



# **DelphX Capital Markets Inc.**

## **Management's Discussion and Analysis Of the Financial Conditions and Results of Operations Year ended December 31, 2022**

**April 28, 2023**

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2022

*This management discussion and analysis ("MD&A") has been prepared based on information available to DelphX Capital Markets Inc., ("DelphX" or the "Company") as at April 28, 2023. This MD&A is based on information available to DelphX and updates disclosure previously provided in the Company's quarterly MD&A's, up to the date of this MD&A and should be read in conjunction with the Company's audited consolidated financial statements and the related notes as at and for the years ended December 31, 2022 and 2021 (the "Consolidated Financial Statements"). The Consolidated Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") and all amounts are expressed in Canadian dollars unless otherwise noted. Other information contained in this MD&A has also been prepared by management and is consistent with the data contained in the Consolidated Financial Statements. Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.delphx.com](http://www.delphx.com).*

### MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")

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

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

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

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### General

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

The principal address of the Company is 15 Prince Arthur Street, Toronto, Ontario, M5R 1B2. DelphX's principal business activity is to develop and operate a global facility for transparent offering, purchase, sale, collection and storage of certain fixed income securities and derivatives, and to manage data, research, analytics and valuations of such instruments, as more fully described below.

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

The Consolidated Financial Statements have also been prepared in accordance with *International Accounting Standards ("IAS")* 34 'Interim Financial Reporting' using accounting policies consistent with the IFRS issued by the International Accounting Standards Board ("**IASB**") and Interpretations of the International Financial Reporting Interpretations Committee ("**IFRIC**"). They consolidate the accounts of the Company and all its subsidiaries. The Company acquired 100% of the issued and outstanding shares of DelphX Services Corporation ("**DSC**") on November 27, 2017. DSC is an SEC-registered securities broker-dealer that was previously owned by the Company's President and CEO and has an objective to manage the DelphX Alternative Trading System ("**ATS**"). The Company's other wholly-owned subsidiaries are as follows: DelphX Data Corporation (incorporated on February 21, 2018, pursuant to the laws of Canada), the Company's Canadian operations entity; Quantem Capital Corporation (incorporated on April 11, 2018, pursuant to the laws of Bermuda) (inactive), Quantem Capital LLC (a limited liability company formed on September 3, 2021, pursuant to the laws of Delaware) and DelphX Corporation (incorporated on February 18, 2016, pursuant to the laws Delaware, USA), the Company's US operations entity. The Unaudited Interim Consolidated Financial Statements include the financial position, results of operations and cash flows of its subsidiaries subsequent to acquisition or formation.

The Consolidated Financial Statements were approved for issuance by the Board of Directors of the Company on **April 28, 2023**.

Any reference to "note" or "notes" in this MD&A are to the corresponding notes in the Consolidated Financial Statements.

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2022

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

DelphX is a financial innovation company that has designed two new private placement securities to provide protection for investors against losses in the fixed income market. The Company operates the issuance of its proprietary products under a wholly-owned special purpose vehicle called "**Quantem**". The development of these two new securities is the result of a multi-year collaboration with bond investment and trading companies, who have seen a diminishing ability to protect against risks associated with rating changes, in an industry which is receptive to new solutions and novel alternatives.

This problem is significant, because it causes institutional investors, banks, dealers, pension funds and insurance companies to tie up additional capital to offset potential liabilities within their existing portfolios.

To solve these problems, DelphX created two proprietary private placement securities solutions that offer both secure risk protection and enhanced returns for currently issued underlying bonds: Collateralized Put Options ("**CPOs**") and Collateralized Reference Notes ("**CRNs**").

CPOs, which are private placement securities which allow loss protection on spread changes associated with rating changes.

CRNs, which are private placement securities which collateralize a maximum liability on CPO protection and pay materially-enhanced returns.

All CPOs and CRNs are issued by Quantem, collateralized by US Treasuries and held in custody by BNY Mellon. At no time does DelphX (or Quantem) hold any securities or funds on behalf of third parties.

The Company's primary business objective has been to develop a sustainable revenue model by using novel products and technologies to solve major unmet problems in the bond market – with an emphasis on providing loss protection and boosting returns in portfolios.

DelphX has officially launched its 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.

### ***Financial condition***

As at December 31, 2022, the Company had assets totaling **\$475,193** and shareholders' deficiency of **\$2,890,712**. This compares with assets of \$1,806,527 and shareholders' deficiency of \$1,026,170, as at December 31, 2021.

During the year ended December 30, 2022, the Company's net assets decreased by **\$1,864,542** due largely to the decrease in net cash to fund the Company's operations, legal expenses and the IT costs associated with the development of its fintech platform.

Details follow:

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2022

Item	Change Favourable / (Unfavourable)	Explanation of change
	\$	
Cash	(1,209,061)	Cash outflow used for operating activities of \$3,801,373 partly offset by cash provided from financing activities of \$2,026,694 from private placements and option exercises.
HST recoverable	97,726	Additional taxable expenditures made in 2022 increased the Balance Sheet amount.
Deposits and prepaids	(78,157)	Reduced accruals for legal, prepaid consulting and insurance costs.
Right-of-use (ROU) assets	(141,842)	The Kitchener lease was terminated during the June quarter; hence the ROU asset is now zero. Details provided in note 10 of the Audited Consolidated Financial Statements.
Accounts payable and accrued liabilities	(783,249)	Ongoing consulting and professional fees associated with product development and the Quantem roll-out.
Due to related parties	66,531	Repayment of a former officer's outstanding salary with this remaining balance paid off during the June 2022 quarter. Therefore, this liability is now zero.
Lease liabilities	183,511	The Company's Kitchener office lease was terminated during the June 2022 quarter. Thus like the ROU asset, the lease liability is now zero. Details provided in note 10 of the Audited Consolidated Financial Statements.

### Corporate activities

During the year ended December 31, 2022, the following securities were issued:

#### Common shares:

- (i) On May 11, 2022, the Company completed a non-brokered private placement ("**May 2022 Private Placement**") with the issuance of 4,982,727 units (each a "Unit") at \$0.22 per Unit, raising gross proceeds of \$1,096,200. Each Unit consisted of 1 common share and 1 common share purchase warrant (each, a "Warrant"). Each Warrant entitles the holder to purchase 1 common share for \$0.35 for a period of 5 years (expiry date, May 10, 2027).

The Company paid cash finder fees of \$28,644 and issued 130,200 finder warrants (each, a "Finder Warrant"). Each Finder Warrant is exercisable for 1 common share at \$0.35 for a period of 2 years (expiry date, May 10, 2024).

The fair value of the May 2022 Finder Warrants of \$35,027 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate of 2.55%, expected life of 2 years, volatility of 158.8%, a dividend yield of 0% and share price of \$0.24.

- (ii) On August 3, 2022, the Company issued 47,617 common shares at a price of \$0.18 per share for a total consideration of \$8,571 to a supplier, in lieu of payment of an outstanding invoice for services rendered to the Company.

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2022

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- (iii) On August 25, 2022, the Company announced the completion and oversubscription of a non-brokered private placement ("**August 2022 Private Placement**") of 4,825,715 units of the Company (the "Units"), at a premium to market subscription price of \$0.14 per Unit, for aggregate gross proceeds of approximately \$675,600. Each Unit consisted of 1 common share and 1 common share purchase warrant (each, a "Warrant"). Each Warrant entitles the holder to purchase 1 common share for \$0.30 for a period of 2 years (expiry date, August 25, 2024).

The fair value of the August 2022 Warrants of \$72,386 was estimated using the residual pricing model with the following based on the current share price of \$0.125.

The Company paid cash finder fees of \$7,007 and issued 50,050 finder warrants (each, a "Finder Warrant"). Each Finder Warrant is exercisable for 1 common share at \$0.30 for a period of 2 years (expiry date, August 25, 2024).

The fair value of the August 2022 Finder Warrants of \$11,550 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate of 3.44%, expected life of 2 years, volatility of 192.6%, a dividend yield of 0% and share price of \$0.125.

- (iv) On November 28, 2022, the Company announced it had closed its previously announced private placement ("**November 2022 Private Placement**") of 5,422,221 units (the "Units") at a subscription price of \$0.09 per Unit, for gross proceeds of \$488,000 (the "Offering"). Each Unit consists of one common share ("Common Share") and one Common Share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one Common Share at a price of \$0.15, for a period of two years (expiry date, November 28, 2024) from the date of issuance. The securities issued pursuant to the Offering are subject to a hold period of four months and a day from the date of issuance.

As at December 31, 2022, there was a share subscription receivable amount of \$100,000, which was promptly received from an investor on January 23, 2023.

### Options and warrants:

- (v) In January 2022, 20,000 finder warrants were exercised for proceeds of \$3,000. The fair value of the exercised finder warrants of \$942, was transferred from warrants to share capital.
- (vi) On April 7, 2022, the Company granted 1,200,000 stock options to eligible participants under its stock option plan (the "Plan"). The Options have a two-year maturity and are exercisable for common shares of DelphX at an exercise price of \$0.50 per common share, all in accordance with the Plan.

The fair value of \$321,600 of the 1,200,000 stock options was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate of 2.36%, expected life of 2 years, volatility of 157.93%, a dividend yield of 0% and share price of \$0.38.

- (vii) On June 10, 2022, 40,000 options at an exercise price of \$0.15 were exercised raising proceeds of \$6,000. The fair value of the exercised options of \$3,400 was transferred from contributed surplus to share capital.

Another 200,000 options of the same vintage with an exercise price of \$0.15, expired unexercised. The fair value of the expired options was \$17,000.

- (viii) On July 9, 2022, 60,000 options were exercised at an exercise price of \$0.15 for gross proceeds of \$9,000. The fair value of the exercised options of \$2,940 was transferred from contributed surplus to share capital.

- (ix) On July 20, 2022, 100,000 options were exercised at an exercise price of \$0.15 for gross proceeds of \$15,000. The fair value of the exercised options of \$1,900 was transferred from contributed surplus to share capital.

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## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2022

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- (x) On July 25, 2022, 50,000 options were exercised at an exercise price of \$0.15 for gross proceeds of \$7,500. The fair value of the exercised options of \$850 was transferred from contributed surplus to share capital.
- (xi) On July 27, 2022, 160,000 options at an exercise price of \$0.15 expired unexercised.
- (xii) On September 9, 2022, the Board of Directors approved the granting of 1,500,000 stock options (the "Options") to eligible participants under its stock option plan (the "Plan"). The options have a two-year maturity and are exercisable for common shares of DelphX at an exercise price of \$0.25 per common share, all in accordance with the Plan.

The fair value of \$156,600 of the 1,500,000 stock options was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate of 3.61%, expected life of 2 years, volatility of 136.00%, a dividend yield of 0% and share price of \$0.17.

- (xiii) On November 16, 2022, 650,000 options with an exercise price of \$0.15, expired unexercised.
- (xiv) On December 12, 300,000 options with an exercise price of \$0.70 with an expiry date of Sep 7, 2023 expired, unexercised with a fair value of \$1,800. Another 300,000 options with an exercise price of \$0.20 with an expiry date of May 7, 2024 expired, unexercised with a fair value of \$13,200.

50,000 options with an exercise price of \$0.35 and an expiry date of June 9, 2023 expired, unexercised with a fair value of \$350. Another 50,000 options with an exercise price of \$0.50 with an expiry date of July 29, 2023 expired, unexercised with a fair value of \$350.

- (xv) On December 22, 2022, 200,000 options with an exercise price of \$0.15, expired unexercised.
- (xvi) On December 23, 2022, the Company granted 950,000 stock options to eligible participants under its stock option plan (the "Plan"). The Options have a two-year maturity and are exercisable for common shares of DelphX at an exercise price of \$0.15 per common share, all in accordance with the Plan.

The fair value of \$50,350 of the 950,000 stock options was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate of 3.93%, expected life of 2 years, volatility of 135.22%, a dividend yield of 0% and share price of \$0.09.

- (xvii) On December 31, 2022, 150,000 options with an exercise price of \$0.50 with an expiry date of Sep 7, 2023 expired, unexercised. The fair value of the expired options was \$3,150.

On June 22, 2022 DelphX Completes First CPO and CRN Issuance.

On July 12, 2022, the Company DelphX Announced Amicable Resolution of Issues with former CEO and President, Larry Fondren. The Company has no other current or pending litigation it is aware of.

On November 8, 2022, the Company announced the addition of a novel Credit Rating Security (CRS) product that will give bond holders and traders the ability to position against potential rating changes on existing bonds. Due to the revolutionary nature of this industry-first product, DelphX has filed a provisional patent to protect its intellectual property rights ahead of the initial launch.



# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2022

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After the reporting date, the following securities transacted:

- (xviii) On January 18, 2023, the Board of Directors approved the granting of 650,000 stock options (the "Options") to eligible participants under its stock option plan (the "Plan"). The options have a two-year maturity and are exercisable for common shares of DelphX at an exercise price of \$0.15 per common share, all in accordance with the Plan.

The fair value of \$60,450 of the 650,000 stock options (exercise \$0.15) was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate of 3.47%, expected life of 2 years, volatility of 136.43%, a dividend yield of 0% and share price of \$0.14.

- (xix) On February 9, 2023, the Board of Directors approved the granting of 750,000 stock options (the "Options") to an advisor under its stock option plan (the "Plan"). The options have a two-year maturity and are exercisable for common shares of DelphX at an exercise price of \$0.20 per common share, all in accordance with the Plan.

The fair value of \$86,250 of the 750,000 stock options (exercise \$0.20) was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate of 3.98%, expected life of 2 years, volatility of 136.59%, a dividend yield of 0% and share price of \$0.175.

- (xx) On March 3, 2023, the Company announced that it had closed its previously announced private placement ("**February 2023 Private Placement**"), issuing 5,501,666 units (the "Units") at a subscription price of C\$0.12 per Unit, for gross proceeds of \$660,200 (the "Offering"). Each Unit consists of one common share ("Common Share") and one Common Share purchase warrant ("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 (expiry date, February 27, 2025).

The fair value of the February 2023 Warrants of \$407,123 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate of 3.99%, expected life of 2 years, volatility of 135.9%, a dividend yield of 0% and share price of \$0.125.

In connection with the Offering, DelphX will pay cash finder's fees of \$18,000 and issue 150,000 finders' warrants (the "Finders' Warrants") to an eligible finder. The Finders' Warrants will be exercisable at CAD\$0.20 each for a period of two years after issuance (expiry date, February 27, 2025).

The fair value of the February 2023 Warrants of \$11,100 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate of 3.99%, expected life of 2 years, volatility of 135.9%, a dividend yield of 0% and share price of \$0.125.

- (xxi) On March 9, 2023, the Company announced its Board of Directors had approved the grant of 1,250,000 stock options (the "Options") to eligible participants under its stock option plan (the "Plan"). The Options have a two-year maturity and are exercisable for common shares of DelphX at an exercise price of \$0.20 per common share, all in accordance with the Plan. The fair value of \$107,500 of the 1,250,000 stock options (exercise \$0.20) was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate of 4.29%, expected life of 2 years, volatility of 135.79%, a dividend yield of 0% and share price of \$0.14

- (xxii) On April 26, 2023, the Company announced it had entered into a business consultant agreement with Cardiff Associates ("Cardiff"), a US-based organization that specializes in financial services development. Cardiff will provide comprehensive advisory services to support the implementation of the DelphX business strategy, specifically relating to proprietary products addressing rating changes, and corporate downgrade and upgrade structures.



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Under the terms of the agreement, Cardiff will receive 1MM options with a two-year maturity and an exercise price of \$0.15 per common share; along with the right to gain additional compensation based upon performance milestones.

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

#### ***Due from related party***

As at December 31, 2022, there are no amount due to the Company.

In the previous year, as at December 31, 2021, the Company wrote off amounts due to the Company for a secured loan ("Secured Loan") in the amount of \$50,000 plus accrued interest of \$10,660, equal to \$60,660 which it previously provided to its former Chief Financial Officer.

During the year ended December 31, 2022, the Company forgave the Secured Loan as part of a settlement payment to this Company's former CFO.

#### ***Due to related parties***

As at December 31, 2022, there is a residual amount of \$135 due to related parties by the Company. This was paid off subsequent to the reporting year-end. During the year, the Company paid off those amounts due to related parties of \$66,666, which were owing as the end of the prior year.

In the previous year, as at December 31, 2021, there were amounts due to related parties which included \$66,666, comprising a settlement amount due to a senior officer of the company.

### **Related party settlements**

There were no related party settlements during the year ended December 31, 2022.

In September 2021 of the prior year, December 31, 2021, the Company settled outstanding amounts due to various shareholders, which was a forgiveness of debt owing to the Company at a discount of \$1,326,148.

### ***Key management compensation***

Key management includes those individuals having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management includes the directors, named executive officers, being the chief executive officer and the chief financial officer and the Company's Chief Actuary. The Consolidated Financial Statements include balances and transactions with directors and/or officers of the Company and/or corporations related to or controlled by them.

Related-party compensation paid or payable to key management is detailed below:

# DelphX Capital Markets Inc.

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Year ended December 31,	2022	2021
	\$	\$
Compensation to key management	1,010,412	750,123
Finder fees	54,800	115,500
Share-based compensation	231,750	1,442,146

### Equity participation

During the year ended December 31, 2022 and 2021, related parties participated in equity financings of the Company as follows:

Year ended December 31,	2022	2021
	\$	\$
Equity financings	575,000	100,000

### Outstanding securities

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

Security	Number outstanding
Common shares	133,514,823
Options (Exercisable – 11,346,000)	11,346,000
Warrants	41,808,830
Broker warrants	1,178,662