



# Tokens.com

Management's Discussion and Analysis

For the three and nine months ended June 30, 2023

(Expressed in United States Dollars)

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## **Introduction**

This Management's Discussion and Analysis ("MD&A") is dated August 03, 2023, 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 three and nine months ended June 30, 2023, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's unaudited condensed consolidated interim financial statements as at and for the three and nine months ended June 30, 2023 ("Interim Financial Statements") and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). This MD&A should also be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2022, the annual MD&A for the year ended September 30, 2022, and the annual information form ("AIF") dated December 29, 2022, which can be found on the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

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 the Company's annual information form dated December 29, 2022, a copy of which is available electronically on SEDAR at [www.sedar.com](http://www.sedar.com). 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 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 ecommerce solutions operations occur within a subsidiary called Metaverse Group. 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 mark-to-market these assets at every reporting quarter. As a result, 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**

Overall crypto market cap was flat Q/Q at \$1.2 trillion when comparing end of Q2 to end of Q1, and the average crypto market cap increased 12% Q/Q from \$1.1 trillion in Q1 to \$1.2 trillion in Q2. The price of BTC, which comprises nearly half of crypto market cap, has proven to be resilient in the face of regulatory actions and discrete crypto industry participant issues and has increased more than 75% year-to-date.

This quarter also represented progress for crypto regulation, both in the U.S. and globally. In the U.S., we're beginning to see a pathway for bipartisan legislation that could enshrine consumer protections and an equitable market structure framework, while also recognizing the importance of keeping crypto innovation in the US.

Tokens.com is not involved in offering any crypto retail products. As a result, management does not expect to be impacted by any new crypto regulations. The Company is in favor of further regulation and other safeguards to protect investors.

Outside of its passive staking portfolio, Tokens.com has pivoted away from crypto related activities and is focusing on assisting companies transition from web2 to web3. As a result, the Company focuses on developing intellectual property and software related to internet based services for businesses.

### **Operations**

Management continues to focus on building its 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.

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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 provide crypto exposure to Layer 1 cryptocurrencies, 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 use 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 gaming. Tokens.com owns digital assets and operating businesses within each of these three segments.

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On June 5th of 2023, Tokens.com completed the transaction to acquire all the issued and outstanding shares from the minority shareholders of Metaverse Group Ltd that the Company does not already own, effectively owning 100% of shares of Metaverse Group.

### **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. Proof-of-stake systems require users to stake their cryptocurrency as a security measure to confirm and secure new data blocks. Ethereum abandoned its original proof-of-work consensus mechanism in September 2022, leaving

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Bitcoin as the only popular proof-of-work digital currency. This controversial move was done for both environmental reasons and to increase transaction through-put.

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.

As a staker, Tokens.com is compensated in the form of additional token rewards for staking tokens to secure and process transactions across selected blockchain-based digital assets. The token rewards are expected to be re-staked, with approximately 50% of the rewards converted to fiat equivalent currencies (CAD or USD) periodically to be used for corporate overhead. The Company may convert more staking rewards to fiat depending on its internal corporate cash requirements.

In order to stake, Tokens.com is required to purchase crypto tokens that meet its criteria. These tokens are placed into cold storage protection and then delegated to one of Tokens’ staking partners for the execution of the staking process. The staking tokens never leave custody and Tokens is always in possession of its staking tokens. Unlike lending, in token staking there is no counterparty risk and there is no transfer of assets or capital.

The Company’s current inventory is shown below, as of the date of this MD&A. Total tokens held by the Company in inventory were marked-to-market on June 30, 2023 to approximately \$7.9 million. Of these, 340 ETH and 18,001 SOL are held by Genesis which is undergoing receivership. The Company is pursuing the claims process which has been submitted with their restructuring agent. Key holdings are:

<b>Key Tokens Held</b>	<b>Owned</b>
Ethereum	3,229
Polkadot	206,954
Solana	18,056

The Company’s current staking portfolio as a portion of the above is as follows:

<b>Token</b>	<b>Staked</b>	<b>Market Yields</b>	<b>Lock-up Period</b>
Ethereum	2,889	5.2%	3-7 days
Polkadot	206,954	14.6%	28 days

The Company’s average gross staking yields decreased slightly to 6.71% for the three months ended June 30, 2023, compared to 6.6% for the three months ended June 30, 2023 due to slightly higher market yields for both POL and ETH. The yields presented are pro forma for tokens staked during the entire period. Actual yields may vary based on the amount of time the tokens are staked.

The Company does not run its own validator nodes and instead partners with providers including Staked.us (owned by Kraken) and Figment.com to run validator nodes on the Company’s behalf in a more efficient and cost-effective manner. In addition, Tokens.com is not seeking to build its own staking operations or to stake on

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behalf of third parties. In carefully evaluating the market, it is management's conclusion that it is more cost effective to use third parties.

Tokens.com entered into a staking node services agreement with Staked Securely, Inc. (Staked.us) in 2021 whereby Staked.us provides Ethereum staking node validators to Tokens.com. The Company also entered into a staking agreement with Figment Inc. in 2022 whereby Figment provides Polkadot validator nodes to Tokens.com. Tokens self-custodies and internally manages the wallets associated with these assets that are staked by these providers - reducing the counterparty risk associated with the agreement.

Tokens.com has also conducted external diligence on both Figment and Staked.us including an evaluation of its technology, pricing, and ensured that the entity was in good standing. This included numerous interviews with management and staff at these entities, as well as through market research with respect to the quality of the service provided, the financial backing of each entity and a conversation with the head of staking technology at each firm. To date, Tokens.com has not encountered any issues with respect to its staking operations with its node service providers.

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

Tokens.com self-custodies its staking assets using technology tools such as Fireblocks and Ledger hardware wallets. These assets are managed by multiple key executives at the firm using industry-wide best practices. The Company does not store assets with 3rd party custodians.

Our token selection policy has remained consistent with our past disclosure. Tokens.com generally focuses on large, layer-one established tokens. These are tokens that are designed to be programmed and have utility functions within their ecosystems. We also seek tokens that have large market capitalization above \$500 million and an amount of liquidity that would enable us to buy or sell that token quickly and without impacting the market price.

On April 12, the Ethereum's Shapella upgrade went into effect. This hard fork, which involves upgrading the blockchain by creating a new one, is considered a significant milestone in Ethereum's multi-year shift towards a complete proof-of-stake network. The upgrade occurred successfully and without interruption to the network. From a practical standpoint, the Shapella upgrade, named after the two upgrades, Shanghai and Capella, will allow Validators (stakers) to conduct either partial withdrawals or full withdrawals of their ETH. In layman's terms, any ETH rewards received so far from staking will be redeemable, and so can the original staked ETH position if you wish to exit the network's consensus process. The result is that ETH locked in staking platforms is now easily withdrawn from staking than prior to the upgrade. This is positive for Tokens.com which holds a substantial amount of ETH.

#### 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 in its plan to not only own digital land, but to leverage that ownership into a media agency and web3 marketing business. For the nine months ended June 30, 2023 generated \$397k of revenue, exhibiting significant growth.

- 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.

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- 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. Typical lease terms vary from 3 - 12 months with an average of approximately 6 months.
- MGL also generates revenue through partnerships it creates with leading corporations. MGL began its partnership business also in March of 2022. MGL is in the early stages of building out this business model and therefore revenues are currently marginal. It continues to engage in new conversations and work with existing client base in order to expand those partnerships.

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.

MGL had a positive Q2 of 2023 with the second Metaverse Fashion Week occurring. MGL was able to attract high profile clients such as DKNY, Stellantis, and Miami Fashion Week. DKNY had a highly successful event selling out almost all of its wearables. It also experienced significant user interest with over 10,000 users and close to 18 minutes of dwell time.

In Q3 our pipeline continues to show remarkable strength and growth. We have been working diligently to broaden our range of opportunities and the results of these efforts are encouraging. Our team's commitment to innovation, bolstered by continuous investment in research and development, has allowed us to push boundaries and lay the groundwork for future successes.

However, our robust pipeline growth this quarter has not directly translated into the revenue acceleration we anticipated. We find ourselves sailing into economic headwinds that have proven stronger than expected. Due to these economic conditions, our revenue growth rate has been slower than we would like.

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. As MGL becomes platform agnostic this revenue line will evolve to maintenance services from rental services. As customers look to MGL to help maintain their experiences or games on platforms that don't necessarily have a rental platform.

We are also happy with the progress of our recent acquisition of Coco NFT, a technology-driven company known for its innovative solutions. This strategic move has significantly impacted our operations, leading to the integration of Coco NFT's technology into our e-commerce platform and the development of our groundbreaking ecommerce platform. By leveraging Coco NFT's expertise, our e-commerce platform has become more efficient and user-friendly, enhancing customer experience and expanding our market reach. The Vision Pro Glasses, with their immersive augmented reality experience, hold immense potential across various industries. We

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believe that this acquisition has positioned us at the forefront of innovation in e-commerce and augmented reality.

Hulk Labs Corp.

Hulk Labs Corp. ("Hulk") was created in January 2022. Hulk's goal is to build tools and software that is used to monetize the crypto gaming ecosystem.

After the end of Q2-2023, Hulk Labs underwent a change in management and an operational review. The decision was made to no longer operate a player network. Hulk Labs still intends to use the Playte software to integrate third party players in its reviewed business plan. Going forward, Hulk will focus on gaming software and web3 game development.

During Q3-2023, Hulk Labs has made significant progress on its core focus of developing gaming software and announced development of a web3 game called Astraeus Defense. Hulk Labs has focused its business on three core areas 1) Analytics dashboards for web3 gamers 2) Web3 game development, with the first title called Astraeus Defense and 3) Service delivery partner of branded games for clients.

Hulk Labs is using the latest AI assistive tools in the game development process for Astraeus Defense. Hulk Labs uses AI tools in video development, character animation, art development, 3D asset development, voice acting and more areas to increase efficiency. Hulk Labs is constantly evaluating new tools and has received beta access to test new assistive AI technologies. Hulk sees a future where game development will be heavily influenced by the positive benefits of efficiency, cost reduction and creativity that assistive AI tools offer game designers. Another significant development in the web3 gaming space is Google enabling NFT's in gaming apps in the Google Play Store.

Hulk Labs supported Metaverse Group in designing game mechanics specifically for Slim Jim's recently released Meataverse in partnership with 180NewYork. The Meataverse is a digital fan club dedicated to Slim Jims. By joining the online club members receive a special NFT called the GigaJim powered by polygon, that functions as a digital membership card. With over 10,000 NFTs available, the GigaJims give holders exclusive access to online and physical world experiences.

Hulk Labs in partnership with Metaverse Group is building a branded game for a company in the furniture industry, being developed in Unreal Engine and will launch in the Epic Games Store for Back To School. The game will be used as a marketing tool by the client to promote their back-to-school offerings.

Hulk is seeing increased growth in the number and quality of web3 games coming to market, following \$4.5 billion in funding in 2022 to gaming; as it takes a couple of years for AAA quality games to be made and those are now coming to market. In 2023, Citi GPS published a report estimating that web3 gaming will grow from 1 million active wallets in 2022, to 50-100 Million by 2025. Another significant development in the web3 gaming space is Google enabling NFT's in gaming apps in the Google Play Store.

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The current inventory of key tokens held for Hulk Labs as of June 30, 2023 are:

<b>Key Tokens Held</b>	<b>Owned</b>
USDC	118,590
USDT	3105
BNB	7
THC	1,676,000
THG	2,289

The values of these tokens were approximately \$125k as of June 30, 2023. Hulk Labs also held a NFT portfolio of primarily Play-2-Earn game assets of approximately \$18k as of June 30, 2023.

The key facets of Hulk's business model include:

**A Web3 Player Data Platform**

- Where player performance, player activity and net profitability can be measured across multiple player communities and games. Gamers with assets can maximize their time engaged, while performant players can be discovered within their communities or the gaming titles they play.

**Astraeus Defense, a web3 Game Under Development**

- A new web 3 game called Astraeus Defense by Hulk Labs with proven game mechanics, incorporating our tokenomics and data expertise, while being developed with the latest AI tools (Midjourney, removal.ai, skybox lab). Future games will be developed via a pipeline of internal and for hire game development opportunities.

**A Gaming Studio For Brands**

- A gaming studio delivering white glove services to Fortune 500 brands exploring web3 and gaming marketing strategies. Leveraging our experience in analyzing hundreds of games, developing tokenomics and building software to enable them, we support large brands as they engage the Zalpha Generation (a combination of generation Alpha and Z) through gaming based marketing experiences.

Domain Names:

The Company owns a collection of domain names associated to its businesses listed below:

Tokens.com	Tokenstrading.com	Tokensart.com
Tokensgaming.com	Tokenstrade.com	Hulklabs.com
Hulkemail.com	Ecomm3.ca	OverworldDefense.com
MetaverseGroup.com		

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**FINANCIAL SUMMARY**

**Selected Financial Information**

<i>For the periods ended June 30</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Staking revenue	\$ 97,565	\$ 205,201	\$ 181,963	\$ 714,940
Consulting revenue	26,663	10,474	357,988	143,191
Leasing revenue	4,500	35,039	39,442	45,088
Gaming revenue	-	-	4,400	-
	<b>\$ 128,728</b>	<b>\$ 250,714</b>	<b>\$ 583,793</b>	<b>\$ 903,219</b>
Operating expenses	\$ (1,193,293)	\$ (752,780)	\$ (2,971,662)	\$ (4,966,726)
Loss on disposal of digital assets - cryptocurrency	\$ -	\$ (1,692,878)	\$ (90,552)	\$ (445,829)
Gain (loss) on revaluation of digital assets - cryptocurrency	\$ 82,699	\$ (12,464,278)	\$ 1,467,636	\$ (15,595,210)
Net loss attributable to Tokens.com	\$ (692,444)	\$ (11,885,782)	\$ (477,682)	\$ (7,714,525)
Total comprehensive loss attributable to Tokens.com	\$ (692,444)	\$ (11,885,782)	\$ (477,682)	\$ (5,640,067)
<b>Loss per share</b>				
Basic and diluted <sup>(i)</sup>	\$ (0.01)	\$ (0.12)	\$ -	\$ (0.11)

<sup>(i)</sup>For the three and nine months ended June 30, 2023, the weighted average number of outstanding common shares, basic and diluted, totaled 103,579,763 and 99,703,985, respectively. For the three and nine months ended June 30, 2022, the weighted average number of outstanding common shares, basic and diluted, totaled 96,711,975 and 66,649,114, respectively.

**HIGHLIGHTS:**

- The Company recorded revenue of \$129k and \$584k, respectively, for the three and nine months ended June 30, 2023 ("Q3-2023"), compared to \$251k and \$903k for the three and nine months ended June 30, 2022 ("Q3-2022").
- Total cash and cryptocurrency of \$12.2 million, or CAD\$16.2 million, as of June 30, 2023.
- Total assets increased to \$20.9 million, or \$0.18 per share (CAD \$0.24 per share) as of June 30, 2023, since the end of December 31, 2022.
- Staking revenue was \$98k and \$182k, respectively, for the three and nine months ended June 30, 2023, compared to \$205k and \$715k for Q3-2022.
- Metaverse Group earned total consulting and lease revenue of \$31k and \$397k for the three and nine months ended June 30, 2023, respectively.
- Operating expenses were \$1.2 million and \$3.0 million for the three and nine months ended June 30, 2023, compared to \$753k and \$5.0 million for the same periods last year.
- Non-cash revaluation gain on digital assets - cryptocurrency of \$83k million and \$1.5 million, respectively, for the three and nine months ended June 30, 2023, compared to a loss of \$12.5 million and \$15.6 million for Q3-2022.
- Net loss for the three and nine months ended June 30, 2023, attributable to Tokens.com, was \$692k and \$478k, respectively, compared to losses of \$11.9 million and \$7.7 million for the same periods of last year.

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- Total comprehensive loss for the three and nine months ended June 30, 2023, attributable to Tokens.com, was \$692k and \$478k, respectively, compared to losses of \$11.9 million and \$5.6 million for the same periods of last year.
- On June 5th of 2023, Tokens.com completed the transaction to acquire all the issued and outstanding shares from the minority shareholders of Metaverse Group Ltd that the Company does not already own, effectively owning 100% of shares of Metaverse Group.

## **PART II – REVIEW OF FINANCIAL RESULTS**

The overall crypto market remained largely unchanged throughout Q3-2023 compared to the previous quarter. The Company was able to stake its entire Polkadot inventory throughout the quarter, which contributed to its increased staking revenue compared to the prior quarter. For the three months ended June 30, 2023, the Company recorded staking revenue of \$98k, compared to \$205k for Q3-2022. On a nine months basis, staking revenue was \$182k, compared to \$715k for the nine months ended June 30, 2022.

For the three and nine months ended June 30, 2023, Metaverse Group earned revenue of 31k and 397k, respectively. The tempered revenue figure during the quarter was due to many of its clients scaling back on their marketing budgets. However, management remains optimistic by the growth of its client pipeline, coupled with heightened interest from potential clients.

Digital assets that are held in inventory for the purpose of generating staking revenue over the short and long-term are also subject to price 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. Specifically, for the three and nine months ended June 30, 2023, the Company recorded a gain on revaluation of digital assets - cryptocurrency of \$83k and \$1.5 million, compared to a loss of \$12.5 million and \$15.6 million for the same periods in Q3-2023.

For the three and nine months ended June 30, 2023, operating expenses were \$1.2 million and \$3.0 million, compared to \$753k and \$5.0 million for the same periods in Q3-2022. The increase in operating expenses during the quarter was due to additional overheads incurred by Metaverse Group and Hulk Labs. Overall, management is still and always looking for ways to reduce overhead costs, as this will be a key contribution to the overall long-term health and success of the Company.

Net loss for the three and nine months ended June 30, 2023, attributable to Tokens.com, was \$692k and \$478k, respectively, compared to losses of \$11.9 million and \$7.7 million for the three and nine months ended June 30, 2022. Total comprehensive loss for the three and nine months ended June 30, 2023, attributable to Tokens.com, was \$692k and \$478k, respectively, compared to losses of \$11.9 million and \$5.6 million for the three and nine months ended June 30, 2022.

Although the cryptocurrency industry has strengthened after the end of Q1-2023 and stabilized during Q2 and Q3 of 2023, 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 gaming business segments. By never engaging in high-risk leverage and derivatives products as well as speculative investments, the Company has been able to keep its low risk profile and does not see the volatility as an impediment to its growth in the remainder of 2023 and beyond.

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**Revenue**

<i>For the periods ended June 30</i>	Three months ended		Nine months ended	
	2023	2022	2023	2022
Staking revenue <sup>(i)</sup>	\$ 97,565	\$ 205,201	\$ 181,963	\$ 714,940
Consulting revenue <sup>(ii)</sup>	26,663	10,474	357,988	143,191
Leasing revenue <sup>(iii)</sup>	4,500	35,039	39,442	45,088
Gaming revenue <sup>(iv)</sup>	-	-	4,400	-
<b>Total revenue</b>	<b>\$ 128,728</b>	<b>\$ 250,714</b>	<b>\$ 583,793</b>	<b>\$ 903,219</b>

- (i) Rewards received from staking digital assets.
- (ii) Revenue earned from metaverse consulting and advisory services offered by Tokens.com's subsidiary Metaverse Group Ltd.
- (iii) Revenue earned from virtual real estate rental services offered by Tokens.com's subsidiary Metaverse Group Ltd.
- (iv) Revenue earned from play-to-earn gaming operation by Tokens.com's subsidiary Hulk Labs Corp.

**Operating expenses**

A breakdown of the operating expenses is as follows:

<i>For the periods ended June 30</i>	Three months ended		Nine months ended	
	2023	2022	2023	2022
Cost of revenue	\$ 35,052	\$ 11,132	\$ 189,304	\$ 22,313
Management fees and salaries	130,368	137,432	356,404	620,667
General and administrative	269,020	155,626	626,552	252,828
Professional fees <sup>(i)</sup>	586,346	169,094	1,368,213	1,301,474
Investor relations <sup>(ii)</sup>	95,048	151,202	178,526	1,301,028
Regulatory	14,682	87,243	49,903	227,590
Share-based payments <sup>(iii)</sup>	62,777	41,051	202,760	466,747
Listing expense	-	-	-	774,079
<b>Total operating expenses</b>	<b>\$ 1,193,293</b>	<b>\$ 752,780</b>	<b>\$ 2,971,662</b>	<b>\$ 4,966,726</b>

- (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 before income taxes are:

<i>For the periods ended June 30</i>	Three months ended		Nine months ended	
	2023	2022	2023	2022
Gain (loss) on disposal of digital assets <sup>(i)</sup>	\$ -	\$ (1,692,878)	\$ (90,552)	\$ (445,829)
Gain (loss) on revaluation of digital assets - cryptocurrency <sup>(ii)</sup>	82,699	(12,464,278)	1,467,636	(15,595,210)
Net interest income (expense)	-	(19,576)	15,283	(70,498)
Gain (loss) on revaluation of warrant liability <sup>(iii)</sup>	39,153	2,872,027	(2,603)	10,989,919
Foreign exchange gain	41,096	(79,011)	89,348	(34,864)
Gain on revaluation of contingency consideration	-	-	29,964	-
Other loss	-	-	-	461,239
	<b>\$ 162,948</b>	<b>\$ (11,383,716)</b>	<b>\$ 1,509,076</b>	<b>\$ (4,695,243)</b>

- (i) Represents the loss of exchanging digital assets held 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) 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.

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**Comprehensive income**

<i>For the periods ended June 30</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Net income</b>	\$ (901,617)	\$ (11,885,782)	\$ (878,793)	\$ (7,840,233)
<b>Other comprehensive income</b>				
Fair value change of non-controlling interest	705,174	-	1,437,050	-
Revaluation gain on digital assets, net of tax	-	-	-	2,074,458
<b>Total comprehensive income</b>	\$ (196,443)	\$ (11,885,782)	\$ 558,257	\$ (5,765,775)

**Selected Quarterly Information**

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

<b>Quarter Ended</b>	<b>Revenues (\$)</b>	<b>Net Income (Loss) attributable to owners of Tokens.com</b>	
		<b>Total (\$)</b>	<b>Basic and Diluted Income (Loss) Per Share (\$)</b>
June 30, 2023	128,728	(692,444)	(0.01)
March 31, 2023	303,217	1,863,351	0.02
December 31, 2022	151,848	(1,648,589)	(0.02)
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

## ***PART III – FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES***

### **Liquidity and Capital Resources**

As at June 30, 2023, the Company had a working capital balance of \$3.4 million (September 30, 2022 - \$4.8 million), and shareholders' equity, attributable to the owners of the Company, of \$19.2 million (September 30, 2022 - \$14.9 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:

<i>For the nine months ended June 30</i>		<b>2023</b>
Net cash used in:		
Operating activities	\$	(941,805)
Investing activities		(340,995)
Financing activities		(350,000)
FX effect		77,137
<b>Decrease in cash</b>	<b>\$</b>	<b>(1,555,663)</b>

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.

The Company has credit exposure relating to accounts receivable and other of \$157,638 (September 30, 2022 - \$382,618). The expected credit loss is not significant.

The carrying amount of financial assets represents the maximum credit exposure. The Company has credit exposure at June 30, 2023 relating to cash of \$4,281,910 (September 30, 2022 – \$5,837,573). All cash is held at a Canadian chartered bank.

### 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 June 30, 2023, the Company held \$1,960,039 (September 30, 2022 - \$3,412,889) denominated in Canadian dollars. A 10% change in the foreign exchange rate would result in an impact of \$196,004 (September 30, 2022 - \$341,289) 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 caused in digital currency prices and exchange rates. The Company's financial liabilities are comprised of loan payable, accounts payable and accrued liabilities. As at June 30, 2023, loan payable, accounts payable and accrued liabilities of \$800,066 are expected to mature within one year (September 30, 2022 – accounts payable and accrued liabilities of \$1,051,676 expected to mature within one year).

### Fair Value Risk

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

### **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 is 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 objective 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.

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**Outstanding securities as at August 3, 2023:**

Common shares	<b>119,249,959</b>
Dilutive securities:	
Warrants	9,777,289
Stock options	1,245,750
Deferred share units	1,902,540
Fully diluted shares	<b>132,175,538</b>

## **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 previous 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.

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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 on August 3, 2023.

## **PART V – RISKS**

### **Risks and Uncertainties**

The results of operations, business prospects and financial considerations of the Company remain subject to a number of risks and uncertainties and are affected by a number of factors outside of our control. For more information about our risks and uncertainties, please refer to the “Risks and Uncertainties” section of our MD&A for the year ended September 30, 2022, and the “Risk Factors” section of the AIF dated December 29, 2022. The risks and uncertainties remain substantially unchanged from those previously disclosed.

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

### **Critical Accounting Estimates and Accounting Policies**

The preparation of the unaudited interim condensed financial statements requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and reported assets, liabilities, revenue and expenses, consistent with those described in the Company's annual financial statements and as described in these interim financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Estimates are based on historical experience and other assumptions that are considered reasonable in the circumstances. The actual amount or values may vary in certain instances from the assumptions and estimates made. Changes will be recorded, with corresponding effect in profit or loss, when, and if, better information is obtained. The future impact of uncertainties around the outbreak of the novel coronavirus (“COVID-19”) pandemic could generate, in future reporting periods, a significant risk of material adjustment to the reported amounts of assets, liabilities, revenue and expenses in the interim financial statements. Examples of accounting estimates and judgments that may be impacted by the pandemic include: revenue recognition, impairment of goodwill and intangible assets.

The Company is in the business of digital currencies, many aspects of which are not specifically addressed by current IFRS guidance. IFRS does not currently provide specific guidance to address many aspects of the digital asset industry. The Company is required to make judgments as to the application of IFRS and the selection of its accounting policies. The Company has disclosed its presentation, recognition and derecognition, and measurement of digital currencies, and the recognition of revenue as well as significant assumptions and judgments, however, if specific guidance is enacted by the IASB in the future, the impact may result in changes to the Company's earnings and financial position as presented.

For a full discussion of accounting policies, including new and revised standards issued by the IASB and estimates and judgments, refer to the audited consolidated financial statements for the year ended September 30, 2022, the annual MD&A for the year ended September 30, 2022 and Note 3 of the unaudited interim condensed consolidated financial statements for the three and nine months ended June 30, 2023.

### **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.

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No changes were made in the Company's design of internal controls over financial reporting during the quarter ended June 30, 2023, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

We, including the Chief Executive Officer and Chief Financial Officer, have assessed the effectiveness of the Company's internal control over financial reporting in accordance with Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, we, including the Chief Executive Officer and Chief Financial Officer, have determined that there were no material weaknesses in the Company's internal control over financial reporting as at June 30, 2023.

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