



**DelphX Capital Markets Inc.**

(formerly, Seaside Exploration Partners Corp.)

**Consolidated Financial Statements  
December 31, 2018 and 2017**

(Expressed in Canadian dollars)

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying annual consolidated financial statements of DelphX Capital Markets Inc. (formerly Seaside Exploration Partners Corp.) (the "**Company**") are the responsibility of management and the Board of Directors (the "**Board**") of the Company and have been prepared in accordance with International Financial Reporting Standards and contain estimates based on management's judgment. Management maintains an appropriate system of internal controls to provide assurance that the transactions are authorized, assets safe-guarded and proper records maintained.

The Audit Committee of the Board has reviewed with the Company's independent auditors the scope and results of the annual audit and the consolidated financial statements and the related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

The Company's independent auditors, Zeifmans LLP, are appointed by the shareholders to conduct an audit in accordance with Canadian generally accepted auditing standards and their report follows.

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

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting.

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 ICFR, as defined in NI 52-109, **nor has it completed such an evaluation**. Inherent limitations on the ability of the certifying officers to design and implement on a cost-effective bases DC&P and ICFR for the issuer may result in additional risks of quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

*"Patricia Ziegler"*

Patricia Ziegler  
Chief Executive Officer

April 24, 2019

*"Stephen M. Gledhill"*

Stephen M. Gledhill  
Chief Financial Officer

April 24, 2019



## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of DelphX Capital Markets Inc. (*formerly, Seaside Exploration Partners Corp.*)

### **Opinion**

We have audited the accompanying consolidated financial statements of DelphX Capital Markets Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### **Basis of Opinion**

We conducted our audits in accordance with Canadian generally accepted auditing standards ("GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material Uncertainty Related to Going Concern**

We draw attention to note 1 in the consolidated financial statements, which indicates that the Company is in the development stage, has not yet started profitable operations and has relied on non-operational sources of financing to fund its operations. As more fully disclosed in note 1, the Company's ability to continue as a going concern is dependent on successfully executing its business plan, which includes the raising of additional funds as debt or equity, the success of which cannot be assured. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Other Matter**

The consolidated financial statements of the for the year ended January 31, 2018, were audited by another auditor who expressed an unmodified opinion on those statements on April 13, 2018. Also, upon successful qualifying reverse take-over transaction (note 1), the Company changed its annual financial reporting date to December 31.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in Management Discussion and Analysis (MD&A) and Annual Information Form (AIF), but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be misstated.

We obtained MD&A and AIF, prior to the date of this auditor's report. If based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cause significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosure is inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

- However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audits resulting in this independent auditor's report is Brian T. McGee, CPA, CA.

*Zeifmans LLP*

Toronto, Ontario  
April 24, 2019

Chartered Professional Accountants  
Licensed Public Accountants

# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Inc.)

## Consolidated Statements of Financial Position

(expressed in Canadian dollars)

<i>As at</i>	December 31, 2018	December 31, 2017
<b>Assets</b>	\$	\$
<b>Current assets</b>		
Cash (note 8)	187,634	433,781
Restricted cash (note 8)	27,500	-
Harmonized sales taxes recoverable	91,089	-
Due from related party (note 10)	51,660	-
Deposits and prepaid expenses (note 9)	73,595	13,061
Funds held in escrow (note 11)	-	3,771,473
<b>Total current assets</b>	<b>431,478</b>	<b>4,218,315</b>
<b>Non-current assets</b>		
Property and equipment (note 12)	170,469	1,274
Intangible asset (note 13)	117,361	126,897
<b>Total non-current assets</b>	<b>287,830</b>	<b>128,171</b>
<b>Total assets</b>	<b>719,308</b>	<b>4,346,486</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 14)	1,077,667	42,646
Due to related parties (note 10)	238,090	-
Subscriptions receipts (note 11)	-	3,770,296
<b>Total current liabilities</b>	<b>1,315,757</b>	<b>3,812,942</b>
<b>Total liabilities</b>	<b>1,315,757</b>	<b>3,812,942</b>
<b>Shareholders' equity (deficiency)</b>		
Share capital (note 15)	15,830,178	9,014,437
Contributed surplus (note 15)	390,476	-
Warrants (note 15)	421,959	44,308
Deficit	(17,192,862)	(8,687,731)
Currency translation reserve	(46,200)	162,530
<b>Total shareholders' equity (deficiency)</b>	<b>(596,449)</b>	<b>533,544</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>	<b>719,308</b>	<b>4,346,486</b>

Going concern (note 1)

Significant contracts and commitments (note 20)

Subsequent events (note 22)

Approved for issuance by the Board on April 24, 2019

"Larry E. Fondren", Director

"Keith Ainsworth", Director

*The accompanying notes are an integral part of these consolidated financial statements.*

# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Inc.)

## Consolidated Statements of Loss and Comprehensive Loss

(expressed in Canadian dollars-except weighted average number of common shares outstanding)

Year ended	December 31, 2018	December 31, 2017
	\$	\$
<b>Revenue</b>		
Other income	-	12,057
<b>Expenses (gains)</b>		
Administration (note 16)	1,369,470	182,565
Amortization of intangible asset (note 13)	9,536	9,539
Depreciation (note 12)	26,400	878
Foreign exchange gains	(168,456)	-
Legal and regulatory (note 16)	2,494,441	48,248
Listing fees (note 18)	1,359,804	-
Interest and bank charges	12,765	177,479
Investor relations and public reporting	364,199	-
Marketing and sales (note 16)	686,742	43,396
Research and development (notes 16 and 17)	1,706,448	367,989
Share-based compensation (notes 10)	637,605	1,269,971
Loss on disposal of equipment	6,177	-
<b>Total expenses</b>	<b>8,505,131</b>	<b>2,100,065</b>
<b>Loss</b>	<b>(8,505,131)</b>	<b>(2,088,008)</b>
<b>Other comprehensive income (loss)</b>		
Currency translation differences	(208,730)	193,656
	(208,730)	193,656
<b>Comprehensive loss for the year</b>	<b>(8,713,861)</b>	<b>(1,894,352)</b>
<b>Basic and fully-diluted loss per share</b>	<b>(0.12)</b>	<b>(0.04)</b>
<b>Weighted average number of common shares outstanding</b>	<b>73,375,156</b>	<b>47,660,879</b>

The accompanying notes are an integral part of these consolidated financial statements.

# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Inc.)

## Consolidated Statements of Changes in Equity (Deficiency)

(expressed in Canadian dollars)

	Capital stock		Warrants	Contributed surplus	Currency translation reserve	Deficit	Total
	Number of shares	Amount					
		\$	\$	\$	\$	\$	\$
Balance at December 31, 2016	43,924,806	4,246,755	-	-	(31,126)	(6,599,723)	(2,384,094)
Shares issued for cash	2,857,571	1,000,134	-	-	-	-	1,000,134
Shares and warrants issued for debt	4,911,288	1,550,886	44,308	-	-	-	1,595,194
Share-based compensation	8,078,155	2,216,662	-	-	-	-	2,216,662
Loss and comprehensive loss for the year	-	-	-	-	193,656	(2,088,008)	(1,894,352)
Balance at December 31, 2017	59,771,820	9,014,437	44,308	-	162,530	(8,687,731)	533,544
<b>Shares issued for cash</b>	<b>4,275,571</b>	<b>1,838,436</b>	-	-	-	-	<b>1,838,436</b>
<b>Fair value of finders' warrants</b>	-	<b>(179,060)</b>	<b>179,060</b>	-	-	-	-
<b>Shares issued to Seaside shareholders</b>	<b>4,052,570</b>	<b>1,418,400</b>	-	-	-	-	<b>1,418,400</b>
<b>Shares issued pursuant to subscription receipts</b>	<b>11,453,000</b>	<b>4,008,550</b>	-	-	-	-	<b>4,008,550</b>
<b>Fair value of warrants</b>	-	<b>(225,124)</b>	<b>225,124</b>	-	-	-	-
<b>Costs of issuance</b>	-	<b>(553,468)</b>	-	-	-	-	<b>(553,468)</b>
<b>Shares issued on the exercise of options</b>	<b>300,000</b>	<b>30,000</b>	-	-	-	-	<b>30,000</b>
<b>Fair value of exercised options</b>	-	<b>86,100</b>	-	<b>(86,100)</b>	-	-	-
<b>Options issued to Seaside option holders</b>	-	-	-	<b>114,800</b>	-	-	<b>114,800</b>
<b>Shares issued on the exercise of warrants</b>	<b>240,415</b>	<b>61,398</b>	-	-	-	-	<b>61,398</b>
<b>Fair value of exercised warrants</b>	-	<b>54,680</b>	<b>(54,680)</b>	-	-	-	-
<b>Warrants issued to Seaside warrant holders</b>	-	-	<b>28,147</b>	-	-	-	<b>28,147</b>
<b>Share-based compensation</b>	<b>620,000</b>	<b>275,829</b>	-	<b>361,776</b>	-	-	<b>637,605</b>
<b>Loss and comprehensive loss for the year</b>	-	-	-	-	<b>(208,730)</b>	<b>(8,505,131)</b>	<b>(8,713,861)</b>
Balance at December 31, 2018	80,713,376	15,830,178	421,959	390,476	(46,200)	(17,192,862)	(596,449)

The accompanying notes are an integral part of these consolidated financial statements.



# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Inc.)

## Consolidated Statements of Cash Flows

(expressed in Canadian dollars)

Year ended	December 31, 2018	December 31, 2017
	\$	\$
<b>Operating activities</b>		
Net loss	(8,505,131)	(2,088,008)
Non-cash items:		
Amortization and depreciation	35,936	10,417
Non-cash interest (income) expense	(1,660)	136,820
Listing fees (note 18)	1,359,804	-
Share-based compensation	637,605	1,269,971
Loss on disposal of equipment	6,177	-
Bargain price gain included in other income	-	(12,057)
Net change in non-cash working capital:		
Harmonized sales taxes recoverable	(91,089)	-
Deposits and prepaid expenses	(55,533)	(13,060)
Accounts payable and accrued liabilities	1,035,021	26,246
Funds held in escrow	3,771,473	(3,771,473)
<b>Cash used for operating activities</b>	<b>(1,807,397)</b>	<b>(4,441,144)</b>
<b>Investing activities</b>		
Purchase of property and equipment	(201,772)	-
Purchase of intangible assets	-	(18,489)
Increase in restricted cash	(27,500)	-
Cash acquired on completion of RTO (note 18)	186,543	-
<b>Cash used for investing activities</b>	<b>(42,729)</b>	<b>(18,489)</b>
<b>Financing activities</b>		
Advances to related parties (note 10)	(50,000)	-
Advances from related parties (note 10)	238,090	-
Exercise of options	30,000	-
Exercise of warrants	61,398	-
Issuance of common shares (net of issuance costs)	1,672,994	1,000,132
Issuance of subscription receipts (net of issuance costs)	-	3,770,296
Cost of issuance of subscription receipts	(139,772)	-
Currency translation effects	(208,731)	120,355
<b>Cash provided from financing activities</b>	<b>1,603,979</b>	<b>4,890,783</b>
<b>Increase (decrease) in cash for the year</b>	<b>(246,147)</b>	<b>431,150</b>
Cash, beginning of the year	433,781	2,631
<b>Cash, end of the year</b>	<b>187,634</b>	<b>433,781</b>
<b>Non-cash financing activities:</b>		
Interest advanced to related parties	1,660	-

The accompanying notes are an integral part of these consolidated financial statements.

# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Corp.)

December 31, 2018 and 2017

## Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

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### 1. General information and going concern

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 of Seaside. Details of the QT are disclosed in note 18. 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 reverse takeover accounting acquirer).

The principal address of the Company is 137 Glasgow St., Unit 445, Kitchener, Ontario, N2G 4X8. DelphX’s principal business activity is to develop and operate a global facility for transparent offering, purchase, sale, collection and storage of certain fixed income securities and derivatives, and to manage data, research, analytics and valuations of such instruments.

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

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### 2. Basis of preparation

#### 2.1 Statement of compliance

The Consolidated Financial Statements including comparatives have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (the “**IASB**”) and the interpretations of the International Financial Reporting Interpretations Committee (“**IFRIC**”).

Certain comparative amounts have been reclassified to conform with current reporting classifications. These reallocations are limited to regrouping of expenses in the statement of loss and comprehensive loss for consistency with categories presented in the current year and have not affected previously-reported loss and comprehensive loss.

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# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Corp.)

December 31, 2018 and 2017

## Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

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The Consolidated Financial Statements were approved and authorized for issuance by the Board on April 24, 2019.

### 2.2 Basis of presentation and measurement

The Consolidated Financial Statements have been prepared on a historical cost basis, except for financial instruments that are measured on amortized cost or fair value. The Company's functional currency is the US dollar, which is the currency of the primary economic environment in which it operates. For financial reporting purposes the Company has selected the Canadian dollar as its presentation currency. The assets and liabilities in the Consolidated Financial Statements are translated into Canadian dollars for reporting purposes using exchange rate of the reporting date. The revenues and expenses are translated using the average exchange rates over the period of reporting, approximating the rates of exchange on the transaction dates. The equity translation is kept at historical rates. Foreign exchange differences arising on the translation from the functional currency to the presentation currency are recognized separately in other comprehensive income and are carried to the currency translation reserve account.

The preparation of the Consolidated Financial Statements in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The Company's significant accounting policies are disclosed in note 4.

### 2.3 Basis of consolidation

The Consolidated Financial Statements 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 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); Quantem Capital Corporation (incorporated on April 11, 2018, pursuant to the laws of Bermuda) (inactive), DelphX Corporation (incorporated on February 18, 2016, pursuant to the laws Delaware, USA). The Consolidated Financial Statements include the financial position, results of operations and cash flows of its subsidiaries subsequent to acquisition or formation.

A subsidiary is an entity over which the Company has control, whereby control is defined as the power to direct activities of an entity that significantly affect the entity's returns so as to obtain benefit from its activities. Control is presumed to exist where the Company has ownership of more than one-half of the voting rights in its subsidiaries. The effect of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is acquired or transferred to the Company and de-consolidated from the date at which the control ceases.

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### 3. Adoption of new standards

#### *Impact of initial application of IFRS 9, Financial Instruments*

On January 1, 2018 the Company adopted IFRS 9, Financial Instruments ("IFRS 9") and the related consequential amendments to other IFRS standards that are effective for annual periods beginning on or

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# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Corp.)

December 31, 2018 and 2017

## Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

after January 1, 2018. The transition provisions of IFRS 9 allow an entity to apply the new standard on a prospective basis without any adjustments to comparative figures. Accordingly, the Company has decided not to restate its comparative figures, which are presented under IAS 39, Financial Instruments: recognition and measurement ("IAS 39").

IFRS 9 introduced new requirements for:

- Classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

The date of initial application of IFRS 9 is January 1, 2018. Accordingly, the Company has applied the requirements of IFRS 9 to financial instruments that continue to be recognized as at January 1, 2018.

The impact of these new requirements on the Company's financial statements are described below.

### Classification

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The following table summarizes the classification of Company's financial instruments under both standards:

	IAS 39	IFRS 9
Cash	FVTPL	FVTPL
Restricted cash	FVTPL	FVTPL
Due from related parties	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost
Funds held in escrow	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost
Subscription receipts	Other financial liabilities	Amortized cost

The above changes in classification of Company's financial instruments had no impact on the carrying amounts of the financial instruments.

### Measurement

Due to the nature of the Company's financial instruments, the adoption of IFRS 9 had no impact on the opening retained earning balance as at January 1, 2018. The Company continues to measure accounts payable and accrued liabilities, due to related parties and subscription receipts at amortized cost.

# DelphX Capital Markets Inc.

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December 31, 2018 and 2017

## Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

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### Impairment

The Company does not have any accounts receivable, as such the new requirement of IFRS 9 as it relates to expected credit losses has no impact on the Company's financial statements.

### General hedge accounting

The Company does not use hedge accounting, as such the new requirement of IFRS 9 as it relates to hedge accounting has no impact on the Company's financial statements.

### *Impact of initial application of IFRS 15, Revenue from contracts with customers*

On January 1, 2018, the Company adopted IFRS 15, Revenue from contracts with customers ("IFRS 15"). IFRS 15 provides a single, principles-based, five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company currently has no revenue streams. Therefore, there was no material impact on timing and amount recognized in revenues as a result of adoption of IFRS 15.

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## 4. Summary of significant accounting policies

### Property and equipment

Property and equipment is recorded at cost less accumulated depreciation. Cost includes all expenditures incurred to bring the assets to the location and condition necessary for them to be operated in the manner intended by management.

Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

Property and equipment are depreciated at the following rates and methods:

Equipment	Straight-line over 5 years
Leasehold improvements	Straight-line over 5 years

# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Corp.)

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## Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

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### Intangible assets

Intangible assets are comprised of patents which are amortized on a straight-line basis over 17 years and are reviewed for impairment whenever facts and circumstances indicate that their carrying values may not be fully recoverable. The Company evaluates the recoverability of the infinite-lived intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable.

### Related party transactions

A party is related to an entity if the party directly or indirectly controls, is controlled by or is under common control with the entity; or if it has an interest in the entity that gives it significant influence over the entity; or if it has joint control over the entity or is an associate or a joint venture of the entity. In addition, members and dependents of the key management personnel of the entity (Board of Directors and Executive Management) are also considered related parties.

### Share-based payments

Equity-settled share-based payments of options and warrants to employees and others providing similar services are measured at the fair value of the equity instruments at the grant-date using the Black-Scholes option pricing model. The fair value is estimated at grant-date and each tranche is recognized on a graded-vesting basis over the period the securities vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in comprehensive loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to warrant reserve. Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

### Share issuance costs

Share issuance costs attributable to the raising of capital are charged against the related capital.

### Warrants

When the Company issues units that are comprised of a combination of shares and warrants, the Company allocates the proceeds received on the issuance of units between the common shares and warrants using the relative fair value method. The fair value of the warrants is determined using the Black Scholes Option Pricing Model on the date the units are issued. Cash received on exercise of warrants is credited to share capital along with any share warrant reserve amounts previously recorded that are applicable to the warrants exercised.

### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

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Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

### Equity

The common shares, warrants and options are classified as equity. Costs, such as commissions, professional fees and regulatory fees directly attributable to common shares that are issued, are deducted from the proceeds of the offering. Share capital issued for other than cash is valued at the price at which the stock trades at the time the risks and rewards of ownership of the asset are transferred to the Company or the Company's liability is extinguished. Contributed surplus includes the value of share-based payments. Accumulated deficits include all current and prior period retained losses.

### Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

### Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, and the liability is settled.

The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

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### Tax estimate

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

### Basic earnings per share

The basic earnings (loss) per share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The “treasury stock method” is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year.

### Revenue recognition

The Company has adopted IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) on a full retrospective basis. Under the full retrospective method, the provision of IFRS 15 are applied to each period presented in the consolidated financial statements, in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”), subject to certain practical expedients that are outlined in IFRS 15. As the Company does not currently generate any revenues, there is no impact on the consolidated financial statements of the Company with the adoption of this standard

### Financial Instruments

Financial assets and financial liabilities are recognized in the Company’s statements of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Except for financial assets and financial liabilities at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, upon initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

#### Financial assets

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets. The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets are classified in one of the three categories: (i) amortized cost; (ii) FVTOCI; or (iii) FVTPL.



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(i) Amortized cost -

Financial assets that are debt instruments and are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are measured at amortized cost at each subsequent reporting period. The Company classifies accounts receivable and deposits as financial assets that are subsequently measured at amortized cost.

(ii) FVTOCI -

Financial assets that are debt instruments and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, and that have contractual cash flows that are solely payments of principal and interest ("SPPI") on the principal outstanding, are measured at FVTOCI. Currently, the company does not have any FVTOCI financial assets. In addition, the Company may, at initial recognition, make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity instrument is held for trading.

(iii) FVTPL -

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured subsequently at FVTPL. Trading financial instruments are mandatorily measured at FVTPL as they are held for trading purposes or are part of a business model with a pattern of short-term profit taking. Non-trading financial assets are also mandatorily measured at FVTPL if their contractual cash flow characteristics do not meet the SPPI test or if they are managed together with other financial instruments on a fair value basis. In addition, the Company may, at initial recognition, make an irrevocable election to designate a financial asset as FVTPL. A financial asset is designated as FVTPL when such classification eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring the financial asset on different basis. Gains and losses realized on disposition and unrealized gains and losses from changes in fair value of the financial assets are recognized in the statement of income. Currently, the Company classifies cash and restricted cash as FVTPL financial assets.

### *Impairment of financial assets*

The Company recognizes a loss allowance for ECL on accounts receivables that are measured at amortized cost. The Company applies the simplified approach for accounts receivables and recognizes the lifetime ECL for these assets. The ECL on accounts receivables is estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the customers, general economic conditions and an assessment of both the current as well as the forecasted direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial assets measured at amortized cost or FVTOCI, the Company recognizes lifetime ECL only when there has been a significant increase in credit risk since initial recognition. If the credit risk on such financial instruments has not increased significantly since initial recognition, the Company measures the loss allowance on those financial instruments at an amount equal to 12-months ECL.

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Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial asset. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial asset that are possible within 12 months after the reporting date.

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Company compares the risk of default occurring on the financial asset at the reporting date with the risk of default occurring at the initial recognition. The Company considers both quantitative and qualitative factors that are supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Irrespective of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise. Despite the foregoing, the Company presumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

### *Definition of default*

For internal credit risk management purposes, the Company considers a financial asset not recoverable if the customer balance owing is 180 days past due and information obtained from the customer and other external factors indicate that the customer is unlikely to pay its creditors in full.

Credit impaired financial assets:

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- (a) significant financial difficulty of the issuer or the counter-party;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

### *Write-off policy*

The Company writes off and derecognizes a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

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### *Derecognition of financial assets*

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Company has designated on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

### *Financial liabilities*

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL. A financial liability is classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near term or on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking, or it is a derivative financial liability.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial liabilities classified or designated at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss. However, for financial liabilities that are designated as FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the issuer is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

The Company classifies accounts payable and accrued liabilities and due to related parties at amortized cost.

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### *Derecognition of financial liabilities*

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

### **Impairment of non-financial assets**

At each date of the consolidated statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets, including equipment and leasehold improvements, to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are considered. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount.

An impairment loss is recognized immediately in the consolidated statement of loss and comprehensive loss, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

### **Critical accounting estimates and judgements**

Application of accounting policies requires management to use estimates and judgments that can have significant effect on the revenues, expenses, comprehensive income, assets and liabilities recognized and disclosures made in the consolidated financial statements.

Management's best estimates concerning the future are based on the facts and circumstances available at the time estimates are made.

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Management uses historical experience, general economic conditions and assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically, and the effects of any changes are recognized immediately. Actual results could differ from the estimates used.

The following areas require management's significant accounting estimates and judgments:

### Significant accounting estimates

- i. The assessment of indications of impairment of intangible assets.
- ii. The valuation of share-based payments, options and warrants reserves.

### Significant accounting judgments

- i. Determination of categories of financial assets and financial liabilities.
- ii. The evaluation of the Company's ability to continue as a going concern.
- iii. Determination of the value of current and deferred income taxes.

## Segment reporting

Segment reporting is based on the operating (business) segments of the Company. An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the Company's other components. An operating segment's operating results are reviewed regularly by the chief executive officer to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the chief executive officer include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Those incomes, expenses, assets, liabilities and other balances which cannot be allocated to a particular segment on a reasonable basis are reported as unallocated. Currently, the Company has only one reportable operating segment that constitutes its business. It also has two geographic segments being the USA and Canada (note 18).

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## 5. Pending accounting pronouncements

At the date of the consolidated financial statements, the IASB and IFRIC have issued the following revised standards, some of which are not yet effective for the relevant reporting periods and for which the Company has not early adopted. For those not yet adopted, the Company is assessing what impact the application of the standard or amendment will have on the consolidated financial statements of the Company.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined. The Company has not yet adopted this standard and is currently assessing the impact on its consolidated financial statements.

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IFRS 16 - Leases ("IFRS 16"). IFRS 16 is to replace IAS 17, Leases and eliminates the classification of leases as either operating or finance leases by the lessee. Classification of leases by the lessor under IFRS 16 continues as either an operating or a finance lease, as was the treatment under IAS 17, Leases. The treatment of leases by the lessee will require capitalization of all leases resulting in accounting treatment similar to finance leases under IAS 17, Leases. Exemptions for leases of very low value or short-term leases will be applicable. The new standard will result in an increase in lease assets and liabilities for the lessee. Under the new standard the treatment of all lease expense is aligned in the statement of loss and comprehensive loss with depreciation, and an interest expense component recognized for each lease, in line with finance lease accounting under IAS 17, Leases. IFRS 16 will be effective for the Company prospectively for annual periods beginning on or after January 1, 2019. The Company has not yet adopted this standard and is currently assessing the impact on its consolidated financial statements.

IFRIC 23 – Uncertainty Over Income Tax Treatments ("IFRIC 23") was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted. The Company has not yet adopted this standard and is currently assessing the impact on its consolidated financial statements.

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### 6. Capital management

The Company's main objective in managing capital is to ensure sufficient liquidity to pursue and fund product development, production and promotion. Secondly, the Company strives to continue to fund research and development and pursue its growth strategy, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is considered to be its shareholders' equity. The Company's primary uses of capital are financing operations, including the completion and roll-out of its ATS, increasing non-cash working capital and capital expenditures. The Company currently funds these requirements from existing cash resources and/or cash raised through the issuance of common shares. The Company's objectives when managing capital is to ensure the Company will continue to have enough liquidity so that it can provide its products and services to its customers and returns to its shareholders. The Company monitors its capital on the basis of the adequacy of its cash resources to fund its business plan. In order to maximize the capacity to finance the Company's ongoing growth, the Company does not currently pay a dividend to holders of its common shares.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2018. The Company is not subject to externally imposed capital restrictions.

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### 7. Financial instruments and risk management

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

	2018	2017
	\$	\$
Financial assets		
Cash	187,634	433,781
Restricted cash	27,500	-
Deposits	11,507	-
Due from related parties	51,660	-
Funds held in escrow	-	3,771,473
	<b>278,301</b>	<b>4,205,254</b>
Financial liabilities		
Accounts payable and accrued liabilities	1,077,667	42,646
Due to related parties	238,090	-
Subscriptions receipts	-	3,770,296
	<b>1,268,309</b>	<b>3,812,942</b>

The carrying and fair values of these financial instruments are approximately equivalent because of the short-term nature of these instruments.

#### Basis of fair values

Assets and liabilities recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company treats its cash and restricted cash as Level 1 financial assets and does not have any Level 2 or Level 3 financial assets or liabilities.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no significant transfers between levels during the year.

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### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As at December 31, 2018, the Company had \$1,315,757 (2017 - \$3,812,942) of liabilities with a maturity of one year or less and a working capital deficiency of \$884,279 (2017 – working capital of \$405,373). The Company manages its liquidity risk by reviewing its growth plans on an ongoing basis.

### Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

### Currency risk

The Company's functional currency is the US dollar. The Company also conducts business in Canadian dollars. Financial assets and liabilities denominated in foreign currencies will be affected by changes in the exchange rate between the functional currency and any foreign currencies. The assets and liabilities primarily affected are cash, accounts payable and accrued liabilities and due to related parties that are denominated in foreign currencies. The Company has recognized currency exchange activity during the year ended December 31, 2018, of a gain of \$168,456 (2017 - \$nil).

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

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

As at December 31, 2018, the Company's exposure to foreign currency balances is as follows:

Account	Foreign currency	Exposure (\$Cdn)	
		December 31, 2018	December 31, 2017
Cash	US dollar	98,324	262,736
Accounts payable and accrued liabilities	US dollar	(933,605)	(42,646)
		(835,281)	220,090

The Company believes that a change of 10% in foreign exchange rates would increase/decrease net income for the year by approximately \$83,528 (2017 – \$22,000).

The Company is not currently exposed to any significant credit risk and other price risk.

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### 8. Cash and restricted cash

The Company's cash is held at well established, Tier A Canadian and US banks.



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Restricted cash has been invested in a guaranteed investment certificate with a maturity of May 16, 2019, at a rate of 1.7% per annum. The funds have been segregated and restricted as they collateralize the credit made available to the Company on bank credit cards issued to it.

### 9. Deposits and prepaid expenses

Deposits and prepaid expenses represent costs expended by the Company for which it has not yet received value. As at December 31, 2018 and 2017, the deposits and prepaid expenses of the Company are detailed as follows:

	December 31, 2018	December 31, 2017
	\$	\$
Office rent deposits	20,956	13,061
Insurance	44,559	-
Investor relations	8,080	-
	73,595	13,061

### 10. Related-party transactions and balances

#### Due from related party

As at December 31, 2018, amounts due to the Company comprise a secured loan in the amount of \$50,000 plus accrued interest of \$1,660, equal to \$51,660 provided to its Chief Financial Officer (2017 - \$nil). The maturity of the loan has been extended to December 31, 2019, and interest accrues at the rate of 6% per annum. Both principal and accrued interest are payable on or before the maturity date and the loan is secured by a promissory note from the borrower. As further security to the Company, the borrower agreed not to sell, pledge or otherwise encumber, 62,000 of the Company's common shares owned by him, until the full amount of the loan was repaid (including applicable interest). The borrower has also agreed to surrender the shares to the Company upon its request to do so.

As at December 31, 2018, \$1,660 (2017 - \$nil) of accrued interest income is included in the consolidated statements of loss and comprehensive loss.

#### Due to related parties

As at December 31, 2018, amounts due to related parties include \$238,090 (2017 - \$nil), comprising salary and consulting charges due to senior officers of the Company.

#### Key management compensation

Key management includes those individuals having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management includes the directors,

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named executive officers, being the chief executive officer and the chief financial officer, each of the Company's 3 remaining C-suite officers and 2 managing directors. Related-party compensation paid or payable to key management is detailed below:

Year ended	December 31, 2018	December 31, 2017
	\$	\$
Compensation to key management	1,308,034	109,700
Share-based compensation	440,962	14,770

The consolidated financial statements include balances and transactions with directors and/or officers of the Company and/or corporations related to or controlled by them. These transactions are measured and recorded at an arm's-length basis, being the amounts agreed to by the related parties.

### 11. Funds held in escrow and subscription receipts

On December 12, 2017, DelphX entered into a binding share exchange agreement with Seaside. To secure the funding required to consummate the QT and secure approval by the TSXV, the Company completed a private placement of 11,453,000 subscription receipts, at a price of \$0.35 per receipt, for aggregate gross proceeds to the Company of \$4,008,550. The financing consisted of 11,410,000 brokered subscription receipts and 43,000 non-brokered subscription receipts. Commissions expense of \$139,773 and broker out-of-pocket costs of \$98,481 were offset against the gross proceeds and the net amount of \$3,770,296 was recognized as subscription receipts liability.

The net cash proceeds of \$3,770,296 plus interest thereon of \$1,177 was held by an escrow agent under the subscription receipts agreements, in a restricted account until the completion of the QT.

### 12. Property and equipment

	Computer equipment	Leasehold improvements	Total
	\$	\$	\$
<b>Cost</b>			
Balance, January 1, 2017	2,373	-	2,373
Additions for the year	-	-	-
Balance, December 31, 2017	2,373	-	2,373
<b>Additions for the year</b>	<b>4,903</b>	<b>196,869</b>	<b>201,772</b>
<b>Disposed during the year</b>	<b>(7,276)</b>	<b>-</b>	<b>(7,276)</b>
<b>Balance, December 31, 2018</b>	<b>-</b>	<b>196,869</b>	<b>196,869</b>

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<b>Accumulated depreciation</b>			
Balance, January 1, 2017	(221)	-	(221)
Depreciation for year	(878)	-	(878)
Balance, December 31, 2017	(1,099)	-	(1,099)
<b>Depreciation for the year</b>	-	<b>(26,400)</b>	<b>(26,400)</b>
<b>Disposed during the year</b>	<b>1,099</b>	-	<b>1,099</b>
<b>Balance, December 31, 2018</b>	-	<b>(26,400)</b>	<b>(26,400)</b>
<hr/>			
Net book value, December 31, 2017	1,274	-	1,274
<b>Net book value, December 31, 2018</b>	-	<b>170,469</b>	<b>170,469</b>

### 13. Intangible asset

	2018	2017
	\$	\$
Patents - cost	157,058	157,058
Accumulated amortization		
Balance at beginning of year	(30,161)	(20,622)
Amortization for the year	(9,536)	(9,539)
	<b>(39,697)</b>	<b>(30,161)</b>
Net book value	<b>117,361</b>	126,897

### 14. Accounts payable and accrued liabilities

Accounts payable of the Company are principally comprised of amounts outstanding for trade purchases and financing activities. The usual credit period taken for trade purchases is between 30 and 60 days.

The following is an analysis of the Company's accounts payable and its accrued liabilities:

	December 31, 2018	December 31, 2017
	\$	\$
Administration	157,840	16,000
Investor relations and public reporting	98,439	-
Legal and regulatory	760,015	8,793
Marketing and sales	-	8,793
Research and development	61,373	9,060

# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Corp.)

December 31, 2018 and 2017

## Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

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<b>Total accounts payable and accrued liabilities</b>	<b>1,077,667</b>	<b>42,646</b>
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### 15. Capital stock

#### Authorized

DelphX's authorized share capital consists of an unlimited number of common shares at no par value.

#### Issued and outstanding

##### 2018:

- (i) In October 2018, the Company issued 2,280,000 common shares, raising proceeds of \$1,140,000. Pursuant to this issuance, the Company also issued 1,140,000 warrants to purchase 1,140,000 common shares at \$0.70 each for a period of 2 years after closing. The fair value of the issued warrants of \$225,124, was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.88%, term of 2 years, exercise price of \$0.70, volatility of 95% and share price of \$0.48. The Company also paid 7% cash commissions totalling \$86,910 and issued 159,600 finders' warrants, entitling the holders to exercise same at \$0.70 each for a period of 2 years after issuance. The fair value of the finders' warrants of \$21,085, was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.88%, term of 2 years, exercise price of \$0.70, volatility of 95% and share price of \$0.48. The fair value of the finders' warrants was allocated to common shares and warrants on a 2:1 basis.
- (ii) In August 2018, 132,253 common shares were issued with the exercise of an equal number of finder warrants. The exercise raised \$46,229 proceeds and resulted in a fair value transfer of \$27,306 from warrants to share capital.
- (iii) In June 2018, 108,162 common shares were issued with the exercise of an equal number of finder warrants. The exercise raised \$15,169 of proceeds and resulted in a fair value transfer of \$27,374 from warrants to share capital.
- (iv) In May 2018, 300,000 common shares were issued with the exercise of an equal number of options. The exercise raised \$30,000 of proceeds and resulted in a fair value transfer of \$86,100 from contributed surplus to share capital.
- (v) In April 2018, 852,714 common shares were issued at \$0.35 each, raising proceeds of \$298,450. Also, in April 2018, the Company completed the QT (note 18) resulting in the issuance of 4,052,570 common shares with a deemed value of \$1,418,400, to the Seaside shareholders. Contemporaneous with the issuance to Seaside shareholders, the Company closed a subscription receipts financing whereby 11,453,000 common shares were exchanged for an equal number of subscription receipts with a gross value of \$4,008,550. Costs of this financing amounted to \$553,469, with such amount recorded as a reduction to share capital. The Company also issued 798,700 finders' warrants with a fair value of \$165,003, such amount recorded as a reduction to

# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Corp.)

December 31, 2018 and 2017

## Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

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share capital and increase to warrants. The fair value of the finders' warrants was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free rate of 1.8%, term of 1.6 years (expiring on December 22, 2019), volatility of 126.28% and a share price of \$0.35.

- (vi) In February 2018, the Company issued 620,000 common shares at a grant-price of US\$0.00001 each, under a restricted stock-grant agreement to the Company's CFO. The Company holds a buy-back option of these shares from the holder at the same price as issuance. The buy-back option right will be released over the period of 4 years on a 25% basis at each anniversary date. The common shares have a grant-date fair value of \$190,456, subject to the repurchase option. The vested value of \$95,944 has been recorded to share capital during the year ended December 31, 2018. The fair value was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free rate of 2.07%, term of 4 years and a volatility of 113.53%.
- (vii) In January 2018, 1,142,857 common shares were issued at \$0.35 each, raising proceeds of \$399,986.
- (viii) In addition to the amounts vesting from 620,000 shares (note 15 (vi)), an additional \$61,074 has been recorded for the further vesting of the 760,000 shares (note 15 (xiii)) and \$118,762 has been recorded for the further vesting of the 700,000 shares (note 15 (xiv)).

### 2017:

- (ix) On November 28, 2017, the Company issued 200,000 units (each a "Unit") to a service provider in settlement of debt with a fair value of \$70,000. Each Unit consisted of 1 common share and 1 warrant (each a "Warrant"). Each Warrant has an exercise price of \$0.35 and expires on November 28, 2019. The fair value of the issued warrants of \$44,308, was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.31%, term of 2 years and a volatility of a comparable listed entity.
- (x) On November 22, 2017, the Company completed a private placement of 2,857,571 common shares at a price of \$0.35 per share, generating gross proceeds of \$1,000,134.
- (xi) On October 6, 2017, the Company completed a 31-for-1 split of its common shares.
- (xii) On September 25, 2017, the Company issued 4,711,287 (post-split) common shares to convert shareholders' outstanding loan and interest thereon with a fair value of \$1,480,885.
- (xiii) Also, on September 25, 2017, the Company issued 7,378,155 (post-split) common shares with a fair value of \$2,201,892 to its employees and to certain service providers against their compensation rights for the period from February 18, 2016 to October 31, 2017, at a grant price of US\$0.00001 per share with certain restriction regarding sale or transfer. Out of this, 760,000 common shares were issued to 3 employees and are subject to a buy-back option at the same grant price, which will be released over a period of 4 years.
- (xiv) On September 27, 2017, under a restricted stock grant agreement, the Company issued 700,000 (post-split) common shares to one of its key executives as a signing bonus at a grant price of US\$0.00001 per share. The Company holds a buyback option of these shares from the holder at

# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Corp.)

December 31, 2018 and 2017

## Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

the same price as granted. The buy-back option right will be released over the period of 4 years on a 25% basis on each anniversary date. The common shares have a grant-date fair value of \$217,214, subject to the repurchase option. The 2017 vested value of \$14,770 has been recorded to share capital during the last quarter of 2017. The fair value was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free rate of 1.31%, term of 4 years and a volatility of 126.28%.

### Escrowed securities

Subject to the policies of the TSXV, the following table summarizes the remaining common shares of the Company that are subject to escrow provisions together with the date of general release.

Total	Release date				
	April 27, 2019	October 27, 2019	April 27, 2020	October 27, 2020	April 27, 2021
40,677,752	8,135,546	8,135,546	8,135,546	8,135,546	8,135,568

### Warrants

The outstanding issued warrants balance as at December 31, 2018 is comprised of the following items:

Date of expiry	Type	Number of warrants	Exercise price	Fair value
			\$	\$
November 28, 2019	Warrants	200,000	0.35	44,308
October 15, 2020	Warrants	1,100,000	0.70	217,982
October 23, 2020	Warrants	40,000	0.70	7,142
December 22, 2019	Finder warrants	649,275	0.35	134,134
April 25, 2020	Finder warrants	16,440	0.10	4,336
October 16, 2020	Finder warrants	159,600	0.70	21,085
Cost of issuances allocated to warrants		-	-	(7,028)
		2,165,315		421,959

### Contributed surplus

DelphX has a stock option plan pursuant to which options to purchase common shares of the Company may be granted to certain officers, directors, employees and consultants of the Company. The plan allows for the issuance of options up to 10% of the issued and outstanding common shares. As at December 31, 2018, the Company had 5,342,337 options available for issuance. A continuity of the unexercised options to purchase common shares is as follows:

# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Corp.)

December 31, 2018 and 2017

## Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

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	Exercise price	Number of options
	\$	\$
Balance at January 1, 2018	-	-
Issued to Seaside option holders on close of QT	0.10	400,000
Issued to DelphX participants	0.70	2,629,000
Exercised by former Seaside option holders	0.10	(300,000)
Outstanding at December 31, 2018	0.67	2,729,000
Exercisable at December 31, 2018	0.36	177,000

---

The table below provides additional information regarding the outstanding options:

Number outstanding	Number exercisable	Exercise price	Expiry date	Vested Fair value
		\$		
100,000	100,000	0.10	April 25, 2019	28,700
2,629,000	77,000	0.70	September 7, 2023	361,776
2,729,000	177,000			390,476

---

The grant-date fair value of \$1,282,952 for the 2,629,000 issued options was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 2.21%, volatility of 102.02%, maturity of 5 years; dividend yield of nil% and an underlying stock price of \$0.65.

### Share-based payments

The fair value of the common shares (notes 15 (vi), 15 (xiii) and 15 (xiv)) vested for the year ended December 31, 2018 is \$95,994 (2017 – \$nil), \$61,074 (2017 - \$nil) and \$118,762 (2017 - \$14,770), respectively, with such amounts having been expensed in the consolidated statements of loss and comprehensive loss and off-set to share capital.

The vested portion of the 2,729,000 options issued during the year ended December 31, 2018 of \$361,776 (2017 - \$nil), has been expensed on the consolidated statements of loss and comprehensive loss.

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### 16. Compensation

The expense categories listed below, each contain the disclosed amount of all compensation opposite the category:

# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Corp.)

December 31, 2018 and 2017

## Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

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Year ended	December 31, 2018	December 31, 2017
	\$	\$
<b>Expense category</b>		
Administration	310,905	19,310
Legal and regulatory	477,817	48,248
Marketing and sales	686,742	43,396
Research and development	1,210,127	95,171
	<b>2,685,591</b>	206,125

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### 17. Research and development costs

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Year ended	December 31, 2018	December 31, 2017
	\$	\$
ATS development	496,320	272,818
Compensation	1,210,128	95,171
	<b>1,706,448</b>	367,989

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### 18. Transaction with Seaside (QT)

The Company completed the QT on April 25, 2018. The transaction constitutes a reverse-takeover of Seaside but does not meet the definition of a business combination, and therefore *IFRS 3 Business Combinations* is not applicable. As a result, and in accordance with reverse take-over accounting for a transaction that is **not** considered a business combination:

- a) Seaside is treated as the acquiree and DelphX is treated as the acquirer and therefore, the go-forward entity is deemed to be a continuation of DelphX and DelphX is deemed to have acquired control of the assets and business of Seaside in the consideration of the issuance of capital, options and warrants, as applicable.

For accounting purposes, DelphX is deemed to have issued the following securities in exchange for the net assets of Seaside:

**The fair value of the consideration issued for the net assets of Seaside is as follows:**

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	\$
4,052,570 common shares valued at \$0.35 per share	1,418,400
400,000 Options (note 18 (a)(i))	114,800
107,430 Agent Options (note 18 (a) (ii))	28,147
	<b>1,561,347</b>

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# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Corp.)

December 31, 2018 and 2017

## Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

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### Allocated to Seaside's net assets:

	\$
Cash	186,543
Prepaid	15,000
Net assets	201,543
Listing fees	1,359,804
	<b>1,561,347</b>

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- i) The fair value of the options was calculated by Seaside at the time of the QT using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.65%, volatility of 75%, share price of \$0.35 and dividends of nil%.
- ii) The fair value of the Agent Options was calculated by Seaside at the time of the QT using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.88%, volatility of 75%, share price of \$0.35 and dividends of nil%.
- b) Seaside's share capital (net of issuance costs) and contributed surplus are eliminated by a charge to retained earnings.
- c) The assets and liabilities of Seaside are included in the consolidated statements of financial position at their historical carrying values, which approximates their fair values. The assets and liabilities of DelphX are included in the consolidated financial statements of financial position at their historical cost basis, except for financial instruments that are measured on amortized cost or fair value.

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## 19. Segmented information

### Operating segments

As at December 31, 2018, the Company has a single operating segment being its principal business activity 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 date, research, analytics and valuations of such instruments. As the operations comprise a single reporting segment, the amounts disclosed in the consolidated financial statements also represent the single reporting segment.

### Geographic segments

The Company operates in both Canada and the United States.

# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Corp.)

December 31, 2018 and 2017

## Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

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<b>As at</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	\$	\$
<b>Identifiable assets:</b>		
Canada	494,650	3,942,519
United States	224,658	403,967
	<b>719,308</b>	<b>4,346,486</b>

---

<b>Year ended</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	\$	\$
<b>Loss:</b>		
Canada	(4,966,800)	-
United States	(3,538,330)	(2,088,008)
	<b>(8,505,130)</b>	<b>(2,088,008)</b>

---

<b>Year ended</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	\$	\$
<b>Cash used for operating activities:</b>		
Canada	827,876	-
United States	(2,635,273)	(4,441,144)
	<b>(1,807,397)</b>	<b>(4,441,144)</b>

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### 20. Significant contracts and commitments

For the year ended December 31, 2018, the Company leased office space in Kitchener, Ontario, Canada and in the US in Malvern, PA and Jersey City, NJ.

The following table discloses the Company's commitments over the next 5 years:

<b>Year</b>	<b>\$</b>
2019	115,234
2020	117,208
2021	120,206
2022	123,219
2023	51,865

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# DelphX Capital Markets Inc.

(formerly, Seaside Exploration Partners Corp.)

December 31, 2018 and 2017

## Notes to the Consolidated Financial Statements

(expressed in Canadian dollars)

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Total	527,723
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### 21. Income Taxes

The Company has approximate non-capital tax losses that will expire as follows:

Year	Canada	US
	\$	\$
2036	-	86,142
2037	75,984	1,880,277
2038	2,992,507	4,159,667
	<u>3,068,491</u>	<u>6,126,086</u>

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### 22. Subsequent events

- i) In February 2019, the Company was provided with shareholder loans totaling \$365,500. The loans are unsecured, interest-free and payable on demand.
- ii) In March 2019, the Company was provided with a shareholder loan in the amount of \$250,000. The loan is unsecured, interest-free and payable on demand.
- iii) In April 2019, the Company was provided with a shareholder loan in the amount of \$100,000. The loan is unsecured, accrues interest at 12% per annum and is payable on demand.
- iv) In April 2019, 100,000 options were exercised raising proceeds of \$10,000.



**DelphX Capital Markets Inc.**  
**Management's Discussion and Analysis**  
**of the Financial Condition and Results of Operations**  
**Years ended December 31, 2018 and 2017**

**April 30, 2019**

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

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*This annual 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 30, 2019. The Annual MD&A of the operating results and financial condition of the Company as at and for the years ended December 31, 2018 and 2017, should be read in conjunction with the Company’s audited annual consolidated financial statements and the related notes as and for years ended December 31, 2018 and 2017 (the “Consolidated Financial Statements”). The Consolidated Financial Statements have been prepared by management and are 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 may 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).*

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### **MANAGEMENT’S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING (“ICFR”)**

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

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

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

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

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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. Details of the QT are disclosed in note 18 of the Consolidated Financial Statements. 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 reverse takeover accounting acquirer).

The principal address of the Company is 137 Glasgow St., Unit 445, Kitchener, Ontario, N2G 4X8. DelphX's principal business activity is to develop and operate a global facility for transparent offering, purchase, sale, collection and storage of certain fixed income securities and derivatives, and to manage data, research, analytics and valuations of such instruments.

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

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

DelphX will be launching the DelphX ATS Platform, Bond Market 2.0, an SEC regulated ATS employing blockchain technology to enable anonymous negotiation, purchase and trading of new forms of digital smart contract securities that is anticipated to provide guaranteed risk protection, higher yields and the ability to convert outstanding corporate, municipal, sovereign and other bonds and fixed income securities to credit investments. DelphX will operate the DelphX ATS through its wholly-owned subsidiary, DelphX Services Corporation, a broker-dealer registered with the SEC and a member firm of FINRA.

The DelphX ATS addresses issues in the current bond market of default risk being too concentrated, non-transparency and too few issues being protected by providing guaranteed alternative credit protection, deeper market liquidity and enhanced investor yields. The DelphX ATS Platform will enable the anonymous negotiation, origination and trading of new forms of digital smart contract securities to be issued by Quantem Capital Corporation Ltd. ("Quantem"), a wholly-owned subsidiary of DelphX, that will provide a non-derivative alternative to Collateral Default Swap contracts. Transparently administered within an open Distributed Ledger, the two Quantem™ securities – Covered Put Options™ ("**CPO**") and Covered Reference Notes™ ("**CRN**") - will broadly diffuse risk among many holders through dynamic market-based pooling technology.

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

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### *Private placements*

#### **2018:**

- (i) In October 2018, the Company issued 2,280,000 common shares, raising proceeds of \$1,140,000. Pursuant to this issuance, the Company also issued 1,140,000 warrants to purchase 1,140,000 common shares at \$0.70 each for a period of 2 years after closing. The fair value of the issued warrants of \$225,124, was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.88%, term of 2 years, exercise price of \$0.70, volatility of 95% and share price of \$0.48. The Company also paid 7% cash commissions totalling \$86,910 and issued 159,600 finders' warrants, entitling the holders to exercise same at \$0.70 each for a period of 2 years after issuance. The fair value of the finders' warrants of \$21,085, was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.88%, term of 2 years, exercise price of \$0.70, volatility of 95% and share price of \$0.48. The fair value of the finders' warrants was allocated to common shares and warrants on a 2:1 basis.
- (ii) In August 2018, 132,253 common shares were issued with the exercise of an equal number of finder warrants. The exercise raised \$46,229 proceed and resulted in a fair value transfer of \$27,306 from warrants to share capital
- (iii) In June 2018, 108,162 common shares were issued with the exercise of an equal number of finder warrants. The exercise raised \$15,169 of proceeds and resulted in a fair value transfer of \$27,374 from warrants to share capital.
- (iv) In May 2018, 300,000 common shares were issued with the exercise of an equal number of options. The exercise raised \$30,000 of proceeds and resulted in a fair value transfer of \$86,100 from contributed surplus to share capital.
- (v) In April 2018, 852,714 common shares were issued at \$0.35 each, raising proceeds of \$298,450. Also, in April 2018, the Company completed the QT resulting in the issuance of 4,052,570 common shares with a deemed value of \$1,418,400, to the Seaside shareholders. Contemporaneous with the issuance to Seaside shareholders, the Company closed a subscription receipts financing whereby 11,453,000 common shares were exchanged for an equal number of subscription receipts with a gross value of \$4,008,550. Costs of this financing amounted to \$553,469, with such amount recorded as a reduction to share capital. The Company also issued 798,700 finders' warrants with a fair value of \$165,003, such amount recorded as a reduction to share capital and increase to warrants. The fair value of the finders' warrants was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free rate of 1.8%, term of 1.6 years (expiring on December 22, 2019), volatility of 126.28% and a share price of \$0.35.
- (vi) In February 2018, the Company issued 620,000 common shares at a grant-price of US\$0.00001 each, under a restricted stock-grant agreement to the Company's CFO. The Company holds a buy-back option of these shares from the holder at the same price as issuance. The buy-back option right will be released over the period of 4 years on a 25% basis at each anniversary date. The common shares have a grant-date fair value of \$190,456, subject to the repurchase option. The vested value of \$95,944 has been recorded to share capital during the year ended December 31, 2018. The fair value was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free rate of 2.07%, term of 4 years and a volatility of 113.53%.
- (vii) In January 2018, 1,142,857 common shares were issued at \$0.35 each, raising proceeds of \$399,986.

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

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- (viii) In addition to the amounts vesting from 620,000 shares, an additional \$61,074 has been recorded for the further vesting of the 760,000 shares and \$118,762 has been recorded for the further vesting of the 700,000 shares.

### 2017:

- (ix) On November 28, 2017, the Company issued 200,000 units (each a "Unit") to a service provider in settlement of debt with a fair value of \$70,000. Each Unit consisted of 1 common share and 1 warrant (each a "Warrant"). Each Warrant has an exercise price of \$0.35 and expires on November 28, 2019. The fair value of the issued warrants of \$44,308, was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.31%, term of 2 years and a volatility of a comparable listed entity.
- (x) On November 22, 2017, the Company completed a private placement of 2,857,571 common shares at a price of \$0.35 per share, generating gross proceeds of \$1,000,134.
- (xi) On October 6, 2017, the Company completed a 31-for-1 split of its common shares.
- (xii) On September 25, 2017, the Company issued 4,711,287 (post-split) common shares to convert shareholders' outstanding loan and interest thereon with a fair value of \$1,480,885.
- (xiii) Also, on September 25, 2017, the Company issued 7,378,155 (post-split) common shares with a fair value of \$2,201,892 to its employees and to certain service providers against their compensation rights for the period from February 18, 2016 to October 31, 2017, at a grant price of US\$0.00001 per share with certain restriction regarding sale or transfer. Out of this, 760,000 common shares were issued to 3 employees and are subject to a buy-back option at the same grant price, which will be released over a period of 4 years.
- (xiv) On September 27, 2017, under a restricted stock grant agreement, the Company issued 700,000 (post-split) common shares to one of its key executives as a signing bonus at a grant price of US\$0.00001 per share. The Company holds a buyback option of these shares from the holder at the same price as granted. The buy-back option right will be released over the period of 4 years on a 25% basis on each anniversary date. The common shares have a grant-date fair value of \$217,214, subject to the repurchase option. The 2017 vested value of \$14,770 has been recorded to share capital during the last quarter of 2017. The fair value was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free rate of 1.31%, term of 4 years and a volatility of 126.28%.

### ***Financial condition***

As at December 31, 2018, the Company had assets totaling \$719,308 and shareholders' deficiency of \$596,449. This compares with assets of \$4,346,486 and shareholders' equity of \$533,544, as at December 31, 2017.

During the year ended December 31, 2018, the Company's net assets decreased by \$1,129,993, the result of a decrease in assets of \$3,627,178, offset by a decrease in liabilities of \$2,497,185.

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



# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

Item	Change	Explanation of change
	\$	
Cash	(246,147)	Cash used for operating activities of \$1,807,397; cash used for investing activities of \$42,729; cash provided from financing activities of \$1,603,979.
HST recoverable	91,089	The Company became a HST registrant after completing the QT.
Restricted cash	27,500	The funds have been segregated and restricted cash that collateralizes the credit made available to the Company on bank credit cards issued to it.
Deposits and prepaid expenses	60,534	Office rent deposits increased by \$7,895; prepaid insurance by \$44,559 and investor relations by \$8,080.
Due from related party	51,660	Secured loan provided to the Company's CFO. Details disclosed in note 10 of the Consolidated Financial Statements or the <i>Transactions with related parties</i> section of this MD&A.
Funds held in escrow	(3,771,473)	Reduction reflects the completion of the QT.
Property and equipment	169,195	Purchase of office equipment of \$4,903; disposal of office equipment of \$6,177 leasehold improvement expenditures of \$196,869 on the Company's new Kitchener, Ontario offices; offset by depreciation of \$26,400.
Intangible assets	(9,536)	Amortization for the year.
Accounts payable and accrued liabilities	(1,035,021)	Increases in this category are entirely due to the Company's increased operations subsequent to the QT.
Due to related parties	(238,090)	Comprising salary and consulting charges due to senior officers of the Company. Details disclosed in note 10 of the Consolidated Financial Statements or the <i>Transactions with related parties</i> section of this MD&A.
Subscription rights	3,770,296	Reduction reflects the completion of the QT.
	<b>(1,129,993)</b>	

### ***Selected annual financial information***

	December 31, 2017	December 31, 2017
	\$	\$
<b>Consolidated statements of operations and comprehensive loss</b>		
Other revenue	-	12,057
Total operating expenses	<b>8,505,131</b>	2,100,065
Net loss	<b>(8,505,131)</b>	(2,088,008)
Comprehensive loss	<b>(8,713,861)</b>	(1,894,352)
Basic and diluted loss per common share	<b>(0.12)</b>	(0.04)
<b>Consolidated statements of cash flow</b>		
Cash used for operations	<b>(1,807,397)</b>	(4,441,144)
Cash provided from financing activities	<b>1,603,979</b>	4,890,783
Cash used for investing activities	<b>(42,729)</b>	(18,489)
Increase/(decrease) in cash	<b>(246,147)</b>	431,150

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

<b>Consolidated statements of financial position</b>		
Cash	<b>187,634</b>	433,781
Restricted cash	<b>27,500</b>	-
Cash held with escrow agent	-	3,771,473
Total assets	<b>719,308</b>	4,346,486
Shareholders' equity (deficiency)	<b>(596,449)</b>	533,544
Average number of common shares outstanding	<b>73,375,156</b>	46,660,879

### Summary of quarterly results

	<b>4<sup>th</sup> Quarter 2018</b>	<b>3<sup>rd</sup> Quarter 2018</b>	<b>2<sup>nd</sup> Quarter 2018</b>	<b>1<sup>st</sup> Quarter 2018<sup>1</sup></b>
Total revenues	-	-	-	-
Loss and comprehensive loss	(2,489,153)	(1,702,426)	(3,671,476)	(850,806)
Net loss per share – basic and fully-diluted <sup>2</sup>	(0.04)	(0.02)	(0.05)	(0.01)
Total assets	719,308	935,714	2,384,312	3,983,055
Long-term debt	-	-	-	-
Equity (deficiency)	(596,449)	687,720	2,121,537	143,769
Cash dividends declared per common share	-	-	-	-
	<b>4<sup>th</sup> Quarter 2017<sup>1</sup></b>	<b>3<sup>rd</sup> Quarter 2017<sup>1</sup></b>	<b>2<sup>nd</sup> Quarter 2017<sup>1</sup></b>	<b>1<sup>st</sup> Quarter 2017<sup>1</sup></b>
Total revenues	12,057	-	-	-
Income (loss) and comprehensive income (loss)	(2,237,844)	282,308	85,383	(24,199)
Net loss per share – basic and fully-diluted <sup>2</sup>	(0.05)	0.01	0.00	(0.00)
Total assets	4,346,486	107,697	87,766	87,878
Long-term debt	-	-	-	-
Equity (deficiency)	533,544	(775,343)	(1,773,401)	(1,773,140)
Cash dividends declared per common share	-	-	-	-

<sup>1</sup>DelphX Corporation only, the RTO Acquirer.

<sup>2</sup>Inclusion of outstanding warrants and options is anti-dilutive.

### Results of operations

The Company has not generated operating revenue (nominal in 2017) and therefore losses have been incurred throughout the years ended December 31, 2018 and 2017.

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**Year ended December 31, 2018**

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Certain comparative amounts have been reclassified to conform with current reporting classifications. These reallocations are limited to regrouping of expenses in the statement of loss and comprehensive loss for consistency with categories presented in the current year and have not affected previously-reported loss and comprehensive loss.

***Years ended December 31, 2018 and December 31, 2017***

Loss and comprehensive loss for the year was \$8,713,861 (2017 – \$1,894,352) or \$0.12 (2017 – \$0.04) loss per share. Operating costs increased by \$6,405,066 over 2017 and other comprehensive income (loss) decreased by \$402,386, over the year.

The significant changes are detailed below:

**Operating loss of \$8,505,131 (2017 - \$2,088,008)**

**Administrative expenses of \$1,369,470 (2017 - \$182,565)**

The increase of approximately \$1,187,000 was largely attributable to expenses incurred after the completion of the QT and for expanded areas of the Company's business since going public: Data subscriptions - \$182,000; D&O insurance - \$65,000; office supplies and expenses - \$289,000; administrative salaries (both actual and allocated) - \$262,000; rent expense - \$146,000; audit and accounting - \$191,000.

**Amortization and depreciation of \$35,936 (2017 – \$10,417)**

The increase of approximately \$25,500 was comprised mainly of the depreciation on newly-acquired leasehold improvements.

**Foreign exchange gains of \$168,456 (2017 – \$nil)**

The increase of approximately \$168,000, is a direct result of the Company completing the QT and commencing operations in Canada.

**Interest and bank charges of \$12,765 (2017 – \$177,479)**

The decrease of approximately \$165,000, was mainly due to the Company's convertible debt that was serviced in 2017 and converted to equity in 2018.

**Legal and regulatory of \$2,494,441 (2017 – \$48,248)**

The increase of approximately \$2,446,000, was comprised mainly of 2 items: Legal fees expended on completing the QT - \$331,000 and legal fees on the perfection of the Company's CPO and CRN securities' subscription agreements and the US regulatory requirements thereon - \$1,638,000. The remainder of the change resulted from increased payroll allocations to this category - \$477,000.

**Listing expense of \$1,359,804 (2017 – \$nil)**

The non-cash expense was entirely incurred as a result of completing the QT and RTO of Seaside. See note 18 of the Consolidated Financial Statements for complete details.

**Investor relations and public reporting costs of \$364,199 (2017 – \$nil)**

Costs for the year incurred entirely as a result of the Company completing the QT and becoming a reporting issuer.

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**Marketing and advertising of \$686,742 (2017 – \$43,396)**

The increase of approximately \$643,000 were the result of the Company's marketing and advertising once completing the QT - \$6,000 and increased salary allocations to this category - \$637,000.

**Research and development expenses of \$1,706,448 (2017 – \$367,989)**

The increase of approximately \$1,340,000, were the result of increased direct expenditures on the Company's ATS - \$134,000 and increased salary allocations to this category - \$1,206,000.

**Other comprehensive loss of \$208,730 (2017 – gain of \$193,656)**

The charges result from Company translating its financial statements into its reporting currency (the Canadian dollar) from its functional currency (the United States dollar) and the increase in loss of approximately \$402,000 is a reflection of the reduction in net assets and increase in operating loss for the year.

***Transactions with related parties***

***Year ended December 31, 2018 and December 31, 2017***

***Due from related party***

As at December 31, 2018, amounts due to the Company comprise a secured loan in the amount of \$50,000 plus accrued interest of \$1,660, equal to \$51,660 provided to its Chief Financial Officer (2017 - \$nil). The maturity of the loan has been extended to December 31, 2019, and interest accrues at the rate of 6% per annum. Both principal and accrued interest are payable on or before the maturity date and the loan is secured by a promissory note from the borrower. As further security to the Company, the borrower agreed not to sell, pledge or otherwise encumber, 62,000 of the Company's common shares owned by him, until the full amount of the loan was repaid (including applicable interest). The borrower has also agreed to surrender the shares to the Company upon its request to do so.

As at December 31, 2018, \$1,660 (2017 – \$nil) of accrued interest income is included in the consolidated statements of loss and comprehensive loss.

***Due to related parties***

As at December 31, 2018, amounts due to related parties include \$238,090 (2017 - \$nil), comprising salary and consulting charges due to senior officers of the Company.

***Key management compensation***

Key management includes those individuals having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management includes the directors, named executive officers, being the chief executive officer and the chief financial officer, each of the Company's 3 remaining C-suite officers and 2 managing directors. Related-party compensation paid or payable to key management is detailed below:

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

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Year ended	December 31, 2018	December 31, 2017
	\$	\$
Compensation to key management	1,308,034	109,700
Share-based compensation	440,962	14,770

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The Consolidated Financial Statements include balances and transactions with directors and/or officers of the Company and/or companies related to or controlled by them. These transactions are measured and recorded at an arm's-length basis, being the amounts agreed to by the related parties.

### ***Financial instruments and risk management***

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

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	2018	2017
	\$	\$
Financial assets		
Cash	187,634	433,781
Restricted cash	27,500	-
Deposits	11,507	-
Due from related parties	51,660	-
Funds held in escrow	-	3,771,473
	<b>278,301</b>	<b>4,205,254</b>
Financial liabilities		
Accounts payable and accrued liabilities	1,038,746	42,646
Due to related parties	229,563	-
Subscriptions receipts	-	3,770,296
	<b>1,268,309</b>	<b>3,812,942</b>

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The carrying and fair values of these financial instruments are approximately equivalent because of the short-term nature of these instruments.

### **Basis of fair values**

Assets and liabilities recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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The Company treats its cash and restricted cash as Level 1 financial assets and does not have any Level 2 or Level 3 financial assets or liabilities.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no significant transfers between levels during the year.

### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As at December 31, 2018, the Company had \$1,315,757 (2017 - \$3,812,942) of liabilities with a maturity of one year or less and a working capital deficiency of \$884,279 (2017 – working capital of \$405,373). The Company manages its liquidity risk by reviewing its growth plans on an ongoing basis.

### Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

### Currency risk

The Company's functional currency is the US dollar. DelphX also conducts business in Canadian dollars. Financial assets and liabilities denominated in foreign currencies will be affected by changes in the exchange rate between the functional currency and any foreign currencies. The assets and liabilities primarily affected are cash, accounts payable and accrued liabilities and due to related parties that are denominated in foreign currencies. The Company has recognized currency exchange activity during the year ended December 31, 2018, of a gain of \$168,456 (2017 - \$nil).

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

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

As at December 31, 2018, the Company's exposure to foreign currency balances is as follows:

Account	Foreign currency	Exposure (\$Cdn)	
		December 31, 2018	December 31, 2017
Cash	US dollar	98,324	262,736
Accounts payable and accrued liabilities	US dollar	(933,605)	(42,646)
		(835,279)	220,089

The Company believes that a change of 10% in foreign exchange rates would increase/decrease net income for the year by approximately \$83,528 (2017 – \$22,000).

The Company is not currently exposed to any significant credit risk and other price risk.

### Other risk factors

*The following are certain other risk factors relating to the Company. The information is only a summary of certain other risk factors and is qualified in its entirety by reference to, and must be read in conjunction with,*

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

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*the detailed information appearing elsewhere in this MD&A and the Company's Annual Information Form. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company, or that the Company currently deem immaterial, may also impair the operations of the Company. If any such risks actually occur, the business, financial condition and/or liquidity and results of operations of the Company could be materially adversely affected.*

### **Dependence on management and key personnel**

The success of DelphX for the foreseeable future will depend largely upon the ability of its management team and other key personnel. The loss of any one of these individuals could have a material adverse effect on its business, and DelphX would need to devote substantial resources to finding replacements. The Company currently does not carry "key-man" life insurance policies covering any of these officers.

Competition for qualified and experienced personnel in the technology field is generally intense, and DelphX will rely heavily on its ability to attract and retain qualified personnel in order to successfully implement its business objectives. The failure to attract or retain key executives and personnel could impact the DelphX's operations.

### **Additional funding requirements**

DelphX will require additional financing to implement its business plan. The Company may raise additional funds through gap financing, debt financing and/or subsequent equity financing. DelphX may also borrow funds from a financial institution(s) using the assets of the Company as security for said loan(s). DelphX may also obtain additional financing through certain government subsidies or tax incentives available in certain geographic areas, if available, at the Company's discretion. Failure to obtain such additional capital on terms acceptable to the DelphX could restrict its ability to implement its growth plans. Further, a shortage of funds may prevent or delay DelphX from launching its platform, achieving profitability or enabling it to pay distributions to its shareholders. There is no assurance that the DelphX will have adequate capital to conduct its business or satisfy its financial obligations.

The ability of DelphX to arrange financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of DelphX. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, if needed, or that such financing will be available on terms satisfactory to it. Additional financing raised by the issuance of shares from the treasury of DelphX may be dilutive to existing shareholders. There can be no assurance that DelphX will generate cash flow from operations necessary to support its continuing operations.

### **Conflicts of interest**

Certain of the directors and officers of DelphX are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies (including technology companies) and, as a result of these and other activities, such directors and officers of DelphX may become subject to conflicts of interest. The OBCA provides that in the event that a director has a material interest in a contract or proposed contract or agreement that is material to the issuer, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement, subject to and in accordance with the OBCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the OBCA. To management of DelphX's knowledge, as at the date hereof there are no existing or potential material conflicts of interest between the Company and a director or officer of DelphX, except as otherwise disclosed herein.

### **Market for securities and volatility of share price**

There can be no assurance that an active trading market for DelphX's securities will be sustained. The market price for the Company's securities could be subject to wide fluctuations. Factors such as announcements of

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

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quarterly variations in operating results, as well as market conditions in the industry, may have a significant adverse impact on the market price of the securities of DelphX. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

### **Adverse general economic conditions**

Events in the global financial markets in the past several years have had a profound and lasting impact on the global economy. Some of the key impacts of the financial market turmoil included contraction in credit markets resulting in a widening of credit risk, devaluations, high volatility in global equity, commodity, foreign exchange and precious metal markets and a lack of market liquidity. A similar slowdown in the financial markets or other economic conditions, including but not limited to, inflation, lack of available credit, the state of the financial markets, interest rates and tax rates, may adversely affect the Company's operations. Specifically, a global credit/liquidity crisis could impact the cost and availability of financing and overall liquidity, volatile energy, commodity and consumables prices and currency exchange rates could impact costs and the devaluation and volatility of global stock markets could impact the valuation of DelphX's equity and other securities. These factors could have a material adverse effect on DelphX's financial condition and results of operations.

### **Cybersecurity and hacking risks**

Computer viruses, hackers or other security problems could interfere with DelphX's network software or the availability of it, and lead to misappropriation of proprietary and sensitive information and interruptions, delays or cessation in service to the Company's users. DelphX may be required to expend significant capital and other resources to protect against security breaches or losses or to alleviate problems caused by these breaches or losses. If third parties gain improper access to its systems or databases or those of the DelphX's partners or contractors, they may be able to steal, publish, delete or modify confidential information. A security breach could expose the DelphX to monetary liability, lead to inquiries and fines or penalties from regulatory or governmental authorities, lead to reputational harm and make users less confident in DelphX's services, which could harm its business, financial condition and results of operations.

### **Regulatory risks**

The regulation of blockchain technologies is developing and companies may be subject to fragmented and potentially complex regimes, adopted in different technological eras that create uncertainty for businesses such as DelphX, which is utilizing blockchain technologies.

Regulatory changes or actions may alter the nature of an investment in the DelphX or restrict the use of blockchain technologies in a manner that adversely affects its operations. Regulatory agencies could shut down or restrict the use of platforms or exchanges using blockchain based technologies. This could lead to a loss of any investment made in DelphX and may trigger regulatory action by the SEC, the Ontario Securities Commission or other securities regulators. Changes in the regulatory environment imposed upon DelphX could adversely affect the ability of it to attain its corporate objectives and could have a material adverse effect on its financial results and business.

DelphX Services Corporation, which operates the DelphX ATS, is subject to regulation, examination and disciplinary action by the SEC and the Financial Industry Regulatory Authority ("FINRA") with which it is registered. DelphX Services Corporation is also subject to rules and regulations relating to the prevention and detection of money laundering, privacy and data protection laws and regulations, and substantial other regulatory requirements. Any failure to comply with all applicable regulations, and any regulatory proceeding or civil or criminal action against DelphX Services Corporation could have a material adverse effect on DelphX's financial results and business.



# DelphX Capital Markets Inc.

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### **Market acceptance**

The marketplace may be slow to accept or understand the significance of the DelphX's products and services due to their unique nature and the competitive landscape. Market confusion may slow sales and acceptance of its products and services. If the Company is unable to promote, market and sell its products and services and gain market acceptance, DelphX's business and financial condition would be adversely affected.

### **Dependence on technological infrastructure and advancements**

The blockchain industry is subject to significant technological advancements, changing industry standards, market trends, customer preferences and competitive pressures which can, among other things, necessitate revisions in pricing strategies, price reductions and reduced profit margins. The success of DelphX will depend on its ability to secure technological superiority in its services and maintain such superiority in the face of new technologies. No assurance can be given that further modification of product offerings of the DelphX will not be required in order to meet demands or to remain competitive.

In addition, the DelphX ATS and its smart contracts are novel and are subject to risks associated with the fact they are new and untested, including:

- a rapidly-evolving regulatory landscape, which might include security, privacy or other regulatory concerns that could require the DelphX ATS to implement changes to its system that could disrupt operations;
- the possibility of undiscovered technical flaws in the DelphX technology, including in the process by which transactions are recorded by the DelphX ATS to the proprietary ledger or by which the validity of a copy of the proprietary ledger can be mathematically proven utilizing cryptographically-secured distributed ledger network technology; and
- the possibility that cryptographic security measures that authenticate transactions and the blockchain for the applicable distributed ledger could be compromised, which could allow an attacker to alter the distributed ledger and thereby disrupt the ability to corroborate definitive transactions recorded on the proprietary ledger.

### ***Risks associated with DelphX's Business***

#### **Segregation of duties**

Segregation of duties is a basic, key internal control and one of the most difficult to achieve in a small company. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. At the present time, due to the Company's size and limited resources, a complete segregation of duties within the Company's accounting group cannot be fully achieved. The result is that the Company is highly reliant on the performance of mitigating procedures during the process of closing its Consolidated Financial Statements in order to ensure the financial statements are presented fairly in all material respects. Management will identify and hire additional accounting resources where cost effective and when required. Where it is not cost effective to obtain additional accounting resources, management will review existing mitigating controls and, if appropriate, implement changes to its internal control processes whereby more effective mitigating controls will be adopted.

#### **Competition**

DelphX faces competition from competitors beginning to integrate blockchain technology within their existing business models, as there are few barriers for the entry to into the market for blockchain technology businesses. Failure to compete successfully against other similar companies could have a material adverse effect on the Company and its prospects. DelphX may be unable to contend successfully with current or future competitors

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

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which include major technology companies, many of which are large, well-established companies with access to financial, technical and marketing resources significantly greater than the DelphX. The Company's competitors may develop or acquire new or improved products that are similar to those offered by it, while not necessarily being direct competitors currently, or may make technological advances that reduce their cost of production so that they may engage in price competition.

### **Product development risk and no assurance of commercialization**

Substantial corporate resources have been and will be expended on the development of the DelphX ATS Platform. The DelphX ATS Platform remains in the research and development stage and has not yet been commercialized. There can be no guarantee that the DelphX ATS Platform will achieve the objectives which it believes are necessary for it to result in a successful product in the market. There are significant risks, expenses, delays and difficulties frequently encountered in establishing new products in the technology products industry, which is characterized by an increasing number of market entrants, intense competition and high failure rate. Further, there is always the risk in product development that the products will fail to function as intended or that the market for such products will not develop as anticipated or when anticipated. There is often a lengthy time-period between the time of product conceptualization to product commercialization, and there can be no assurances that development of new products will be completed at all, on time or within budget. Failure to successfully commercialize the DelphX ATS Platform may materially and adversely affect DelphX's financial condition and results of operations.

### **Infrastructure risk**

DelphX's ability to attract, retain, and serve customers is dependent upon the reliable performance of the blockchain software platform and the underlying technical infrastructure. It is possible that it may fail to effectively scale and grow its technical infrastructure to accommodate these increased demands. Additionally, any disruption or failure in the services the Company receives from third party partners used to facilitate its business could harm the DelphX's business. Any financial or other difficulties these partners face may adversely affect the Company's business, and it exercises little control over these partners, which increases vulnerability to problems with the services they provide.

### **Limited protection of patents and proprietary rights**

DelphX's success will depend in part on its ability to protect its proprietary rights and technologies, including, but not limited to the DelphX ATS Platform. DelphX will rely on a combination of contractual arrangements, patents, trade secrets and know-how to protect its proprietary technology and rights and the Company's failure to protect its intellectual property rights may result in the loss of valuable technologies and undermine its competitive position. However, not all of these measures may apply or may afford only limited protection. In addition, the laws of some foreign countries do not protect proprietary technology rights to the same extent as do the laws of Canada and the United States. A failure of DelphX to adequately protect its proprietary rights may adversely affect its business.

Unpatented trade secrets, improvements, confidential know-how and continuing technological innovation may be important to DelphX's commercial success. Although it will attempt to, and will continue to attempt to, protect proprietary information through reliance on trade secret laws and the use of confidentiality agreements with collaborators, licensees, employees and consultants and other appropriate means, these measures may not effectively prevent disclosure of or access to proprietary information, and, in any event, others may develop independently, or obtain access to, the same or similar information.

Despite its efforts to protect its proprietary rights, there can be no assurance that DelphX's intellectual property will not be infringed upon, that it would have adequate remedies for any such infringement or adequate funds to take action against those infringing such intellectual property, or that its trade secrets will not otherwise become known or independently developed by its competitors. There can also be no assurance that any patents now or hereafter issued to, licensed by or applied for by the Company will be upheld, if challenged, or that the

# DelphX Capital Markets Inc.

## ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended December 31, 2018

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protections afforded thereby will not be circumvented by others. There can be no assurance that the DelphX's competitors will not independently develop technologies that are substantially equivalent or superior to the technologies of DelphX.

### **Infringement of intellectual property rights**

While DelphX believes that its intellectual property does not infringe upon the proprietary rights of third parties, its commercial success depends, in part, upon the Company not infringing intellectual property rights of others. A number of DelphX's competitors and other third parties have been issued or may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those utilized by it. Some of these patents may grant very broad protection to the owners of the patents.

DelphX may become subject to claims by third parties that its technology infringes their intellectual property rights.

Litigation may be necessary to determine the scope, enforceability and validity of third-party proprietary rights or to establish the DelphX's proprietary rights. Some of its competitors have, or are affiliated with companies having, substantially greater resources than the Company and these competitors may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than DelphX.

Regardless of their merit, any such claims could be time consuming to evaluate and defend, result in costly litigation, divert management's attention and focus away from the business, subject DelphX to significant liabilities and equitable remedies, including injunctions, require it to enter into costly royalty or licensing agreements and require the Company to modify or stop using infringing technology.

### **Privacy**

DelphX may receive, store and process personal information and other customer data and information relating to financial transactions. As a result, the Company must comply with the numerous federal, provincial and local laws in the United States, Canada and abroad relating to the collection, use, disclosure, storage and safeguarding of personal information. Any failure or perceived failure by it to comply with its privacy policies, privacy-related obligations to customers or other third parties, or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other customer data, may result in governmental enforcement actions, fines or litigation.

### **Risk of obsolescence**

New developments in technology may negatively affect the development or sale of some or all of the DelphX's product or service offerings or make them obsolete. The inability of DelphX to enhance existing products and services in a timely manner or to develop and introduce new products and services that incorporate new technologies, conform to increasingly regulatory requirements, and achieve market acceptance in a timely manner could negatively impact the Company's competitive position. New product and service development or modification is costly, involves significant research, development, time and expense, and may not necessarily result in the successful commercialization of any new products or services.

### **Expansion Risk**

Any expansion of the DelphX's business may place a significant strain on its financial, operational and managerial resources. There can be no assurance that the Company will be able to implement and subsequently improve its operations and financial systems successfully and in a timely manner in order to manage any growth it experiences. There can be no assurance that DelphX will be able to manage growth successfully. Any inability of DelphX to manage growth successfully could have a material adverse effect on its business, financial condition and results of operations.

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**Limited operating history**

DelphX has incurred losses since its inception and it is expected to continue to incur losses during its development of the DelphX ATS Platform. As such, it will be subject to all of the business risks and uncertainties associated with any new business enterprise, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenues. DelphX's ability to reach and then sustain profitability depends on a number of factors, including the growth rate of the blockchain industry, the market acceptance of the DelphX ATS Platform and the competitiveness of the Company. There is no assurance that DelphX will be successful in achieving a return on shareholders' investment and the likelihood of its success must be considered in light of its early stage of operations.

**Lack of operating cash flow**

DelphX currently has no source of operating cash flow and this is expected to continue until the third quarter of 2019. No assurance can be given that it will ever attain positive cash flow or profitability or that additional funding will be available for operations. DelphX's failure to achieve profitability and positive operating cash flows could have the following consequences: (a) increasing its vulnerability to general adverse economic and industry conditions; (b) limiting its ability to obtain additional financing to fund future working capital, capital expenditures, operating costs and other general corporate requirements; and (c) limiting its flexibility in planning for, or reacting to, changes in its business and industry.

**Uninsured risks**

DelphX may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs or for other reasons. Furthermore, it may incur liability to third parties in excess of any insurance coverage or for which the Company is not insured arising from any damage or injury caused by DelphX's operations, which may have a material adverse effect on its financial position

**Research and development costs**

The research and development costs for the Company are detailed as follows:

<b>Year ended</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	\$	\$
ATS development	<b>496,320</b>	272,818
Compensation	<b>1,210,127</b>	95,171
<b>Research and development costs</b>	<b>1,706,447</b>	367,989

**Disclosure of outstanding share information**

The following table sets forth information concerning the outstanding securities of the Company as at April 30, 2019:

	<b>Number</b>
Common shares	80,813,376
Options	2,629,000

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Warrants	1,340,000
Broker warrants	825,315

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***Escrowed securities***

Subject to the policies of the TSXV, the following table summarizes the remaining common shares of the Company that are subject to escrow provisions together with the date of general release.

Total	Release date			
	October 27, 2019	April 27, 2020	October 27, 2020	April 27, 2021
32,542,206	8,135,546	8,135,546	8,135,546	8,135,568