



# **DelphX Capital Markets Inc.**

## **Management's Discussion and Analysis**

**For the Years Ended December 31, 2023 and 2022**

**April 29, 2024**

# DelphX Capital Markets Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Years Ended December 31, 2023 and 2022

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*This Management's Discussion and Analysis (this "MD&A") provides a review of the results of operations, financial condition and cash flows for DelphX Capital Markets Inc., ("DelphX" or the "Company"), for the years ended December 31, 2023, and 2022.*

*This document should be read in conjunction with the information contained in the Company's audited annual financial statements and related notes for the years ended December 31, 2023 and 2022 (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in Canadian dollars unless otherwise noted.*

*Unless otherwise stated, in preparing this MD&A the Company has taken into account information available to it up to the date of this MD&A, April 29, 2024, being the date the Company's board of directors (the "Board") approved this MD&A and the Financial Statements.*

*Additional information about the Company is available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca) and on the Company's website at [www.delphx.com](http://www.delphx.com).*

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### Company Overview

DelphX is a technology and financial services company focused on bringing new and exciting opportunities to structured product and credit markets. Through its special purpose vehicle Quantem and its broker-dealer DelphX Services Corp, it enables fixed income dealers to offer new private placement securities which protect against credit risks and facilitate attractive returns.

The Company's primary business objective is to innovate new and revenue-generating products in the fixed income and structured product markets. Bond investment and trading companies have seen a lackluster ability to protect against risks associated with rating changes. The problem of rating changes, particularly downgrades is significant, because they cause institutional investors, banks, dealers, pension funds and insurance companies to tie up additional capital to offset potential liabilities within their existing portfolios. Economic and market conditions continue to demonstrate the need for risk mitigation around rating changes and trading firms require new sources of revenue in product categories which are new and relevant.

To capitalize on these opportunities and address these unmet needs, DelphX has created two proprietary private placement securities solutions that offer both secure risk protection and enhanced returns for currently issued underlying corporate bonds: Collateralized Put Options ("CPOs") and Collateralized Reference Notes ("CRNs").

CPOs are private placement securities which allow loss protection on spread changes associated with rating changes. CRNs are private placement securities which collateralize a maximum liability on CPO protection and pay enhanced returns.

CPOs provide value to qualified investors that want to buy protection against the potential downgrade of a specific bond issued by a reference company while CRNs provides another qualified investor, that is interested in underwriting that protection, returns from both the option premium and the interest earned on the collateral.

All CPOs and CRNs are issued by Quantem who captures a fee for its services. Securities are collateralized by US Treasuries and held in custody by a third-party custodian bank. At no time does DelphX (or Quantem) hold any securities or funds on behalf of third parties.

DelphX has officially launched these products to the institutional buy-side and broker-dealer community and anticipates adoption and monetization forthwith, especially as economic and market conditions continue to demonstrate the need for credit downgrade protection.

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### Selected Annual Financial Information

	2023	2022	2021
<b>Statements of Comprehensive Loss Data</b>			
Operating expenses	2,590,773	4,778,506	4,262,312
Net loss and comprehensive losses	(1,949,728)	(4,510,813)	(3,245,191)
Weighted average number of shares	142,409,669	133,514,823	118,966,543
Basic and diluted loss per share	(0.01)	(0.03)	(0.03)
<b>Statements of Financial Position Data</b>			
Total assets	237,078	475,193	1,806,527
Total liabilities	2,604,614	3,365,905	2,832,697

### Discussion of Operations

	Three months ended December 31,				Twelve months ended December 31,			
	2023	2022	Change	%	2023	2022	Change	%
Administration	350,564	516,721	(166,157)	(32)	1,365,477	2,331,060	(965,583)	(41)
Legal and regulatory	77,441	314,595	(237,154)	(75)	231,259	1,396,994	(1,165,735)	(83)
Interest and bank charges	2,359	2,648	(289)	(11)	13,208	11,338	1,870	16
Investor relations and public reporting	35,228	33,027	2,201	7	153,144	150,624	2,520	2
Marketing and sales	6,366	80,470	(74,104)	(92)	143,637	80,470	63,167	78
Share-based compensation	232,500	527,950	(295,450)	(56)	683,500	527,950	155,550	29
Other operating expenses	546	73,428	(72,882)	(99)	548	280,070	(279,522)	(100)
<b>Total operating expenses</b>	<b>705,004</b>	<b>1,548,839</b>	<b>(843,835)</b>	<b>(54)</b>	<b>2,590,773</b>	<b>4,778,506</b>	<b>(2,187,733)</b>	<b>(46)</b>
Other income	543,828	89,231	454,597	509	547,300	112,626	434,674	386
<b>Net loss</b>	<b>(161,176)</b>	<b>(1,459,608)</b>	<b>1,298,432</b>	<b>(89)</b>	<b>(2,043,473)</b>	<b>(4,665,880)</b>	<b>2,622,407</b>	<b>(56)</b>
Foreign currency translation gains	4,928	30,052	(25,124)	(84)	93,745	155,067	(61,322)	(40)
<b>Total comprehensive loss</b>	<b>(156,248)</b>	<b>(1,429,556)</b>	<b>1,273,308</b>	<b>(89)</b>	<b>(1,949,728)</b>	<b>(4,510,813)</b>	<b>2,561,085</b>	<b>(57)</b>

Total comprehensive losses reported for the year ended December 31, 2023 improved by 57 percent from the comparative period largely due to lower legal and regulatory costs, administrative costs and other research and development related costs incurred versus the prior period which is a reflection of the Company's shift from its research and development phase toward pre-commercialization as the Company prepares to launch its CPO and CRN products.

Total comprehensive loss incurred during the fourth quarter of 2023 improved from the comparative period for the same reasons above along with increased other income as a result of the recovery of accounts payable in relation to changes in accrued liability estimates combined with the statute of limitations on amounts having lapsed.

# DelphX Capital Markets Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Years Ended December 31, 2023 and 2022

### Quarterly Highlights

The following financial data for each of the eight most recently completed quarters has been prepared in accordance with IFRS.

	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Operating expenses	705,004	623,585	436,223	825,961
Net loss and comprehensive losses	(156,248)	(634,080)	(321,894)	(837,506)
Weighted average number of shares	148,786,754	145,398,641	142,618,239	135,470,971
Basic and diluted loss per share	(0.00)	(0.00)	(0.00)	(0.01)

  

	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Operating expenses	1,548,839	541,557	1,599,380	1,088,729
Net loss and comprehensive losses	(1,429,556)	(296,893)	(1,549,674)	(1,234,690)
Weighted average number of shares	133,514,823	125,110,178	122,991,248	118,986,543
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.01)

### Financial condition

Readers should refer to Note 1 to the Financial Statements regarding the going concern assumption in conjunction with the discussion below.

The following chart highlights significant changes in the Statements of Financial Position from December 31, 2022, to December 31, 2023.

Item	Increase (decrease)	Explanation of quarterly change
Cash	(127,397)	Please refer to "Cash Flows by Activity section" for detailed analysis of change in cash.
HST recoverable	(118,549)	The decrease was due to the collection of outstanding prior period HST receivables owing to the company of which most was collected during the third quarter of 2023.
Deposits and prepaids	7,831	Prepaid costs related to prepaid consulting and operating costs which increased during the period primarily due to rent deposits .
Accounts payable and accrued liabilities	(761,156)	Includes \$544 thousand in related to the recovery of accounts payable and accrual adjustments with the remaining decrease driven by improved fiscal management which includes cutting costs.
Due to related parties	(135)	Pay down of residual owed on this liability to zero.
Share capital	1,667,908	Increase is due gross proceeds of \$1.7 million from private placements consisting of shares and warrants This was partially offset by \$70 thousand in share issuance related costs including finders' fees plus legal and regulatory costs incurred in relation to the private placements.
Contributed surplus	683,500	Increase was due to stock options issued to directors, executives and consultants of the Company which vest immediately upon issuance and were recognized in stock-based compensation expense for the period.
Warrants	21,496	Increase in connection with finders' warrants issued in connection with private placements closed during the year. All finders' warrants were determined based on their fair values upon issuance.
Share subscription receivable	100,000	Represents the amounts outstanding at December 31, 2022 in connection with 2022 equity transactions that were subsequently collected in 2023.
Deficit	(2,043,473)	increased due to the net loss recorded for the period.
Accumulated other comprehensive income	93,745	increased in connection with foreign currency translation gains recognized during the period.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Years Ended December 31, 2023 and 2022

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### *Liquidity and Capital Resources*

On December 31, 2023, the Company had cash of \$136,172 (December 31 2022 – \$263,569) and a net working capital deficiency of \$2,367,536 (December 31, 2022 –\$2,890,712). Net working capital is a non-GAAP measure and is defined within as the sum of cash, harmonized sales taxes recoverable, deposits and prepaid expenses and accounts payable and accrued liabilities. For additional details, please refer to the “Non-GAAP Measures” section of this MD&A.

During the year ended December 31, 2023, the Company issued equity units via private placements in exchange for total gross proceeds of \$1,737,449 as detailed in the following transactions:

On November 2, 2023, the Company successfully closed the issuance of 3,483,668 Units at a subscription price of \$0.12 per unit for gross proceeds of \$418,040 (the “**November 2023 Offering**”). Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.20, for a period of two years from the date of issuance. The securities issued are subject to a hold period of four months plus one day from the date of issuance. In connection with the November 2023 Offering, the Company paid a cash finder's fee of \$3,750 and issued 31,500 finders' warrants. The finders' warrants will be exercisable at \$0.20 each for a period of two years after issuance.

On August 30, 2023, the Company issued 2,825,000 units at a subscription price of \$0.08 per Unit for gross proceeds of \$226,000 (the “**August 2023 Offering**”). Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.15, for a period of two years from the date of issuance. The securities issued were subject to a hold period of four months plus one day from the date of issuance.

On June 29, 2023, the Company issued 5,430,250 units at a subscription price of \$0.08 per unit for gross proceeds of \$433,209 (the “**June 2023 Offering**”). Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.15, for a period of two years from the date of issuance. The securities issued were subject to a hold period of four months plus one day from the date of issuance. In connection with the June 2023 Offering, the Company paid cash finder's fees of \$16,000 and issued 200,000 finders' warrants which will be exercisable at \$0.15 each for a period of two years after issuance.

On February 27, 2023, the Company issued 5,501,666 units at a subscription price of \$0.12 per unit, for gross proceeds of \$660,200 (the “**February 2023 Offering**”). Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.20, for a period of two years from the date of issuance. In connection with the February 2023 Offering, the Company paid cash finder's fees of \$18,000 and issued 150,000 finders' warrants which will be exercisable at \$0.20 each for a period of two years after issuance.

After the reporting date, the following securities transacted:

On January 30, 2024, the Company successfully closed the issuance of 3,904,166 Units at a subscription price of \$0.12 per unit for gross proceeds of \$468,500 (the “**January 2024 Offering**”). Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.20, for a period of two years from the date of issuance. The securities issued will be subject to a hold period of four months plus one day from the date of issuance. In connection with the January 2024 Offering, the Company paid a cash finder's fee of \$8,400 and issued 70,000 finders' warrants. The finders' warrants will be exercisable at \$0.20 each for a period of two years after issuance.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Years Ended December 31, 2023 and 2022

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On April 23, 2024, the Company successfully closed the issuance of 5,000,000 Units at a subscription price of \$0.08 per unit for gross proceeds of \$400,000 (the “**April 2024 Offering**”). Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.20, for a period of five years from the date of issuance. The securities issued will be subject to a hold period of four months plus one day from the date of issuance. In connection with the April 2024 Offering, the Company paid a cash finder's fee of \$11,200 and issued 140,000 finders' warrants. The finders' warrants will be exercisable at \$0.20 each for a period of five years after issuance.

The continuing operations of the Company are dependent upon its ability to raise capital to support the launch of the Company's novel CPO and CRN products and to manage repayment on current outstanding liabilities and those arising from normal business operations as they come due. While the Company has been successful in securing financing in the past, there is no assurance that it will be able to do so in the future. These factors indicate the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. See Note 1 to the Financial Statements.

### ***Risk Management***

DelphX may be exposed to risks of varying degrees of significance which could affect its ability to achieve its business objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

#### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As of December 31, 2023, the Company had \$2,604,614 (December 31, 2022 - \$3,365,905) in liabilities with a maturity of one year or less and a net working capital deficiency of \$2,367,536 (December 31, 2022 – \$2,890,712). The Company manages its liquidity risk by reviewing its growth plans on an ongoing basis and sourcing funding through private placements of equity until such time that the Company is able to generate revenue and profits. Refer to note 1 of the Financial Statements for further discussion of going concern.

#### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market conditions. These risks include market factors that may have an impact on interest rates, foreign exchange rates, commodity prices and/or stock market movements.

The Company operates in an industry regulated by the Trading and Markets division of the U.S. Securities and Exchange Commission which oversees the FINRA which is responsible for changes in regulations for broker-dealer firms. Changes in regulations could have a significant impact on the Company's operations.

#### Currency risk

The Company's functional currency is the Canadian dollar. The Company also conducts business in US dollars. Financial assets and liabilities denominated in foreign currencies will be affected by changes in the exchange rate between the functional currency and any foreign currencies. The assets and liabilities primarily affected are cash, accounts payable and accrued liabilities and due to related parties, that are denominated in foreign currencies.

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

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

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## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Years Ended December 31, 2023 and 2022

As of December 31, 2023, the Company's exposure to foreign currency balances is as follows:

Account	Foreign currency	Exposure (\$Cdn)	
		2023	2022
Cash	US dollar	88,366	85,626
Accounts payable and accrued liabilities	US dollar	(2,040,677)	(2,809,649)
Due to related parties	US dollar	-	(135)
		(1,952,311)	(2,724,158)

The Company is not currently exposed to any significant credit risk or other market risk.

### ***Cash Flows by Activity***

The table below outlines a summary of cash inflows and outflows by activity:

	Year ended December 31,	
	2023	2022
Cash used for operating activities	(2,010,546)	(3,361,080)
Cash provided from financing activities	1,789,404	2,041,936
Effect of foreign currency translation	93,745	110,083
Net change in cash	(127,397)	(1,209,061)

### ***Cash used in Operating Activities***

The significant factors related to cash used for operating activities for both periods were driven by administration and legal and regulatory cash costs.

### ***Cash provided by Financing Activities***

Cash provided by financing activities for both periods primarily resulted from subscription proceeds received in connection with several private placements that occurred throughout the reporting periods presented.

### ***Significant Accounting Policies, Judgements and Estimates***

The significant accounting policies adopted and applied by the Company, and the significant judgments and estimates are outlined in the Financial Statements.

### ***Related-party transactions and balances.***

Transactions with related parties are incurred in the normal course of business and initially measured at fair value.

### ***Equity transactions***

The equity financings disclosed in note 7 of the Financial Statements for the year ended December 31, 2023, included the issuance of 3,455,250 units to related parties for gross proceeds of \$284,420 (December 31, 2022 – 611,000 units for gross proceeds of \$55,000) and were subject to the same terms and conditions as those offerings disclosed.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Years Ended December 31, 2023 and 2022

### Key management compensation

Key management includes those individuals having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management includes the directors, the chief executive officer, the current and former chief financial officer and the chief actuary and risk officer. Compensation paid or accrued to key management is detailed below:

	Three months ended December 31,		Twelve months ended December 31,	
	2023	2022	2023	2022
Compensation to key management	90,739	158,183	517,619	597,874
Share-based compensation	172,500	-	274,400	-
	263,239	158,183	792,019	597,874

### **Outstanding securities**

As at the date of this MD&A, DelphX has the following securities outstanding:

Security	Number outstanding
Common shares	159,659,573
Options (Exercisable – 11,700,000)	11,700,000
Warrants	67,933,580
Finders' warrants	1,770,162

### **Non-GAAP Measures**

Non-cash working capital is a non-GAAP financial measure and is defined by the Company as the sum of cash, harmonized sales taxes recoverable, deposits and prepaid expenses and accounts payable and accrued liabilities. Non-GAAP financial measures do not have a standardized meaning prescribed by generally accepted accounting principles ("**GAAP**") and, therefore, may not be comparable with the calculation of similar measures by other companies. Management uses non-GAAP measures for its own performance measurement and to provide shareholders and investors with additional measurements of the Company's efficiency and its ability to fund operations. Non-GAAP measures should be considered together with other data prepared in accordance with IFRS to enable investors to evaluate the Company's operating results, underlying performance and prospects in a manner similar to the Company's management. Accordingly, this Non-GAAP measure is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

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

This document contains “forward-looking statements” which may include, but are not limited to, statements with respect to the future financial or operating performance of DelphX or future events related to DelphX which reflect expectations regarding growth, results of operations, performance, business prospects or opportunities or industry performance or trends. Statements which are not purely historical are forward-looking statements and include any statements regarding beliefs, plans, outlook, expectations or intentions regarding the future, including words or phrases such as “may”, “will”, “should”, “expect”, “intend”, “plan”, “anticipate”, “believe”, “predict”, “potential”, “continue”, “budget”, “schedule”, “estimate”, “forecast” or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved.

These forward-looking statements reflect DelphX’s current internal projections, expectations or beliefs and are based on information currently available to DelphX. Such statements and information are based on numerous assumptions regarding present and future business strategies and the environment in which DelphX will operate in the future, including the state of capital markets, the demand for our products, anticipated costs and our ability to achieve goals.

Forward-looking statements are subject to known and unknown risks, uncertainties and other important factors that may cause actual results, performance or achievements expressed or implied by the forward-looking statements to be materially different from those expressed or implied by such forward-looking statements, including but not limited to, business, economic, capital market, political and social conditions; the ability to manage our operating expenses; regulatory uncertainties; market conditions and the demand for our products; our relationships with our customers and business partners; competition in our industry and our ability to remain competitive; our ability to successfully maintain and enforce our intellectual property rights and defend third-party claims of intellectual property infringement; our ability to manage working capital; and our dependence on key personnel.

Although DelphX has attempted to identify important factors that could cause actual results, performance or achievements to differ materially from those described in forward-looking statements, there may be other factors that cause results, performance or achievements to differ from those anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Forward-looking statements contained herein are made as of the date of this MD&A and, except as may be required by applicable laws, DelphX undertakes no intent or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or results or otherwise.