



DelphX Capital Markets Inc.
Management's Discussion and Analysis
of the Financial Condition and Results of Operations
Year ended December 31, 2019

July 13, 2020

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

This management discussion and analysis (“MD&A”) has been prepared based on information available to DelphX Capital Markets Inc. (“DelphX” or the “Company”) as at July 13, 2020. This MD&A is based on information available to DelphX and updates disclosure previously provided in the Company’s quarterly MD&A’s, up to the date of this MD&A and should be read in conjunction with the Company’s audited consolidated financial statements and the related notes as at and for the years ended December 31, 2019 and 2018 (the “Consolidated Financial Statements”). The Consolidated Financial Statements have been prepared by management 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 can be found at www.sedar.com or on the Company’s website at www.DelphX.com.

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, 2019

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 22 of the Consolidated Financial Statements. Prior to the QT, Seaside had a fiscal year end of January 31st, which has been changed to December 31st to coincide with the reporting year end of the DelphX Corporation (the RTO 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 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.

The Consolidated Financial Statements were approved for issuance by the Board of Directors of the Company on July 10, 2020.

DelphX’s newly-adopted standards and accounting policies are detailed in notes 3 and 4, respectively, of the Consolidated Financial Statements.

Principal Business and Stated Business Objectives

DelphX is a financial technology company that has designed a platform to improve both trading and negotiation in the fixed income market. To-date, this platform had been fully designed, but not yet adopted by industry participants. The Company operates its proprietary system under a wholly-owned special purpose vehicle called “**Quantem**”. The platform is the result of a multi-year collaboration with bond investment and trading companies, who have seen a diminishing ability to protect against risk and default, due to structural changes in their industry. This problem is significant, because it causes pension funds and insurance companies to tie up additional capital to offset potential liabilities, while also reducing yield within their existing portfolios.

To solve these problems, DelphX (with guidance from the SEC) created two securities solutions (both reg 144A) which offer both secure risk protection and yield improvement for currently issued underlying bonds. The first of these proprietary securities consists of **Covered Put Options (CPOs)**, which are 144A securities that pay holders the interest and principal payments as due under a referenced credit security that has defaulted. CPOs are structured to indemnify both individual and portfolios of referenced corporate bonds and other credit securities. The second security type consists of **Covered Reference Notes (CRNs)**, which are fixed

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

coupon/maturity 144A securities that fund all CPO protection, on a CUSIP-specific basis, and pay materially-enhanced yields.

All CPOs and CRNs on this platform will be issued by Quantem, collateralized by investment-grade assets held in custody by BNY Mellon and managed by a leading independent asset manager. Each will be transparently priced and available for secondary trading within the regulated DelphX ATS.

The DelphX platform enables anonymous negotiation, purchase and trading of new forms of digital smart contract securities that can 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. Newly created securities are negotiated anonymously through Quantum and will be traded in a secondary market. The trading platform/technology will use the existing Nasdaq electronic market and be regulated by the SEC. At no time does DelphX (or Quantem) hold any securities or funds on behalf of third parties. DelphX functions solely as the provider of a technology platform that enables the negotiation and creation of new securities.

The Company's primary business objective has been to develop a sustainable revenue model by using advanced technology to solve major unmet problems in the bond market – with an emphasis on unlocking liquidity, providing default protection, and boosting yield in existing and future bond portfolios.

As of June 2020, DelphX was in late-stage discussions with private equity funds, banks and others bond market entities to adopt this proprietary solution.

Management and Board of Director changes

On June 1, 2020, the Company announced that Patrick Wood had joined the Company's board of directors and was appointed as its President and CEO. A 25-year veteran in capital markets, the Company is pleased to have Mr. Wood assist in leading the Company into the next phase of its strategy.

Change of Auditor

In June 2020, the Company filed a Notice of Change of Auditor, changing from Zeifmans LLP to Davidson and Company, LLP.

Management Cease Trade Order ("MCTO")

On June 1, 2020, the Company made application to the Ontario Securities Commission ("**OSC**"), its Principal Regulator (as defined pursuant to Multilateral Instrument 11-101 – *Principal Regulator System*), requesting that a MCTO be granted as it would not be filing its (i) audited annual financial statements for the year ended December 31, 2019; (ii) management's discussion & analysis for the financial period ended December 31, 2019; (iii) certification of annual filings pursuant to National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("**NI 52-109**") (collectively, the "**Annual Filings**"); (iv) unaudited interim financial statements for the 3 months ended March 31, 2020; (v) management's discussion and analysis for the 3 months ended March 31, 2020; (vi) certification of interim filings pursuant to NI 52-109 (collectively, the "**Interim Filings**"), all after the filing deadline set forth in National Instrument 51-102 – *Continuous Disclosure Obligations* ("**NI 51-102**") and further extended pursuant to Ontario Instrument 51-502 *Temporary Exemption from Certain Corporate Finance Requirements*.

The OSC granted a MCTO expiring on July 13, 2020. The MCTO as granted, provided relief to the Company for its Annual Filings only. No further MCTO would be granted to further extend the filing of either its Annual Filings nor its Interim Filings.

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

Private placements

2020 to date:

- (i) In March and April 2020, the Company completed a private placement issuing a total of 3,910,001 units (each a "**March 20 Unit**"), raising gross proceeds of \$234,600. Each March 20 Unit consisted of 1 common share and 1 share purchase warrant (each a "**March 20 Warrant**"). Each March 20 Warrant is exercisable for 5 years at an exercise price of \$0.08. In connection with this private placement, DelphX also issued 116,667 finder warrants (the "**March 20 Finder Warrants**"). The holders of the March 20 Finder Warrants may exercise same for a period of 5 years at an exercise price of \$0.06 each. The Company also paid cash finder's fees of \$7,000.
- (ii) In June 2020, the Company completed a private placement issuing a total of 5,333,332 units (each a "**June 20 Unit**"), raising gross proceeds of \$400,000. Each June 20 Unit consisted of 1 common share and 1 share purchase warrant (each a "**June 20 Warrant**"). Each June 20 Warrant is exercisable for 5 years at an exercise price of \$0.10. In connection with this private placement, DelphX also issued 143,500 finder warrants (the "**June 20 Finder Warrants**"). The holders of the June 20 Finder Warrants may exercise same for a period of 5 years at an exercise price of \$0.075 each. The Company also paid cash finder's fees of \$10,763.

2019:

- (iii) In September, 100,000 options were exercised raising \$10,000. The fair value of the exercised options of \$28,700 was transferred from contributed surplus to share capital.
- (iv) In May 2019, the Company issued 8,116,500 units at \$0.20 per unit with a total value of \$1,623,300. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable for 2 years after issue at an exercise price of \$0.30 each with a fair value of \$377,192. Of the total units issued, 5,000,000 were issued to a shareholder in exchange for the surrender and cancellation of 2,000,000 common shares and 1,000,000 warrants previously issued for proceeds of \$1,000,000. The Company recorded stock-based compensation of \$600,000 on the transaction, representing additional 3,000,000 common shares issued to the shareholder at a price of \$0.20.

In connection with the private placement, the Company also issued 393,155 finders' warrants with an exercise price of \$0.30 per finders' warrant for a period of two years, with a fair value of \$15,550.

The fair value of the warrants and finders' warrants, were calculated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate of 1.59%, expected life of 2 years, volatility of 96.89%, and a dividend yield of 0%. The finder's warrants were allocated evenly between the common shares and the warrants.

The Company paid cash finder's fees of \$8,085.

- (v) In December 2019, broker warrants with a fair value of \$134,133 and warrants with a fair value of \$44,308, expired.
- (vi) During the year ended December 31, 2019, the vested value of shares previously issued pursuant to buyback agreements, amounted to \$248,814 (2018 - \$nil). During 2019, all shares originally subject to buyback agreements were vested in their entirety as the Company and the recipients amended the agreements to waive the buyback provisions.

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

2018:

- (vii) 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.
- (viii) In August 2018, 132,253 common shares were issued with the exercise of an equal number of finder warrants. The exercise raised \$46,229 proceeds and resulted in a fair value transfer of \$27,306 from warrants to share capital.
- (ix) 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.
- (x) 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.
- (xi) 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 (note 22) 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.
- (xii) 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%.
- (xiii) In January 2018, 1,142,857 common shares were issued at \$0.35 each, raising proceeds of \$399,986.
- (xiv) In addition to the amounts vesting from 620,000 shares (note 17 (xi)), an additional \$179,836 has been recorded for the vesting of 2 other share issuances subject to buy-back provisions.

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

Financial condition

As at December 31, 2019, the Company had assets totaling \$624,004 and shareholders' deficiency of \$2,585,374. This compares with assets of \$719,308 and shareholders' deficiency of \$596,449, as at December 31, 2018.

During the year ended December 31, 2019, the Company's net assets decreased by \$1,988,925, the result of a decrease in assets of \$95,304, supplemented by an increase in liabilities of \$1,893,621.

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

Item	Change	Explanation of change
	\$	
Cash	(51,995)	Cash used for operating activities of \$1,428,944 offset by cash provided from financing activities of \$1,234,232. Foreign exchange had a positive impact on cash balances, totalling \$142,717.
HST recoverable	(63,553)	Reduced taxable expenditures made in 2019 versus 2018.
Deposits and prepaid expenses	(49,516)	The reduction is accounted for by insurance, which is now paid monthly, as opposed to annually.
Due from related party	3,000	Current year's interest on secured loan provided to the Company's CFO. Details disclosed in note 9 of the Consolidated Financial Statements or in the <i>Transactions with related parties</i> section of this MD&A.
Right-of-use (ROU) assets	354,590	The Company adopted IFRS 16 as at January 1, 2019 and has recognized its office lease as a ROU asset. Details provided in note 12 of the Consolidated Financial Statements.
Leasehold improvements	(170,469)	The Company has sublet its office premises and therefore written-off its leasehold improvements. The decrease is attributable to depreciation prior to the write-off of \$29,530 together with the write-off of \$140,939.
Intangible assets	(117,361)	The reduction is the sum of amortization taken during the year of \$7,310 together with the impairment charge of \$110,051.
Accounts payable and accrued liabilities	(242,326)	Increases in this category are the result of longer payment terms taken on trade payables.
Due to related parties	(588,743)	Comprising salary and consulting charges due to senior officers of the Company. Details disclosed in note 9 of the Consolidated Financial Statements or the <i>Transactions with related parties</i> section of this MD&A.
Lease liabilities	(380,349)	The Company adopted IFRS 16 as at January 1, 2019 and has recognized its office lease liability. Details provided in note 14 of the Consolidated Financial Statements.
Convertible debentures	(545,403)	The change represents the liability component of the convertible debentures. Note 15 of the Consolidated Financial Statements details the bifurcation between debt and equity components.

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

Item	Change	Explanation of change
	\$	
Debentures	(136,800)	The change is the amount advanced under the debentures.
	(1,988,925)	

Selected annual financial information

	December 31, 2019	December 31, 2018	December 31, 2017
	\$	\$	\$
Consolidated statements of loss			
Total operating expenses	(4,496,063)	(8,498,954)	(2,100,065)
Net loss	(4,858,204)	(8,505,131)	(2,088,008)
Comprehensive loss	(4,634,481)	(8,713,861)	(1,894,352)
Basic and diluted loss per common share	(0.06)	(0.12)	(0.04)
Consolidated statements of cash flow			
Cash used for operations	(1,428,944)	(5,412,349) ¹	(4,441,144)
Cash provided from financing activities	1,234,232	5,346,093 ¹	4,890,783
Cash used for investing activities	-	(42,729)	(18,489)
Increase/(decrease) in cash	(51,995)	(246,147)	431,150
Consolidated statements of financial position			
Cash	135,639	187,634	433,781
Restricted cash	27,500	27,500	-
Cash held with escrow agent	-	-	3,771,473
Total assets	624,004	719,308	4,346,486
Shareholders' equity (deficiency)	(2,585,374)	(596,449)	533,544
Average number of common shares outstanding	85,046,194	73,375,156	46,660,879

¹Restated. See note 28 of the Consolidated Financial Statements.

Summary of quarterly results

	4 th Quarter 2019	3 rd Quarter 2019	2 nd Quarter 2019	1 st Quarter 2019
Total revenues	-	-	-	-
Loss	(1,401,739)	(797,191)	(1,306,896)	(1,352,378)
Net loss per share – basic and fully-diluted ²	(0.01)	(0.01)	(0.02)	(0.02)
Total assets	624,004	566,678	794,513	701,728
Long-term debt	(972,735)	(569,955)	(499,411)	-
Deficiency	(2,585,374)	(2,023,831)	(1,679,705)	(1,649,665)
Cash dividends declared	-	-	-	-

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

per common share				
	4 th Quarter 2018	3 rd Quarter 2018	2 nd Quarter 2018	1 st Quarter 2018 ¹
Total revenues	-	-	-	-
Loss	(2,300,715)	(1,702,426)	(3,638,485)	(863,505)
Net loss per share – basic and fully-diluted ²	(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	-	-	-	-

¹ DelphX Corporation only, the RTO Acquirer.

² Inclusion of outstanding warrants and options is anti-dilutive.

Results of operations

The Company has not generated operating revenue and therefore losses have been incurred throughout the years ended December 31, 2019 and 2018. During 2019, the Company's financial position forced the layoff of all of the Company's developers, sub-let of the Company's office space in Kitchener, Ontario, and extensive reductions to its operations and cash-burn rate. Exclusive of one-time transaction costs in 2018 of \$1,359,804, the Company reduced operating costs by \$2,643,088 (or 37%) from 2018. Loss for the year was \$4,858,204 (2018 – \$8,505,131) or \$0.06 (2018 – \$0.12) loss per share.

Significant changes are detailed below:

Administrative expenses of \$825,954 (2018 - \$1,369,470)

The decrease of approximately \$545,000 was attributable to the following: a reduction to the Company's IT staff resulting in savings of approximately \$142,000; sublet of its office space, reducing rent costs by approximately \$122,000 together with office supplies and other expenses by approximately \$259,000. Further reductions to travel and conferences of approximately \$45,000 and \$30,000, respectively and audit and accounting fees of approximately \$141,000, were offset by increases to consulting of approximately \$71,000 and other administration costs of approximately \$123,000.

Amortization and depreciation of \$143,208 (2018 – \$35,936)

The increase of approximately \$107,000 was comprised mainly of the depreciation on ROU assets, resulting from the adoption of IFRS 16 Leases.

Foreign exchange losses of \$170,313 (2018 – gains of \$168,456)

The increase in losses of approximately \$339,000, is a direct result of the increase in the value of the US dollar versus the Canadian dollar during 2019.

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

Bank charges, interest and interest accretion of \$136,234 (2018 – \$12,756)

The increase of approximately \$123,000, was due to the interest expense on the convertible debentures and the debentures during 2019 - \$41,000 and to non-cash interest accretion on the ROU assets of approximately \$50,000 and the convertible debentures of approximately \$32,000.

Investor relations and public reporting costs of \$123,282 (2018 – \$364,199)

The Company's financial position during 2019 forced reduced operations with investor relations and public reporting expenditures.

Legal and regulatory of \$375,146 (2018 – \$2,494,411)

The decrease of approximately \$2,119,000, was comprised of reduced legal fees expended on completing the QT of approximately \$285,000 together with legal fees on the perfection of the Company's CPO and CRN securities of approximately \$1,626,000. Final decrease of approximately \$207,000 is attributable to a reduction of the allocated payroll.

Listing expense of \$nil (2018 – \$1,359,804)

The non-cash expense was entirely incurred as a result of completing the QT and RTO of Seaside. See note 23 of the Consolidated Financial Statements for complete details.

Marketing and advertising of \$179,038 (2018 – \$686,742)

The decrease of approximately \$507,000 was mainly the result of lower payroll allocation of approximately \$501,000.

Research and development expenses of \$795,916 (2018 – \$1,706,448)

The decrease of approximately \$911,000, was the result of decreased direct expenditures on the Company's ATS of approximately \$443,000 together with decreased salary allocations to this category of approximately \$468,000.

Share-based compensation of \$1,872,690 (2018 - \$637,605)

The increase of approximately \$1,235,000 results from the issuance of options during the current year of \$662,000 and a charge of \$600,000 being the difference between the purchase price and the fair value of the cancelled common shares. This is offset by a reduction to the vesting portion of the shares issued in 2018 that were subject to buyback conditions.

Sub-lease income of \$14,568 (2018 - \$nil)

The increase of approximately \$15,000 was attributable entirely to the Company's adoption of IFRS 16 and the recognition of sub-lease rental payments.

Transactions with related parties

Year ended December 31, 2019 and December 31, 2018

Due from related party

As at December 31, 2019, amounts due to the Company comprise a secured loan in the amount of \$50,000

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

plus accrued interest of \$4,660, equal to \$54,660 provided to its Chief Financial Officer (2018 - \$51,660). The maturity of the loan has been extended to December 31, 2020, 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, 2019, \$3,000 (2018 – \$1,660) of accrued interest income is included in the consolidated statements of loss.

Due to related parties

As at December 31, 2019, amounts due to related parties include \$826,833 (2018 - \$238,090), 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, 2 managing directors and former C-Suite personnel. Related-party compensation paid or payable to key management is detailed below:

Year ended	December 31, 2019	December 31, 2018
	\$	\$
Compensation to key management	857,526	1,308,034
Share-based compensation	1,231,377	440,962

The Consolidated Financial Statements include balances and transactions with directors and/or officers of the Company and/or corporations 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.

During the year ended December 31, 2019, the Company settled an outstanding debt for services with the issuance of 300,000 common shares with a fair value of \$60,000.

During the years ended December 31, 2019 and 2018, related parties participated in debt and equity financings of the Company as follows:

Year ended	December 31, 2019	December 31, 2018
	\$	\$
Equity financings	373,300	100,000
Convertible debentures	270,000	-
Debentures	65,300	-
Total	708,600	100,000

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

Financial instruments and risk management

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

	2019	2018
	\$	\$
Financial assets		
Cash	135,639	187,634
Restricted cash	27,500	27,500
Deposits	11,507	11,507
Due from related parties	54,660	51,660
	229,306	278,301
Financial liabilities		
Accounts payable and accrued liabilities	1,319,993	1,077,667
Due to related parties	826,833	238,090
Convertible debentures	545,403	-
Debentures	136,800	-
	2,829,029	1,268,309

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.

The Company treats its cash and restricted cash as Level 1 financial assets and does not have any other financial assets or liabilities subsequently measured at fair value.

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, 2019, the Company had \$2,236,643 (2018 - \$1,315,757) of liabilities with a maturity of one year or less and a working capital deficiency of \$1,967,229 (2018 – \$884,279). The Company manages its liquidity risk by reviewing its growth plans on an ongoing basis.

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

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. The Company 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, 2019, of a loss of \$170,313 (2018 – gain of \$168,456).

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, 2019, the Company's exposure to foreign currency balances is as follows:

Account	Foreign currency	Exposure (\$Cdn)	
		December 31, 2019	December 31, 2018
Cash	US dollar	15,355	98,324
Accounts payable and accrued liabilities	US dollar	(975,577)	(933,605)
Due to related parties	US dollar	(564,852)	(90,700)
		(1,525,074)	(925,981)

The Company believes that a change of 10% in foreign exchange rates would increase/decrease net loss for the year by approximately \$152,000 (2018 – \$93,000).

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, the detailed information appearing elsewhere in this MD&A. 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.

Novel Coronavirus ("COVID-19")

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

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 quarterly variations in operating results, as well as market conditions in the industry, may have a significant

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

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

Regulatory changes or actions may alter the nature of an investment in the DelphX in a manner that adversely affects its operations. This could lead to a loss of any investment made in DelphX and may trigger regulatory action by the SEC, the Ontario Columbia 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.

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

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 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

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

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 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

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

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 its 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 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.

DelphX Capital Markets Inc.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2019

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.

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 market acceptance of the DelphX ATS Platform and the competitiveness of the Company. There is no assurance that DelphX will be successful in

DelphX Capital Markets Inc.
ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2019

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 2020. 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, 2019	December 31, 2018
	\$	\$
ATS development	53,809	496,320
Compensation	742,107	1,210,127
Research and development costs	795,916	1,706,447

Disclosure of outstanding share information

The following table sets forth information concerning the outstanding securities of the Company as at the date of this MD&A:

	Number
Common shares	96,473,209
Options	8,959,000
Warrants	17,499,833
Finder warrants	892,595
Convertible debentures (maximum common shares, including warrant conversion)	10,090,666

DelphX Capital Markets Inc.
ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2019

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, 2020	April 27, 2021
16,271,101	8,135,546	8,135,555