



Utilizing proprietary CPO and CRN securities
DelphX offers two separate solutions for rating
change protection and default protection

- **TSXv:** DELX
- **OTC:** DPXCF

CPOS AND CRNS and their role in CRS (Credit Rating Securities)

What, Who, Why...

CPOs and CRNs are one of a kind, transparent and easy to comprehend.

What are CPOs and CRNs

- ✓ CPOs and CRNs are **Private Placement securities** issued under 4a2
- ✓ CPOs are **Put Options** that are exercisable in the event of established rating downgrade of a reference security
- ✓ CRNs are **collateralized notes** that provide investors with investment **returns** from both the option premium and interest earned on the collateral
- ✓ **Quick settlement process-5 days**
- ✓ CPOs and CRNs can be issued referencing any **corporate** bond
- ✓ Both CPOs and CRNs **eliminate counterparty risks** associated with other derivative products

Who are the Target Investors

- ✓ CRN **Target Investors are Qualified Institutional Investors** "QIBs" that are seeking high risk and commensurately potential high **returns**.
 - Insurance Companies
 - Pensions
 - Private Placement Investors/Hedge Funds
- ✓ CPO Target Investors are Qualified Institutional Investors "QIBs" that are:
 - looking to **protect against downgrade** of a specific bond issuance or
 - looking to speculate on a specific issuer credit through a "put option" on a specific issuer bond in event of ratings downgrade

Why CRNs and CPOs

- ✓ CRNs **provide a new way to express a view in the market and boost returns**.
- ✓ CPOs provide investors with the ability to **purchase protection** in the form of a security instead of a derivative and against downgrades when they occur
- ✓ Rating changes occur **frequently**, defaults do not. Speculators and investors seeking protection need a new market tool which addresses what really matters...**frequency of rating changes**
- ✓ Top Law firm **Latham & Watkins** opinions, legal framework and documentation
- ✓ **Trusted Custodian BNY** administers all issuance, record keeping, and payment of cashflows

Example #1: Rating change protection for One year on a 1 year bond (explained on following slide)

Example Cash flows of
Credit Rating Securities (CRS):

REFERENCE BOND

Oracle 01/08/2024
Rated BBB: S&P, Fitch

Private Placement Security

CPO

(Collateralized put obligation)

**200 Million Face of 12 month
protection**

Trigger: BBB to BB



QUANTEM
(Issuer)
SPV



Private Placement Security

CRN

(Collateralized reference note)

\$7MM collateral

(max liability)

\$1,500,000 Premium

Custodian

(BNY Mellon)

\$1,500,000

\$7MM

\$7MM

Collateral earn: 4%/yr

Collateral

(US treasuries)

Example # 1 explained

Reference bond is downgraded to trigger rating BB with one year remaining to maturity on the reference bond

1. Spread on reference bond rises from 75bps to 375bps
2. CRN pays CPO \$6,000,000 for 200MM notional coverage out of collateral fund
3. CRN retains remainder of \$1,000,000 from collateral fund
4. Trade is complete.

Note: if no increase or tightening in spread on downgrade then no payment to CPO is due and CRN retains the collateral and interest.

Example #2: Rating change protection for One Year on a 5 year bond (explained on following slide)

Example Cash flows of
Credit Rating Securities (CRS):

REFERENCE BOND

Oracle 01/08/2028
Rated BBB: S&P, Fitch

Private Placement Security

CPO

(Collateralized put obligation)

**200 Million Face of 12 month
protection**

Trigger: BBB to BB



QUANTEM
(Issuer)
SPV



Private Placement Security

CRN

(Collateralized reference note)

\$15MM collateral

(max liability)

Collateral earn: 4%/yr

Custodian

(BNY Mellon)

Collateral

(US treasuries)

\$3,500,000 Premium

\$3,500,000

\$15MM

\$15MM

Scenario Two

Reference bond is downgraded to trigger rating BB with 5 years remaining to maturity on the Reference Bond**Note: On issuance both sides agree to a \$15MM cap on liability**

1. Spread on reference bond rises from 75bps to 375bps
2. CPO is due \$6,000,000 X 5 (\$30,000,000) for 200MM notional coverage out of collateral fund
3. CRN pays out full capped liability of \$15,000,000 from collateral fund
4. Trade is completed

Comments from the Buyside:

Hedge Fund Manager: *"This is one of a kind and does not exist to my knowledge in the market. We would likely be involved."*

Large Insurance company Analyst and ex Pension Fund Manager: *"My capital charges from BBB (high) to BBB (low) and my losses are brutal. I would certainly consider this product."*

A tool for default protection...

DelphX also has a default protection and yield enhancement solution using CPOS AND CRNS.

Successfully completed first issuance with LPS Partners in June 2022!

CPOs and CRNs and how they apply to the DelphX Default Securities.

What are CPOs and CRNs

- ✓ CPOs and CRNs are **Private Placement securities** issued under 4a2
- ✓ CPOs are **Put Options** that are exercisable in the event of default of a reference security
- ✓ CRNs are **collateralized notes** that provide investors with a **yield enhancement** over the reference security
- ✓ **Quick settlement process** in the event of default, unlike burdensome ISDA process
- ✓ **Trusted Custodian** administers all issuance, record keeping, and payment of cashflows
- ✓ **Top Law** firm Latham & Watkins opinions, legal framework and documentation

Who are the Target Investors

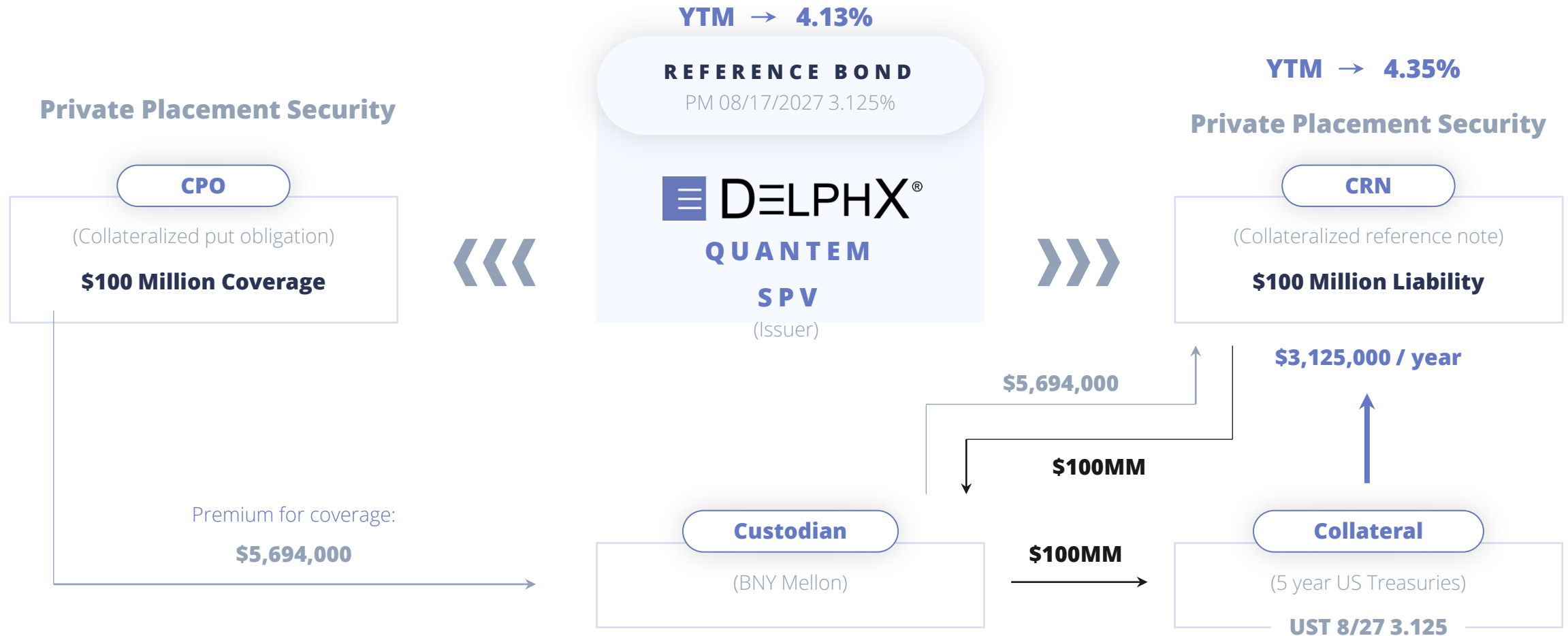
- ✓ CRN **Target Investor are Qualified Institutional Investors** "QIBs" that are seeking **yield enhancement** while willing to sacrifice liquidity.
 - Insurance Companies
 - Pensions
 - Private Placement Investors
- ✓ CPO Target Investors are Qualified Institutional Investors "QIBs" that are:
 - looking to **protect against the probability of default** of a specific bond issuance or
 - looking to speculate on a specific issuer credit through a "put option" on a specific issuer bond.

Why CRNs and CPOs

- ✓ CRNs **provide a yield enhancement** over the reference note allowing portfolio managers to add Alpha while not increasing credit risk of the reference bond.
- ✓ CPOs provide investors with the ability to **purchase protection** in the form of a security instead of a derivative.
 - Also provides the ability to purchase **protection on a broader range** of issues than are available in the single name CDS market.
 - Can be used by investors that do not have derivative mandates
- ✓ Both CPOs and CRNs **eliminate counterparty risks** associated with other derivative/structured products

Solution #2: Default protection

Default Protection Securities:



Legal Documents in Place for Issuance



Static Documents:

- ✓ Incumbency Certificate
- ✓ Quantum Offering Memo
- ✓ Issuing & Paying Agency Agreement
- ✓ Securities Account Controlling Agreement
- ✓ Investment Company Act Certification
- ✓ Latham Opinion Letter
- ✓ Member's Certificate
- ✓ Secretary's Certificate
- ✓ Officer's Certificate
- ✓ Trade Execution Client Direction Letter

Documents at Every Issuance:

- ✓ Dealer Agreement
- ✓ Series Agreements
- ✓ Notice of Issuance
- ✓ W9 Tax Forms
- ✓ Subscription Agreements
- ✓ Confirmations

Private Placement Securities



Forward-Looking Information

Certain information contained herein is forward-looking and relates to the DelphX Capital Markets Inc. ("DelphX" or the "Company") business strategy, the launch of the DelphX platform, and future events and courses of action. Statements which are not purely historical are forward-looking statements and include any statements regarding beliefs, plans, outlook, expectations or intentions regarding the future, including words or phrases such as "anticipate," "objective," "may," "will," "might," "should," "could," "can," "intend," "expect," "believe," "estimate," "predict," "potential," "plan," "is designed to" or similar expressions suggesting future outcomes. Forward-looking statements may include, among other things, statements about: our expectations regarding our expenses, sales and operations; our anticipated capital requirements; our plans for our products; our future growth strategy and growth rate; and anticipated trends and challenges in the markets in which we operate. Such statements and information are based on numerous assumptions regarding present and future business strategies and the environment in which DelphX will operate in the future, including the state of capital markets, the demand for our products, anticipated costs and our ability to achieve goals. Although we believe that the assumptions underlying these statements are reasonable, they may prove to be incorrect. Given these risks, uncertainties and assumptions, you should not unduly rely on these forward-looking statements.

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