, lack of available credit, the state of the financial markets, interest rates and tax rates, may adversely affect the Company's operations. Specifically, a global credit/liquidity crisis could impact the cost and availability of financing and overall liquidity, volatile energy, commodity and consumables prices and currency exchange rates could impact costs and the devaluation and volatility of global stock markets could impact the valuation of DelphX's equity and other securities. These factors could have a material adverse effect on DelphX's financial condition and results of operations.

### **Cybersecurity and hacking risks**

Computer viruses, hackers or other security problems could interfere with DelphX's network software or the availability of it, and lead to misappropriation of proprietary and sensitive information and interruptions, delays or cessation in service to the Company's users. DelphX may be required to expend significant capital and other resources to protect against security breaches or losses or to alleviate problems caused by these breaches or losses. If third parties gain improper access to its systems or databases or those of the DelphX's partners or contractors, they may be able to steal, publish, delete or modify confidential information. A security breach could expose the DelphX to monetary liability, lead to inquiries and fines or penalties from regulatory or governmental authorities, lead to reputational harm and make users less confident in DelphX's services, which could harm its business, financial condition and results of operations.

### **Regulatory risks**

The regulation of blockchain technologies is developing and companies may be subject to fragmented and potentially complex regimes, adopted in different technological eras that create uncertainty for businesses such as DelphX, which is utilizing blockchain technologies.

Regulatory changes or actions may alter the nature of an investment in the DelphX or restrict the use of blockchain technologies in a manner that adversely affects its operations. Regulatory agencies could shut down or restrict the use of platforms or exchanges using blockchain based technologies. This could lead to a loss of any investment made in DelphX and may trigger regulatory action by the SEC, the Ontario Securities Commission or other securities regulators. Changes in the regulatory environment imposed upon DelphX could adversely affect the ability of it to attain its corporate objectives and could have a material adverse effect on its financial results and business.

DelphX Services Corporation, which operates the DelphX ATS, is subject to regulation, examination and disciplinary action by the SEC and the Financial Industry Regulatory Authority ("FINRA") with which it is registered. DelphX Services Corporation is also subject to rules and regulations relating to the prevention and detection of money laundering, privacy and data protection laws and regulations, and substantial other regulatory requirements. Any failure to comply with all applicable regulations, and any regulatory proceeding or civil or criminal action against DelphX Services Corporation could have a material adverse effect on DelphX's financial results and business.

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### **Market acceptance**

The marketplace may be slow to accept or understand the significance of the DelphX's products and services due to their unique nature and the competitive landscape. Market confusion may slow sales and acceptance of its products and services. If the Company is unable to promote, market and sell its products and services and gain market acceptance, DelphX's business and financial condition would be adversely affected.

### **Dependence on technological infrastructure and advancements**

The blockchain industry is subject to significant technological advancements, changing industry standards, market trends, customer preferences and competitive pressures which can, among other things, necessitate revisions in pricing strategies, price reductions and reduced profit margins. The success of DelphX will depend on its ability to secure technological superiority in its services and maintain such superiority in the face of new technologies. No assurance can be given that further modification of product offerings of the DelphX will not be required in order to meet demands or to remain competitive.

In addition, the DelphX ATS and its smart contracts are novel and are subject to risks associated with the fact they are new and untested, including:

- a rapidly-evolving regulatory landscape, which might include security, privacy or other regulatory concerns that could require the DelphX ATS to implement changes to its system that could disrupt operations;
- the possibility of undiscovered technical flaws in the DelphX technology, including in the process by which transactions are recorded by the DelphX ATS to the proprietary ledger or by which the validity of a copy of the proprietary ledger can be mathematically proven utilizing cryptographically-secured distributed ledger network technology; and
- the possibility that cryptographic security measures that authenticate transactions and the blockchain for the applicable distributed ledger could be compromised, which could allow an attacker to alter the distributed ledger and thereby disrupt the ability to corroborate definitive transactions recorded on the proprietary ledger.

### ***Risks associated with DelphX's Business***

#### **Segregation of duties**

Segregation of duties is a basic, key internal control and one of the most difficult to achieve in a small company. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. At the present time, due to the Company's size and limited resources, a complete segregation of duties within the Company's accounting group cannot be fully achieved. The result is that the Company is highly reliant on the performance of mitigating procedures during the process of closing its Consolidated Financial Statements in order to ensure the financial statements are presented fairly in all material respects. Management will identify and hire additional accounting resources where cost effective and when required. Where it is not cost effective to obtain additional accounting resources, management will review existing mitigating controls and, if appropriate, implement changes to its internal control processes whereby more effective mitigating controls will be adopted.

#### **Competition**

DelphX faces competition from competitors beginning to integrate blockchain technology within their existing business models, as there are few barriers for the entry to into the market for blockchain technology businesses. Failure to compete successfully against other similar companies could have a material adverse effect on the Company and its prospects. DelphX may be unable to contend successfully with current or future competitors

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which include major technology companies, many of which are large, well-established companies with access to financial, technical and marketing resources significantly greater than the DelphX. The Company's competitors may develop or acquire new or improved products that are similar to those offered by it, while not necessarily being direct competitors currently, or may make technological advances that reduce their cost of production so that they may engage in price competition.

### **Product development risk and no assurance of commercialization**

Substantial corporate resources have been and will be expended on the development of the DelphX ATS Platform. The DelphX ATS Platform remains in the research and development stage and has not yet been commercialized. There can be no guarantee that the DelphX ATS Platform will achieve the objectives which it believes are necessary for it to result in a successful product in the market. There are significant risks, expenses, delays and difficulties frequently encountered in establishing new products in the technology products industry, which is characterized by an increasing number of market entrants, intense competition and high failure rate. Further, there is always the risk in product development that the products will fail to function as intended or that the market for such products will not develop as anticipated or when anticipated. There is often a lengthy time-period between the time of product conceptualization to product commercialization, and there can be no assurances that development of new products will be completed at all, on time or within budget. Failure to successfully commercialize the DelphX ATS Platform may materially and adversely affect DelphX's financial condition and results of operations.

### **Infrastructure risk**

DelphX's ability to attract, retain, and serve customers is dependent upon the reliable performance of the blockchain software platform and the underlying technical infrastructure. It is possible that it may fail to effectively scale and grow its technical infrastructure to accommodate these increased demands. Additionally, any disruption or failure in the services the Company receives from third party partners used to facilitate its business could harm the DelphX's business. Any financial or other difficulties these partners face may adversely affect the Company's business, and it exercises little control over these partners, which increases vulnerability to problems with the services they provide.

### **Limited protection of patents and proprietary rights**

DelphX's success will depend in part on its ability to protect its proprietary rights and technologies, including, but not limited to the DelphX ATS Platform. DelphX will rely on a combination of contractual arrangements, patents, trade secrets and know-how to protect its proprietary technology and rights and the Company's failure to protect its intellectual property rights may result in the loss of valuable technologies and undermine its competitive position. However, not all of these measures may apply or may afford only limited protection. In addition, the laws of some foreign countries do not protect proprietary technology rights to the same extent as do the laws of Canada and the United States. A failure of DelphX to adequately protect its proprietary rights may adversely affect its business.

Unpatented trade secrets, improvements, confidential know-how and continuing technological innovation may be important to DelphX's commercial success. Although it will attempt to, and will continue to attempt to, protect proprietary information through reliance on trade secret laws and the use of confidentiality agreements with collaborators, licensees, employees and consultants and other appropriate means, these measures may not effectively prevent disclosure of or access to proprietary information, and, in any event, others may develop independently, or obtain access to, the same or similar information.

Despite its efforts to protect its proprietary rights, there can be no assurance that DelphX's intellectual property will not be infringed upon, that it would have adequate remedies for any such infringement or adequate funds to take action against those infringing such intellectual property, or that its trade secrets will not otherwise become known or independently developed by its competitors. There can also be no assurance that any patents now or hereafter issued to, licensed by or applied for by the Company will be upheld, if challenged, or that the

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protections afforded thereby will not be circumvented by others. There can be no assurance that the DelphX's competitors will not independently develop technologies that are substantially equivalent or superior to the technologies of DelphX.

### **Infringement of intellectual property rights**

While DelphX believes that its intellectual property does not infringe upon the proprietary rights of third parties, its commercial success depends, in part, upon the Company not infringing intellectual property rights of others. A number of DelphX's competitors and other third parties have been issued or may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those utilized by it. Some of these patents may grant very broad protection to the owners of the patents.

DelphX may become subject to claims by third parties that its technology infringes their intellectual property rights.

Litigation may be necessary to determine the scope, enforceability and validity of third-party proprietary rights or to establish the DelphX's proprietary rights. Some of its competitors have, or are affiliated with companies having, substantially greater resources than the Company and these competitors may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than DelphX.

Regardless of their merit, any such claims could be time consuming to evaluate and defend, result in costly litigation, divert management's attention and focus away from the business, subject DelphX to significant liabilities and equitable remedies, including injunctions, require it to enter into costly royalty or licensing agreements and require the Company to modify or stop using infringing technology.

### **Privacy**

DelphX may receive, store and process personal information and other customer data and information relating to financial transactions. As a result, the Company must comply with the numerous federal, provincial and local laws in the United States, Canada and abroad relating to the collection, use, disclosure, storage and safeguarding of personal information. Any failure or perceived failure by it to comply with its privacy policies, privacy-related obligations to customers or other third parties, or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other customer data, may result in governmental enforcement actions, fines or litigation.

### **Risk of obsolescence**

New developments in technology may negatively affect the development or sale of some or all of the DelphX's product or service offerings or make them obsolete. The inability of DelphX to enhance existing products and services in a timely manner or to develop and introduce new products and services that incorporate new technologies, conform to increasingly regulatory requirements, and achieve market acceptance in a timely manner could negatively impact the Company's competitive position. New product and service development or modification is costly, involves significant research, development, time and expense, and may not necessarily result in the successful commercialization of any new products or services.

### **Expansion Risk**

Any expansion of the DelphX's business may place a significant strain on its financial, operational and managerial resources. There can be no assurance that the Company will be able to implement and subsequently improve its operations and financial systems successfully and in a timely manner in order to manage any growth it experiences. There can be no assurance that DelphX will be able to manage growth successfully. Any inability of DelphX to manage growth successfully could have a material adverse effect on its business, financial condition and results of operations.

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### Limited operating history

DelphX has incurred losses since its inception and it is expected to continue to incur losses during its development of the DelphX ATS Platform. As such, it will be subject to all of the business risks and uncertainties associated with any new business enterprise, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenues. DelphX's ability to reach and then sustain profitability depends on a number of factors, including the growth rate of the blockchain industry, the market acceptance of the DelphX ATS Platform and the competitiveness of the Company. There is no assurance that DelphX will be successful in achieving a return on shareholders' investment and the likelihood of its success must be considered in light of its early stage of operations.

### Lack of operating cash flow

DelphX currently has no source of operating cash flow and this is expected to continue until the third quarter of 2019. No assurance can be given that it will ever attain positive cash flow or profitability or that additional funding will be available for operations. DelphX's failure to achieve profitability and positive operating cash flows could have the following consequences: (a) increasing its vulnerability to general adverse economic and industry conditions; (b) limiting its ability to obtain additional financing to fund future working capital, capital expenditures, operating costs and other general corporate requirements; and (c) limiting its flexibility in planning for, or reacting to, changes in its business and industry.

### Uninsured risks

DelphX may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs or for other reasons. Furthermore, it may incur liability to third parties in excess of any insurance coverage or for which the Company is not insured arising from any damage or injury caused by DelphX's operations, which may have a material adverse effect on its financial position

### Research and development costs

The research and development costs for the Company are detailed as follows:

Year ended	December 31, 2018	December 31, 2017
	\$	\$
ATS development	496,320	272,818
Compensation	1,210,127	95,171
<b>Research and development costs</b>	<b>1,706,447</b>	<b>367,989</b>

### Disclosure of outstanding share information

The following table sets forth information concerning the outstanding securities of the Company as at April 30, 2019:

	Number
Common shares	80,813,376
Options	2,629,000

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Warrants	1,340,000
Broker warrants	825,315

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***Escrowed securities***

Subject to the policies of the TSXV, the following table summarizes the remaining common shares of the Company that are subject to escrow provisions together with the date of general release.

Total	Release date			
	October 27, 2019	April 27, 2020	October 27, 2020	April 27, 2021
32,542,206	8,135,546	8,135,546	8,135,546	8,135,568