



Tokens.com

Management's Discussion and Analysis

For the nine months ended September 30, 2022

(Expressed in United States Dollars)

Change in Fiscal Year-End

During the nine months ended September 30, 2022, Tokens.com Corp. changed its fiscal year end to September 30 from December 31. The transition period is the nine months ended September 30, 2022, and the comparative period is the twelve months ended December 31, 2021.

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Introduction

This Management's Discussion and Analysis ("MD&A") is dated December 29, 2022, and consolidates management's review of the factors that affected Tokens.com Corp.'s ("Tokens.com" or the "Company") financial and operating performance for the nine months ended September 30, 2022, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's financial statements as at and for the nine months ended September 30, 2022 ("Audited Consolidated Financial Statements") and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP").

Unless otherwise stated, results are reported in United States dollars, unless otherwise noted. The Company applies International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and interpretations issued by the IFRS Interpretations Committee. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results presented in the MD&A are not necessarily indicative of the results that may be expected for any future period.

This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results presented are not necessarily indicative of the results that may be expected for any future period.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company's ability to predict or control. For a complete list of the factors that could affect the Company, please make reference to those risk factors referenced in Part VI – "*Risk Factors*" of the Filing Statement of the Company dated April 23, 2021. Readers are cautioned that such risk factors, uncertainties and other factors are not exhaustive. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.

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All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly, or otherwise revise, any forward-looking statements, whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

To the Shareholders of Tokens.com:

Overview

Tokens.com Corp is a publicly traded technology company that invests in web3 assets and builds web3 businesses. The Company focuses on three operating segments: i) crypto staking, ii) the metaverse and, iii) play-to-earn crypto gaming. Tokens.com owns digital assets and operating businesses within each of these three segments.

Staking operations occur within Tokens.com. Metaverse real estate and ecomm3 solutions operations occur within a subsidiary called Metaverse Group. Crypto gaming operations occur within a subsidiary called Hulk Labs. All three businesses are tied together by the utilization of blockchain technology and are linked to high-growth macro trends within web3. Through sharing resources and infrastructure across these business segments, Tokens.com is able to efficiently incubate these businesses from inception to revenue generation.

Our strategy is to identify the key trends happening in the crypto and web3 sector and purchase assets and build businesses linked to the macro growth of these areas. In addition, Tokens.com and its subsidiaries do not engage in the lending of tokens, digital assets, or in using derivative products to enhance returns. We do not engage in the active trading or hedging of crypto assets. Tokens.com also does not provide third party custodial services and only custodies its own assets.

As a result of each of the three business segments owning digital assets, Tokens.com is required to revalue these assets at every reporting quarter. The Company's financial statements will have non-cash related gains or losses based on the market performance of the digital assets owned from quarter to quarter. These non-cash revaluations of owned digital assets do not impact the operations or growth within our business segments. The digital assets are owned for the purpose of generating revenue within each business segment. In some instances, the Company may choose to dispose of certain assets if they no longer meet our ownership criteria.

Market Environment

Capital markets in 2022 have been disappointing on several levels. While 2021 was marked by over-hyped asset values, 2022 has seen asset values decline across almost all sectors. Global indices remain highly reactive to macro headlines. The S&P 500 and NASDAQ are down approximately 20.4% and 34.2%, respectively at the time of writing, one of the worst yearly performances on record. Macro economic factors such as inflation weighed heavily on asset values as did the rapid and unprecedented increase in interest rates to combat inflation. Interest rate stress caused significant market disruption in 2022 including seven Fed rate increases. With only a few days left in 2022, it looks more and more likely that this will be among the very worst years in history for investing. Since World War II, there have been only three instances, in 1974, 2002 and 2008, when the S&P 500 ended the year down more than 20%. If 2022 ended today, it would mark only the fourth time. Not only have stocks been knocked down, but so have bond prices as the Fed continues to hike rates at an historically fast pace.

High profile failures, bankruptcies and outright fraud by crypto related businesses in the second half of 2022 punctuated what resulted in a massive drop in the value of cryptocurrencies from all-time highs in late 2021. This has negatively impacted the valuations of many technology companies, including small cap technology companies such as Tokens.com.

Also impacting valuations is the uncertainty related to energy prices, climate change and supply chain disruptions. Much of this is related to the ongoing conflict between Russia and the Ukraine. The result has been an ongoing pivot away from more speculative assets and technology stocks. As Tokens.com is a web3 technology company, our share price has been negatively impacted by these macro events, despite the company being well capitalized and growing.

Liquidations and forced selling hurt the crypto market in 2022. The \$55 billion Terra Luna platform collapsed. The large crypto hedge fund, Three Arrows Capital, filed for bankruptcy. Crypto lenders BlockFi, Celsius Network

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and Voyager became insolvent, declaring bankruptcies and requiring bailouts. The turmoil at centralized cryptocurrency exchanges has continued to hurt the crypto market in Q4-2022. FTX Trading Ltd. ("FTX"), one of the largest global cryptocurrency exchanges by volume, paused withdrawals and subsequently filed for bankruptcy in November 2022. Subsequently, the management of FTX has been arrested and charged with multiple counts of fraud and embezzlement. The bankruptcy and subsequent arrests have caused a mainstream distrust in the digital asset sector although none of the issues at FTX were a result of technological error, the issues were caused by fraudulent and criminal human behavior.

A common issue with capital markets is that they overvalue or undervalue companies. However, they rarely accurately reflect the value of a business. In the case of Tokens.com, we were caught up in the metaverse hysteria in late 2021. Today, all crypto companies have been caught in the slew of negative headlines about crypto and the economy which, in management's opinion, has led to overselling. In addition, as a small cap stock, small selling pressure can have an outsized impact on the share price. Conversely, the same is true. Over time, as the company grows and matures, and negative macro events stabilize, management hopes its share price will reflect its intrinsic value.

Operations

Despite being an early mover with notable achievements in the metaverse and play-to-earn gaming sectors, our accomplishments this year have been overshadowed by the poor performance of the cryptocurrency sector and high-profile failures and frauds in the sector. Management believes that although there have been setbacks in the public perception of crypto and some well publicized failures in the sector, the impact of web3 technology will be profound in the coming years. 2022 marked a successful corporate strategy pivot to expand beyond staking, which is highly reliant on the price of cryptocurrencies. Management further believes we are positioned in the fastest growing categories of web3 being staking, the metaverse and gaming.

We acknowledge that crypto prices in 2022 were volatile and our ownership of a cryptocurrency inventory resulted in significant non-cash losses related to the revaluation of those assets. Management took steps to reevaluate its crypto holdings and dispose of non-Layer 1 assets in favor of holding more cash. Management at Tokens.com has also taken steps to reduce corporate overhead significantly and preserve capital and will not require new capital in 2023. As of September 30th, Tokens.com held \$5.8M in cash and \$7.3M in cryptocurrency tokens.

Management has focused on building its two new web3 businesses, Metaverse Group and Hulk Labs. Those businesses are focused on innovation in the web3 sector in ways that are not tied to the performance of cryptocurrencies. Both businesses have made great strides in providing corporate and brand partners with new ways to engage their customers.

Metaverse Group and Hulk Labs both became revenue positive in 2022 through focus on innovative services and through building proprietary intellectual property. The Company's strategy is to limit its crypto exposure to Layer 1 cryptocurrencies such as Ethereum, while also building sustainable and profitable businesses that leverage web3 and blockchain technology. This strategy provides investors with the potential upside in crypto prices and the growing used cases for blockchain technology.

PART I – COMPANY AND QUARTERLY HIGHLIGHTS

THE COMPANY

Tokens.com Corp is a publicly traded technology company that invests in web3 assets and builds web3 businesses. The Company focuses on three operating segments: i) crypto staking, ii) the metaverse and, iii) play-to-earn crypto gaming. Tokens.com owns digital assets and operating businesses within each of these three segments.

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Cryptocurrency Staking Operations

A cryptocurrency is an encrypted and decentralized digital asset, transferred directly between peers across the Internet, with transactions being settled, confirmed, recorded and secured in a distributed public ledger called the blockchain, either through a process known as “mining” or a process known as “staking”. Miners and stakers are incentivized to provide their services, which secure and verify transactions, through compensation in newly minted units or tokens for the cryptocurrency being mined or staked.

The units of a cryptocurrency, or “tokens”, exist only as data on the Internet, and are not issued or controlled by any single institution, authority, or government. Whereas most of the world's fiat money currently exists in the form of paper and metal managed by central authorities such as banks, crypto tokens exist as electronic records in the blockchain, which is decentralized and intended to be tamper-proof. The blockchain ledger is publicly available to anyone and secured with public key encryption.

Cryptocurrency staking is the process of validating blocks for a blockchain and is similar to the process performed by crypto miners. Stakers are compensated similarly (in native cryptocurrency tokens) and provide the same end result as a crypto miner. However, the staking process relies on ownership of digital assets instead of the use of hardware and electricity. In addition to the revenue generated from staking, Tokens.com may also benefit from the potential appreciation in the underlying digital asset inventory used for staking.

Staking has become one of the most common technologies used by cryptocurrencies, such as Ethereum 2.0, to secure their networks. Unlike traditional cryptocurrency mining, which is used to mine older blockchains like Bitcoin and Ethereum 1.0, staking is not reliant on specialized hardware that can rapidly become outdated and does not consume vast amounts of electricity. Instead, staking technology uses validation rights attached to digital asset ownership to make digital asset transactions secure, reliable, and sustainable.

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The Company has focused on owning and staking Layer 1 tokens linked to used cases in decentralized finance, NFTs and the Metaverse. During the nine months ended September 30, 2022, the Company disposed of certain tokens deemed no longer meeting its criteria, such as Terra Luna. During the first quarter of fiscal 2023, the Company has sold certain staking positions in smaller projects (such as ANKR, Shiba Inu, and Oasis Network), in favor of owning Layer 1 projects such as Ethereum 2.0 ("ETH") and Polkadot ("DOT").

The Company's current staking portfolio includes 3,194 ETH tokens, 141,000 DOT tokens, and 18,000 Solana tokens, as of the date of this MD&A. Total assets used in the Company's staking operations were marked-to-market on September 30, 2022 to approximately \$6.1M.

The current downturn in the crypto market has led to a major decline in token prices and consequently, Tokens.com has taken non-cash write-downs on the digital assets it owns. Smaller market cap tokens (that typically have higher staking yields) have depreciated further than marquee tokens like ETH 2.0. As a result, the Company's gross staking yields declined to 6.9% for the nine months ending September 30, 2022, and 4.6% for the quarter ending on September 30th, 2022.

While the Company has reduced exposure to a handful of staking tokens, management do still actively review projects that may be added to our staking operations in fiscal 2023.

Metaverse Group Limited

Metaverse Group Ltd. ("MGL") is an integrated metaverse advertising and media platform that owns its own digital real estate. The Company generates revenue from four key business activities which include 1. Metaverse strategy services, 2. Architecture services, 3. Digital land rental services, and 4. Partnership services.

MGL made significant progress during 2022 in its plan to not only own digital land, but to leverage that ownership into a media agency and web3 marketing business. In 2022, MGL became revenue positive in March 2022 generating \$95k since then to September 30, 2022.

Since March 2022, MGL has worked with over 60 clients who have used its services to access, build and advertise in the metaverse. The MGL team has successfully demonstrated its capabilities during the first ever Metaverse Fashion Week and Miami Fashion Week, which was hosted on its digital land. Metaverse Fashion Week was particularly notable for attracting over 100,000 visitors and over 60 participating brands. The event garnered over 7 billion media impressions worldwide and guests spent an average of 27 minutes in virtual stores designed by our team. Most recently, MGL has leased over 208 parcels in downtown, the fashion district and dragon city of Decentraland.

- In Metaverse strategy services, MGL assists clients with developing their metaverse strategies, and typically charge a fee for these types of services. This includes providing information around demographics using the metaverse, the differences between metaverses, differences in digital land values between metaverses and how to program within the metaverses.
- MGL also generates revenue through the architecture services it provides to its clients for Metaverse or NFT activations. MGL outsources these services at this stage to its strategic partner, Metaverse Architects. This includes helping clients create renderings of what a building or advertisement would look like in the metaverse. MGL then assists in doing the programming aspect, similar to building a website, but in a way that is far more interactive. This part of the business aims to curate immersive internet experiences that happen in the metaverse.
- MGL also generates revenue from the rental of its digital land assets. This is a fee to occupy the digital space owned by MGL. Land within Metaverses is finite and divided into neighborhoods. MGL, for example, owns virtual land in the fashion district. Thus, fashion brands would have an interest in working with us to access the demographic of users in the metaverse that is visiting the fashion district. Typically, clients who rent from MGL are also buying other services from MGL.

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- MGL also generates revenue through partnerships it creates with leading corporations. MGL began its partnership business also in March of 2022. At this stage MGL has 2 clients who are working on this model with MGL. MGL is in the early stages of building out this business model and therefore revenues are currently very small.

MGL advisory services remain the largest potential revenue component of the business. MGL began to deploy these services in June of 2022. MGL uses its large land position in the various metaverse to help win new clients. These clients will typically rent from MGL when they move forward with an activation. The land ownership position also provides credibility when trying to win new clients business. Currently the pipeline for advisory services continues to grow and gain traction.

MGL's next largest revenue component is rental services. These services began in March of 2022 and the number of renters has grown through the most recent quarter. The price for a rented parcel is typically based on some percentage of our estimated value of the property being rented. However, these metrics can change based on events that may be held in the different metaverses or the number of active users in a particular metaverse. Most rental activity remains in Decentraland where the largest portion of MGL's portfolio resides. On many occasions, these rental services are tied to the advisory agreements that MGL is signing and therefore traditional performance metrics do not apply. MGL has been successful in helping clients navigate this new frontier and create immersive experiences for their online visitors.

Hulk Labs Corp.

Hulk Labs Corp. ("Hulk") was created in January 2022. Hulk's goal is to uberize the crypto gaming ecosystem by creating a platform that connects gaming assets to players. To this end, Hulk has made three significant progresses. First, Hulk hired the top crypto gaming calculator builders in the world and offered free access to these calculators on the Hulk Labs website. Next, Hulk signed an exclusive deal with the Democratic Republic of Congo ("DRC") to access potentially thousands of players to connect to our platform. Finally, Hulk acquired Playte Group, a key player in building the software to connect these players to those with gaming assets. We have all the tools to make Hulk a major player in the crypto gaming sector and we've done it in a unique way that has caught the attention of several venture capitalists.

During 2022, Hulk became revenue positive in July 2022 and generated \$4.9k through the period between July 2022 and September 2022.

During the nine months ended September 30, 2022, Hulk raised \$500,000 from a venture capital firm at a pre-money valuation of \$8 million. It is significant in that Hulk's operations were able to attract outside capital, despite only being created in January 2022. This also demonstrates Tokens.com's ability to leverage its resources to build and incubate a start-up business that is already revenue positive.

Hulk generates revenue by acquiring both fungible and non-fungible tokens in the play to earn sector and uses those tokens to generate a return from activities including playing the games.

Hulk is working towards building a software platform that connects owners of in-game assets.

Returns are generated via the utilization of crypto assets. That includes, but is not limited to, the following operational use-cases:

- Staking NFTs and/or associated tokens to earn more tokens.
Staking in this context relates to depositing tokens in a smart contract to generate revenue through a combination of rewards paid out by the blockchain itself (paid out in native tokens) or a share of fees generated when other participants interact with a set of smart contracts.
- Delegating the use of Hulk game assets to players directly or through game marketplaces.

Delegating in this context means providing access to assets owned by Hulk to a set of players that wish to pay a fee to use these assets for use in gameplay. These fees can be either a fixed fee per day or a revenue-share of funds generated by the player from gameplay. There is no transfer of ownership or custody of our assets and no employment relationship entered into with these players.

- Providing liquidity for P2E tokens and in-game currencies. Providing liquidity means providing collateral (in the form of cryptocurrency tokens) to a smart contract in order to receive a share of the revenues generated as other users interact with that smart contract to buy or sell various cryptocurrencies.
- Breeding new NFT assets and selling them through marketplaces. Breeding in this context means locking up NFTs characters for a period of time plus depositing tokens into a smart contract to generate new NFT characters that have resale value on a marketplace.

The key facets of Hulk's business model include:

- **Game Analysis.**
Hulk has a team that focuses on reviewing the metrics and data associated with hundreds of play-to-earn games to determine which games, tokens, and strategies are likely to generate the highest revenues over a sustainable period of time.
- **Content Creation.**
Hulk publishes many of its findings on its website at hulklabs.com as well as on a proprietary newsletter. Hulk is focused on content creation in order to generate awareness amongst potential team members, game players, and gaming projects.
- **Asset Acquisition.**
Hulk strategically acquires assets (both fungible and non-fungible tokens) in the play-to-earn economy through a variety of marketplaces such as Opensea and MagicEden.
- **Player Identification and Training.**
Hulk is focused on building a global network of users that are interested in using Hulk's NFTs to play various play-to-earn games. Hulk provides training and access to technology/tooling to these players to optimize their earnings potential. These players are not employees or contractors of Hulk, but rather leverage Hulk's infrastructure to play these games. Hulk plans to scale its operations and player network to allow other investors to rent Hulk's player network (for a fee) to generate returns. This will enable Hulk to scale its operations without scaling its balance sheet proportionately.
- **Building software to manage assets and players.**
Hulk is building customized software tools to streamline the company's operations. The software includes tools to quickly create new player wallets and track player performance metrics.
- **Monetizing our asset base.**
Hulk leverages several strategies including breeding, staking, and outsourced gameplay to generate revenue from its holdings.

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FINANCIAL SUMMARY

Selected Financial Information

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Twelve Months Ended December 31, 2021
Staking revenue	\$ 53,972	\$ 417,572	\$ 552,493	\$ 892,289
Consulting revenue	(7,500)	31,404	25,925	188,471
Leasing revenue	49,871	-	94,959	-
Gaming revenue	4,892	-	4,892	-
	\$ 101,235	\$ 448,976	\$ 678,269	\$ 1,080,760
Operating expenses	\$ (980,665)	\$ (616,307)	\$ (2,669,682)	\$ (6,311,108)
Gain (loss) on disposition of digital assets - cryptocurrency	\$ 269,998	\$ 102,319	\$ (1,689,423)	\$ 1,351,562
Gain (loss) on revaluation of digital assets - cryptocurrency	\$ 2,837,879	\$ 4,172,288	\$ (11,928,088)	\$ (3,381,798)
Impairment of digital assets - non-fungible tokens	\$ (3,790,033)	\$ -	\$ (3,790,033)	\$ -
Net income (loss) attributable to Tokens.com	\$ (150,689)	\$ 4,112,756	\$ (3,816,103)	\$ (8,259,558)
Total comprehensive income (loss) attributable to Tokens.com	\$ (150,689)	\$ 6,250,431	\$ (7,325,874)	\$ (3,956,880)
Basic and diluted loss per share ⁽ⁱ⁾	\$ 0.00	\$ 0.05	\$ (0.04)	\$ (0.12)

⁽ⁱ⁾For the three and nine months ended June 30, 2022, weighted average number of outstanding common shares, basic and diluted, totaled 97,508,348 and 97,043,479, respectively. For the three and twelve months ended December 31, 2021, weighted average number of outstanding common shares, basic and diluted, totaled 86,139,686 and 66,649,114, respectively.

FISCAL 2022 HIGHLIGHTS:

- The Company achieved revenue of \$678k for the 9-month ended September 30, 2022 ("FY2022"), compared to \$1.1 million for the year ended December 31, 2021 ("FY2021").
- Total cash and cryptocurrency holdings of \$13 million, or CAD\$18 million.
- Staking revenue was \$552k for the 9-month ended September 30, 2022, compared to \$892k for the year ended December 31, 2021. The decrease was due to the lower cryptocurrency prices throughout 2022.
- Through its subsidiaries, the Company recorded two new revenue streams for FY2022. Leasing revenue, from the Metaverse Group subsidiary, was 95k. Hulk Labs Corp. recorded \$5k in gaming revenue, having only started onboarding players in mid-July 2022.
- Operating expenses were \$2.7 million for the 9-month ended September 30, 2022, compared to \$6.3 million for the year ended December 31, 2021, a 57% decrease due to a combined reduction of listing expense and overall corporate overheads.
- Due to the worsening global market conditions and declining cryptocurrency prices, the Company recorded a non-cash loss on revaluation of its cryptocurrency assets of \$17.6 million for the 9-month ended September 30, 2022, compared to a gain of \$2.3 million for the year ended December 31, 2022. Of this loss, \$11.9 million was recorded in profit and loss and \$3.5 million in other comprehensive income. Loss on disposal of digital assets was \$1.7 million for the 9-month ended September 30, 2022, compared to a gain of \$1.3 million during the year ended December 31, 2021. The Company also recorded a \$3.6 million in impairment loss with respect to its digital assets – non-fungible tokens.
- Due to the non-cash loss on revaluation of cryptocurrency assets and impairment losses, the Company recorded a net loss for the 9-month ended September 30, 2022, attributable to Tokens.com, of \$3.8 million, compared to loss of \$8.3 million for the year ended December 31, 2021. Comprehensive loss for FY2022, attributable to Tokens.com, totaled \$7.3 million, compared to a loss of \$4.0 million for FY2021.

- Through our subsidiary MGL, the Company continued to gain traction in the virtual real estate space. MGL purchased the Music District in Decentraland and land parcels on the SuperWorld Metaverse, which was mapped over Planet Earth. Partnering with the Miami Fashion Week, MGL hosted the Fashion Week events in Metaverse from May 31 to June 5, 2022. Capitalizing on the success of the Fashion Week, MGL has begun to provide consulting and advisory services for fashion brands on their virtual storefronts as well as analytics and reporting tools for clients to evaluate their virtual land assets.
- In July 2022, Hulk Labs raised approximately CAD\$680,000 from an external venture capital firm at a pre-money valuation of CAD\$10.9M. Hulk continues to deploy these funds into yield-generating play-to-earn assets.
- Hulk Labs has grown its team to 6 professionals - including a group that analyzes and evaluates play-to-earn titles, and a team building software tools to streamline player management. Over the last quarter, Hulk's team has built and internally launched several software tools, including features that enable Hulk to securely and scalably generate wallets for its network of players, track the performance of in-game assets, and automatically sweep rewards generated by players into a primary wallet.
- Hulk Labs continued to expand its footprints in the play-to-earn gaming space. Hulk is focused on titles that are mobile-friendly (can be played by users that own basic smartphones), have strong in-game economies (where there is a strong mechanism for players to buy in-game tokens), and have the potential to generate superior yields (which the Company defines as gross returns of 30% per year). During the quarter, Hulk has continued to acquire assets in Crabada (a game in the Avalanche blockchain ecosystem). Hulk delegates its NFT assets in Crabada to its player network to generate yield via gameplay. At its peak, Crabada was generating gross returns to Hulk of 18-24% per month (before its revenue share with players and managers).
- Hulk continues to build upon its partnership with the Democratic Republic of Congo and has continued to grow its player network in Africa. In Q4-2022, Hulk surpassed 1,000 player wallets generated and has built a waitlist of over 2,000 players in the DRC that are waiting to play games using Hulk's asset base. Hulk continues to place an emphasis on profitably scaling its play-to-earn asset base and its network of players.
- The Company migrated most of its crypto assets to Fireblocks, taking advantage of its strong internal administrative and reporting protocols, while enhancing security and safeguard of the Company's assets.

PART II – REVIEW OF FINANCIAL RESULTS

Subsequent to the end of the second quarter ended June 30, 2022, the crypto market recovered slightly. For accounting purposes, for the three months ended September 30, 2022, the Company recorded a gain on disposition of digital assets of \$270k, compared to \$102k from the same period last year. The Company also recorded a gain on revaluation of digital assets of \$2.8 million for the three months ended September 30, 2022, compared to \$4.2 million for the same period last year.

For the nine months ended September 30, 2022, the Company recorded a loss on disposition of digital assets of \$1.7 million, compared to a gain of \$1.4 million for the twelve months ended December 31, 2021. The Company also recorded a loss on revaluation of digital assets of \$17.6 million for the nine months ended September 30, 2022, of which \$11.9 million was recorded in net income and \$3.5 million in other comprehensive income, compared to a gain of \$2.3 million for the twelve months ended December 31, 2021, of which a loss of \$3.4 million was recorded in net income and a gain of \$4.3 million recorded in other comprehensive income.

The Company also recorded an impairment loss of \$3.6 million on its NFT assets, taking into account the current market conditions and level of public interests dwindling throughout the 2022 fiscal year.

Digital assets are held in inventory for the purpose of generating staking revenue over the short and long-term. Crypto assets can be marked by volatility quarter to quarter. Management believes the assets being staked have important use cases in the world of DeFi, and thus hold excellent mid and long-term potential to generate staking returns and appreciate. However, as a company that owns cryptocurrency for the purpose of generating revenue, Tokens.com's asset value and share price will be correlated to what's occurring in the overall cryptocurrency markets.

Staking revenue decreased to \$54k and \$552k, for the three and nine months ended September 30, 2022, compared to revenue of \$418k and \$892k for the three and twelve months ended December 31, 2021. This is due to the lower cryptocurrency prices that occurred throughout 2022.

Metaverse Group recorded lease revenue of \$50k and \$95k for the three and nine months ended September 30, 2022. This is a new revenue stream for the Company this year.

Hulk Labs recorded gaming revenue of \$5k for the three and nine months ended September 30, 2022. This is a new revenue stream for the Company this year.

Anticipating the unfavorable global economic conditions, the Company was able to lower its operating expenses during the period. For the three months ended September 30, 2022, operating expenses increased to \$981k from \$616k of the same period last year, due to additional operating overheads incurred by Metaverse Group and Hulk Labs. Overall, for the nine months ended September 30, 2022, operating expenses decreased to \$2.7 million from \$6.3 million for the year ended December 30, 2021, with the reductions attributable to lower overhead costs across all functions of the company.

For the three and nine months ended September 30, 2022, the Company recorded net loss of \$1.8 million and \$5.9 million, respectively, and a total comprehensive loss of \$1.8 million and \$9.4 million, respectively. The largest contributing factor of these losses was the non-cash loss on revaluation of digital assets. Net loss per share for the nine months ended September 30, 2022, was \$0.04 per share.

Although the cryptocurrency industry has strengthened after the end of Q2 2022, the volatility in asset prices will remain. Management remains focused on its plan to maintain a well-diversified staking portfolio and continue to grow its virtual real estate and play-to-earn gaming business segment. By never engaging in high-risk leverage and derivatives products as well as speculative investments, the Company has been able to keep the low risk profile and does not see the volatility as an impediment to growth in 2022 and beyond.

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Revenue

The Company earned a total revenue of \$101k and \$678k, respectively, for the three and nine months ended September 30, 2022.

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Twelve Months Ended December 31, 2021
Staking revenue ⁽ⁱ⁾	\$ 53,972	\$ 417,572	\$ 552,493	\$ 892,289
Consulting revenue ⁽ⁱⁱ⁾	(7,500)	31,404	25,925	188,471
Leasing revenue ⁽ⁱⁱⁱ⁾	49,871	-	94,959	-
Gaming revenue ^(iv)	4,892	-	4,892	-
	\$ 101,235	\$ 448,976	\$ 678,269	\$ 1,080,760

- (i) Rewards received from staking digital assets.
- (ii) Revenue earned from the Company's investment in Oasis Rose Tokens ("Rose Tokens"), and a related consulting service agreement by which the Company earned an additional grant of Rose Tokens. As a result of the investment and the consulting service grant, the Company received delivery of a total of 1,005,000 Rose Tokens on November 17, 2021, and an additional 170,000 Rose Tokens on May 17, 2022.
- (iii) The Company's subsidiary, Metaverse Group Ltd., commenced the leasing of real estate properties in March 2022.
- (iv) The Company's subsidiary, Hulk Labs Corp., commenced the play-to-earn gaming operation in July 2022.

Operating expenses

A breakdown of the operating expenses is as follows:

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Twelve Months Ended December 31, 2021
Cost of revenue	\$ (9,696)	\$ (15,694)	\$ (27,641)	\$ (34,655)
Management fees and salaries	(113,947)	(101,686)	(408,455)	(644,096)
General and administrative	(143,610)	(77,707)	(355,453)	(268,279)
Professional fees ⁽ⁱ⁾	(470,582)	(40,532)	(807,190)	(1,129,699)
Investor relations ⁽ⁱⁱ⁾	(136,475)	(277,292)	(743,370)	(1,252,030)
Regulatory	(2,660)	(15,513)	(151,298)	(124,194)
Share-based payments ⁽ⁱⁱⁱ⁾	(103,695)	(87,883)	(176,275)	(975,553)
Listing expense	-	-	-	(1,882,602)
	\$ (980,665)	\$ (616,307)	\$ (2,669,682)	\$ (6,311,108)

- (i) Primarily consisted of corporate legal and audit fees, and other business consulting.
- (ii) Pertaining to outsourced investor and public relations fees. At no time, any of these expenses are related to the promotion or distribution of crypto or NFT assets.
- (iii) Value of options and DSUs that vested during the period.

Other items included in net income are:

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Twelve Months Ended December 31, 2021
Gain (loss) on disposal of digital assets ⁽ⁱ⁾	\$ 269,998	\$ 102,319	\$ (1,689,423)	\$ 1,351,562
Gain (loss) on revaluation of digital assets - cryptocurrency ⁽ⁱⁱ⁾	2,837,879	4,172,288	(11,928,088)	(3,381,798)
Impairment of digital assets - non-fungible tokens ⁽ⁱⁱⁱ⁾	(3,790,033)	-	(3,790,033)	-
Net interest income (expense)	(13,170)	-	(54,685)	(26,435)
Gain (loss) on revaluation of warrant liability ^(iv)	1,194,891	-	14,830,615	(2,645,805)
	\$ 499,565	\$ 4,274,607	\$ (2,631,614)	\$ (4,702,476)

- (i) Represents the loss of exchanging digital assets hold as treasury either for cash or for other digital assets for the purposes of rebalancing those assets.
- (ii) Gain or loss on revaluation of digital assets – cryptocurrency revalued at period end.
- (iii) Impairment of the NFTs reflecting declining market interest and worsened broader market.
- (iv) Certain warrants of the Company meet the criteria for classification as a financial liability and are re-measured at fair value at each reporting period. The decrease in fair value is primarily due to decrease in the share price of the Company from December 31, 2021 to September 30, 2022.

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Comprehensive income

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Twelve Months Ended December 31, 2021
Net loss	\$ (1,792,777)	\$ 4,112,756	\$ (5,912,666)	\$ (8,282,102)
Other comprehensive income (loss)				
Revaluation gain (loss) on digital assets, net of tax	-	2,137,675	(3,509,771)	4,302,678
Total comprehensive income (loss)	\$ (1,792,777)	\$ 6,250,431	\$ (9,422,437)	\$ (3,979,424)

Selected Quarterly Information

The following table summarizes the Company's quarterly financial information.

Quarter Ended	Revenues (\$)	Net Income (Loss)	
		Total (\$)	Basic and Diluted Income (Loss) Per Share (\$)
September 30, 2022	101,235	(150,689)	(0.00)
June 30, 2022	250,714	(11,534,471)	(0.12)
March 31, 2022	326,320	7,765,893	0.08
December 31, 2021	326,185	(3,720,344)	(0.04)
September 30, 2021	448,976	4,112,756	0.05
June 30, 2021	203,990	(8,537,342)	(0.13)
March 31, 2021	101,609	(137,172)	(0.00)
December 31, 2020	5,932	(128,357)	(0.00)

PART III – FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Liquidity and Capital Resources

As at September 30, 2022, the Company had a working capital balance of \$4.8 million (December 31, 2021 - \$38.7 million), and shareholders' equity, attributable to the owners of the Company, of \$14.9 million (December 31, 2021 - \$22.4 million). The Company currently has sufficient cash and cash equivalents to meet its current operating and administrative costs for the next 12 months.

The following summarizes and explains our cash flow activities:

	Nine Months Ended September 30, 2022	Twelve Months Ended December 31, 2021
Net cash provided by (used in):		
Operating activities	\$ (5,001,989)	\$ (26,127,645)
Investing activities	(5,005)	1,907,397
Financing activities	1,758,628	31,995,051
FX effect	(655,871)	14,030
Increase (decrease) in cash	\$ (3,904,237)	\$ 7,788,833

- Net cash used in operating activities was \$5.0 million, including \$6.5 million spent on acquiring digital assets and \$4.2 million of proceeds from the disposal of digital assets.
- Net cash used in investing activities of \$5,005 to purchase additional website domains.
- Cash provided from financing activities was \$1.8 million representing \$1.5 million from issuance of subsidiaries' common shares to non-controlling interests and \$0.3 million from the exercise of stock options and warrants.

The Company's use of cash at present occurs, and in the future is expected to occur, principally in two areas: the funding of its general and administrative expenditures as a deployment of capital to acquire digital assets for the purposes of earning a staking revenue. In connection with the Company's operating and investment activities, when required, the Company will seek to raise capital primarily through the issuance of equity securities. As at the date of this report, the Company has sufficient capital to meet its ongoing operating and investment activities, for a minimum of the next twelve months.

The Company has no capital commitments as at the date of this report.

Off-Balance Sheet Arrangements

As of the date of this MD&A, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

Financial Instruments and Business Risks

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to discharge an obligation. Financial instruments which are potentially subject to credit risk for the Company consist of cash.

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The Company has credit exposure relating to accounts receivable and other of \$382,618 (December 31, 2021 - \$418,343). The expected credit loss is not significant.

The carrying amount of financial assets represents the maximum credit exposure. The Company has credit exposure at September 30, 2022 relating to cash of \$5,867,573 (December 31, 2021 – \$9,741,810). All cash is held at a Canadian chartered bank (December 31, 2021 - \$1,349,131 was held in trust by two cryptocurrency exchanges regularly used by the Company).

Currency risk

The Company generates all revenue in United States dollars but expenses are incurred in both U.S. and Canadian dollars, exposing the Company to fluctuations in earnings from volatility in foreign currency rates. The fluctuation in foreign currencies in relation to the United States dollar will consequently impact the profitability of the Company and may also affect the value of the Company's assets and liabilities and the amount of equity. Management however concludes the exposure to currency risk is not material and the Company does not utilize any financial instruments or cash management policies to mitigate such currency risks. As at September 30, 2022, the Company held \$3,412,889 (December 31, 2021 - \$8,384,992) denominated in Canadian dollars. A 10% change in the foreign exchange rate would result in an impact of \$341,289 (December 31, 2021 - \$659,731) on the Company's operations.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to this risk mainly with respect to ensuring the sufficiency of funds for working capital and commitments. The Company monitors the maturity dates of existing accounts payable and accrued liabilities, loans payable, and commitments to mitigate this risk. The Company manages company-wide cash projections centrally and regularly updates projections for changes in business and fluctuations cause in digital currency prices and exchange rates. The Company's financial liabilities are comprised of loan payable, accounts payable and accrued liabilities. As at September 30, 2022, loan payable, accounts payable and accrued liabilities of \$1,023,467 are expected to mature within one year (December 31, 2021 – accounts payable and accrued liabilities of \$1,643,310 expected to mature within one year, and balance of \$528,143 expected to mature within the next two to five years).

Fair Value Risk

Due to their short-term nature, the carrying value of cash, amounts receivable, and accounts payable approximate their fair value.

Related Party Transactions

Key management personnel are those persons that have authority and responsibility for planning, directing and controlling the activities of the Company, directly and indirectly. As of September 30, 2022, the Company's key management personnel consist of its directors and senior management. The aggregate value of transactions relating to key management personnel and entities over which they have control or significant influence were:

	Nine months ended September 30, 2022	Year ended December 31, 2021
Management fees and salaries	\$ 408,455	\$ 529,251
Share-based compensation	(138,938)	779,891
	<u>\$ 269,517</u>	<u>\$ 1,309,142</u>

Executive compensation

Executive's base compensation was discussed and determined prior to the start of employment with the executive officer. The Board's Compensation Committee looked at comparable from other companies within the same industry and stage of growth to decide upon the amount offered to the executive officer.

Annual incentive compensation is also discussed annually with the executive officer. Since the Company operates in a volatile industry, it is challenging for the Compensation Committee to put forward a fixed set of corporate objectives. However, the consensus communicated to the executive officer has been that it's always in the Company's best interest to preserve cash and reduce corporate overheads; and these base objectives form the basis for the Compensation Committee to decide upon the annual incentive payment to the executive officer.

Capital Management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to acquire more digital assets and fund the operation of the Company. To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through the equity or debt financing. The Company is not subject to any external capital requirements imposed by a regulator.

Outstanding securities as at December 29, 2022:

Common shares	97,926,757
Dilutive securities:	
Warrants	10,230,196
Stock options	1,559,050
Deferred share units	1,902,540
Fully diluted shares	111,618,543

PART IV – MATERIAL INFORMATION

Staked Tokens

Tokens.com seeks to stake tokens that are linked to the fast-growing DeFi and NFT sectors. The tokens staked are the programmable building blocks required by DeFi and NFT applications. Thus, as those sectors grow, the greater the requirement for third party stakers like Tokens.com.

Tokens secures its digital assets where possible using Fireblocks MPC (multi-party-computation) based custody technology. See a summary of our agreement with Fireblocks below.

Fireblocks Agreement

The Fireblocks License Agreement was entered into in February 2022, between Tokens and Fireblocks. Fireblocks agreed to provide custody technology software to Tokens.

Fireblocks is an enterprise-grade platform delivering a secure infrastructure for moving, storing, and issuing digital assets. Fireblocks enables exchanges, lending desks, custodians, banks, trading desks, and hedge funds to securely scale digital asset operations through the Fireblocks Network and MPC-based Wallet Infrastructure.

Fireblocks has raised over \$1 billion dollars from investors including Sequoia Capital and BNY Mellon, has 1,300 institutional clients, and has securely transferred over \$3 trillion in digital assets.

Alongside its security evaluations and improvements, Fireblocks recently received certification in the categories of security (ISO 27001), cloud (ISO 27017), and privacy (ISO 27018) from the International Organization for Standards (ISO). This accreditation makes Fireblocks the only crypto tech company to achieve all three certifications, covering the main areas of concern for most traditional finance customers.

In accordance with the terms of the agreement, Fireblocks provides access to its secure mpc (multi-party-computation) based wallet which allows Tokens to securely store assets, create a protocol that enables Tokens team members to administer transactions (such as buying, selling, and transferring tokens) based on internally defined policies, and allows the Company to interact directly with other Fireblocks customers (exchanges, etc) using an internal network that is faster and cheaper than traditional blockchain-based transactions.

Although Tokens.com's cryptocurrency assets are not stored in a physical sense, the transaction records included in the blockchain assign a location for each of Tokens.com's cryptocurrency assets to the wallet established by Fireblocks. Private keys are segregated amongst multiple members of Tokens' management team. Individual wallets within Tokens.com's wallet digitally hold the cryptocurrency and permit Tokens.com to transfer and/or sell upon a series of approvals based on Tokens custom digital asset management policy.

As Tokens.com has gained increasing comfort in the use of Fireblocks technology, it has terminated its agreement with Coinbase Custody.

Listing Transaction

On March 9, 2021, the Company signed a definitive transaction agreement (the "Definitive Agreement"), which resulted in the reverse takeover of COIN Hodl Inc. ("COIN") by Tokens.com (the "Transaction"), on April 28, 2021.

Pursuant to the terms of the Definitive Agreement, the Transaction was structured as a "three-cornered amalgamation" involving COIN, a wholly-owned subsidiary of COIN and Tokens.com.

The Transaction resulted in the reverse takeover of COIN by Tokens.com.

The resulting issuer carries on the business of Tokens.com.

For detailed accounting of the Transaction, please refer to the Audited Consolidated Financial Statements for the nine months fiscal year ended September 30, 2022.

Private Placements

Related to the Transaction, on March 16, 2021, the Company, closed a private placement for gross proceeds of \$19.8 (CAD\$25.0) million from the sale of subscription receipts of Tokens.com at a price of \$0.60 (CAD\$0.75) per subscription receipt post subscription receipt split. The offering was comprised of: (i) a brokered private placement for aggregate gross proceeds of \$16.4 (CAD\$20.73) million that closed on March 10, 2021, and (ii) a non-brokered private placement for aggregate gross proceeds of \$3.4 (CAD\$4.27) million that closed on March 16, 2021.

The gross proceeds of the offering, less 50% of the agents' cash commission and advisory fees in connection with the offering, and the agents' expenses incurred to March 10, 2021 (the "Escrowed Proceeds"), were deposited into escrow with TSX Trust Company, as escrow agent (the "Escrow Agent"), pursuant to the terms of a subscription receipt agreement dated March 10, 2021 (the "Subscription Receipt Agreement") among Tokens, the Escrow Agent and the Co-Lead Agents, pending satisfaction of the escrow release conditions, which include that all conditions precedent to the closing of the Transaction as defined in Note 12 (b) be satisfied or waived. Upon the satisfaction of the escrow release conditions on April 27, 2021, the Escrowed Proceeds were released by the Escrow Agent to Tokens, and each subscription receipt automatically converted, for no additional consideration, into one Class A common share in the capital of Tokens (each, a "Tokens Share"). All Tokens Shares were subsequently exchanged for common shares in the capital of COIN in connection with the closing of the transaction between Tokens and COIN.

In connection with the Closing, all of the directors and officers of the Company were replaced by nominees of Tokens Inc., with the board of directors comprising of Andrew Kiguel, Frederick Pye, Jimmy Vaiopoulos, Andrew D'Souza and Emma Todd, and management being comprised of Andrew Kiguel (CEO), Kyle Appleby (CFO) (subsequently replaced by Ian Fodie), and Deven Soni (COO). Each of the independent directors, being Messrs. Pye, Vaiopoulos D'Souza and Ms. Todd were granted 90,000 deferred share units under the Company's omnibus equity incentive plan. Additional details regarding the backgrounds of the directors and officers can be found in the Filing Statement.

On November 16, 2021, the Company closed a private placement for gross proceeds of \$12.7 (CAD\$16.0) million from the sale of units of Tokens.com at a price of \$0.72 (CAD\$0.90) per unit. Each unit was comprised of one common share and one half of a warrant to purchase one additional common share at a price of CAD\$1.15 for a period of three years. The offering was comprised of: (i) a brokered private placement for aggregate gross proceeds of \$12.3 (CAD\$15.4) million that closed on March 10, 2021, and (ii) a non-brokered private placement for aggregate gross proceeds of \$0.4 (CAD\$0.6) million that closed on March 16, 2021.

Approval

The Board of Directors of the Company has approved the disclosures contained in this MD&A.

PART V – RISKS

Risks and Uncertainties

General Digital Asset Risks

Tokens' business is reliant on blockchain technology service providers.

As a “proof-of-stake” technology company, Tokens relies on blockchain technology service providers, including the Service Providers, that provide services to Tokens pursuant to services agreements, to carry out its operations. The Service Providers provide Tokens access to platforms that power the critical infrastructure required to operate nodes across blockchains and validators. In the event that agreements with the Service Providers were terminated for any reason, Tokens would need to find replacement service providers. While Tokens believes there are a number of other service providers capable of providing replacement services on terms and conditions that would be commercially reasonable, there is no guarantee Tokens would be able to find such service providers and enter into similar agreements on similar terms, or at all. Failure to find suitable replacement service providers could cause Tokens to reduce or terminate its operations.

Tokens' annual compensation percentage is volatile and could materially decline.

Tokens, through its technology partnerships with the Service Providers, operates nodes to stake atop a select few digital asset protocols, and in turn, earns token rewards for processing transactions and securing crypto networks. Tokens expects to, in equal proportion, re-stake its token rewards and convert them to fiat equivalent currencies (CAD or USD), to be used for corporate overhead or eventual distribution to shareholders in the form of a dividend in fiat currency. Tokens' decision to stake an individual token depends on a combination of network quality, network liquidity and expected staking compensation (expressed as an annual compensation percentage), which varies from token to token. The annual compensation percentage is determined by a combination of a network's natural inflation rate, the transaction fees generated on the network, a token's price, and the percent of total tokens being staked. As such, Tokens' annual compensation percentage may fall temporarily due to a short-term decline in transaction volume or an increase in the percent of tokens being staked. While there is an expectation that the networks it chooses to secure will pay compensation rates of 8% to 10% per year, Tokens has no control over the annual compensation percentages of the various tokens it chooses to stake, and the compensation percentage may fall below these levels for a temporary or permanent period of time. The annual percentage rate of return is expected to decrease as sector activity increases and more tokens are invested in specific tokens. Staking revenues could decrease to a level that materially and adversely affects Tokens' staking assets and staking strategies, the value of its staking assets and the value of any investment in Tokens.

Tokens relies on internal policies in maintaining its portfolio and to guide its decisions to re-stake, hold and cash out tokens, and rebalances its portfolio monthly. Tokens' policy is to rebalance its token holdings within 48 hours of an instance of a single token representing more than 66% of its total holdings. In this situation, Tokens will reduce its position from 66%+ of total holdings to 45% of total holdings and rebalance its other tokens commensurately.

Regulatory changes or actions may alter the nature of an investment in Tokens or restrict the use of digital assets in a manner that adversely affects Tokens operations.

As digital assets have grown in both popularity and market size, governments around the world have reacted differently, with certain governments deeming cryptocurrencies illegal and others allowing their use and trade. On-going and future regulatory actions may alter, perhaps to a materially adverse extent, the ability of Tokens to continue to operate. The effect of any future regulatory change on Tokens or any digital assets that Tokens may stake is impossible to predict, but such change could be substantial and adverse to Tokens. Governments may in the future take regulatory actions that prohibit or severely restrict the right to acquire, own, hold, sell, use or trade digital assets, or to exchange digital assets for fiat currency. By extension, similar actions by other

governments, may result in the restriction of the acquisition, ownership, holding, selling, use or trading in Tokens Shares. Such a restriction could result in Tokens liquidating its inventory of digital assets at unfavorable prices and may adversely affect the price of Tokens Shares.

Digital asset transactions are irrevocable and losses may occur.

Digital asset transactions are irrevocable and stolen or incorrectly transferred crypto assets may be irretrievable. Digital asset transactions are not reversible without the consent and active participation of the recipient of the transaction. Once a transaction has been verified and recorded in a block that is added to the blockchain, an incorrect transfer of digital assets will not be reversible. To the extent that Tokens is able to seek a corrective transaction with the third party, or is incapable of identifying the recipient of its digital assets through error or theft, Tokens will not be able to revert or otherwise recover any incorrectly transferred digital assets, or to convert or recover digital assets transferred to uncontrolled accounts.

Tokens holds the majority of its digital assets in direct custody supported by Fireblocks, a provider of MPC-based custody technology.

Tokens leverages Fireblocks' MPC-based wallet and related tools to manage its private key infrastructure as well as create and manage an approval-flow that allows the Tokens to store digital assets and create a framework that allows key executives at the company to have approval and oversight over digital asset transactions (including purchases, sales, and transfers).

Fireblocks key management tools helps Tokens segregate the private keys for its wallets across multiple executive users - while also providing tools to restore and backup these private keys in the event of lost devices or incapacitated team members.

If Tokens' crypto assets are lost, stolen or destroyed under circumstances rendering a party liable to Tokens, the responsible party may not have the financial resources sufficient to satisfy Tokens' claim. Also, although Fireblocks and Tokens leverage security procedures with various elements, such as redundancy and segregation to minimize the risk of loss, damage and theft, neither Fireblocks nor Tokens can guarantee the prevention of such loss, damage or theft, whether caused intentionally, accidentally or by an act of God. Access to Tokens' Fireblocks wallet could also be restricted by natural events (such as an earthquake or flood) or human actions (such as a terrorist attack).

Tokens' use of proprietary and non-proprietary software, data and intellectual property may be subject to substantial risk.

Tokens' token selection strategy may rely heavily on the use of proprietary and non-proprietary software, data and intellectual property of third parties in the digital asset sector. The reliance on this technology and data is subject to a number of important risks. For example, the operation of any element of the digital assets network, or any other electronic platform, may be severely and adversely affected by the malfunction of technology. For example, an unforeseen software or hardware malfunction could occur as a result of a virus or other outside force, or as result of a design flaw in the design and operation of the network or platform. In addition, the technology of the Service Providers, or the tokens themselves, may be inactive for periods of time, known as "downtime". Under the existing service agreements, the Service Providers are obligated to pay a penalty to Tokens whenever there is downtime. While Tokens has no obligation to pay any penalties to any third party in connection with any such downtime, Tokens' business could be temporarily interrupted. Further, if Tokens' software, hardware, data or other intellectual property is found to infringe on the rights of any third party, the underlying value of the assets of Tokens could be materially and adversely affected. Regardless of the merit of any intellectual property or other legal action, any threatened action that reduces confidence in a digital asset network's long-term viability or the ability of end-users to hold and transfer digital assets may adversely affect the value of these assets. Additionally, a meritorious intellectual property claim could prevent Tokens and other end-users from accessing various networks or holding or transferring their digital assets.

Tokens' business is exposed to the potential misuse of digital assets and malicious actors.

Since the existence of digital assets, there have been attempts to use them for speculation or malicious purposes. Although lawmakers increasingly regulate the use and applications of digital assets, and software is being developed to curtail speculative and malicious activities, there can be no assurances that those measures will sufficiently deter those and other illicit activities in the future. Advances in technology, such as quantum computing, could lead to a malicious actor or botnet (a voluntary or hacked collection of computers controlled by networked software coordinating the actions of the computers) being able to alter the blockchain on which digital asset transactions rely. In such circumstances, the malicious actor or botnet could control, exclude or modify the ordering of transactions, or generate new digital assets or transactions using such control. The malicious actor or botnet could double spend its own digital assets and prevent the confirmation of other users' transactions for so long as it maintains control. Such changes could adversely affect an investment in Tokens Shares.

The security procedures and operational infrastructure of Tokens may be breached due to the actions of outside parties, error or malfeasance of an employee of Tokens, or otherwise, and, as a result, an unauthorized party may obtain access to Tokens' digital asset accounts, private keys, data or tokens. Additionally, outside parties may attempt to fraudulently induce employees of Tokens to disclose sensitive information in order to gain access to the infrastructure of Tokens. As the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, or may be designed to remain dormant until a predetermined event, and often are not recognized until launched against a target, Tokens may be unable to anticipate these techniques or implement adequate preventative measures. If an actual or perceived breach of Tokens' digital assets account occurs, the market perception of the effectiveness of its security protocols could be harmed and the value of Tokens Shares could be materially adversely affected.

A decline in the adoption and use of digital assets could materially and adversely affect the performance of Tokens.

Because digital assets are a relatively new asset class and a technological innovation, they are subject to a high degree of uncertainty. As a related but separate issue from that of the regulatory environment, the adoption, growth and longevity of any digital asset will require growth in its usage and in the blockchain for various applications. A lack of expansion in use of digital assets and blockchain technologies would adversely affect the financial performance of Tokens. In addition, there is no assurance that any digital assets will maintain their value over the long term. Even if growth in the use of any digital assets occurs in the near or medium term, there is no assurance that such use will continue to grow over the long term. A lack of expansion of digital assets into the retail and commercial markets, may result in increased volatility or a reduction in the market price of these assets. Further, if fees increase for recording transactions on these blockchains, demand for digital assets may be reduced and prevent the expansion of the networks to retail merchants and commercial businesses, resulting in a reduction in the price of these assets. A contraction in use of any digital asset may result in increased volatility or a reduction in prices, which could materially and adversely affect Tokens' investment and trading strategies, the value of its assets and the value of any investment in Tokens Shares.

The value of digital assets may be subject to momentum pricing risk.

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

Banks may not provide banking services, or may cut off banking services, to businesses that provide digital asset-related services.

A number of companies that provide digital asset-related services have been unable to find banks that are willing to provide them with bank accounts and banking services. Similarly, a number of such companies have had their existing bank accounts closed by their banks. Banks may refuse to provide bank accounts and other banking services to digital asset-related companies, or companies that accept digital assets, for a number of reasons, such as perceived compliance risks or costs. The difficulty that many businesses that provide digital asset-related services have and may continue to have in finding banks willing to provide them with bank accounts and other banking services may decrease the usefulness of digital assets as a payment system and harm public perception of digital assets. Similarly, the usefulness of digital assets as a payment system and the public perception of digital assets could be damaged if banks were to close the accounts of many or of a few key businesses providing digital asset-related services. This could decrease the market prices of digital assets, and adversely affect the value of Tokens' digital asset inventory and Tokens Shares.

Market adoption of crypto assets has been limited to date and further adoption is uncertain.

Currently, there is relatively small use of crypto assets in the retail and commercial marketplace in comparison to relatively large use by speculators, thus contributing to price volatility that could adversely affect an investment in the securities or Resulting Issuer Shares. Crypto assets have only recently become accepted as a means of payment for goods and services by certain major retail and commercial outlets and use of crypto assets by consumers to pay such retail and commercial outlets remains limited. Conversely, a significant portion of crypto asset demand is generated by speculators and investors seeking to profit from the short- or long-term holding of tokens. A lack of expansion by crypto assets into the retail and commercial markets, or a contraction of such use, may result in increased volatility or a reduction in the market price of these assets. Further, if fees increase for recording transactions on these blockchains, demand for crypto assets may be reduced and prevent the expansion of the networks to retail merchants and commercial businesses, resulting in a reduction in the price of these assets.

Digital assets may be subject to hold periods.

Staking tokens are intended to be able to be withdrawn from their respective wallet at the request of Tokens, however this process may take up to 30 days depending on the time of withdrawal and staking provider. In addition, several digital assets require validators to commit to securing the network, and locking up their tokens, for an extended period of time. In particular, Ethereum 2.0 requires that validators commit to securing the network for a period of 12 to 18 months. The validator still controls the tokens during this period, but is not able to liquidate the tokens being staked. An inability to withdraw digital assets in the time desired or at all may adversely affect Tokens' business and liquidity, and the value of Tokens Shares.

Tokens will have to adapt to respond to evolving security risks.

As technological change occurs, the security threats to Tokens' digital assets will likely adapt, and previously unknown threats may emerge. The ability of Tokens to adopt technology in response to changing security needs or trends may pose a challenge to the safekeeping of their assets. To the extent that Tokens is unable to identify and mitigate or stop new security threats, Tokens' assets may be subject to theft, loss, destruction or other attack.

Tokens may be unable to obtain adequate insurance to insure its operations.

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

The business of Tokens will be exposed to cybersecurity risks.

Cyber incidents can result from deliberate attacks or unintentional events, and may arise from internal sources (e.g., employees, contractors, service providers, suppliers and operational risks) or external sources (e.g., nation states, terrorists, hackers, competitors and acts of nature). Cyber incidents include unauthorized access to information systems and data (e.g., through hacking or malicious software) for purposes of misappropriating or corrupting data or causing operational disruption. Cyber incidents also may be caused in a manner that does not require unauthorized access, such as causing denial-of-service attacks on websites (e.g., efforts to make network services unavailable to intended users). A cyber incident that affects Tokens or its service providers (including Fireblocks, or Staked.us) might cause disruptions and adversely affect their respective business operations and might also result in violations of applicable law (e.g., personal information protection laws), each of which might result in potentially significant financial losses and liabilities, regulatory fines and penalties, reputational harm, and reimbursement and other compensation costs. In addition, substantial costs might be incurred to investigate, remediate and prevent cyber incidents.

Tokens may be subject to litigation.

Tokens may be subject to litigation arising out of its operations. Damages claimed under such litigation may be material, and the outcome of such litigation may materially impact Token's operations, and the value of Tokens Shares. While Tokens will assess the merits of any lawsuits and defend such lawsuits accordingly, they may be required to incur significant expense or devote significant financial resources to such defenses. In addition, the adverse publicity surrounding such claims may have a material adverse effect on Tokens operations.

The unregulated nature and lack of transparency surrounding the operations of digital asset exchanges may cause the marketplace to lose confidence in such exchanges.

Cryptocurrency and digital asset exchanges on which cryptocurrencies and other digital assets trade are relatively new and, in some cases, unregulated. While some exchanges provide information regarding their ownership structure, management teams, corporate practices and regulatory compliance, many other exchanges do not. As a result, the marketplace may lose confidence in these exchanges, including prominent exchanges that handle a significant volume of trading in these assets. In recent years, there have been a number of cryptocurrency and digital asset exchanges that have closed because of fraud, business failure or security breaches. Additionally, larger cryptocurrency and digital asset exchanges have been targets for hackers and malware and may be targets of regulatory enforcement actions. A lack of stability in these exchanges, and their temporary or permanent closure, may reduce confidence in the digital asset marketplace in general and result in greater volatility in the price of digital assets. These potential consequences could materially and adversely affect the value of the Resulting Shares.

Tokens' largest arms-length custodian of its digital assets up to September 30, 2022 has been Coinbase.

Tokens historically held the majority of its digital assets in Coinbase, a SOC 1/ SOC 2 certified digital asset custodian but moved the large majority of its assets away from Coinbase in the quarter ended June 30, 2022. If Coinbase had been subject to a malicious attack or otherwise cease its operations, Tokens would have been at risk of losing a significant portion of its digital assets. There is no assurance that Coinbase will not be subject to any such attack and there is no guarantee that Coinbase won't cease its operations.

Coinbase has also recently made risk disclosures which state that customer funds may be at risk in the event of its bankruptcy. With respect to this disclosure, Tokens would like to note that cryptocurrency exchanges and custodians are required for Tokens.com to conduct business. Based on our research, Coinbase continues to be one of the most well capitalized exchanges available for us to use at this time.

Additionally, it is important to note that Coinbase Custody is operated from a different entity than Coinbase Exchange – the entity which was mentioned in the risk disclosures referenced above. Tokens.com does not have a policy of leaving material balances Coinbase Exchange beyond the time required to buy or sell cryptocurrency. Tokens.com has historically held its assets at Coinbase Custody. Coinbase Custody is a qualified custodian that maintains segregated accounts for its account holders.

Slashing penalties could result in the loss of all tokens.

A network's slashing penalties can range between 0.1% of tokens held for a single act of unresponsiveness to 100% of tokens held for a gross act of misconduct, being an act that intentionally threatens the entire network. Tokens relies on the services of third-party service providers such as Bison Trails and Staked for certain staking activities and there is no assurance that Tokens or such other third party service providers will not be subject to slashing penalties or that Tokens will be able to recover any percentages of tokens that have been subject to slashing penalties.

Other Risks

Tokens has a limited operating history.

Tokens has a limited history of operations and is in the early stage of development. As such, Tokens will be subject to many risks common to such enterprises, including undercapitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenues. There is no assurance that Tokens will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations. There can be no assurance that Tokens will be able to develop any of its projects profitably or that any of its activities will generate positive cash flow.

Tokens may require additional funds to finance its operations.

Additional funds, raised through debt or equity offerings, may be needed to finance Tokens' future activities. There can be no assurance that Tokens will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain such additional financing could cause Tokens to reduce or terminate its operations.

If additional funds are raised through further issuances of equity or securities convertible into equity, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Resulting Issuer Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for Tokens to obtain additional capital and to pursue business opportunities.

The business of Tokens is subject to competition from other staking companies.

Tokens will compete with other cryptocurrency and distributed ledger technology businesses, including other businesses focused on developing substantial digital asset staking operations. Although any market participant with sufficient capital and know-how has the ability to acquire tokens on the open market and start staking, there are a wide range of tokens being staked across the networks Tokens participates in. Accordingly, Tokens' Management is not focused on competition in the industry.

Tokens' compliance and risk management programs may not be effective.

Tokens' ability to comply with applicable laws and rules will be largely dependent on the establishment and maintenance of compliance, review and reporting systems, as well as the ability to attract and retain qualified compliance and other risk management personnel. Tokens cannot provide any assurance that its compliance policies and procedures will always be effective or that Tokens will be successful in monitoring or evaluating its risks. In the case of alleged non-compliance with applicable laws or regulations, Tokens could be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits, including by customers, for damages, restitution or other remedies, which could be significant. Any of these outcomes, individually or together, may among other things, materially and adversely affect Tokens' reputation, financial condition, investment and trading strategies, and asset value and the value of any investment in Tokens' Shares.

Unexpected market disruptions may cause major losses for Tokens.

Tokens may incur major losses in the event of disrupted markets and other extraordinary events in which market behavior diverges significantly from historically recognized patterns. The risk of loss in such events may be compounded by the fact that in disrupted markets, many positions become illiquid, making it difficult or impossible to close out positions against which markets are moving. Market disruptions caused by unexpected political, military and terrorist events may from time to time cause dramatic losses for Tokens. Any such disruptions and events may have a material and adverse effect on Tokens investment and trading strategies and on any investment in Tokens.

COVID-19 Outbreak.

The ongoing global pandemic involving the novel coronavirus, COVID-19, has caused companies and various governments to take measures and impose restrictions to combat the pandemic, such as quarantines, closures, cancellations and travel restrictions. The effects of COVID-19 and such measures and restrictions have negatively affected asset values and increased volatility in the financial markets, including the market price and volatility of digital assets. Although the market price of some digital assets has risen since the pandemic began, the extent to which any worsening or continuation of the pandemic may negatively impact the market price of digital assets and, in turn, the market price of Tokens Shares, is uncertain and cannot be predicted. The realizable values of assets, liquidity and financial condition may be materially affected as a result, and Tokens will continue to monitor the impact of the pandemic on its business. The extent of the impact, if any, will depend on future developments, including actions taken to contain COVID-19 and re-open the economy, and any successive waves of coronavirus outbreaks.

PART VI – ACCOUNTING POLICIES, CRITICAL ACCOUNTING ESTIMATES AND INTERNAL CONTROLS

Critical Accounting Estimates and Accounting Policies

The following are the estimates and assumptions that have been made in applying the Company's accounting policies that have the most significant effect on the amounts in the Audited Consolidated Financial Statements:

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Although these estimates are based on management's best knowledge of the current events and actions that the Company may undertake in the future, actual results may differ from these estimates.

Significant judgements

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

- i. Functional currency - The functional currency of the Company has been assessed by management USD based on consideration of the currency and economic factors that primarily influence the Company's digital assets, revenues and operating costs, financing, and related transactions. Specifically, the Company considers the currencies in which digital assets are most commonly denominated and expenses are settled by each entity as well as the currency in which each entity receives or raises financing. Changes to these factors may have an impact on the judgment applied in the determination of the Company's functional currency.
- ii. Digital assets - Digital assets are considered to be identifiable non-monetary assets without physical substance. Management has determined that the digital assets should be accounted for as intangible assets in accordance with IAS 38 Intangible Assets.
- iii. Income taxes - Management exercises judgment to determine the extent to which deferred tax assets are recoverable in the future and has, therefore, not recognized any deferred tax assets in the statements of financial position.

Use of estimates

- i. Digital assets - Cryptocurrency denominated assets are carried at their fair market value determined by the spot rate based on the hourly volume weighted average from www.coinmarketcap.com. The digital currency market is still a new and highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital assets would have a significant impact on the Company's earnings and financial position. Digital currency prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the global political and economic conditions. A decline in the market prices for digital assets could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its cryptocurrency denominated digital assets.
- ii. Digital assets - Non-fungible tokens denominated assets are carried at their cost less any accumulated amortization and impairment losses. Management uses estimates of similar digital properties to evaluate whether there is any impairment to these assets that require recording.

- iii. Share-based compensation - The Company utilizes the Black Scholes method to estimate the fair value of stock options granted to directors, employees, and consultants. The use of Black Scholes requires management to make various estimates and assumptions that impact the value assigned to the stock options including the forecast future volatility of the stock price, the risk-free interest rate, dividend yield and the expected life of the stock options. Any changes in these assumptions could have a material impact on the share-based compensation calculation value. The most significant estimate is the volatility. Expected future volatility can be difficult to estimate as the Company has a limited history and is in a unique industry, and historical volatility is not necessarily indicative of future volatility.
- iv. Warrant liability - The Company uses a Black-Scholes Option Pricing Model ("Black Scholes") method to determine the fair value of the warrant liability. The Black Scholes method requires significant judgement in determining the fair value such as volatility and risk-free rate. A change in these inputs could lead to significant change in the fair value of the warrant liability.
- v. Impairment of non-financial assets and goodwill - Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. These calculations are based on available data, other observable inputs and projections of cash flows, all of which are subject to estimates and assumptions. Recoverable amounts are also sensitive to assumptions about the future usefulness of in-process development and the related marketing rights.

Management's Report on Disclosure Controls and Procedures and Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the Company. The DC&P provide reasonable assurance that material information relating to the Company is made known to the Chief Executive Officer and the Chief Financial Officer of the Company. The ICFR have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

No changes were made in the Company' design of internal controls over financial reporting during the nine months fiscal year ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Due to inherent limitations in all control systems, a control system can provide only reasonable, not absolute, assurance that the objective of the control system is met and may not prevent or detect misstatements or instances of fraud. Management's estimates may be incorrect, or assumptions about future events may be incorrect, resulting in varying results. Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people or by Management override.