

PROPHECY DEFI INC.
87 Scollard Street, Suite 100,
Toronto, Ontario, M5R 1G4

NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that an annual and special meeting (the “**Meeting**”) of shareholders of **Prophecy DeFi Inc.** (the “**Corporation**”) will be held on **Thursday, August 11, 2022**, at the hour of 4:00 p.m. (Eastern time), in a virtual only format, which will be conducted via live audio webcast at <https://virtual-meetings.tsxtrust.com/1388>, for the following purposes:

1. to receive and consider the audited financial statements of the Corporation for the year ended December 31, 2021, and the report of the auditors thereon;
2. to appoint the auditors of the Corporation and to authorize the directors of the Corporation to fix their remuneration;
3. to elect the directors of the Corporation to hold office until the next annual meeting of shareholders of the Corporation or until their successors are elected or appointed;
4. to consider, and, if deemed advisable, pass, with or without variation, a resolution confirming the repeal of the existing by-laws of the Corporation and ratifying and approving the enactment of a new by-law no. 1 of the Corporation;
5. to consider, and, if deemed advisable, pass, with or without variation, a special resolution authorizing the directors to change the registered address of the Corporation, as more particularly described in the accompanying management information circular; and
6. to transact such other business as may properly come before the Meeting or any adjournments or postponements thereof.

A shareholder wishing to be represented by proxy at the Meeting or any adjournment thereof must deposit his or her duly executed form of proxy with the Corporation’s transfer agent and registrar, TSX Trust Company, at Suite 301, 100 Adelaide Street West, Toronto, Ontario M5H 4H1, or go to www.voteproxyonline.com and enter his or her 12-digit control number by 4:00 p.m. (Eastern time) on Tuesday, August 9th, 2022, or, if the Meeting is adjourned, not later than 48 hours, excluding Saturdays, Sundays and holidays, preceding the time of such adjourned meeting.

Shareholders who are unable to attend the Meeting virtually, are requested to date, complete, sign and return the enclosed form of proxy so that as large a representation as possible may be had at the Meeting.

The board of directors of the Corporation has by resolution fixed the close of business on Monday, July 4th, 2022 as the record date, being the date for the determination of the registered holders of the common shares of the Corporation entitled to receive notice of, and to vote at, the Meeting and any adjournment thereof.

COVID-19 GUIDANCE

In the context of the effort to mitigate potential risk to the health and safety associated with COVID-19, the Corporation will be holding its meeting in a virtual only format and the shareholders will not be able to attend the Meeting in person. All shareholders are encouraged to vote on the matters before the Meeting by proxy in the manner set out herein and in the accompanying management information circular dated July 11, 2022 of the Corporation.

The accompanying management information circular provides additional detailed information relating to the matters to be dealt with at the Meeting and is supplemental to, and expressly made a part of, this notice of annual and special

meeting. Additional information about the Corporation and its financial statements are also available on the Corporation's profile at www.sedar.com.

DATED at Toronto, Ontario this 11th day of July, 2022.

BY ORDER OF THE BOARD

“John McMahon” (signed)
Chairman and Chief Executive Officer

PROPHECY DEFI INC.
87 Scollard Street, Suite 100,
Toronto, Ontario, M5R 1G4

MANAGEMENT INFORMATION CIRCULAR

This information is given as of July 11, 2022, unless stated otherwise

SOLICITATION OF PROXIES

THIS MANAGEMENT INFORMATION CIRCULAR IS FURNISHED IN CONNECTION WITH THE SOLICITATION BY THE MANAGEMENT OF PROPHECY DEFI INC. (the “**Corporation**”) of proxies to be used at the annual and special meeting of shareholders of the Corporation to be held in a virtual only format which will be conducted via live audio webcast at <https://virtual-meetings.tsxtrust.com/1388>, on Thursday, August 11, 2022 at 4:00 p.m. (Eastern time), and at any adjournment or postponement thereof (the “**Meeting**”) for the purposes set out in the accompanying notice of meeting (the “**Notice of Meeting**”). See “Attending the Shareholder Meeting Electronically” for details on the instructions to access and vote at the Meeting. Although it is expected that the solicitation of proxies will be primarily by mail, proxies may also be solicited personally or by telephone, facsimile or other proxy solicitation services. In accordance with National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer* (“**NI 54-101**”), arrangements have been made with brokerage houses and clearing agencies, custodians, nominees, fiduciaries or other intermediaries to send the Notice of Meeting, this management information circular (the “**Management Information Circular**”), the annual financial statements of the Corporation for the financial year ended December 31, 2021 and other meeting materials, if applicable (collectively the “**Meeting Materials**”) to the beneficial owners of the common shares (the “**Common Shares**”) held of record by such parties. The Corporation may reimburse such parties for reasonable fees and disbursements incurred by them in doing so. The costs of the solicitation of proxies will be borne by the Corporation. The Corporation may also retain, and pay a fee to, one or more professional proxy solicitation firms to solicit proxies from the shareholders of the Corporation in favour of the matters set forth in the Notice of Meeting.

COVID-19 GUIDANCE

In the context of the effort to mitigate potential risk to the health and safety associated with COVID-19, the Corporation will be holding its meeting in a virtual only format and the shareholders will not be able to attend the Meeting in person. All shareholders are encouraged to vote on the matters before the Meeting by proxy in the manner set out in the Notice of Meeting and this Management Information Circular.

Shareholders will have an equal opportunity to participate at the Meeting online regardless of geographic location. Registered shareholders of Common Shares (each a “**Registered Shareholder**”) and proxyholders will be able to attend the virtual meeting via a smartphone, laptop or computer and vote, and will be considered to be present in person at the Meeting for the purposes of determining quorum. Non-registered shareholders (“**Non-Registered Shareholders**”) who have not duly appointed themselves as proxyholder will be able to attend the virtual Meeting as a guest, but will not be able to vote at the Meeting. This is because the Corporation and its transfer agent do not have a record of the Non-Registered Shareholders, and, as a result, will have no knowledge of their shareholdings or entitlement to vote unless they appoint themselves as proxyholder. Please see “Appointment and Revocation of Proxies” below.

ATTENDING THE SHAREHOLDER MEETING ELECTRONICALLY

The Meeting will be held online at <https://virtual-meetings.tsxtrust.com/1388>. In order to access the Meeting, shareholders will require internet connectivity. It is strongly recommended that shareholders access the Meeting at least 15 minutes before the Meeting starts and ensure his or her web browser and internet connection are working properly.

Shareholders can simply go to the above website in his or her web browser (not a Google search) on his or her smartphone, tablet or computer. Shareholders will need the latest versions of Chrome, Safari, Edge or Firefox. It is important that shareholders ensure their internet browser is compatible by logging in early. Please do not use internet explorer.

I have a control number

If a shareholder received a form of proxy from the Corporation's transfer agent and registrar, TSX Trust Company (the "**Transfer Agent**"), with a control number, such shareholders should select "**I have a control number**" and enter his or her control number and the following case sensitive password:

prophecy2022

I am a Guest

If a shareholder does not have a control number, such shareholders should select "**I am a Guest**" and fill in the required information.

Navigation

When successfully authenticated, the info screen will be displayed. Shareholders can view the Corporation's information, ask questions and watch the webcast. If a shareholder would like to watch the webcast, press the play icon. If viewing on a computer, the webcast will appear automatically once the Meeting has started.

Voting

Once the voting is announced, shareholders should click the voting icon on the left-hand side. To vote, simply select the desired voting direction from the options shown on screen and click "**Submit**". A confirmation message will appear to show the vote has been received. If a shareholder has additional control numbers to vote, click "**I have additional control numbers**" at the top to enter the additional credential. To change a vote, simply click "**Refresh Voting Resolutions**". Voting will remain open until the voting on the ballot is closed.

How to vote by proxy

Voting by proxy means appointing someone (a proxyholder) to attend the Meeting and vote according to instructions provided by the Shareholder.

1. Appointing someone as proxyholder. John McMahon whom failing Roland Nimmo will be the Meeting's default proxyholders unless the shareholder appoints someone else. If a shareholder wants to appoint someone else to be their proxyholder, follow the instructions set out below in "Appointment and Revocation of Proxies".

The person the shareholder appoints will need to contact the Transfer Agent at TMXEInvestorServices@tmx.com to request a control number to be represented or voted at the Meeting. It is the responsibility of the shareholder to advise their proxy (the person they appoint) to contact the Transfer Agent to request a control number. Without the control number, proxyholders will not be able to participate at the Meeting.

2. Provide voting instructions. See "Exercise of Discretion by Proxies" below.

3. Send in proxy form. See "Appointment and Revocation of Proxies" below.

Questions

Eligible shareholders attending the meeting may ask questions during the Meeting. Messages can be submitted at any time during the Q&A session up until the chair closes the session. If a shareholder would like to ask a question, select the "**Ask a Question**" icon on the left. Type the desired message within the chat box in the messaging screen. Once

happy with the message, click the “Ask Now” button. Questions sent via TSX Trust Virtual Meeting platform will be moderated before being sent to the chair.

It is the shareholders’ responsibility to ensure connectivity during the Meeting and the Corporation encourages its shareholders to allow sufficient time to log in to the Meeting before it begins. It is strongly recommended that shareholders access the Meeting at least 15 minutes before the Meeting starts.

APPOINTMENT AND REVOCATION OF PROXIES

The purpose of a form of proxy is to designate persons who will vote on the shareholder’s behalf in accordance with the instructions given by the shareholder in the form of proxy. The persons named in the enclosed form of proxy are officers or directors of the Corporation. **A REGISTERED SHAREHOLDER DESIRING TO APPOINT SOME OTHER PERSON, WHO NEED NOT BE A SHAREHOLDER OF THE CORPORATION, TO REPRESENT HIM OR HER AT THE MEETING MAY DO SO BY FILLING IN THE NAME OF SUCH PERSON IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY OR BY COMPLETING ANOTHER PROPER FORM OF PROXY.** A Registered Shareholder wishing to be represented by proxy at the Meeting or any adjournment thereof must, in all cases, deposit the completed form of proxy with the Transfer Agent not later than 4:00 p.m. (Eastern time) on Tuesday, August 9, 2022 or, if the Meeting is adjourned, not later than 48 hours, excluding Saturdays, Sundays and holidays, preceding the time of such adjourned Meeting at which the form of proxy is to be used. A form of proxy should be executed by the Registered Shareholder or his or her attorney duly authorized in writing or, if the Registered Shareholder is a corporation, by an officer or attorney thereof duly authorized.

Proxies may be deposited with the Transfer Agent using one of the following methods:

A holder of Common Shares who appears on the records maintained by the Corporation’s registrar and transfer agent as a Registered Shareholder may vote in person at the Meeting or may appoint another person to represent such Registered Shareholder as proxy and to vote the Common Shares of such Registered Shareholder at the Meeting. In order to appoint another person as proxy, a Registered Shareholder must complete, execute and deliver the form of proxy accompanying this Management Information Circular, or another proper form of proxy, in the manner specified in the Notice of Meeting.

The purpose of a form of proxy is to designate persons who will vote on the shareholder’s behalf in accordance with the instructions given by the shareholder in the form of proxy. The persons named in the enclosed form of proxy are officers or directors of the Corporation. **A REGISTERED SHAREHOLDER DESIRING TO APPOINT SOME OTHER PERSON, WHO NEED NOT BE A SHAREHOLDER OF THE CORPORATION, TO REPRESENT HIM OR HER AT THE MEETING MAY DO SO BY FILLING IN THE NAME OF SUCH PERSON IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY OR BY COMPLETING ANOTHER PROPER FORM OF PROXY.** A Registered Shareholder wishing to be represented by proxy at the Meeting or any adjournment thereof must, in all cases, deposit the completed form of proxy with the Corporation’s transfer agent and registrar, not later than 4:00 p.m. (Eastern time) on Tuesday, August 9, 2022 or, if the Meeting is adjourned, not later than 48 hours, excluding Saturdays, Sundays and holidays, preceding the time of such adjourned Meeting at which the form of proxy is to be used. A form of proxy should be executed by the Registered Shareholder or his or her attorney duly authorized in writing or, if the Registered Shareholder is a corporation, by an officer or attorney thereof duly authorized.

Proxies may be deposited with the transfer agent using one of the following methods

| | |
|----------------------------------|---|
| By Mail or Hand Delivery: | TSX Trust Company Suite 301 100 Adelaide Street West Toronto, Ontario M5H 4H1 |
| By Fax: | 416-595-9593 |
| By Internet: | www.voteproxyonline.com You will need to provide your 12 digit control number (located on the form of proxy accompanying this Management Information Circular). |

Registered Shareholders that wish to appoint a third-party proxyholder to represent them at the virtual meeting must submit their proxy or voting instruction form (as applicable) prior to registering their proxyholder. Registering the proxyholder is an additional step once a Registered Shareholder has submitted their proxy and/or voting instruction form. Failure to register a duly appointed proxyholder will result in the proxyholder not receiving an Invite Code to participate in the meeting. For any questions, a Registered Shareholder should contact the Transfer Agent toll free in North America at 1(866) 600-5869 or, if calling from outside North America, at 416-342-1091 or by email at TMXEInvestoerservices@tmx.com.

A Registered Shareholder who has given a form of proxy may revoke the form of proxy at any time prior to using it: (a) by depositing an instrument in writing, including another completed form of proxy, executed by such Registered Shareholder or by his or her attorney authorized in writing or by electronic signature or, if the Registered Shareholder is a corporation, by an authorized officer or attorney thereof at, or by transmitting by telephone or electronic means, a revocation signed, subject to the *Business Corporations Act* (Ontario), by electronic signature, to (i) the registered office of the Corporation, located at 87 Scollard Street, Suite 100, Toronto, Ontario M5R 1G4, at any time prior to 5:00 p.m. (Eastern time) on the last business day preceding the day of the Meeting or any adjournment thereof or (ii) with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof; or (b) in any other manner permitted by law.

EXERCISE OF DISCRETION BY PROXIES

The Common Shares represented by proxies in favour of management nominees will be voted or withheld from voting in accordance with the instructions of the Registered Shareholder on any ballot that may be called for and, if a Registered Shareholder specifies a choice with respect to any matter to be acted upon at the Meeting, the Common Shares represented by the proxy shall be voted accordingly. Where no choice is specified, the proxy will confer discretionary authority and will be voted for the election of directors, for the appointment of auditors and the authorization of the directors to fix their remuneration and for each item of special business, as stated elsewhere in this Management Information Circular.

The enclosed form of proxy also confers discretionary authority upon the persons named therein to vote with respect to any amendments or variations to the matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting in such manner as such nominee in his judgment may determine. At the time of printing this Management Information Circular, the management of the Corporation knows of no such amendments, variations or other matters to come before the Meeting.

ADVICE TO NON-REGISTERED SHAREHOLDERS

The information set forth in this section is of significant importance to many shareholders of the Corporation, as a substantial number of shareholders of the Corporation do not hold Common Shares in their own name. Only Registered Shareholders or the persons they appoint as their proxies are permitted to attend and vote at the Meeting and only forms of proxy deposited by Registered Shareholders will be recognized and acted upon at the Meeting. Common Shares beneficially owned by a non-registered holder (each a “**Non-Registered Holder**”) are registered either: (i) in the name of an intermediary (an “**Intermediary**”) with whom the Non-Registered Holder deals in respect of the Common Shares (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans); or (ii) in the name of a clearing agency (such as CDS Clearing and Depository Services Inc.) (each a “**Clearing Agency**”) of which the Intermediary is a participant. Accordingly, such Intermediaries and Clearing Agencies would be the Registered Shareholder and would appear as such on the list maintained by the Transfer Agent. Non-Registered Holders do not appear on the list of the Registered Shareholders maintained by the Transfer Agent.

Distribution of Meeting Materials to Non-Registered Holders

In accordance with the requirements of NI 54-101, the Corporation has distributed copies of the Meeting Materials to the Clearing Agencies and Intermediaries for onward distribution to Non-Registered Holders as well as directly to NOBOs (as defined below).

Non-Registered Holders fall into two categories - those who object to their identity being known to the issuers of securities which they own (“**OBOs**”) and those who do not object to their identity being made known to the issuers of the securities which they own (“**NOBOs**”). Subject to the provisions of NI 54-101, issuers may request and obtain a list of their NOBOs from Intermediaries directly or via their transfer agent and may obtain and use the NOBO list for the distribution of proxy-related materials to such NOBOs. If you are a NOBO and the Corporation or its agent has sent the Meeting Materials directly to you, your name, address and information about your holdings of Common Shares have been obtained in accordance with applicable securities regulatory requirements from the Intermediary holding the Common Shares on your behalf.

The Corporation’s OBOs can expect to be contacted by their Intermediary. The Corporation does not intend to pay for Intermediaries to deliver the Meeting Materials to OBOs and it is the responsibility of such Intermediaries to ensure delivery of the Meeting Materials to their OBOs.

Voting by Non-Registered Holders

The Common Shares held by Non-Registered Holders can only be voted or withheld from voting at the direction of the Non-Registered Holder. Without specific instructions, Intermediaries or Clearing Agencies are prohibited from voting Common Shares on behalf of Non-Registered Holders. Therefore, each Non-Registered Holder should ensure that voting instructions are communicated to the appropriate person well in advance of the Meeting.

The various Intermediaries have their own mailing procedures and provide their own return instructions to Non-Registered Holders, which should be carefully followed by Non-Registered Holders in order to ensure that their Common Shares are voted at the Meeting.

Non-Registered Holders will receive either a voting instruction form or, less frequently, a form of proxy. The purpose of these forms is to permit Non-Registered Holders to direct the voting of the Common Shares they beneficially own. Non-Registered Holders should follow the procedures set out below, depending on which type of form they receive.

Voting Instruction Form. In most cases, a Non-Registered Holder will receive, as part of the Meeting Materials, a voting instruction form (a “**VIF**”). If the Non-Registered Holder does not wish to attend and vote at the Meeting in person (or have another person attend and vote on the Non-Registered Holder’s behalf), the VIF must be completed, signed and returned in accordance with the directions on the form.

or,

Form of Proxy. Less frequently, a Non-Registered Holder will receive, as part of the Meeting Materials, a form of proxy that has already been signed by the Intermediary (typically by a facsimile, stamped signature) which is restricted as to the number of Common Shares beneficially owned by the Non-Registered Holder, but which is otherwise not completed. If the Non-Registered Holder does not wish to attend and vote at the Meeting in person (or have another person attend and vote on the Non-Registered Holder’s behalf), the Non-Registered Holder must complete and sign the form of proxy and in accordance with the directions on the form.

Voting by Non-Registered Holders at the Meeting

Although a Non-Registered Holder may not be recognized directly at the Meeting for the purposes of voting Common Shares registered in the name of an Intermediary or a Clearing Agency, a Non-Registered Holder may attend the Meeting as proxyholder for the Registered Shareholder who holds Common Shares beneficially owned by such Non-Registered Holder and vote such Common Shares as a proxyholder. A Non-Registered Holder who wishes to attend the Meeting and to vote their Common Shares as proxyholder for the Registered Shareholder who holds Common Shares beneficially owned by such Non-Registered Holder, should (a) if they received a VIF, follow the directions indicated on the VIF; or (b) if they received a form of proxy strike out the names of the persons named in the form of proxy and insert the Non-Registered Holder’s or its nominee name in the blank space provided. Non-Registered Holders should carefully follow the instructions of their Intermediaries, including those instructions regarding when and where the VIF or the form of proxy is to be delivered.

All references to shareholders in the Meeting Materials are to Registered Shareholders as set forth on the list of Registered Shareholders of the Corporation as maintained by the Transfer Agent, unless specifically stated otherwise.

VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

The authorized share capital of the Corporation consists of an unlimited number of Common Shares without par value. As of July 4, 2022 (the “**Record Date**”), there were 132,147,212 issued and outstanding and no special shares issued and outstanding. Each Common Share outstanding on the Record Date carries the right to one vote at the Meeting. All of the outstanding Common Shares are entitled to be voted at the Meeting.

Only Registered Shareholders as of the Record Date are entitled to receive notice of, and to attend and vote at, the Meeting or any adjournment or postponement of the Meeting. On a show of hands, every Registered Shareholder and proxy holder will have one vote and, on a poll, every Registered Shareholder present in person or represented by proxy will have one vote for each Common Share held.

To the knowledge of the directors and senior officers of the Corporation, no person beneficially owns or exercises control over, directly or indirectly, Common Shares carrying more than 10% of the voting rights.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED ON

Other than as otherwise disclosed herein, no director or executive officer of the Corporation who was a director or executive officer at any time since the beginning of the last financial year of the Corporation, or any associate or affiliates of any such directors or officers, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting.

PARTICULARS OF MATTERS TO BE ACTED UPON

To the knowledge of the board of directors (the “**Board**”), the matters to be brought before the Meeting are those matters set forth in the accompanying Notice of Meeting.

1. PRESENTATION OF FINANCIAL STATEMENTS

The audited financial statements of the Corporation for the year ended December 31, 2021 and the report of the auditors thereon will be placed before the shareholders at the Meeting. No vote will be taken on the financial statements. The financial statements and additional information concerning the Corporation are available under the profile of the Corporation on SEDAR at www.sedar.com.

2. APPOINTMENT OF AUDITOR

MNP LLP, the former auditors of the Corporation, resigned as the auditors of the Corporation effective October 21, 2021. The Board appointed Kingston Ross Pasnak LLP, as auditors of the Corporation effective November 2, 2021, to fill the vacancy created thereby. Shareholders are being asked to confirm the actions of the Board and appoint Kingston Ross Pasnak GTA LLP as auditors of the Corporation to hold office until the next annual meeting of shareholders.

UNLESS THE SHAREHOLDER DIRECTS THAT HIS, HER OR ITS COMMON SHARES ARE TO BE WITHHELD FROM VOTING IN CONNECTION WITH THE CONFIRMATION AND APPOINTMENT OF AUDITORS, THE PERSONS NAMED IN THE ENCLOSED FORM OF PROXY INTEND TO VOTE FOR THE APPOINTMENT OF KINGSTON ROSS PASNAK LLP AS THE AUDITORS OF THE CORPORATION UNTIL THE NEXT ANNUAL MEETING OF SHAREHOLDERS AND TO AUTHORIZE THE DIRECTORS TO FIX THEIR REMUNERATION

In accordance with the provisions of National Instrument 51-102 – *Continuous Disclosure Obligations*, attached to this Management Information Circular as Appendix “C”, is the requisite reporting package, including the notice of the Corporation to MNP LLP and Kingston Ross Pasnak LLP stating that there are no reportable events and the letters of each of MNP LLP and Kingston Ross Pasnak LLP to the Ontario Securities Commission, the Alberta Securities Commission and the British Columbia Securities Commission.

3. ELECTION OF DIRECTORS

The articles of the Corporation provide that the Board shall consist of a minimum of one and a maximum of twenty directors, the number of which may be fixed from time to time by a resolution of the Board. As at the Record Date, the Corporation has four directors.

At the Meeting, the shareholders are required to elect the directors of the Corporation to hold office until the next annual meeting of shareholders or until their successors are elected or appointed. It is advisable to elect John McMahon, Tim Diamond, Stuart Hensman and Charlie Morris (the “**Proposed Directors**”) as directors of the Corporation to serve from the date of election until the close of the next annual meeting of shareholders of the Corporation or until their successors are elected or appointed.

The following table states the names of the persons nominated by management for election as directors, any offices with the Corporation currently held by them, their principal occupations or employment, the period or periods of service as directors of the Corporation and the approximate number of voting securities of the Corporation beneficially owned, directly or indirectly, or over which control or direction is exercised as of the date hereof:

| Name, province or state and country of residence and position, if any, held in the Corporation | Principal Occupation | Served as Director of the Corporation since | Number of Common Shares beneficially owned, directly or indirectly, or controlled or directed at present ⁽¹⁾ | Percentage of Voting Common Shares Owned or Controlled |
|--|--|---|---|--|
| John McMahon ⁽²⁾ Ontario, Canada Chief Executive Officer and Director | Currently Managing Partner of Thought Launch Capital & Advisory. Prior, Vice Chairman and Head of Investment Banking for Mackie Research Capital Corporation and Managing Director of Investment Banking for Industrial Alliance Securities. | March 2, 2021 | 2,000,000 | 1.51% |
| Tim Diamond Ontario, Canada Director | CEO of Whitehall Apartments Corp. | March 2, 2021 | 1,500,000 | 1.14% |
| Stuart Hensman ⁽²⁾⁽³⁾⁽⁴⁾ Ontario, Canada Director | Corporate Director | July 22, 2021 | 200,000 | 0.15% |
| Charlie Morris ⁽²⁾ Ontario, Canada Director | Managing Partner of CMCC Global | June 8, 2021 | 3,353,244 | 2.53% |

Note:

- (1) The information as to voting securities beneficially owned, controlled or directed, not being within the knowledge of the Corporation, has been furnished by the respective nominees individually.
- (2) Member of the Audit Committee.
- (3) Chair of the Audit Committee.
- (4) The principal occupation during the past five years of the director not previously elected by shareholders is as follows:

Stuart Hensman:

Corporate Director of QWEST Diversified Capital Corporation, Trident Performance Corp., Trident Performance Corp. II, RIFCO Inc and Canacol Energy Ltd.

The following is a brief description of each of the Proposed Directors (including details with regard to their principal occupations for the last five years):

John McMahon

Mr. McMahon has held a number of senior banking roles within the investment industry and is currently Managing Partner of Thought Launch Capital & Advisory. Prior to this role, he served as Vice Chairman and Head of Investment Banking for Mackie Research Capital Corporation and subsequently, Managing Director of Investment Banking for Industrial Alliance Securities.

Tim Diamond

Mr. Diamond brings over 30 years of entrepreneurial and managerial experience across asset management, real estate, merchant banking, and venture investing including founding, building and successfully exiting several companies. Mr. Diamond is CEO of Whitehall Apartments Corp. a private REIT and has served on the boards of numerous publicly listed investment funds during his career.

Stuart Hensman

Mr. Hensman has over 40 years of experience in the financial services industry. Mr. Hensman was previously Chairman & Chief Executive Officer for Scotia Capital Inc. (USA), Managing Director (Equities) for Scotia Capital Inc. (United Kingdom), Chairman of the Board of Governors at CI Funds, Chairman of Board of Creststreet Asset Management, Chairman of the Board of Creststreet Power and Income Fund, and a Director of Canacol Energy Inc.

Charlie Morris

Mr. Morris is a co-founder and Managing Partner of CMCC Global in Toronto. Previously Mr. Morris was a software engineer focused on iOS and a technology sector management consultant London. Mr. Morris is also an expert advisor on blockchain and was an Ethereum ICO investor in 2014.

PROXIES RECEIVED IN FAVOUR OF MANAGEMENT WILL BE VOTED FOR THE ELECTION OF THE ABOVE-NAMED NOMINEES, UNLESS THE SHAREHOLDER HAS SPECIFIED IN THE PROXY THAT HIS, HER OR ITS COMMON SHARES ARE TO BE WITHHELD FROM VOTING IN RESPECT THEREOF. Management has no reason to believe that any of the nominees will be unable to serve as a director but, IF A NOMINEE IS, FOR ANY REASON, UNAVAILABLE TO SERVE AS A DIRECTOR, PROXIES IN FAVOUR OF MANAGEMENT WILL BE VOTED IN FAVOUR OF THE REMAINING NOMINEES AND MAY BE VOTED FOR A SUBSTITUTE NOMINEE UNLESS THE SHAREHOLDER HAS SPECIFIED IN THE PROXY THAT HIS, HER OR ITS COMMON SHARES ARE TO BE WITHHELD FROM VOTING IN RESPECT OF THE ELECTION OF DIRECTORS.

Cease Trade Orders and Bankruptcies

To the knowledge of the Corporation, no proposed director, within 10 years before the date of this Management Information Circular, has been a director, chief executive officer or chief financial officer of any company that:

- (a) was subject to: (i) a cease trade order; (ii) an order similar to a cease trade order; or (iii) an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (collectively an “**Order**”) and that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer; or
- (b) was subject to an Order that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

None of the proposed directors of the Corporation, within 10 years before the date of this Management Information Circular, has been a director or executive officer of any company that, while the proposed director was acting in that capacity, or within a year of the proposed director ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Personal Bankruptcies

None of the proposed directors of the Corporation have, within the 10 years before the date of this Management Information Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such person.

Penalties and Sanctions

None of the proposed directors of the Corporation have been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

4. ADOPTION OF NEW GENERAL BY-LAW NO.1

The Corporation recently undertook a review of the existing by-laws of the Corporation dated April 18, 1997, and May 26, 2015 (the "**Old By-Laws**"), particularly in light of evolving corporate statute and corporate governance best practices, and the Corporation determined that it would be in the best interests of the Corporation to implement a new by-law no. 1 (the "**New By-Law No. 1**") in order to incorporate such best practices. The Corporation adopted the New By-Law No. 1 effective July 11th, 2022, subject to ratification and confirmation of the shareholders of the Corporation.

The New By-Law No. 1 is standard in its form and governs all aspects of the business and affairs of the Corporation, such as the establishment of a quorum for meetings of directors and shareholders, the conduct of such meeting, signing authorities, the appointment of officers, the description of the officers' duties, the establishment of committees of the Board, the authority of persons to contract on behalf of the Corporation and similar matters. A copy of the New By-Law No. 1 is attached hereto as Appendix B.

At the Meeting, shareholders will be asked to consider and, if deemed advisable, pass, with or without variation, the following resolution ratifying and confirming the adoption of the New By-Law No. 1 (the "**By-Law No. 1 Resolution**")

"BE IT RESOLVED THAT:

1. the Old By-Laws of the Corporation be repealed and the New By-Law No. 1, being a general by-law in the form attached to the Management Information Circular dated July 11, 2022 of the Corporation as Appendix B, be and is hereby ratified and confirmed as a by-law of the Corporation; and
2. any director or officer of the Corporation be and he or she is hereby authorized and directed, for and on behalf of the Corporation, to execute and deliver all such documents and to do all such other acts or things as he or she may determine to be necessary or advisable to give effect to this resolution, the execution of any such document or the doing of any such other act or thing being conclusive evidence of such determination, and if any of the foregoing has been done before the date of this resolution that they be approved, confirmed and ratified in all respects."

In order to pass the By-Law No. 1 Resolution, at least a majority of the votes cast by the must be voted in favour of the By-Law No. 1 Resolution. If the By-Law No. 1 Resolution does not receive the requisite shareholder approval, the existing by-laws of the Corporation will take effect as of the termination of the Meeting.

The Board recommends that shareholders vote in favour to approve the repeal of the Old By-Laws and to approve the By-Law No. 1 Resolution as set out above.

PROXIES RECEIVED IN FAVOUR OF MANAGEMENT WILL BE VOTED FOR THE APPROVAL OF THE BY-LAW NO. 1 RESOLUTION UNLESS A SHAREHOLDER HAS SPECIFIED IN THE PROXY THAT HIS, HER OR ITS COMMON SHARES ARE TO BE VOTED AGAINST SUCH RESOLUTION

5. CHANGE OF REGISTERED ADDRESS

At the Meeting, shareholders will be asked to consider and, if deemed advisable, to approve the change of the registered address of the Corporation to 87 Scollard Street West, Suite 100, Toronto, ON M5R 1G4 (the “**Address Change**”).

At the Meeting, shareholders will be asked to consider and, if deemed advisable, pass, with or without variation, the following special resolution

“BE IT RESOLVED AS A SPECIAL RESOLUTION THAT

1 the change of the registered address of the Corporation to 87 Scollard Street West, Suite 100, Toronto, ON M5R 1G4 or such other address that the Board approve is hereby authorized and approved;

2. notwithstanding any approval of the shareholders of the Corporation as herein provided, the Board of the Corporation may, in its sole discretion, revoke this special resolution and abandon the registered address change before it is acted upon without further approval of the shareholders; and

3. any one director or officer of the Corporation be, and is hereby, authorized, empowered and instructed, acting for, in the name and on behalf of the Corporation, to execute or cause to be executed, under the seal of the Corporation or otherwise, and to deliver or to cause to be delivered, all such other documents and to do or to cause to be done all such other acts and things as in such person’s opinion may be necessary or desirable in order to carry out the intent of the foregoing paragraphs of these resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document or the doing of such act or thing”.

The Address Change resolution needs to be adopted by two-thirds (2/3) of the votes cast by those entitled to vote at the Meeting. The Address Change resolution also grants to the Board the discretion not to proceed with the Address Change.

PROXIES RECEIVED IN FAVOUR OF MANAGEMENT WILL BE VOTED FOR THE APPROVAL OF THE ADDRESS CHANGE RESOLUTION UNLESS A SHAREHOLDER HAS SPECIFIED IN THE PROXY THAT HIS, HER OR ITS COMMON SHARES ARE TO BE VOTED AGAINST SUCH RESOLUTION

STATEMENT OF EXECUTIVE COMPENSATION

Under applicable securities legislation, the Corporation is required to disclose certain financial and other information relating to the compensation of the Chief Executive Officer, the Chief Financial Officer and the most highly compensated executive officer of the Corporation as at December 31, 2021 whose total compensation was more than \$150,000 for the financial year of the Corporation ended December 31, 2021 (collectively the “**Named Executive Officers**”) and for the directors of the Corporation.

Summary Compensation Table

The following table provides a summary of compensation paid, directly or indirectly, for each of the two most recently completed financial years to the Named Executive Officers and the directors of the Corporation:

| TABLE OF COMPENSATION EXCLUDING COMPENSATION SECURITIES ⁽¹⁾ | | | | | | | |
|--|------|---|------------|--------------------------------|---------------------------|--------------------------------------|-------------------------|
| Name and position | Year | Salary, consulting fee, retainer or commission (\$) | Bonus (\$) | Committee or meeting fees (\$) | Value of perquisites (\$) | Value of all other compensation (\$) | Total compensation (\$) |
| John McMahon ⁽²⁾ President, Chief Executive Officer and Director | 2021 | 254,463 | nil | nil | nil | nil | 254,463 |
| | 2020 | nil | nil | nil | nil | nil | nil |
| Roland Nimmo ⁽³⁾ Chief Financial Officer | 2021 | 128,820 | nil | nil | nil | nil | 128,820 |
| | 2020 | n/a | n/a | n/a | n/a | n/a | n/a |
| Timothy Diamond Director | 2021 | 56,415 | nil | nil | nil | nil | 56,415 |
| | 2020 | n/a | nil | nil | nil | nil | n/a |
| Stuart Hensman ⁽⁴⁾ Director | 2021 | 13,336 | nil | nil | nil | nil | 13,336 |
| | 2020 | n/a | nil | nil | nil | nil | n/a |
| Charlie Morris ⁽⁵⁾ Director | 2021 | 86,956 | nil | nil | nil | nil | 86,956 |
| | 2020 | n/a | n/a | n/a | n/a | n/a | n/a |
| Lucas Ewart ⁽²⁾ Former Chief Executive Officer | 2021 | 10,000 | nil | nil | nil | nil | 10,000 |
| | 2020 | 60,000 | nil | nil | nil | nil | 60,000 |
| Jason Ewart ⁽⁴⁾ Former Director | 2021 | 10,000 | nil | nil | nil | nil | 10,000 |
| | 2020 | nil | nil | nil | nil | nil | nil |
| Chris Carmichael ⁽³⁾ Former Chief Financial Officer | 2021 | 20,000 | nil | nil | nil | nil | 20,000 |
| | 2020 | 40,000 | nil | nil | nil | nil | 40,000 |
| Alec Regis ⁽⁵⁾ Former Director | 2021 | nil | nil | nil | nil | nil | nil |
| | 2020 | nil | nil | nil | nil | nil | nil |

Notes:

- (1) This table does not include any amount paid as reimbursement for expenses.
- (2) Lucas Ewart resigned as Chief Executive Officer and director on March 2, 2021 and Mr. McMahon was appointed Chairman, Chief Executive Officer and director in his stead.
- (3) Mr. Carmichael resigned as Chief Financial Officer on March 19, 2021 and Mr. Nimmo was appointed in his stead.
- (4) Jason Ewart resigned as a director on July 22, 2021 and Mr. Hensman was appointed in his stead.
- (5) Mr. Regis resigned as a director on June 8, 2021 and Mr. Morris was appointed in his stead.

Stock Options and Other Compensation Securities

The following table provides a summary of all compensation securities granted or issued to each Named Executive Officer and to each director of the Corporation during the Corporation's most recently completed financial year of the Corporation for services provided or to be provided, directly or indirectly, to the Corporation or any of its subsidiaries:

| COMPENSATION SECURITIES | | | | | | | |
|--|-------------------------------|--|------------------------|--|--|--|----------------|
| Name and position | Type of compensation security | Number of compensation securities, number of underlying securities, and % ⁽¹⁾ of class | Date of issue or grant | Issue, conversion or exercise price (\$) | Closing price of security or underlying security on date of grant (\$) | Closing price of security or underlying security at year end (\$) ⁽²⁾ | Expiry date |
| John McMahon ⁽⁷⁾ Ontario, Canada Chairman, Chief Executive Officer and Director | stock options | 1,000,000 stock options representing 1,000,000 Common Shares representing 0.76% of the outstanding number of Common Shares | April 28, 2021 | 0.42 ⁽²⁾ | 0.42 | 0.42 | April 28, 2024 |
| Roland Nimmo Ontario, Canada Chief Financial Officer | stock options | 400,000 stock options representing 400,000 Common Shares representing 0.30% of the outstanding number of Common Shares | March 25, 2021 | 0.22 ⁽³⁾ | 0.21 | 0.42 | March 25, 2024 |
| | stock options | 250,000 stock options representing 250,000 Common Shares representing 0.19% of the outstanding number of Common Shares | April 28, 2021 | 0.42 ⁽²⁾ | 0.42 | 0.42 | April 28, 2024 |
| | stock options | 100,000 stock options representing 100,000 Common Shares representing 0.076% of the outstanding number of Common Shares | June 23, 2021 | 0.60 ⁽⁴⁾ | 0.51 | 0.42 | June 23, 2024 |
| Tim Diamond Ontario, Canada Director | stock options | 500,000 stock options representing 400,000 Common Shares representing 0.38% of the outstanding number of Common Shares | April 28, 2021 | 0.42 ⁽²⁾ | 0.42 | 0.42 | April 28, 2024 |
| Stuart Hensman ⁽⁶⁾⁽⁸⁾ Ontario, Canada Director | stock options | 400,000 stock options representing 400,000 Common Shares representing 0.30% of the outstanding number of Common Shares | July 22, 2021 | 0.35 ⁽⁵⁾ | 0.38 | 0.42 | July 22, 2024 |

| COMPENSATION SECURITIES | | | | | | | |
|---|-------------------------------|--|------------------------|--|--|--|---------------|
| Name and position | Type of compensation security | Number of compensation securities, number of underlying securities, and % ⁽¹⁾ of class | Date of issue or grant | Issue, conversion or exercise price (\$) | Closing price of security or underlying security on date of grant (\$) | Closing price of security or underlying security at year end (\$) ⁽²⁾ | Expiry date |
| Charlie Morris Ontario, Canada Director | stock options | 650,000 stock options representing 650,000 Common Shares representing 0.49% of the outstanding number of Common Shares | June 23, 2021 | 0.60 ⁽⁴⁾ | 0.51 | 0.42 | June 23, 2024 |
| Jason Ewart ⁽⁶⁾ Ontario, Canada Former Director | stock options | Nil stock options representing nil Common Shares representing 0% of the outstanding number of Common Shares | N/A | N/A | N/A | N/A | N/A |
| Lucas Ewart ⁽⁷⁾ Ontario, Canada Former Chief Executive Officer | stock options | Nil stock options representing nil Common Shares representing 0% of the outstanding number of Common Shares | N/A | N/A | N/A | N/A | N/A |

Notes:

- (1) Calculated on a partially diluted basis as at December 31, 2021.
- (2) For each stock option, as at the date of grant, value was estimated using the Black-Scholes option pricing model to be consistent with the audited financial statements and included the following assumptions: share price \$0.42, dividend yield 0%, expected volatility 150% (based on the historical price history of the Common Shares), risk-free interest rate of 0.48% and an expected life of 3 years.
- (3) For each stock option, as at the date of grant, value was estimated using the Black-Scholes option pricing model to be consistent with the audited financial statements and included the following assumptions: share price \$0.22, dividend yield 0%, expected volatility 150% (based on the historical price history of the Common Shares), risk-free interest rate of 0.46% and an expected life of 3 years.
- (4) For each stock option, as at the date of grant, value was estimated using the Black-Scholes option pricing model to be consistent with the audited financial statements and included the following assumptions: share price \$0.60, dividend yield 0%, expected volatility 150% (based on the historical price history of the Common Shares), risk-free interest rate of 0.61% and an expected life of 3 years.
- (5) For each stock option, as at the date of grant, value was estimated using the Black-Scholes option pricing model to be consistent with the audited financial statements and included the following assumptions: share price \$0.35, dividend yield 0%, expected volatility 150% (based on the historical price history of the Common Shares), risk-free interest rate of 1.42% and an expected life of 3.
- (6) Jason Ewart resigned as a Director on July 22, 2021 and Mr. Hensman was appointed in his stead.
- (7) Lucas Ewart resigned as Chief Executive Officer and director on March 2, 2021 and Mr. McMahon was appointed Chairman, Chief Executive Officer and director in his stead.
- (8) As at December 31, 2021, the officers and directors of the Corporation who had such positions with the Corporation as at such date held options as follows.
 - Mr. McMahon, Chairman, Chief Executive Officer and Director of the Corporation, held 400,000 options to purchase 400,000 Common Shares.
 - Mr. Nimmo, Chief Financial Officer of the Corporation, held 750,000 options to purchase 750,000 Common Shares.
 - Mr. Diamond, Director of the Corporation, held 500,000 options to purchase 500,000 Common Shares.
 - Mr. Hensman, Director of the Corporation, held 400,000 options to purchase 400,000 Common Shares.
 - Mr. Morris, Director of the Corporation, held 650,000 options to purchase 650,000 Common Shares.

The following table provides a summary of all compensation securities exercised by each Named Executive Officer and each director of the Corporation during the most recently completed financial year:

| EXERCISE OF COMPENSATION SECURITIES BY DIRECTORS AND NAMED EXECUTIVES OFFICERS | | | | | | | |
|--|-------------------------------|---|----------------------------------|-------------------|---|--|-----------------------------------|
| Name and position | Type of compensation security | Number of underlying securities exercised | Exercise price per security (\$) | Date of exercise | Closing price per security on date of exercise (\$) | Difference between exercise and closing price on date of exercise (\$) | Total value on exercise date (\$) |
| Stuart Hensman Director | stock options | 200,000 | 0.35 | December 31, 2021 | 0.42 | 0.07 | 84,000 |

Stock Option Plan

The Corporation currently maintains a stock option plan, which was approved by the shareholders on September 8, 2015 (the “**Stock Option Plan**”). The purpose of the Stock Option Plan is to encourage share ownership by directors, senior officers and employees, together with consultants, who are primarily responsible for the management and growth of the business of the Corporation. The number of Common Shares, the exercise price per Common Share, the vesting period and any other terms and conditions of options granted pursuant to the Stock Option Plan, from time to time, are determined by the Board at the time of the grant, subject to the defined parameters of the Stock Option Plan and compliance with the policies of the Canadian Securities Exchange.

The maximum number of Common Shares which may be reserved and set aside for issue under the Stock Option Plan is equal to up to 10% of the issued and outstanding Common Shares, provided that the Board may, subject to shareholder and regulatory approvals, increase such number.

The Stock Option Plan is administered by the Board, which has the authority thereunder to delegate its administration and operation to a special committee of directors appointed from time to time by the Board. Participation is limited to directors, officers, employees and consultants providing services to the Corporation. The number of Common Shares which can be reserved for issuance under the Stock Option Plan: (a) to any individual director or officer shall not exceed 5% of the issued and outstanding Common Shares; and (b) to all consultants shall not exceed 2% of the issued and outstanding Common Shares.

The Stock Option Plan also provides for adjustments to outstanding options in the event of any consolidation, subdivision, conversion or exchange of the Corporation’s shares. As of the date of the Management Information Circular, there are 7,725,000 stock options outstanding under the Stock Option Plan.

Employment, Consulting and Management Agreements

Other than as set forth below, the Corporation does not, and did not during the most recently completed financial year, have in place any employment agreements between the Corporation or any subsidiary or affiliate thereof and any of its Named Executive Officers or directors.

John McMahon – Chairman, Chief Executive Officer and Director

Pursuant to an executive employment agreement entered into on March 2, 2021, the Corporation retained John McMahon to act as the President and Chief Executive Officer of the Corporation (the “**McMahon Agreement**”). In addition to a special one time fee of \$100,000 for providing a business and restructuring strategy, under the McMahon Agreement, Mr. McMahon receives an annual salary of \$150,000 the (“**Salary**”). The Salary is subject to annual review and may be increased from time to time at the sole discretion of the Corporation. Mr. McMahon is also eligible to participate in the Stock Option Plan and to receive a discretionary annual cash bonus as determined by the Board.

Mr. McMahon is also entitled to be reimbursed for all reasonable out-of-pocket expenses incurred in connection with the services performed under the McMahon Agreement.

In the event of a change of control of the Corporation, Mr. McMahon will receive a lump sum fee equivalent to three (3) years of fees, which is \$450,000 plus any accrued bonuses. In addition, Mr. McMahon will receive the value of any bonus and stock options, which would have been issued and received three years after the termination of the McMahon Agreement.

If the McMahon Agreement is terminated by the Corporation, apart from a change in control, Mr. McMahon is entitled to a payment equal to 6 months of Salary. After one year of employment, Mr. McMahon shall receive one additional month of base salary and monetary equivalent of a bonus and stock options given to Mr. Nimmo prior to his dismissal. All stock options held by Mr. McMahon become vested at the time of termination.

Roland Nimmo – Chief Financial Officer

Pursuant to a contractor agreement entered into effective March 19, 2021, the Corporation retained Nimmo Financial Corporation, of which Mr. Nimmo is the president and sole shareholder, to provide CFO Services to the Corporation (the “**Nimmo Agreement**”). Under the Nimmo Agreement, Mr. Nimmo receives a monthly consulting fee of \$10,000 (the “**Consulting Fee**”). The Consulting Fee is subject to review annually and may be increased from time to time at the sole discretion of the Corporation. Mr. Nimmo is also eligible to participate in the Stock Option Plan and to receive a discretionary annual cash bonus as determined by the Board. Mr. Nimmo is also entitled to be reimbursed for all reasonable out-of-pocket expenses incurred in connection with the services performed under the Nimmo Agreement.

In the event of a change of control of the Corporation, Mr. Nimmo will receive a lump sum fee equivalent to three (3) years of his Consulting Fee, which is \$360,000. In addition, Mr. Nimmo will receive the value of any bonus and stock options, which would have been issued and received three years after the termination of the Nimmo Agreement.

If the Nimmo Agreement is terminated by the Corporation, apart from a change in control, Mr. Nimmo is entitled to a payment equal to 6 months of his Consulting Fee plus one additional month’s compensation for each full year Mr. Nimmo provided services to the Corporation and all stock options held by Mr. Nimmo become vested.

Oversight and Description of Director and Named Executive Officer Compensation

Compensation of Directors

Compensation paid to the officers and directors of the Corporation is determined by the Board. Compensation paid by the Corporation to the executive officers is based on, and consistent with, recommendations of the Board. In addition, the Board recommends the compensation, if any, to be paid to directors for services rendered in that capacity. Directors are entitled to participate in the stock option plan of the Corporation.

Compensation of Named Executive Officers

Principles of Executive Compensation

The Corporation believes in linking an individual’s compensation to his or her performance and contribution as well as to the performance of the Corporation as a whole. The primary components of the Corporation’s executive compensation are base salary and option-based awards. The Board believes that the mix between base salary and incentives must be reviewed and tailored to each executive based on their role within the organization as well as their own personal circumstances. The overall goal is to successfully link compensation to the interests of the shareholders. The following principles form the basis of the Corporation’s executive compensation program:

1. align the interests of executives and shareholders;
2. attract and motivate executives who are instrumental to the success of the Corporation and the enhancement of shareholder value;

3. pay for performance;
4. ensure compensation methods have the effect of retaining those executives whose performance has enhanced the Corporation's long term value; and
5. connect, if possible, the Corporation's employees into principles 1 through 4 above.

The Board is responsible for the Corporation's compensation policies and practices. The Board has the responsibility to review and make recommendations concerning the compensation of the directors of the Corporation and the Named Executive Officers within the constraints of the agreements described under "*Employment, Consulting and Management Agreements*" above. The Board also has the responsibility to make recommendations concerning annual bonuses and grants to eligible persons under the Stock Option Plan. The Board also reviews and approves the hiring of executive officers.

Base Salary

The Board approves the salary ranges for the Named Executive Officers. The base salary review for each Named Executive Officer is based on assessment of factors such as current competitive market conditions, compensation levels within the peer group and particular skills, such as leadership ability and management effectiveness, experience, responsibility and proven or expected performance of the particular individual. Comparative data for the Corporation's peer group is also accumulated from a number of external sources including independent consultants. The Corporation's policy for determining salary for executive officers of the Corporation is consistent with the administration of salaries for all other employees.

Annual Incentives

The Corporation, in its discretion, may award annual bonuses in order to motivate executives to achieve short-term corporate goals. The Board approves annual incentives.

The success of Named Executive Officers in achieving their individual objectives and their contribution to the Corporation in reaching its overall goals are factors in the determination of their annual bonus. The Board assesses each Named Executive Officer's performance on the basis of his or her respective contribution to the achievement of the predetermined corporate objectives, as well as to needs of the Corporation that arise on a day to day basis. This assessment is used by the Board in developing its recommendations with respect to the determination of annual bonuses for the Named Executive Officers.

Compensation and Measurements of Performance

It is the intention of the Board to approve targeted amounts of annual incentives for each Named Executive Officer at the beginning of each financial year. The targeted amounts will be determined by the Board based on a number of factors, including comparable compensation of similar companies.

Achieving predetermined individual and/or corporate targets and objectives, as well as general performance in day to day corporate activities, will trigger the award of a bonus payment to the Named Executive Officers. The Named Executive Officers will receive a partial or full incentive payment depending on the number of the predetermined targets met and the Board's assessment of overall performance. The determination as to whether a target has been met is ultimately made by the Board and the Board reserves the right to make positive or negative adjustments to any bonus payment if they consider them to be appropriate.

Long Term Compensation

The Corporation currently has no long-term incentive plans, other than stock options granted from time to time by the Board under the provisions of the Stock Option Plan.

Pension Disclosure

There are no pension plan benefits in place for the Named Executive Officers or the directors of the Corporation.

Termination and Change of Control Benefits

The Corporation does not have in place any pension or retirement plan. The Corporation has not provided compensation, monetary or otherwise, during the preceding fiscal year, to any person who now acts or has previously acted as a Named Executive Officer or director of the Corporation in connection with or related to the retirement, termination or resignation of such person. The Corporation has not provided any compensation to such persons as a result of a change of control of the Corporation, its subsidiaries or affiliates. Except as set forward under “*Employment, Consulting and Management Agreements*”, the Corporation is not party to any compensation plan or arrangement with Named Executive Officers or directors of the Corporation resulting from the resignation, retirement or the termination of employment of such person.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The table below sets forth information as at the Record Date with respect to the Corporation’s compensation plans under which equity securities of the Corporation are authorized for issuance.

| Plan Category | Number of securities to be issued upon exercise of outstanding convertible security (a) | Weighted-average exercise price of outstanding convertible security (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|--|--|--|--|
| Equity compensation plans approved by security holders | 7,725,000 | \$0.43 | 5,489,721 |
| Equity compensation plans not approved by security holders | Nil | N/A | N/A |

Note:

(1) *The Stock Option Plan is a “rolling” stock option plan whereby the maximum number of Common Shares that may be reserved for issue pursuant to the Stock Option Plan will not exceed 10% of the outstanding Common Shares at the time of the stock option grant. As at the date of this Management Information Circular, 13,214,721 stock options may be reserved for issue pursuant to the Stock Option Plan. 7,725,000 stock options have been issued and 5,489,721 stock options are still available for issue under the Stock Option Plan.*

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Other than as otherwise disclosed in this Management Information Circular, no director, executive officer or principal shareholder of the Corporation, or associate or affiliate of any of the foregoing, has had any material interest, direct or indirect, in any transaction since the commencement of the Corporation’s most recently completed financial year end or in any proposed transaction that has materially affected or will materially affect the Corporation.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No director or officer of the Corporation or person who acted in such capacity in the last financial year of the Corporation, or any other individual who at any time during the most recently completed financial year of the Corporation was a director of the Corporation or any associate of the Corporation, is indebted to the Corporation, nor is any indebtedness of any such person to another entity the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation.

AUDIT COMMITTEE

AUDIT COMMITTEE INFORMATION REQUIRED IN THE CIRCULAR OF A VENTURE ISSUER

National Instrument 52-110 – *Audit Committees* (“**NI 52-110**”) requires that certain information regarding the Audit Committee of a "venture issuer" (as that term is defined in NI 52-110) be included in the management information circular sent to shareholders in connection with the issuer’s annual meeting.

Audit Committee Charter

The full text of the charter of the Corporation’s Audit Committee is attached hereto as Appendix A.

Composition of the Audit Committee

The Audit Committee members are currently John McMahon, Stuart Hensman (Chair) and Charlie Morris, each of whom is a director and financially literate. Messrs. Hensman and Morris are independent in accordance with NI 52-110. John McMahon is not independent by virtue of his management position with the Corporation.

Relevant Education and Experience of Audit Committee Members

The following is a description of the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as an Audit Committee member and, in particular, any education or experience that would provide the member with:

1. an understanding of the accounting principles used by the Corporation to prepare its financial statements;
2. the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves;
3. experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation’s financial statements, or experience actively supervising one or more persons engaged in such activities; and
4. an understanding of internal controls and procedures for financial reporting.

John McMahon, Chairman, Chief Executive Officer and Director

John McMahon has held a number of senior banking roles within the investment industry and is currently Managing Partner of Thought Launch Capital & Advisory. Prior to this role, he served as Vice Chairman and Head of Investment Banking for Mackie Research Capital Corporation and subsequently, Managing Director of Investment Banking for Industrial Alliance Securities.

Stuart Hensman, Director

Mr. Hensman has over 40 years of experience in the financial services industry. Mr. Hensman was previously Chairman & Chief Executive Officer for Scotia Capital Inc. (USA), Managing Director (Equities) for Scotia Capital Inc. (United Kingdom), Chairman of the Board of Governors at CI Funds, Chairman of Board of Creststreet Asset Management, Chairman of the Board of Creststreet Power and Income Fund, and a Director of Canacol Energy Inc.

Charlie Morris, Director

Charlie Morris is a co-founder and Managing Partner of CMCC Global in Toronto. Previously Mr. Morris was a software engineer focused on iOS and a technology sector management consultant London. Mr. Morris is also an expert advisor on blockchain and was an Ethereum ICO investor in 2014.

Audit Committee Oversight

Since the commencement of the Corporation's most recently completed financial year, there has not been a recommendation of the Audit Committee to nominate or compensate an external auditor which was not adopted by the Board.

Audit Fees

The following table provides details in respect of audit and tax fees billed by the external auditor of the Corporation for professional services rendered to the Corporation during the years ended December 31, 2021 and December 31, 2020:

| Year | <u>Audit Fees</u> (\$) | Audit Related Fees | Tax (\$) | All Other Fees |
|------------------------------|-----------------------------------|-------------------------------|-----------------|---------------------------|
| Year ended December 31, 2020 | 21,763 | nil | nil | nil |
| Year ended December 31, 2021 | 173,607 | nil | nil | nil |

Audit Fees – aggregate fees billed for professional services rendered by the auditor for the audit of the Corporation's annual financial statements as well as services provided in connection with statutory and regulatory filings.

Audit-Related Fees – audit-related fees that are paid for assurance and related services rendered by the auditors that are not reported under "Audit Fees".

Tax Fees – aggregate fees billed for tax compliance, tax advice and tax planning professional services. These services included reviewing tax returns and assisting in responses to government tax authorities.

All Other Fees – aggregate fees billed for professional services which included accounting advice.

REPORT ON CORPORATE GOVERNANCE

The Board has reviewed the Corporation's current corporate governance practices with reference to the applicable provisions of National Instrument 58-101 and has compiled the following analysis:

| CORPORATE GOVERNANCE GUIDELINE | THE CORPORATION'S PRACTICE |
|--|--|
| 1. Board of Directors | |
| (a) Disclose the identity of directors who are independent. | Tim Diamond, Stuart Hensman and Charlie Morris |
| (b) Disclose the identity of directors who are not independent, and describe the basis for that determination. | John McMahon is not considered to be an independent director by reason of his office of CEO. |

| CORPORATE GOVERNANCE GUIDELINE | THE CORPORATION'S PRACTICE |
|--|--|
| 2. Directorships | |
| If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer. | <p>Stuart Hensman</p> <ul style="list-style-type: none"> • Director of Trident Performance Corp. • Director of QWEST DIVERSIFIED CAPITAL CORPORATION • Director of Trident Performance Corp. II <p>John McMahon</p> <ul style="list-style-type: none"> • Gencan Capital Inc. <p>Timothy Diamond</p> <ul style="list-style-type: none"> • Gencan Capital Inc. |
| 3. Orientation and Continuing Education | |
| Describe what steps, if any, the board takes to orient new board members, and describe any measures the board takes to provide continuing education for directors. | Orientation includes regular Board meetings and monthly updates between the meetings. |
| 4. Ethical Business Conduct | |
| Describe what steps, if any, the board takes to encourage and promote a culture of ethical business conduct. | The Corporation's early stage allows the Board to effectively monitor the ethical conduct of the Corporation and ensure that it complies with applicable legal and regulatory requirements, such as those of relevant securities commissions and the Canadian Securities Exchange. |
| 5. Nomination of Directors | |
| Disclose what steps, if any, are taken to identify new candidates for board nomination, including: | |
| (a) who identifies new candidates, and (b) the process of identifying new candidates. | The Board's size and cohesion allow it to effectively perform the duties and functions of a nominating committee. Given the Corporation's present stage of development, the proposed Board composition has been determined to be appropriate. A nomination committee will be created at the appropriate time. |
| 6. Compensation | |
| Disclose what steps, if any, are taken to determine compensation for the directors and CEO, including: | |
| (a) who determines the compensation; and (b) the process of determining compensation. | The Corporation is limited in terms of the manner in which its directors and executives can be compensated. As such, the Board, as a whole, was able to determine matters related to executive and director compensation. |
| 7. Other Board Committees | |
| If the board has standing committees other than the audit, compensation and nominating committees, describe their function. | The Board does not presently have any standing committees other than the Audit Committee |
| 8. Assessments | |
| Disclose what steps, if any, that the board takes to satisfy itself that the board, its committees and its individual directors are performing effectively. | The Board monitors but does not formally assess the effectiveness and contribution of the Board, its committees and individual Board members. To date, the Board has satisfied itself, through informal discussions that the Board, its committees and individual Board members are performing effectively. |

OTHER MATTERS

The management of the Corporation knows of no other matters to come before the Meeting other than as set forth in the Notice of Meeting. **However, if other matters which are not known to management should properly come before the Meeting, the accompanying form of proxy will be voted on such matters in accordance with the best judgment of the person or persons voting the proxy.**

ADDITIONAL INFORMATION

Additional information relating to the Corporation is available on SEDAR at www.sedar.com. The Corporation's annual management discussion and analysis and a copy of this Management Information Circular is available to anyone, upon request, from the Corporation at 87 Scollard Street, Suite 100, Toronto, Ontario, M5R 1G4. All financial information in respect of the Corporation is provided in the comparative financial statements and management discussion and analysis for its recently completed financial year.

APPROVAL OF THE BOARD OF DIRECTORS

The contents of this Management Information Circular have been approved, and the delivery of it to each shareholder entitled thereto and to the appropriate regulatory agencies has been authorized by the Board.

DATED at Toronto, Ontario, on the 11th day of July, 2022.

BY ORDER OF THE BOARD

“John McMahon” (signed)
President and Chief Executive Officer

APPENDIX A

PROPHECY DEFI INC.

CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Primary Objective

The primary objective of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities to: (i) review financial reports and financial information provided to any regulatory authority or provided for release to the public and the Corporation's shareholders; (ii) review the Corporation's disclosure control systems; (iii) review the Corporation's internal control systems with respect to finance, accounting and legal compliance; and (iv) review the Corporation's accounting and financial reporting processes.

Composition

The Committee shall be composed of not less than three (3) directors, the majority of whom shall be independent and 'unrelated', as determined by the Board of Directors in accordance with applicable legislation and any requirements of such exchanges on which the securities of the Corporation are traded. The Committee's composition shall be in compliance with the stated requirements of Multilateral Instrument 52-110 "Audit Committees" and any amendments thereto.

All members of the Committee shall be financially literate and have a working familiarity with basic accounting and finance practices.

All members of the Committee shall be appointed by the Board of Directors at such time as shall be determined and shall serve until their successors are duly appointed. Any member may be removed or replaced by direction of the Board of Directors and shall in any event cease to be a member of the Committee forthwith upon such member ceasing to be a director of the Corporation. Committee members shall be entitled to such remuneration for serving on the Committee as may from time to time be determined by the Board.

Meetings

The members of the Committee so appointed shall elect from among their number a Chairman of the Committee. Such Chairman will appoint a secretary with responsibility for maintaining minutes of all meetings. The Secretary shall not be required to be a member of the Committee or a director of the Corporation and can be changed at any time upon notice from the Chairman.

The Committee shall meet as many times as it in its discretion deems necessary to discharge its responsibilities but in no event shall the Committee meet less than four (4) times per year. The time at which, and the place where, Committee meetings are held, the calling of the meetings and the procedure in respect of such meetings shall be determined by the Committee, unless provisions to the contrary are contained in the Corporation's by-laws or other constating documents or the Board of Directors shall determine otherwise. No business may be transacted unless a quorum of the Committee is present, the majority of the members of the Committee comprising such quorum. If the number of members of the Committee is an even number, one half of the number of members plus one shall constitute a quorum.

The Committee may invite or require the attendance at any meeting of such officers and employees of the Corporation, internal and external legal counsel or such other persons as the Committee deems necessary in order for the Committee to discharge its duties and responsibilities. The external independent auditors of the Corporation should be requested and, if deemed necessary, required to attend meetings of the Committee and to make presentations to the Committee as is deemed appropriate.

The Committee shall meet not less than once annually with the Corporation's independent auditors and without the presence of management. The Committee shall also meet with the independent auditors and management at least quarterly to review the Corporation's financial statements, including Management's Discussion and Analysis of Financial Condition and Results of Operations, and any press releases related thereto.

Notwithstanding the foregoing, and subject to the Corporation's constituting documents, governing legislation and applicable regulatory and exchange rules, the Chairman of the Committee may exercise the powers of the Committee between meetings if required. In the event the Chairman does so exercise such powers, the Chairman shall immediately report in writing to the members of the Committee the actions or decisions taken in the name of the Committee and the same shall be recorded in the minutes of the Committee.

Duties and Responsibilities

- periodically review and, as required, recommend to the Corporation's Governance Committee any revisions or updates to this Mandate for the Governance Committee to forward to the Board of Directors for approval and implementation
- review interim quarterly financial statements and the audited annual financial statement, including related Management's Discussion and Analysis of Financial Condition and Results of Operations, together with any press releases related thereto and make a recommendation to the Board of Directors for approval and implementation.
- discuss and review with management all financial information and earnings guidance which may be provided to the public in advance of the provision of such communication
- satisfy itself, on behalf of the Board of Directors, that all quarterly and annual financial results, and attendant Management's Discussion and Analysis of Financial Condition and Results of Operations, present fairly the financial condition of the Corporation and are in accordance with generally accepted accounting principles
- act as an independent and objective party to monitor the Corporation's financial reporting process and the system of internal controls, including, as required, inspection of all books and records of the Corporation and its subsidiaries, discussion of such accounts and records and the financial position of the Corporation with senior management and the auditors of the Corporation and its subsidiaries and the commissioning of such reports or supplemental information as may be required in relation to the above
- recommend to the Board of Directors the appointment, retention, termination and compensation of the Corporation's independent auditors
- evaluate and oversee the work of the Corporation's independent auditors, including receipt and review of all reports and recommendations
- review the independent auditor's reports of all critical accounting policies and practices to be used, alternative treatments of financial information within generally accepted accounting principles, ramifications and use of alternative disclosures and treatments and other communications between the independent auditors and the Corporation's management
- satisfy itself on behalf of the Board of Directors as to the 'independence from management' of the external auditors, within the meaning given to such term in the rules and pronouncements of the applicable regulatory authorities and professional governing bodies
- ensure the independent auditor's rotation of the audit partner satisfies all regulatory requirements
- annually review and evaluate the performance of the Corporation's independent auditors and the audit partner, including opinions of management, and make such recommendations to the Board of Directors as appropriate
- review the annual audit plan and such advice as may be provided with respect to management and internal controls

- monitor the Corporation's internal accounting controls, information gathering systems and management reporting of internal control systems
- review with management and the independent auditors the relevance and appropriateness of the Corporation's accounting policies, recommended changes and approval thereof
- satisfy itself that the Corporation has implemented appropriate systems of internal control over financial reporting and the safeguarding of the Corporation's assets; review "risk management" procedures, including the identification of significant risks and the establishment of appropriate procedures to manage such risks; monitor corporate performance in light of acceptable risks
- review and approve the Corporation's communication and disclosure policies and controls and monitor compliance therewith
- review and approve the Corporation's investment and treasury policies and monitor compliance therewith
- review the annual proposed budget prepared by the Corporation's executive and make a recommendation to the Board of Directors for approval and implementation; and
- perform such other activities consistent with the Corporation's constituting documents, governing law and regulatory and exchange requirements as may be requested by the Board of Directors.

APPENDIX B
PROPHECY DEFI INC.
BY-LAW

Please see attached.

PROPHECY DEFI INC.

(the “Corporation”)

BY-LAW NO. 1

A by-law relating generally to the transaction of the business and affairs of the Corporation.

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BE IT ENACTED as a by-law of the Corporation as follows:

ARTICLE 1 INTERPRETATION

1.1 Definitions. In the by-laws of the Corporation, unless the context otherwise requires:

“**Act**” means the *Business Corporations Act* (Ontario) and any statute that may be substituted therefor, as from time to time amended;

“**Applicable Securities Laws**” means the applicable securities legislation of each relevant province and territory in Canada, as from time to time amended, the written rules, regulations and forms made or promulgated under any such legislation and the published national instruments, multilateral instruments, policies, bulletins and notices of the securities commissions and similar regulatory authorities of each province or territory of Canada;

“**appoint**” includes “**elect**” and vice versa;

“**articles**” means the articles of incorporation of the Corporation, as from time to time amended or restated;

“**board**” means the board of directors of the Corporation and “**director**” means a member of the board;

“**by-laws**” means this by-law and all other by-laws of the Corporation from time to time in force and effect;

“**cheque**” includes a bank draft;

“**day**” means a clear day and a period of days shall be deemed to commence on the day following the event that began the period and shall be deemed to terminate at midnight of the last day of the period except that if the last day of the period falls on a Sunday or holiday the period shall terminate at midnight of the day next following that is not a Sunday or a holiday;

“**meeting of shareholders**” includes an annual meeting of shareholders, a special meeting of shareholders and an annual and special meeting of shareholders;

“**non-business day**” means Saturday, Sunday and any other day that is a holiday as defined in the *Legislation Act* (Ontario), as from time to time amended;

“**ordinary resolution**” means a resolution that is: (i) submitted to a meeting of the shareholders of a corporation and passed, with or without amendment, at the meeting by at least a majority of the votes cast; or (ii) signed by at least a majority of the shareholders entitled to vote on that resolution;

“**person**” includes an individual, sole proprietorship, partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, and a natural person in his or her capacity as trustee, executor, administrator, or other legal representative;

“**recorded address**” means: (i) in the case of a shareholder, the address of the shareholder as recorded in the securities register; (ii) in the case of joint shareholders, the address appearing in the securities register in respect of such joint holding or the first address so appearing if there are more than one; (iii) in the case of an officer, auditor or member of a committee of the board, the latest address as

recorded in the records of the Corporation; and (iv) in the case of a director, the latest address as recorded in the records of the Corporation or in the most recent notice filed under the *Corporations Information Act* (Ontario), whichever is more current;

“**signing officer**” means, in relation to any instrument, any person authorized to sign the instrument on behalf of the Corporation by or pursuant to section 2.5;

“**special meeting of shareholders**” includes a meeting of any class, classes or series of shareholders and a special meeting of all shareholders entitled to vote at an annual meeting of shareholders;

“**special resolution**” means a resolution: (i) passed by a majority of not less than two-thirds of the votes cast by the shareholders who voted in respect of that resolution; or (ii) signed by all the shareholders entitled to vote on that resolution; and

“**unanimous shareholder agreement**” means either: (i) a lawful written agreement among all the shareholders of the Corporation, or among all the shareholders and one or more persons who are not shareholders; or (ii) a written declaration of the registered owner of all of the issued shares of the Corporation; in each case, that restricts, in whole or in part, the powers of the directors to manage, or supervise the management of the business and affairs of the Corporation, as from time to time amended.

1.2 Interpretation. Save as aforesaid, words and expressions defined in the Act have the same meanings when used herein.

1.3 Number. Words importing the singular number include the plural and vice versa.

1.4 Gender. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms.

1.5 Headings. Headings are inserted in this by-law for reference purposes only and are not to be considered or taken into account in construing the terms or provisions hereof or to be deemed in any way to clarify, modify or explain the effect of any such terms or provisions.

1.6 Conflict with Unanimous Shareholder Agreement. Where any provision in the by-laws conflicts with any provision of any unanimous shareholder agreement, the provision of such unanimous shareholder agreement shall govern.

ARTICLE 2 BUSINESS OF THE CORPORATION

2.1 Registered Office. Until changed in accordance with the Act, the registered office of the Corporation shall be within the municipality or geographic township within Ontario initially specified in the articles and thereafter as the shareholders may, from time to time, determine by special resolution, and at such location therein as the board may, from time to time, determine by resolution.

2.2 Books and Records. Any records administered by or on behalf of the Corporation in the regular course of its business, including its securities register, books of account and minute books, and which may be maintained in a bound or loose-leaf book or may be entered or recorded by any system of mechanical or electronic data processing or any other information storage device, method, or one or more electronic networks or databases (including one or more distributed electronic networks or databases). The Corporation shall make such records available for inspection pursuant to applicable law.

2.3 Corporate Seal. The corporate seal of the Corporation, if adopted, shall be in such form as the board may by resolution, from time to time, adopt. An instrument or agreement executed on behalf of the Corporation by a director, an officer or an agent of the Corporation is not invalid merely because the corporate seal, if adopted, is not affixed to it.

2.4 Financial Year. The financial year of the Corporation shall end on such date in each year as shall be determined, from time to time, by resolution of the board.

2.5 Execution of Contracts, Etc. Contracts, documents or instruments in writing requiring the signature of the Corporation may be signed by any two directors or officers of the Corporation, and all contracts, documents or instruments in writing so signed shall be binding upon the Corporation without any further authorization or formality. The board shall have the power, from time to time, by resolution to appoint any one or more officers or other persons on behalf of the Corporation either to sign contracts, documents or instruments in writing generally or to sign specific contracts, documents or instruments in writing.

The corporate seal of the Corporation, if adopted, may be affixed to contracts, documents or instruments in writing signed by an officer or person appointed by resolution of the board.

The term “contracts, documents or instruments in writing” as used in this by-law shall include, without limitation, agreements, deeds, mortgages, hypothecs, charges, conveyances, transfers and assignments of property, real or personal, movable or immovable, powers of attorney, releases, receipts and discharges for the payment of money or other obligations, conveyances, transfers and assignments of shares, share warrants, stocks, bonds, debentures, notes or other securities, instruments of proxy and all paper writings.

Without limiting the generality of the foregoing, any two directors or officers are authorized to sell, assign, transfer, exchange, convert or convey all securities owned by or registered in the name of the Corporation and to sign and execute (under the corporate seal, if adopted, of the Corporation or otherwise) all assignments, transfers, conveyances, powers of attorney and other instruments that may be necessary for the purpose of selling, assigning, transferring, exchanging, converting or conveyancing any such securities.

Subject to the Act and applicable electronic commerce legislation, any contracts, documents or instruments required to be created or provided in writing and required or permitted to be executed by one or more persons on behalf of the Corporation may be: (i) created in electronic document form and provided by electronic means; (ii) signed by mechanically reproduced signature or electronic signature, which signature or signatures shall be as valid to all intents and purposes as if they had been signed manually and notwithstanding that the person or persons whose signature or signatures is or are so reproduced may have ceased to hold office at the date of delivery or issue of such contract, document or instrument in writing; and (iii) executed in separate counterparts, each of which when duly executed by one or more of such persons shall be an original and all such counterparts together shall constitute one and the same such contract, document or instrument in writing. Notwithstanding the foregoing, the board may, from time to time, direct the manner in which and the person or persons by whom any particular contract, document or instrument in writing, or class of contracts, documents or instruments in writing, may or shall be signed.

2.6 Banking Arrangements. The banking business of the Corporation including, without limitation, the borrowing of money and the giving of security therefor shall be transacted with such banks, trust companies or other persons as may, from time to time, be designated by or under the authority of the board. Such banking business or any part thereof shall be transacted under such agreements, instructions and delegations of powers as the board may, from time to time, prescribe or authorize.

2.7 Voting Securities in Other Issuers. The person or persons authorized under section 2.5 may execute and deliver proxies and arrange for the issuance of voting certificates or other evidence of the right to exercise the voting rights attaching to any securities held by the Corporation. Such instruments, certificates or other evidence shall be in favour of such person or persons as may be determined by the person executing such proxies or arranging for the issuance of voting certificates or such other evidence of the right to exercise such voting rights. In addition, the board may, from time to time, direct the manner in which and the person or persons by whom any particular voting rights or class of voting rights may or shall be exercised.

2.8 Divisions. The board may cause the business and operations of the Corporation, or any part thereof, to be divided or segregated into one or more divisions having regard to, without limitation, the character or type of businesses or operations, geographical territories, product lines or goods or services as the board may consider appropriate in each case. From time to time, the board, or any officer authorized by the board, may authorize, upon such basis as may be considered appropriate in each case:

- (a) Sub-Division and Consolidation - the further division of the business and operations of any such division into sub-units and the consolidation of the business and operations of any such divisions and sub-units;
- (b) Name - the designation of any such division or sub-unit by, and the carrying on of the business and operations of any such division or sub-unit under, a name other than the legal name of the Corporation; provided that the Corporation shall set out its legal name in legible characters in all contracts, invoices, negotiable instruments and orders for goods or services issued or made by or on behalf of the Corporation; and
- (c) Officers - the appointment of officers for any such division or other sub-unit, the determination of their powers and duties, and the removal of any such officer so appointed, without prejudice to such officer's rights under any employment contract or in law, provided that any such officers shall not, as such, be officers of the Corporation, unless expressly designated as such.

ARTICLE 3 BORROWING AND DEBT OBLIGATIONS

3.1 Borrowing Power. Without limiting the borrowing powers of the Corporation as set forth in the Act, the board may, from time to time, on behalf of the Corporation, without authorization of the shareholders:

- (a) borrow money upon the credit of the Corporation;
- (b) issue, reissue, sell or pledge bonds, debentures, notes or other evidences of indebtedness or guarantees of the Corporation, whether secured or unsecured;
- (c) to the extent permitted by the Act, give a guarantee on behalf of the Corporation to secure performance of any present or future indebtedness, liability or obligation of any person; and
- (d) charge, mortgage, hypothecate, pledge, or otherwise create a security interest in all or any currently owned or subsequently acquired real or personal, movable or immovable, property of the Corporation, including book debts, rights, powers, franchises and undertakings, to secure any such bonds, debentures, notes or other evidences of

indebtedness or guarantee or any other present or future indebtedness, liability or obligation of the Corporation.

Nothing in this section limits or restricts the borrowing of money by the Corporation on bills of exchange or promissory notes made, drawn, accepted or endorsed by or on behalf of the Corporation.

3.2 Delegation. The board may, from time to time, delegate to a committee of the board, one or more directors or officers of the Corporation or any other person as may be designated by the board all or any of the powers conferred on the board by section 3.1 or by the Act to such extent and in such manner as the board shall determine at the time of each such delegation.

ARTICLE 4 DIRECTORS

4.1 Number of Directors and Quorum. Until changed in accordance with the Act, the board shall consist of the number of directors, within the minimum and maximum number of directors provided for in the articles, as is determined by special resolution or, if such special resolution empowers the board to determine the number, by a resolution of the board; provided, however, that in the latter case, the directors may not, between meetings of shareholders, increase the number of directors on the board to a total number greater than one and one-third times the number of directors required to have been elected at the last annual meeting of shareholders. Except as provided under section 4.17, the quorum for the transaction of business at any meeting of the board shall consist of a majority of the number of directors determined in the manner set forth above; provided that where the board consists of fewer than three directors, all directors shall constitute a quorum at any meeting of the board.

4.2 Qualification. The following persons are disqualified from being a director of the Corporation: (i) a person who is less than 18 years of age; (ii) a person who has been found under the *Substitute Decisions Act, 1992* (Ontario) or under the *Mental Health Act* (Ontario) to be incapable of managing property or who has been found to be incapable by a court in Canada or elsewhere; (iii) a person who is not an individual; or (iv) a person who has the status of bankrupt. A director need not be a shareholder.

4.3 Election and Term. The election of directors shall take place at the first meeting and thereafter at each annual meeting of shareholders and all the directors then in office shall retire but, if qualified, shall be eligible for re-election. The election shall be by ordinary resolution. If an election of directors is not held at the proper time, the incumbent directors shall continue in office until their successors are elected.

4.4 Removal of Directors. Subject to the provisions of the Act, the shareholders may by ordinary resolution passed at an annual meeting or special meeting called for such purpose remove any director or directors from office and the vacancy created by such removal may be filled at the same meeting failing which, provided a quorum remains in office, it may be filled by the board. Where the holders of any class or series of shares of the Corporation have an exclusive right to elect one or more directors, a director so elected may only be removed by an ordinary resolution at a meeting of the shareholders of that class or series.

4.5 Termination of Office. A director ceases to hold office when the director: (i) dies; (ii) is removed from office by the shareholders; (iii) ceases to be qualified for election as a director; or (iv) sends or delivers to the Corporation a written resignation or, if a time is specified in such resignation, at the time so specified, whichever is later.

4.6 Vacancies. Subject to the provisions of the Act, a quorum of the board may fill a vacancy in the board, except a vacancy resulting from an increase in the number or, except as set out hereunder, in the maximum number of directors, as the case may be, or a failure to elect the number of directors required to

be elected at any meeting of shareholders. Where the articles provide for a minimum and maximum number of directors and a special resolution has been passed empowering the directors to determine the number of directors, the directors may not, between meetings of shareholders, appoint an additional director if, after such appointment, the total number of directors would be greater than one and one-third times the number of directors required to have been elected at the last annual meeting of shareholders. In the absence of a quorum of the board, or if the vacancy has arisen from a failure of the shareholders to elect the number of directors required by section 4.1, the directors then in office shall forthwith call a special meeting of shareholders to fill the vacancy. If the directors fail to call a meeting or if there are no directors then in office, any shareholder may call the meeting. A director appointed or elected to fill a vacancy holds office for the unexpired term of that director's predecessor.

4.7 Action by the Board. Subject to any unanimous shareholder agreement, the board shall manage, or supervise the management of, the business and affairs of the Corporation. Subject to section 4.8, the powers of the board may be exercised by resolution passed at a meeting at which a quorum is present or by resolution in writing signed by all the directors entitled to vote on that resolution at a meeting of the board. Where there is a vacancy in the board, the remaining directors may exercise all the powers of the board so long as a quorum remains in office.

4.8 Participation. If all the directors of the Corporation present at or participating in a meeting consent, a director may participate in a meeting of the board or of a committee of the board by means of telephonic, electronic or other communication facility that permits all participants to communicate simultaneously and instantaneously with each other during the meeting. A director participating in a meeting by such means is deemed to be present in person at the meeting for the purposes of the Act. Any consent shall be effective whether given before or after the meeting to which it relates and may be given with respect to all meetings of the board and of committees of the board.

4.9 Place of Meetings. Meetings of the board may be held at any place within or outside Ontario and, in any financial year of the Corporation, any or all of the meetings of the board may be held at any place outside Canada.

4.10 Calling of Meetings. Meetings of the board shall be held, from time to time, at such place, at such time and on such day as the board, the chairperson of the board, the president (if the president is a director) or any two directors may determine.

4.11 Notice of Meeting. Notice of the time and place of each meeting of the board shall be given in the manner provided in section 11.1 to each director not less than 48 hours before the time when the meeting is to be held. A notice of a meeting of directors need not specify the purpose of or the business to be transacted at the meeting except where the Act requires such purpose or business to be specified. A director may, in any manner and at any time, waive a notice of or otherwise consent to a meeting of the board and, subject to the Act, attendance of a director at a meeting of the board is a waiver of notice of the meeting.

4.12 First Meeting of New Board. Provided a quorum of directors is present, each newly elected board may hold its first meeting, without notice, immediately following the meeting of shareholders at which such board is elected.

4.13 Adjourned Meeting. Notice of an adjourned meeting of the board is not required if the time and place of the adjourned meeting is announced at the original meeting.

4.14 Regular Meetings. The board may appoint a day or days in any month or months for regular meetings of the board at a place and hour to be named. A copy of any resolution of the board fixing the place and time of such regular meetings shall be sent to each director forthwith after being passed, but no

other notice shall be required for any such regular meeting except where the Act requires the purpose thereof or the business to be transacted thereat to be specified.

4.15 Chairperson. The chairperson of any meeting of the board shall be the first mentioned of the following officers as have been appointed and who is a director and is present at the meeting: chairperson of the board; president; chief executive officer; or a vice-president. If no such officer is present, the directors present shall choose one of their number to be chairperson. If the secretary of the Corporation is absent, the chairperson shall appoint some person, who need not be a director, to act as secretary of the meeting.

4.16 Votes to Govern. At all meetings of the board, every question shall be decided by a majority of the votes cast on the question. In case of an equality of votes, the chairperson of the meeting shall not be entitled to a second or casting vote.

4.17 Conflict of Interest. A director or officer of the Corporation who is a party to, or who is a director or an officer of or has a material interest in any person who is a party to, a material contract or transaction or proposed material contract or transaction with the Corporation, shall disclose the nature and extent of his or her interest at the time and in the manner provided by the Act. Any such contract or transaction or proposed contract or transaction shall be referred to the board or shareholders for approval even if such contract is one that in the ordinary course of the Corporation's business would not require approval by the board or the shareholders. Such director shall not attend any part of a meeting of directors during which the contract or transaction is discussed and shall not vote on any resolution to approve such contract or transaction or proposed contract or proposed transaction unless the contract or transaction is:

- (a) one relating primarily to his or her remuneration as a director of the Corporation or an affiliate;
- (b) one for indemnity or insurance as specified under the Act; or
- (c) one with an affiliate.

If no quorum exists for the purpose of voting on a resolution to approve a contract or transaction only because a director is not permitted to be present at the meeting by reason of such director's interest in such contract or transaction, the remaining directors shall be deemed to constitute a quorum for the purposes of voting on the resolution. Where all the directors are required to make disclosure under this section, the contract or transaction may be approved only by the shareholders.

4.18 Remuneration and Expenses. Subject to any unanimous shareholder agreement, the directors shall be paid such remuneration for their services as the board may, from time to time, determine and such remuneration shall be in addition to the salary paid to any officer or employee of the Corporation who is also a director. The directors may also by resolution award special remuneration to any director in undertaking any special services on behalf of the Corporation other than the normal work ordinarily required of a director. The confirmation of any such resolution or resolutions by the shareholders shall not be required, except as required by law or regulation. The directors shall also be entitled to be reimbursed for travelling and other expenses properly incurred by them in connection with the affairs of the Corporation.

4.19 Resolution in Writing by Directors. A resolution in writing signed by all the directors entitled to vote on that resolution at a meeting is as valid as if it had been passed at a meeting of the directors unless a written statement or written representation with respect to the subject matter of the resolution is submitted by a director or the auditor, respectively, in accordance with the Act. A resolution in writing may be signed by the directors in any number of counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same resolution in writing, and by a director using a facsimile or

other electronic signature, in which case the other directors, the Corporation and the shareholders are entitled to rely on such electronic signature as conclusive evidence that such resolution in writing has been duly executed by such director.

4.20 Only One Director. Where the Corporation has only one director, that director may constitute a meeting.

ARTICLE 5 COMMITTEES

5.1 Committees of the Board. The board may, from time to time, establish (or dissolve) one or more committees of directors, however designated, and delegate to any such committee any of the powers and duties of the board, subject to the limitations on such delegation contained in the Act. The board may appoint and remove the members of each committee subject to the requirements of the Act.

5.2 Audit Committee. If the Corporation is an offering corporation within the meaning of the Act, the board shall, and the board otherwise may, appoint annually from among its number an audit committee to be composed of not fewer than three directors, a majority of whom are not officers or employees of the Corporation or any of its affiliates and all of whom must otherwise meet the requirements of applicable law. Each member of the audit committee shall hold office, at the pleasure of the board, until the next annual meeting of shareholders and, in any event, only so long as the director shall be a director. In addition to the powers and duties delegated by the board pursuant to section 5.1, the audit committee shall have the powers and duties provided in the Act and other applicable laws. The audit committee shall review the financial statements of the Corporation prior to approval thereof by the board. The auditor of the Corporation is entitled to receive notice of every meeting of the audit committee and, at the expense of the Corporation, to attend and be heard thereat; and, if so requested by a member of the audit committee, shall attend every meeting of the audit committee held during the term of office of the auditor. The auditor of the Corporation or any member of the audit committee may call a meeting of the audit committee.

5.3 Transaction of Business. Subject to the provisions of section 4.8, the powers of a committee of directors appointed by the board may be exercised by a meeting at which a quorum is present or by resolution in writing signed by all members of such committee who would have been entitled to vote on that resolution at a meeting of the committee. Meetings of such committee may be held at such place or places designated in section 4.9.

5.4 Advisory Committees. The board may, from time to time, appoint such advisory bodies as it may deem advisable.

5.5 Procedure. Unless otherwise determined by the board, each committee and advisory body shall have the power to fix its quorum (provided a quorum is not less than a majority of its members), to elect its chairperson, and to regulate its procedure.

5.6 Limits on Authority. Despite any other provision of this by-law, no managing director and no committee of directors appointed by the board has authority to:

- (a) submit to the shareholders any question or matter requiring the approval of the shareholders;
- (b) fill a vacancy among the directors or in the office of auditor or appoint or remove any of the chief executive officers, however designated, the chief financial officer, however designated, the chairperson or the president of the Corporation;

- (c) subject to the Act, issue securities except in the manner and on the terms authorized by the directors;
- (d) declare dividends;
- (e) purchase, redeem or otherwise acquire shares issued by the Corporation;
- (f) pay a commission referred to in the Act;
- (g) approve a management proxy circular referred to in the Act;
- (h) approve a take-over bid circular, directors' circular or issuer bid circular referred to in the Applicable Securities Laws;
- (i) approve any financial statements referred to in the Act (unless otherwise permitted under the Act and Applicable Securities Laws);
- (j) approve an amalgamation between the Corporation and: (i) its holding body corporate; (ii) any one or more of its subsidiaries; and (iii) any one or more corporations where the Corporation and any such corporations are subsidiaries of the same holding body corporate;
- (k) approve an amendment to the Corporation's articles to: (i) divide any class of unissued shares into series and determine the designation, rights, privileges, restrictions and conditions thereof, where the articles authorize the directors to approve such amendment; and (ii) change a Corporation's name that is a numbered name to a name that is not a numbered name; or
- (l) adopt, amend or repeal by-laws.

ARTICLE 6 OFFICERS

6.1 Positions and Appointment. Subject to the articles or any unanimous shareholder agreement, the board may, from time to time, designate such offices of the Corporation and appoint such officers as the board may consider advisable, including, without limitation, a president, a secretary and a treasurer. None of such officers, other than a chairperson of the board, need be a director of the Corporation. Any two or more offices may be held by the same individual.

6.2 President. If appointed, the president shall, subject to the control of the board, have general supervision over the business and affairs of the Corporation, and he or she shall have such other powers and duties as the board may specify.

6.3 Secretary. If appointed, the secretary shall give or cause to be given as and when instructed, all notices to shareholders, directors, officers, auditors and members of committees of the board; he or she shall attend and be the secretary of all meetings of the board, shareholders and committees of the board; he or she shall enter or cause to be entered in the minute book of the Corporation minutes of all proceedings at such meetings and shall be custodian of all books, papers, records, documents and instruments belonging to the Corporation, except when some other officer or agent has been appointed for that purpose; and he or she shall have such other powers and duties as the board may specify.

6.4 Treasurer. If appointed, the treasurer shall keep proper accounting records in compliance with the Act and shall be responsible for the custody of the funds and securities of the Corporation; he or she shall render to the board whenever required an account of all his or her transactions as treasurer and of the

financial position of the Corporation, except when some other officer or agent has been appointed for that purpose; and he or she shall have such other powers and duties as the board may specify.

6.5 Powers and Duties. Subject to the articles or any unanimous shareholder agreement, and unless otherwise provided in this Article Six, the powers and duties of each officer of the Corporation shall be such as the terms of their engagement call for or as provided, from time to time, by resolution of the board. In the absence of such terms of engagement or resolution, the respective officers shall have the powers and duties and shall discharge the duties customarily and usually held and performed by like offices of corporations similar in organization and business purposes to the Corporation subject to the control of the board. Any such officer may, from time to time, delegate any of his or her powers and duties to another officer or employee of the Corporation, and such delegate may exercise and perform such powers and duties, unless the board otherwise directs.

6.6 Term of Office. The board, in its discretion, may remove any officer of the Corporation, with or without cause, without prejudice to such officer's rights under any employment contract. Otherwise, each officer appointed by the board shall hold office until his or her successor is appointed or until the earlier of his or her resignation or death. The board may appoint a person to an office to replace an officer who has been removed or who has ceased to be an officer for any other reason.

6.7 Terms of Employment and Remuneration. The terms of employment and the remuneration of an officer appointed by the board shall be settled by the board, from time to time.

6.8 Disclosure of Interest. An officer shall disclose to the Corporation any interest in a material contract or material transaction, whether made or proposed, with the Corporation in accordance with section 4.17 and the Act.

6.9 Agents and Attorneys. Subject to the provisions of the Act, the Corporation, by or under the authority of the board, shall have power, from time to time, to appoint agents or attorneys for the Corporation in or outside Canada with such powers of management, administration or otherwise (including the power to sub-delegate) as may be thought fit.

6.10 Fidelity Bonds. The board may require such officers, employees and agents of the Corporation as the board deems advisable to furnish bonds for the faithful discharge of their powers and duties, in such form and with such surety as the board may, from time to time, determine.

ARTICLE 7 PROTECTION OF DIRECTORS, OFFICERS AND OTHERS

7.1 Limitation of Liability. Every director and officer of the Corporation shall, in exercising the powers and discharging the duties of office, act honestly and in good faith with a view to the best interests of the Corporation and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Subject to the foregoing, no director or officer shall be liable for the acts, receipts, neglects or defaults of any other director, officer or employee, or for joining in any receipt or other act for conformity, or for any loss, damage or expense happening to the Corporation through the insufficiency or deficiency of title to any property acquired for or on behalf of the Corporation, or for the insufficiency or deficiency of any security in or upon which any of the monies of the Corporation shall be invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious acts of any person with whom any of the monies, securities or effects of the Corporation shall be deposited, or for any loss occasioned by any error of judgment or oversight on the part of such director or officer, or for any other loss, damage or misfortune whatever which shall happen in the execution of the duties of such director's or officer's office or in relation thereto; unless the same are occasioned by such director's or officer's own

willful neglect or fault; provided that nothing herein shall relieve any director or officer from the duty to act in accordance with the Act and the regulations thereunder or from liability for any breach thereof.

7.2 Indemnity. Subject to the limitations contained in the Act, the Corporation shall indemnify a director or officer of the Corporation, a former director or officer of the Corporation, or another individual who acts or acted at the Corporation's request as a director or officer, or an individual acting in a similar capacity, of another entity, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by the individual in respect of any civil, criminal, administrative, investigative or other proceeding in which the individual is involved because of that association with the Corporation or other entity, provided:

- (a) the individual acted honestly and in good faith with a view to the best interests of the Corporation or, as the case may be, to the best interests of the other entity for which the individual acted as director or officer or in a similar capacity at the Corporation's request; and
- (b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the individual had reasonable grounds for believing that the individual's conduct was lawful.

The Corporation shall also indemnify such individual in such other circumstances as the Act permits or requires. Nothing in this by-law shall limit the right of any individual entitled to indemnity to claim indemnity apart from the provisions of this by-law.

7.3 Insurance. Subject to the Act, the Corporation may purchase and maintain insurance for the benefit of any individual referred to in section 7.2 against such liabilities and in such amounts as the board may, from time to time, determine and as permitted by the Act.

ARTICLE 8 SHARES

8.1 Allotment of Shares. Subject to the Act, the articles or any unanimous shareholder agreement, the board may, from time to time, allot or grant options to purchase the whole or any part of the authorized and unissued shares of the Corporation at such times and to such persons and for such consideration as the board shall determine, provided that no share shall be issued until it is fully paid as provided by the Act.

8.2 Commissions. The board may, from time to time, authorize the Corporation to pay a reasonable commission to any person in consideration of the person purchasing or agreeing to purchase shares of the Corporation, whether from the Corporation or from any other person, or procuring or agreeing to procure purchasers for any such shares.

8.3 Transfer Agents and Registrars. The board may, from time to time, appoint, for each class of securities issued by the Corporation: (a) a trustee, transfer agent or other agent to keep the securities register and the register of transfers and one or more persons to keep branch registers; and (b) a registrar, trustee or agent to maintain a record of issued security certificates and, subject to the Act, one person may be appointed for the purposes of clauses (a) and (b) in respect of all securities of the Corporation or any class or classes thereof. The board may at any time terminate such appointment.

8.4 Registration of a Share Transfer. Subject to the provisions of the Act, no transfer of a share in respect of which a certificate has been issued shall be registered in a securities register except upon surrender of the certificate representing such share with an endorsement which complies with the Act made thereon or delivered therewith duly executed by an appropriate person as provided by the Act, together with

such reasonable assurance that the endorsement is genuine and effective as the board may, from time to time, prescribe upon payment of all applicable taxes and a reasonable fee (not to exceed the amount permitted by the Act) prescribed by the board upon compliance with such restrictions on transfer as are authorized by the articles and upon satisfaction of any lien referred to in section 8.5.

8.5 Lien for Indebtedness. Unless the Corporation is an offering corporation within the meaning of the Act, the Corporation has a lien on the shares registered in the name of a shareholder or the shareholder's legal representative for a debt of that shareholder owed to the Corporation, to the extent of such debt; and the directors may enforce such lien, subject to any other provision of the articles or to any unanimous shareholder agreement: (i) by applying any dividends or other distributions paid or payable on or in respect of the shares thereby affected in repayment of the debt of that shareholder to the Corporation; (ii) by the sale of the shares thereby affected; and/or (iii) by any other action, suit, remedy or proceeding authorized or permitted by law or by equity, and, pending such enforcement, the Corporation may refuse to register a transfer of the whole or any part of such shares.

8.6 Non-Recognition of Trusts. Subject to the provisions of the Act, the Corporation may treat as absolute owner of any share the person in whose name the share is registered in the securities register as if that person had full legal capacity and authority to exercise all rights of ownership, irrespective of any indication to the contrary through knowledge or notice or description in the Corporation's records or on the share certificate.

8.7 Share Certificates. The shares of the Corporation may be represented by certificates. Share certificates shall be in the form approved by the board. Certificates representing shares of each class or series shall be signed in accordance with section 2.5 and need not be under corporate seal. Any or all such signatures may be electronic signatures. Although any officer, transfer agent or registrar whose manual or electronic signature is affixed to such a certificate ceases to be such officer, transfer agent or registrar before such certificate has been issued, it may nevertheless be issued by the Corporation with the same effect as if such officer, transfer agent or registrar were still such at the date of its issue.

8.8 Replacement of Share Certificates. The board or any officer or agent designated by the board may direct the issue of a new share or other such certificate in lieu of and upon cancellation of a certificate that has been mutilated or in substitution for a certificate claimed to have been lost, destroyed or wrongfully taken on payment of such reasonable fee (not to exceed the amount permitted by the Act) and on such terms as to indemnity, reimbursement of expenses and evidence of loss and of title as the board may, from time to time, prescribe, whether generally or in any particular case.

8.9 Joint Holders. If two or more persons are registered as joint holders of any share, the Corporation shall not be required to issue more than one certificate in respect thereof, and delivery of a certificate to one of several joint holders shall be sufficient delivery to all of them. Any one of such persons may give effectual receipts for the certificate issued in respect thereof or for any dividend, bonus, return of capital or other money payable or warrant issuable in respect of such share.

8.10 Deceased Shareholders. In the event of the death of a holder, or of one of the joint holders, of any share, the Corporation shall not be required to make any entry in the securities register in respect thereof or to make any dividend or other payments in respect thereof; except upon production of all such documents as may be required by law and upon compliance with the reasonable requirements of the Corporation and its transfer agent.

ARTICLE 9 DIVIDENDS AND RIGHTS

9.1 Dividends. Subject to the provisions of the Act and the articles, the board may, from time to time, declare dividends payable to the shareholders according to their respective rights and interests in the Corporation. Dividends may be paid in money or property or by issuing fully paid shares of the Corporation or options or rights to acquire fully paid shares of the Corporation.

9.2 Dividend Cheques. A dividend payable in money shall be paid by cheque drawn on the Corporation's bankers or one of them to the order of each registered holder of shares of the class or series in respect of which the dividend has been declared and mailed by prepaid ordinary mail to such registered holder at the recorded address of such holder, unless such holder otherwise directs. In the case of joint holders, the cheque shall, unless such joint holders otherwise direct, be made payable to the order of all of such joint holders and mailed to them at their recorded address, or to the first recorded address if there are more than one. The mailing of a cheque in accordance with this section, unless not paid on due presentation, shall satisfy and discharge the liability for the dividend to the extent of the sum represented thereby plus the amount of any tax which the Corporation is required to and does withhold.

9.3 Non-Receipt of Cheques. In the event of non-receipt of any dividend cheque by the person to whom it is sent in accordance with section 9.2, the Corporation shall issue to such person a replacement cheque for a like amount on such terms as to indemnity, reimbursement of expenses, and evidence of non-receipt and of title as the board may, from time to time, prescribe, whether generally or in any particular case.

9.4 Record Date for Dividends and Rights. The board may fix in advance a date, preceding by not more than 50 days the date for the payment of any dividend or the date for the issue of any warrant or other evidence of right to subscribe for securities of the Corporation, as a record date for the determination of the persons entitled to receive payment of such dividend or to exercise the right to subscribe for such securities; and notice of any such record date, unless waived in accordance with the Act, shall be given not less than seven days before such record date in the manner provided for by the Act. If no record date is so fixed, the record date for the determination of the persons entitled to receive payment of any dividend or to exercise the right to subscribe for securities of the Corporation shall be at the close of business on the day on which the resolution relating to such dividend or right to subscribe is passed by the board.

9.5 Unclaimed Dividends. Any dividend unclaimed after a period of six years from the date on which the same has been declared to be payable shall be forfeited and shall revert to the Corporation.

ARTICLE 10 MEETINGS OF SHAREHOLDERS

10.1 Annual Meetings. The annual meeting of shareholders shall be held at such time and on such day in each year and, subject to section 10.3, at such place as the board may, from time to time, determine, for the purpose of considering the financial statements and reports required by the Act to be placed before the annual meeting, electing directors, appointing auditors (unless the Corporation is exempted under the Act from appointing an auditor) and for the transaction of such other business as may properly be brought before the meeting.

10.2 Special Meetings. The board shall have power to call a special meeting of shareholders at any time.

10.3 Place of Meetings. Meetings of shareholders shall be held at: (i) the registered office of the Corporation; (ii) elsewhere in the municipality in which the head office is situated; or (iii) if the board shall so determine, at some other place within or outside Ontario.

10.4 Meetings Held by Electronic Means. The directors or shareholders who call a meeting of shareholders pursuant to the Act, may determine that the meeting shall be held, in accordance with the Act and the regulations thereto, by means of a telephonic, electronic or other communication facility that permits all participants to communicate instantaneously and simultaneously with each other during the meeting, provided the Corporation makes provision for electronic voting at such meeting in accordance with the Act and section 10.20. Any person who participates in a meeting through those means shall be deemed for the purposes of the Act to be present in person at such meeting.

10.5 Notice of Meetings. Notice of the time and place of each meeting of shareholders shall be given in the manner provided in Article Eleven not less than 10 days, unless the Corporation is an offering Corporation, in which case not less than 21 days, and in each case no more than 50 days before the date of the meeting to each director, to the auditor, and to each shareholder who at the close of business on the record date for notice is entered in the securities register as the holder of one or more shares carrying the right to vote at the meeting. Notice of a meeting of shareholders called for any purpose other than the consideration of minutes of an earlier meeting, consideration of the financial statements and auditor's report thereon (if any), election of directors and re-appointment of the incumbent auditor shall state the nature of such business in sufficient detail to permit the shareholder to form a reasonable judgment thereon and shall state the text of any special resolution or by-law to be submitted to the meeting. A shareholder and any other person entitled to attend a meeting of shareholders may in any manner waive notice of or otherwise consent to a meeting of shareholders, and, subject to the Act, attendance of any such shareholder or any such other person is a waiver of notice of the meeting.

10.6 List of Shareholders Entitled to Notice. For every meeting of shareholders, the Corporation shall prepare a list of shareholders entitled to receive notice of the meeting, arranged in alphabetical order and showing the number of shares held by each shareholder entitled to vote at the meeting in accordance with the Act. If a record date for the meeting is fixed pursuant to section 10.7, the shareholders listed shall be those registered at the close of business on such record date. If no record date is fixed, the shareholders listed shall be those registered at the close of business on the day immediately preceding the day on which notice of the meeting is given or, where no such notice is given, on the day on which the meeting is held. The list shall be available for examination by any shareholder during usual business hours at the registered office of the Corporation or at the place where the central securities register is maintained and at the meeting for which the list was prepared. Where a separate list of shareholders has not been prepared, the names of persons appearing in the securities register at the requisite time as the holder of one or more shares carrying the right to vote at such meeting shall be deemed to be a list of shareholders.

10.7 Record Date for Notice. The board may fix in advance a date, preceding the date of any meeting of shareholders by not more than 60 days and not less than 30 days, as the record date for the determination of the shareholders entitled to notice of the meeting, and notice of any such record date shall, unless waived in accordance with the Act, be given not less than seven days before such record date, by newspaper advertisement in the manner provided in the Act. If no record date is so fixed, the record date for the determination of the shareholders entitled to receive notice of the meeting shall be at the close of business on the day immediately preceding the day on which the notice is given or, if no notice is given, the day on which the meeting is held.

10.8 Meetings Without Notice. A meeting of shareholders may be held without notice at any time and place permitted by the Act: (a) if all the shareholders entitled to vote thereat are present in person or represented by proxy or if those not present or represented by proxy waive notice of or otherwise consent

to such meeting being held; and (b) if the auditors and the directors are present or waive notice of, or otherwise consent to, such meeting being held; so long as such shareholders, auditors or directors present are not attending for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called. At such meeting, any business may be transacted which the Corporation at a meeting of shareholders may transact. If the meeting is held at a place outside Ontario, shareholders not present or represented by proxy, but who have waived notice of or otherwise consented to such meeting, shall also be deemed to have consented to the meeting being held at such place.

10.9 Chairperson, Secretary and Scrutineers. The chairperson of any meeting of shareholders shall be the first mentioned of the following officers as have been appointed and who is present at the meeting: chairperson of the board, president or a vice-president who is a shareholder. If no such officer is present within 15 minutes from the time fixed for holding the meeting, the persons present and entitled to vote shall choose one of their number to be chairperson. If the secretary of the Corporation is absent, the chairperson of the meeting shall appoint a person, who need not be a shareholder, to act as secretary of the meeting. If desired, one or more scrutineers, who need not be shareholders, may be appointed by a resolution or by the chairperson of the meeting with the consent of the meeting.

10.10 Persons Entitled to be Present. The only persons entitled to be present at a meeting of shareholders shall be those entitled to vote thereat, the directors and the auditor of the Corporation, if any, and others who, although not entitled to vote, are entitled or required under any provision of the Act, the articles or the by-laws to be present at the meeting. Any other person may be admitted only on the invitation of the chairperson of the meeting or with the consent of the meeting.

10.11 Participation in Meeting by Electronic Means. Any person entitled to attend a meeting of shareholders may participate in the meeting, in accordance with the Act and the by-laws, by means of telephonic, electronic or other communications facilities that permits all participants to communicate instantaneously and simultaneously with each other during the meeting, provided the Corporation makes available such telephonic, electronic or other communications facility. A person participating in such a meeting is deemed to be present in person at the meeting and a shareholder or proxy holder entitled to vote at such a meeting may vote, in accordance with the Act, by means of the telephonic, electronic or other communications facility that the Corporation has made available for that purpose, whether such meeting is to be held at a designated place or solely by means of a telephonic, electronic or other communications facility.

10.12 (a) Quorum. Subject to the Act, at each meeting of shareholders, all of the shareholders or two shareholders, whichever number be the lesser, personally present in person or represented by proxy, shall constitute a quorum. If a quorum is present at the opening of any meeting of shareholders, the shareholders present or represented by proxy may proceed with the business of the meeting notwithstanding that a quorum is not present throughout the meeting. If a quorum is not present at the opening of any meeting of shareholders, the shareholders present or represented by proxy may adjourn the meeting to a fixed time and place but may not transact any other business.

(b) **Separate Class Vote.** Subject to the Act, where a separate vote by a class or series or classes or series is required, a majority of the outstanding shares of such class or series or classes or series, present in person or represented by proxy, shall constitute a quorum entitled to vote on that matter and, in all matters other than the election of directors, the affirmative vote of the majority of shares of such class or series or classes or series present in person or represented by proxy at the meeting shall be the act of such class or series or classes or series.

10.13 Right to Vote. Subject to the provisions of the Act as to authorized representatives of any other body corporate or association, at any meeting of shareholders for which the Corporation has prepared the

list referred to in section 10.6, every person who is named in such list shall be entitled to vote the shares shown thereon opposite that person's name at the meeting to which such list relates except to the extent that, where the Corporation has fixed a record date in respect of such meeting pursuant to section 10.7, such person has transferred any shares after such record date and the transferee, having produced properly endorsed certificates evidencing such shares or having otherwise established ownership of such shares, has demanded not later than 10 days before the meeting that the transferee's name be included in such list. In any such case, the transferee shall be entitled to vote the transferred shares at the meeting. At any meeting of shareholders for which the Corporation has not prepared the list referred to in section 10.6, every person shall be entitled to vote at the meeting who at the time of the commencement of the meeting is entered in the securities register as the holder of one or more shares carrying the right to vote at such meeting.

10.14 Proxyholders and Representatives. Every shareholder entitled to vote at a meeting of shareholders may appoint a proxyholder, or one or more alternate proxyholders, who need not be a shareholder, to attend and act as the shareholder's representative at the meeting in the manner and to the extent authorized and with the authority conferred by the proxy. A proxy shall be in writing executed by the shareholder or the shareholder's attorney or, if the shareholder is a body corporate, by an officer or attorney of such shareholder duly authorized, and shall conform to the requirements of the Act. Alternatively, a shareholder which is a body corporate or association may authorize by resolution of its directors or governing body an individual to represent it at a meeting of shareholders and such individual may exercise on the shareholder's behalf all the powers it could exercise if it were an individual shareholder. The authority of such an individual shall be established by depositing with the Corporation a certified copy of such resolution, or in such other manner as may be satisfactory to the secretary of the Corporation or the chairperson of the meeting. Any such proxyholder or representative need not be a shareholder.

10.15 Time for Deposit of Proxies. The board may specify in a notice calling a meeting of shareholders a time, preceding the time of such meeting by not more than 48 hours (excluding non-business days) before which time proxies to be used at that meeting must be deposited with the Corporation or an agent thereof, and any period of time so fixed shall be specified in the notice calling the meeting. A proxy shall be acted upon only if, prior to the time so specified, it shall have been deposited with the Corporation or an agent thereof specified in the notice or, if no time is specified in the notice, it has been received by the secretary of the Corporation or by the chairperson of the meeting or any adjournment thereof prior to the time of voting.

10.16 Joint Shareholders. If two or more persons hold shares jointly, any one of them present in person or duly represented by proxy at a meeting of shareholders may, in the absence of the other or others, vote the shares; but if two or more of those persons are present in person or represented by proxy and vote, they shall vote as one the shares jointly held by them.

10.17 Votes to Govern. At any meeting of shareholders, every question shall, unless otherwise required by the articles, the by-laws or by law, be determined by a majority of the votes cast on the question. In case of an equality of votes, either upon a show of hands or upon a poll, the chairperson of the meeting shall not be entitled to a second or casting vote in addition to the vote or votes to which the chairperson is entitled as a shareholder or proxy nominee.

10.18 Show of Hands. Subject to the provisions of the Act, any question at a meeting of shareholders shall be decided by a show of hands unless a ballot thereon is required or demanded as hereinafter provided. Upon a show of hands, every person who is present and entitled to vote shall have one vote. Whenever a vote by show of hands shall have been taken upon a question, unless a ballot thereon is so required or demanded, a declaration by the chairperson of the meeting that the vote upon the question has been carried, carried by a particular majority or defeated and an entry to that effect in the minutes of the meeting shall be *prima facie* evidence of the fact without proof of the number or proportion of the votes recorded in favour

of or against any resolution or other proceeding in respect of the question, and the result of the vote so taken shall be the decision of the shareholders upon the question.

10.19 Ballots. On any question proposed for consideration at a meeting of shareholders, and whether or not a show of hands has been taken thereon, the chairperson of the meeting or any person who is present and entitled to vote, whether as shareholder, proxyholder or representative, on such questions at the meeting may demand a ballot. A ballot so required or demanded shall be taken in such manner as the chairperson of the meeting shall direct. A requirement or demand for a ballot may be withdrawn at any time prior to the taking of the ballot. If a ballot is taken, each person present shall be entitled, in respect of the shares which such person is entitled to vote at the meeting upon the question, to that number of votes provided by the Act or the articles, and the result of the ballot so taken shall be the decision of the shareholders upon the said question.

10.20 Electronic Voting. Any vote referred to in sections 10.18 and 10.19 may be held entirely by means of a telephonic, electronic or other communication facility if the Corporation makes available such a communication facility; provided the facility enables the votes to be gathered in a manner that permits their subsequent verification.

10.21 Adjournment. The chairperson at a meeting of shareholders may, with the consent of the meeting, adjourn the meeting, from time to time, and place to place. If a meeting of shareholders is adjourned for less than 30 days, it shall not be necessary to give notice of the adjourned meeting, other than by announcement at the earlier meeting that it has been adjourned. Subject to the Act, if a meeting of shareholders is adjourned by one or more adjournments for an aggregate of 30 days or more, notice of the adjourned meeting shall be given as if for an original meeting.

In addition, the chairperson at a meeting of shareholders may, without the consent of the meeting, if the electronic platform at a meeting of shareholders held in part or entirely by means of a telephonic, electronic or other communication facility has become inadequate for the purposes referred to in sections 10.4 and 10.20, interrupt or adjourn the meeting. All business conducted at that meeting of shareholders up to the time of that adjournment shall be valid.

10.22 Resolution in Writing by Shareholders. In the case of a corporation that is not a reporting issuer, and subject to the Corporation's articles or any unanimous shareholder agreement, an ordinary resolution in writing signed by at least a majority of the shareholders, or their attorney authorized in writing, entitled to vote on that resolution at a meeting is as valid as if it had been passed at a meeting of the shareholders, unless a written statement or written representation with respect to the subject matter of the resolution is submitted by a director or the auditor, respectively, in accordance with the Act. Within 10 business days of an ordinary resolution being passed in writing, the Corporation shall issue a notice of the resolution to all voting shareholders who did not sign the written ordinary resolution, which notice shall include the text of the resolution and a description of and reasons for the business dealt with by the written resolution.

A special resolution in writing signed by all of the shareholders, or their attorney authorized in writing, entitled to vote on that resolution at a meeting is as valid as if it had been passed at a meeting of the shareholders, unless a written statement or written representation with respect to the subject matter of the resolution is submitted by a director or the auditor, respectively, in accordance with the Act.

A resolution in writing may be signed by the shareholders in any number of counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same resolution in writing, and by a shareholder using a facsimile or other electronic signature, in which case the other shareholders, the Corporation and the directors are entitled to rely on such electronic signature as conclusive evidence that such resolution in writing has been duly executed by such shareholder.

10.23 Only One Shareholder. Where the Corporation has only one shareholder or only one holder of any class or series of shares, the shareholder present in person or duly represented by proxy constitutes a meeting.

ARTICLE 11 NOTICES

11.1 Method of Giving Notices. Any notice, communication or other document to be given by the Corporation to a shareholder, director, officer, or auditor of the Corporation under any provision of the articles or by-laws shall be sufficiently given if: (i) delivered personally to the person to whom it is to be given; or (ii) delivered to such person's last address as shown on the records of the Corporation; or (iii) mailed by prepaid post in a sealed envelope addressed to such person at the last address shown on the records of the Corporation; or (iv) sent by electronic document in accordance with the *Electronic Commerce Act, 2000* (Ontario) or electronic transmission, including the use of, or participation in, one or more electronic networks or databases (including one or more distributed electronic networks or databases). A notice, communication or document so delivered shall be deemed to have been given when: (i) delivered personally, when it is delivered; (ii) delivered to such person's last address shown on the records of the Corporation, when delivered at the address aforesaid; (iii) mailed by prepaid post, on the fifth day after mailing, unless there are reasonable grounds for believing that the addressee did not receive the notice or document at that time or at all; and (iv) sent by way of electronic document, when it is sent through an information system used to generate, send, receive, store, or otherwise process an electronic document. The secretary may change the address on the records of the Corporation of any shareholder, director, officer, or auditor of the Corporation in accordance with any information believed by the secretary to be reliable.

11.2 Notice to Joint Holders. If two or more persons are registered as joint holders of any share, any notice shall be addressed to all of such joint holders but notice addressed to one of such persons shall be sufficient notice to all of them.

11.3 Computation of Time. In computing the date when notice must be given under any provision of the articles or the by-laws requiring a specified number of days' notice of any meeting or other event, the date of giving the notice shall be excluded and the date of the meeting or other event shall be included.

11.4 Undelivered Notices. If any notice given or document sent to a shareholder pursuant to section 11.1 is returned on three consecutive occasions because the shareholder cannot be found, the Corporation shall not be required to give any further notices or send further documents to the shareholder until the shareholder informs the Corporation in writing of the shareholder's new address.

11.5 Omissions and Errors. The accidental omission to give any notice to any shareholder, director, officer, auditor, or member of a committee of the board, or the non-receipt of any notice by any such person or any error in any notice not affecting the substance thereof, shall not invalidate any action taken at any meeting held pursuant to such notice or otherwise founded thereon.

11.6 Persons Entitled by Death or Operation of Law. Every person who, by operation of law, transfer, death of a shareholder or any other means whatsoever, shall become entitled to any share, shall be bound by every notice in respect of such share which shall have been duly given to the shareholder from whom that person derives title to such share prior to the name and address of that person being entered on the securities register (whether such notice was given before or after the happening of the event upon which the person became so entitled) and prior to the person furnishing to the Corporation the proof of authority or evidence of entitlement prescribed by the Act.

11.7 Waiver of Notice. Any shareholder, proxyholder, other person entitled to attend a meeting of shareholders, director, officer, auditor or member of a committee of the board may at any time waive any notice, or waive or abridge the time for any notice, required to be given to that person under any provision of the Act, the articles, the by-laws or otherwise, and such waiver or abridgement, whether given before or after the meeting or other event of which notice is required to be given, shall cure any default in the giving or in the time of such notice, as the case may be. Any waiver or abridgement shall be in writing except a waiver of notice of a meeting of shareholders or of the board or of a committee of the board which may be given in any manner.

ARTICLE 12 FORUM SELECTION

12.1 Forum for Adjudication of Certain Disputes. Unless the Corporation consents in writing to the selection of an alternative forum, the Superior Court of Justice of the Province of Ontario, Canada and the appellate Courts therefrom (or, failing such court, any other “court” as defined in the Act) having jurisdiction and the appellate Courts therefrom), shall, to the fullest extent permitted by law, be the sole and exclusive forum for: (i) any derivative action or proceeding brought on behalf of the Corporation; (ii) any action or proceeding asserting a claim of breach of a fiduciary duty owed by any director, officer, or other employee of the Corporation to the Corporation; (iii) any action or proceeding asserting a claim arising pursuant to any provision of the Act or the articles or the by-laws of the Corporation (as either may be amended, from time to time); or (iv) any action or proceeding asserting a claim otherwise related to the “affairs” (as defined in the Act) of the Corporation. If any action or proceeding, the subject matter of which is within the scope of the preceding sentence, is filed in a Court other than a Court located within the Province of Ontario (a “Foreign Action”) in the name of any securityholder, such securityholder shall be deemed to have consented to: (a) the personal jurisdiction of the provincial and federal Courts located within the Province of Ontario in connection with any action or proceeding brought in any such Court to enforce the forum set out in the preceding sentence; and (b) having service of process made upon such securityholder in any such action or proceeding by service upon such securityholder’s counsel in the Foreign Action as agent for such securityholder.

ARTICLE 13 EFFECTIVE DATE

13.1 Effective Date. This by-law shall come into force when made by the board in accordance with the Act.

The foregoing is the complete text of By-law No. 1 of the Corporation, as adopted by the board of the Corporation on July 11th, 2022.

DATED: July 11, 2022.

"John McMahon" (signed)

Chief Executive Officer

"Roland Nimmo" (signed)

Chief Financial Officer

APPENDIX C

**PROPHECY DEFI INC.
REPORTING PACKAGE
TO FOLLOW**

**PROPHECY DEFI INC.
NOTICE OF CHANGE OF AUDITORS
PURSUANT TO NATIONAL INSTRUMENT 51-102 (“NI 51-102”)**

TO: MNP LLP

AND TO: KINGSTON ROSS PASNAK LLP

**AND TO: ONTARIO SECURITIES COMMISSION
BRITISH COLUMBIA SECURITIES COMMISSION**

**RE: NOTICE REGARDING PROPOSED CHANGE OF AUDITOR PURSUANT
TO NI 51-102**

Notice is hereby given that the board of directors of Prophecy DeFi Inc. (the “**Company**”) determined:

1. to accept the resignation, on its own initiative, dated October 21, 2021, of MNP LLP (the “**Former Auditor**”), as auditor of the Company;
2. to appoint Kingston Ross Pasnak LLP (the “**Successor Auditor**”), as auditor of the Company, effective November 2, 2021;
3. there have been no modified opinions in the Former Auditor’s reports on any of the Company’s financial statements for the two most recently completed fiscal years nor for any period subsequent to the most recently completed fiscal year; and
4. in the opinion of the Company, prior to the resignation, and as at the date hereof, there were no reportable events as defined in NI 51-102 (Part 4.11).

The contents of this Notice and the resignation of the Former Auditor and the proposed appointment of the Successor Auditor were approved by the Audit Committee and the Board of Directors of the Company.

DATED at Toronto, Ontario this 2nd day of November, 2021.

**BY ORDER OF THE BOARD OF DIRECTORS OF
PROPHECY DEFI INC.**

“John McMahon” (signed)

John McMahon
Chief Executive Officer

November 2, 2021

**Ontario Securities Commission
British Columbia Securities Commission**

Dear Sirs/Mesdames:

Re: Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.) (the "Company") Notice of Change of Auditor

As required by Section 4.11 of National Instrument 51-102 *Continuous Disclosure Obligations*, we have reviewed the information contained in the Company's Notice of Change of Auditor dated November 2, 2021 (the "Notice"). Based on our knowledge as of the date of this letter, we agree with each statement in the Notice as it pertains to MNP LLP.

Sincerely,

A handwritten signature in green ink that reads "MNP LLP". The letters are stylized and cursive.

**Chartered Professional Accountants
Licensed Public Accountants**



KINGSTON
ROSS
PASNAK^{LLP}

CHARTERED PROFESSIONAL ACCOUNTANTS

Suite 1500, 9888 Jasper Avenue NW
Edmonton, Alberta T5J 5C6
T. 780.424.3000 | F. 780.429.4817 | W. krpgroup.com

November 2, 2021

To: British Columbia Securities Commission

P.O. Box 10142, Pacific Centre
701 West Georgia Street
Vancouver, BC V7Y 1L2

And To: Ontario Securities Commission

20 Queen Street West
20th Floor
Toronto, ON M5H 3S8

Dear Sirs/Mesdames:

Re: Prophecy DeFi Inc. (the “Company”)

**Notice Pursuant to National Instrument 51-102 – *Continuous Disclosure*
Obligations (“NI 51-102”) - Change of Auditor**

As required by section 4.11 of NI 51-102, we have reviewed the change of auditor notice of the Company (the “**Notice**”) dated November 2, 2021 and, based on our knowledge of such information at this time, are in agreement with the statement contained in such Notice.

Yours very truly,

Kingston Ross Pasmak LLP

KINGSTON ROSS PASNAK LLP

Chartered Professional Accountants

PROPHECY DEFI INC.

(Formerly Bucephalus Capital Corp.)

Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards. These consolidated financial statements contain estimates based on management's judgment. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Audit Committee of the Board of Directors reviews the results of the annual audit and the consolidated financial statements prior to submitting the consolidated financial statements to the Board for approval.

The Company's auditors, Kingston Ross Pasnak LLP, are appointed by the shareholders to conduct an audit and their report follows.

Signed: "**John McMahon**"
Chief Executive Officer

Toronto, Ontario
May 2, 2022



KINGSTON
ROSS
PASNAK LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Suite 1500, 9888 Jasper Avenue NW
Edmonton, Alberta T5J 5C6
T. 780.424.3000 | F. 780.429.4817 | W. krpgroup.com

May 2, 2022
Edmonton, Alberta

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Prophecy DeFi Inc.

Opinion

We have audited the consolidated financial statements of Prophecy DeFi Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021, and the consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with 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.

Other Matter

The consolidated financial statements for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 28, 2021.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, which includes Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis 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.

(continues)

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 Consolidated 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 Canadian generally accepted auditing standards 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 Canadian generally accepted auditing standards, 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 the 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, but not for the purpose of expressing an opinion on the effectiveness 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 cast 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 consolidated financial statements or, if such disclosures are 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.

Independent Auditor's Report to the Shareholders of Prophecy DeFi Inc. *(continued)*

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

The engagement partner on the audit resulting in this independent auditor's report is Jane Davidson, CPA, CA.

Kingston Ross Pasmak LLP
Kingston Ross Pasmak LLP
Chartered Professional Accountants

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Consolidated Statement of Financial Position

(In Canadian Dollars)

| | December 31, 2021 | December 31, 2020 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 6,652,988 | \$ 18,424 |
| Digital currencies (note 6) | 6,187,917 | - |
| Accrued interest receivable (note 8) | 7,539 | 24,811 |
| Prepaid expenses and deposits (note 7) | 71,990 | 750 |
| Accounts receivable | - | 17,653 |
| Bridge loans, current portion (note 8) | 10,000 | 36,020 |
| Portfolio investments (note 9) | 94,179 | 258,866 |
| | <u>13,024,613</u> | <u>356,524</u> |
| Bridge loans (note 8) | 89,520 | - |
| Office premise and other (note 10) | 998,471 | - |
| Goodwill (note 11) | 19,704,882 | - |
| | <u>\$ 33,817,486</u> | <u>\$ 356,524</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities (note 18) | \$ 429,665 | \$ 530,364 |
| Lease liability, current portion (note 12) | 103,718 | - |
| | <u>533,383</u> | <u>530,364</u> |
| Lease liability (note 12) | 513,735 | - |
| Convertible debentures (note 13) | 4,817,723 | - |
| | <u>5,864,841</u> | <u>530,364</u> |
| Shareholders' Equity | | |
| Share capital (note 14(b)) | 28,327,353 | 3,235,409 |
| Contributed surplus (note 14(c)) | 7,377,693 | 35,343 |
| Deficit | (9,405,670) | (3,444,592) |
| Accumulated other comprehensive loss | 1,653,269 | - |
| Total shareholders' equity | <u>27,952,645</u> | <u>(173,840)</u> |
| | <u>\$ 33,817,486</u> | <u>\$ 356,524</u> |

On Behalf of the Board:

"John McMahon" _____ Director

"Stuart Hensman" _____ Director

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

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Consolidated Statement of Changes in Shareholders' Equity

For the Year Ended December 31, 2021

(In Canadian Dollars)

| | Share Capital | Contributed Surplus | Deficit | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|-------------------|------------------------|--------------------|---|----------------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Balance, December 31, 2019 | 3,235,409 | 35,343 | (3,069,259) | - | 201,493 |
| Net income (loss) for the year | - | - | (375,333) | - | (375,333) |
| Balance December 31, 2020 | 3,235,409 | 35,343 | (3,444,592) | - | (173,840) |
| Issuance of shares, net of costs | 23,380,243 | 3,663,206 | - | - | 27,043,449 |
| Issuance of performance warrants (note 14(c)(iii)) | - | 1,731,500 | - | - | 1,731,500 |
| Issuance of broker warrants (note 14(c)(iv)) | - | 160,650 | - | - | 160,650 |
| Issuance of stock options (note 14(d)) | - | 2,299,725 | - | - | 2,299,725 |
| Exercise of warrants (note 14(b)) | 1,257,884 | (506,398) | - | - | 751,486 |
| Exercise of stock options (note 14(b)) | 293,193 | (97,193) | - | - | 196,000 |
| Convertible debentures (note 13) | 160,624 | 90,860 | - | - | 251,484 |
| Net income (loss) for the year | - | - | (5,961,078) | - | (5,961,078) |
| Unrealized gain on digital currencies | - | - | - | 1,653,269 | 1,653,269 |
| Balance December 31, 2021 | 28,327,353 | 7,377,693 | (9,405,670) | 1,653,269 | 27,952,645 |

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

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)
Consolidated Statement of Operations and Comprehensive Loss
For the Year Ended December 31, 2021
(In Canadian Dollars)

| | 2021 | 2020 |
|--|-----------------------|---------------------|
| Revenue | | |
| Realized gain on sale of portfolio investments (note 9) | \$ 693,508 | \$ - |
| Fee income | 653,949 | - |
| Realized gain on digital currencies | 208,722 | - |
| Interest income | 11,181 | 5,098 |
| Foreign exchange gain | 45 | 912 |
| Discount on note (note 8(c)) | (71,074) | - |
| Change in value of portfolio investments (note 9(b) and (c)) | (154,934) | 92 |
| Dividend income | - | 1,268 |
| Credit losses | - | (60,836) |
| | <u>1,341,397</u> | <u>(53,466)</u> |
| Expenses | | |
| Stock based compensation (note 14(d)) | 2,299,725 | - |
| Service agreement (note 14(c)(iii)) | 1,731,500 | - |
| Promotional | 1,041,839 | - |
| Consulting fees (note 18) | 652,827 | 276,000 |
| Salaries | 484,648 | - |
| Audit and legal fees | 448,962 | 17,100 |
| Office expenses | 135,736 | 3,431 |
| Director fees | 124,223 | - |
| Filing and listing fees | 118,350 | 25,336 |
| Amortization (note 10) | 75,106 | - |
| News releases and investor relations | 64,043 | - |
| Memberships | 57,883 | - |
| Insurance | 38,880 | - |
| Interest on lease liability (note 12) | 15,757 | - |
| Interest on convertible debentures (note 13) | 12,996 | - |
| | <u>7,302,475</u> | <u>321,867</u> |
| Net loss | (5,961,078) | (375,333) |
| Other comprehensive loss | | |
| Unrealized gain on digital currencies | 1,653,269 | - |
| Comprehensive loss for the year | <u>\$ (4,307,809)</u> | <u>\$ (375,333)</u> |
| Net loss per share (note 15) | | |
| Basic | \$ (0.06) | \$ (0.01) |
| Diluted | \$ (0.06) | \$ (0.01) |
| Weighted average number of shares outstanding | | |
| Basic | 84,289,264 | 29,514,241 |
| Diluted | 84,289,264 | 29,514,241 |

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

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2021
(In Canadian Dollars)

| | 2021 | 2020 |
|--|---------------------|------------------|
| Operating activities | | |
| Net income (loss) for the year | \$ (5,961,078) | \$ (375,333) |
| Adjustments for non-cash items: | | |
| Change in value of portfolio investments | 154,934 | (619) |
| Stock based compensation | 2,299,725 | - |
| Service agreement | 1,731,500 | - |
| Promotional | 150,000 | - |
| Amortization | 75,106 | - |
| Fee income | (653,949) | - |
| Realized gain on sale of portfolio investments | (693,508) | - |
| Realized gain on digital currencies | (208,722) | - |
| Discount on loan | 71,074 | - |
| Financing fees | 6,584 | - |
| Interest income | - | (4,739) |
| Credit losses | - | 60,836 |
| Net changes in non-cash working capital balances | | |
| Accrued interest receivable | 17,272 | 745 |
| Prepaid expenses | (71,240) | (100) |
| Accounts receivable | 17,653 | 3,318 |
| Accounts payable | (156,300) | 279,733 |
| | <u>(3,220,949)</u> | <u>(36,159)</u> |
| Investing activities | | |
| Advances of bridge loans | (157,068) | - |
| Cash acquired on business combination | 199,216 | - |
| Proceeds from sale of portfolio investments | 745,971 | - |
| Purchase of digital currencies | (1,850,100) | - |
| Purchase of furniture and office equipment | (412,918) | - |
| | <u>(1,474,899)</u> | <u>-</u> |
| Financing activities | | |
| Proceeds from financing activities | 10,441,890 | - |
| Exercise of stock options | 196,000 | - |
| Exercise of warrants | 751,486 | - |
| Payments of lease obligation | (58,964) | - |
| | <u>11,330,412</u> | <u>-</u> |
| Increase (decrease) in cash | 6,634,564 | (36,159) |
| Cash, beginning of year | 18,424 | 54,583 |
| Cash, end of year | \$ 6,652,988 | \$ 18,424 |
| Interest paid | \$ 26,420 | \$ - |
| Income taxes paid | \$ - | \$ - |

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

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

(In Canadian Dollars)

1. Nature of Business

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.) ("PDFI" or the "Company") invests its funds for the purpose of generating returns from capital appreciation and income. It plans to accomplish these goals by bringing together technology start-ups in the Blockchain and Decentralized Finance sectors to fund innovation, elevate industry research, and create new business opportunities in a coherent ecosystem. The Company is a public company incorporated and domiciled in Ontario, Canada. The Company's registered office is located at 87 Scollard Street, Suite 100, Toronto, Ontario M5R 1G4. The Company's subordinate voting shares commenced trading on the Canadian Securities Exchange ("CSE") on March 14, 2016.

In early 2020, there was a global outbreak of COVID-19 (coronavirus), which had a significant impact on businesses through restrictions put in place by the Canadian federal, provincial, and municipal governments regarding travel, business operations, and isolations/quarantine orders. While the Company has not yet experienced any material impact on its ability to conduct operations, it is unknown the extent of the future impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

2. Basis of Presentation

Statement of Compliance

These consolidated financial statements, including comparative periods have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements include those of Prophecy Defi Inc. and its wholly owned subsidiaries, Bradstone Financial Corp. ("BFC") and Layer2 Blockchain Inc. ("Layer2"), from the date on which control is acquired by the Company. Consolidation ended on March 2, 2021 for BFC, the date the Company sold 100% of its shares. The financial statements for the consolidated entity are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany transactions and balances have been eliminated in the preparation of these consolidated financial statements.

The reporting currency used for the consolidated financial statements is Canadian dollars. The functional currency used by the Company and its subsidiary is Canadian dollars.

These consolidated financial statements were approved by the Company's Board of Directors on May 2, 2022.

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

3. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with IFRS. Outlined below are those policies considered particularly significant for the Company.

A. Use of Estimates

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

contingent liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year. Financial statement items subject to significant management judgment include:

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

(In Canadian Dollars)

3. Summary of Significant Accounting Policies - continued

A. Use of Estimates - continued

- Credit losses – Management exercises judgement to determine the expected credit losses on loans (note 3 (B)).
- Valuation of portfolio investments – Where investments are not traded in an active market, management exercises judgement to determine the fair value of these assets. These assumptions include observation of recent private sales on the underlying securities (if available).
- The Black-Scholes option pricing model is used to determine the fair value of the share-based payments and utilizes subjective assumptions such as expected price volatility and expected life of the option. Discrepancies in these input assumptions can significantly affect the fair value estimate (note 3 (I)).
- Business combinations – assumptions and estimates are made in determining the fair value of assets and liabilities, including the identification and valuation of separately identifiable intangible assets acquired as part of an acquisition and the allocation of the purchase price. These estimates may be further based on management's best assessment of the related inputs used in valuation models, such as future cash flows and cost of capital.
- Office premise and other – Management determines the carrying value of its office premise based on policies that incorporate assumptions, estimates and judgements relative to the useful lives and residual values of assets.
- Impairment of non-financial assets – Impairment exists where the carrying value of an asset, or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value. The fair value less costs of disposal calculated is based on available data from binding sales transactions in an arm's length transaction of similar assets or other observable market prices less incremental costs of disposal. The value in use calculation is based on discounted cash flow models. The estimated future cash flows are derived from management assumptions, estimates, budgets and past performance and do not include activities that the Company is not yet committed to or significant investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the cost of capital used for the discounted cash flow model as well as the expected future cash flows.
- Revenue recognition – The Company recognizes revenue from the provision of liquidity. As consideration for these services, the Company receives digital currency. Management has exercised significant judgment in determining the completion stage for this revenue stream and examined various factors surrounding the substance of the Company's operations, and determined the stage of completion being the receipt of proceeds to the Company's control.
- Going concern – The Company regularly reviews and makes an assessment of its ability to continue as a going concern. This assessment relies on significant judgements and assumptions, taking into account all known future information.
- Digital currencies valuation – Digital currencies consist of cryptocurrency denominated assets and are included in current assets. The digital currency market is still a new market and is highly volatile, historical prices are not necessarily indicative of future value and a significant change in the market prices for digital currencies would have a significant impact on the Company's earnings and financial position.
- Income taxes – Income taxes are subject to measurement uncertainty due to possible changes in tax legislation or changes in the characterization of income sources. Further, estimating income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income. The Company's assessment to recognize a deferred tax asset is based upon estimating tax laws and estimates of future taxable income.

While management believes that the estimates and assumptions are reasonable, actual results may differ materially from those estimates.

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

(In Canadian Dollars)

3. Summary of Significant Accounting Policies – continued**B. Financial instruments**

Financial assets and financial liabilities, including derivatives, are recognized on the statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories:

- (1) those to be measured subsequently at fair value through profit or loss (“FVTPL”);
- (2) those to be measured subsequently at fair value through other comprehensive income (“FVTOCI”);
and
- (3) those to be measured subsequently at amortized cost.

The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are recorded in the statements of operations and comprehensive loss.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

The Company’s classification and measurements of financial assets and liabilities are summarized below:

| | IFRS 9 |
|--|-----------------------|
| | Classification |
| Cash | Amortized cost |
| Accrued interest receivable | Amortized cost |
| Accounts receivables | Amortized cost |
| Bridge loans | Amortized cost |
| Portfolio investments | FVTPL |
| Accounts payable and accrued liabilities | Amortized cost |
| Convertible debentures | Amortized cost |

Financial assets at amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely payment of principal and interest (“SPPI”) criterion. Financial assets classified in this category are measured at amortized cost using the effective interest method.

Financial assets at fair value through profit or loss

This category includes derivative instruments as well as equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category also includes debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in the statements of operations and comprehensive loss.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

(In Canadian Dollars)

3. Summary of Significant Accounting Policies – continued**B. Financial instruments - continued**

Financial assets that 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 generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through the statements of operations and comprehensive loss.

Fair value hierarchy

Financial assets measured at fair value or where their fair value is disclosed in the notes must be classified into one of the three hierarchy levels set forth below for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair value of assets and liabilities.

- Level 1: Inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2: Valuation models which utilize predominately observable market inputs; and
- Level 3: Valuation models which utilize predominately non-observable market inputs.

The classification of a financial asset in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The Company's fair value financial instruments are classified as follows:

| <i>Financial instrument</i> | <i>Classification</i> |
|------------------------------------|------------------------------|
| Portfolio investments | Levels 1 and 3 |

At the end of each reporting period, management estimates the fair value of investments based on the criteria below and reflects such valuations in the restated financial statements.

- Securities including shares, options, and warrants which are traded in an active market, such as on a recognized securities exchange and for which no sales restrictions apply, are presented at fair value based on quoted closing trade prices at the end of the reporting period or the closing trade price on the last day the security traded if there were no trades at the end of the reporting period. These are included in Level 1 of the fair value hierarchy.
- For options, warrants, and conversion features which are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique is used. Valuation models such as the Black-Scholes valuation model ("Black-Scholes") are used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at the date of valuation, expected dividend yield, expected life of the instrument and expected volatility of the underlying security based on historical volatility. These are included in Level 2 of the fair value hierarchy.
- Convertible debts and loans issued by investee companies are generally valued at the price in which the instrument was issued. The Company regularly considers whether any indications of deterioration in the value of the underlying business exist, which suggest that the debt instrument will not be fully recovered. The fair value of convertible debentures is measured using valuation techniques such as Black-Scholes model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment and assumptions provided by management is required in establishing fair values. Judgments include consideration of inputs such as credit risk, discount rates, volatility, probability of certain triggering events, and share price of private company borrowers. Changes in assumptions relating to these factors could affect the reported fair value of the financial instruments. These are included in Level 3 of the fair value hierarchy.
- Private company investments
All privately-held investments (including options, warrants, and conversion features) are initially recorded at the transaction price, being the fair value at the time of acquisition. At the end of each reporting period, the fair value of an investment may (depending upon the circumstances) be adjusted using one or more of the valuation indicators described below.

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

(In Canadian Dollars)

3. Summary of Significant Accounting Policies - continued**B. Financial instruments - continued**

The determination of fair value of the Company's privately-held investments at other than initial cost, is subject to certain limitations. Financial information for private companies in which the Company has investments, may not be available and, even if available, that information may be limited and/or unreliable.

Use of the valuation approach described below may involve uncertainties and determinations based on management's judgment and any value estimated from these techniques may not be realized or realizable.

Company-specific information is considered when determining whether the fair value of a privately-held investment should be adjusted upward or downward at the end of each reporting period. In addition to company-specific information, the Company will also consider trends in general market conditions and the share performance of comparable publicly-traded companies when valuing privately-held investments.

The fair value of a privately-held investment may be adjusted if:

- i. There has been a significant subsequent equity financing provided by outside investors at a valuation different than the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place;
- ii. There have been significant corporate, political, or operating events affecting the investee company that, in management's opinion, have a material impact on the investee company's prospects and, therefore, its fair value. In these circumstances, the adjustment to the fair value of the investment will be based on management's judgment and any value estimated may not be realized or realizable;
- iii. The investee company is placed into receivership or bankruptcy;
- iv. Based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern;
- v. Release by the investee company of positive/negative operational results; and
- vi. Important positive/negative management changes by the investee company that the Company's management believes will have a very positive/negative impact on the investee company's ability to achieve its objectives and build value for shareholders.

Adjustments to the fair value of a privately-held investment will be based upon management's judgment and any value estimated may not be realized or realizable. The resulting values for non-publicly traded investments may differ from values that would be realized if a ready market existed.

In addition, the amounts at which the Company's privately-held investments could be currently disposed of may differ from the carrying value assigned.

Convertible Debentures

Convertible debentures issued by the Company are comprised of convertible unsecured debentures that can be converted to common shares at the option of the holder. The host liability component of a compounded financial instrument is recognized initially at the fair market value of a similar liability that does not have an equity conversion option. Any directly attributable transaction costs are allocated entirely to the host liability component.

Expected credit losses on financial assets

Determining an allowance for expected credit losses ("ECLs") for all debt financial assets not held at fair value through profit or loss ("FVTPL") requires management to make assumptions about the historical patterns for the probability of default, the timing of collection, and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

Upon disposal of an investment, previously recognized unrealized gains or losses are reversed to recognize the full realized gain or loss in the period of disposition.

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

(In Canadian Dollars)

3. Summary of Significant Accounting Policies - continued

C. Provisions

The Company recognizes provisions when a legal or constructive obligation exists as a result of past events, when it is probable that there will be an outflow of economic benefits from the entity, and a reliable estimate of the amount of the obligation can be made. When a provision is expected to settle beyond the immediate term, the provision is measured at the present value of future cash flows, discounted at prevailing market interest rates. With the passage of time, additional expenses are recorded as the provision accretes.

D. Business Combinations

All business combinations are accounted for by applying the acquisition method. Upon acquisition the assets (including intangible assets), liabilities and contingent liabilities acquired are measured at their fair value. The Company recognizes identifiable intangible assets as part of business combinations at fair value at the date of acquisition. The determination of these fair values is based upon management's judgement and includes assumptions on the timing and amount of future incremental cash flows generated by the assets acquired and the selection of an appropriate cost of capital. Acquisition and integration costs are recognized in profit or loss as incurred.

Goodwill represents the excess of the identifiable cost of an acquisition over the fair value of the Company's share of the net assets acquired at the date of acquisition. If the identifiable cost of acquisition is less than the fair value of the Company's share of the net assets acquired (i.e. a discount on acquisition) the difference is credited to the statement of income (loss) and comprehensive statement of income (loss) in the period of acquisition. At the acquisition date, goodwill acquired is recognized as an asset and allocated to each cash generating unit ("CGU") expected to benefit from the business combination's synergies and to the lowest level at which management monitors goodwill.

E. Revenue Recognition

The Company derives its income from digital currency received for providing liquidity to decentralized cryptocurrency exchanges. Revenue is recognized by the Company when payment, in the form of digital currency, is received for liquidity services rendered. Revenue is measured based on the fair value of the coins received. The fair value is determined using the daily weighted close price for the digital currency from www.polygonscan.com, www.etherscan.io, www.bscscan.com, www.urorascan.dev and www.explorer.roninchain.co.

Realized gains (losses) on disposal of digital currencies are reflected in the statements of operations and comprehensive loss on the transaction date. The Company has the control of the crypto assets prior to the sale and records revenue at the point in time when the sale is confirmed on the respective blockchain.

Realized gains (losses) on disposals of investments and unrealized gains (losses) on securities classified as FVTPL are reflected in the statements of operations and comprehensive loss on the transaction date and are calculated on an average cost basis. For all financial instruments measured at amortized cost and interest-bearing financial assets, interest income or expenses are recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability.

F. Foreign Currency Translation

Monetary assets and liabilities denominated in currencies other than Canadian dollars are translated into Canadian dollars at the rate of exchange in effect at the end of the reporting period. Non-monetary assets and liabilities are translated at the historical rates. Revenues and expenses are translated at the transaction exchange rate. Foreign currency gains and losses resulting from translation are reflected in profit or loss.

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

(In Canadian Dollars)

3. Summary of Significant Accounting Policies - continued**G. Income Taxes**

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income is also recognized directly in equity or other comprehensive income.

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred income tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expensed to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

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.

H. Cash

Cash consists of cash balances and highly liquid investments with original maturities of three months or less.

I. Digital currencies

Digital currencies meet the definition of intangible assets as they are identifiable non-monetary assets without physical substance. They are initially recorded at the fair value on the acquisition date and the revaluation method is used to measure the digital assets subsequently. Under the revaluation method, increases in fair value are recorded in other comprehensive income, while decreases are recorded in profit or loss.

The Company revalue its digital assets at the end of its reporting periods. There is no recycling of gains from other comprehensive income to profit or loss. However, to the extent that an increase in fair value reverses a previous decrease in fair value that has been recorded in profit or loss, that increase is recorded in profit or loss. Decreases in fair value that reverse gains previously recorded in other comprehensive income are recorded in other comprehensive income.

The Company holds a variety of digital currencies which are measured at fair value using the quoted prices from www.polygonscan.com, www.etherscan.io, www.bscscan.com, www.urorascan.dev and www.explorer.roninchain.co. The digital currencies are valued based on the daily weighted closing price obtained at the time the digital currencies are acquired and at each reporting date. Management considers the fair value to be a level two input under the fair value hierarchy as the prices from this source represents an average of quoted prices on multiple digital currency exchanges.

The Company's determination to classify its holdings as current assets is based on management's assessment that the digital currencies held can be considered to be a commodity that may be readily sold because liquid markets are available.

J. Office premise and other

Furniture, office equipment and leasehold improvements are stated at historical cost, less any accumulated amortization and accumulated impairment in value. Historical cost includes all costs directly attributable to the acquisition.

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

(In Canadian Dollars)

3. Summary of Significant Accounting Policies – continued**J. Office premise and other - continued**

Amortization is recognized using the declining balance method at a rate of 20% to amortize the cost of furniture and office equipment to their residual values over their estimated useful lives in profit or loss.

Amortization methods, useful lives and residual values are reviewed at the reporting period date. Such a review takes into consideration the nature of the assets, their intended use and technological changes.

Gains or losses on the sale of furniture and office equipment are determined by comparing the proceeds with the carrying amount and are recognized in the profit or loss in the period of disposition.

Leasehold improvements and right-of-use assets are amortized on a straight-line basis over their lease term and are accounted for at cost less accumulated amortization and reviewed at each balance sheet date to determine whether there is an indication of impairment.

K. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable assets and liabilities acquired determined at the date of acquisition. Goodwill is carried at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually by assessing the recoverable amount of each CGU to which it relates, where applicable. The recoverable amount is the higher of fair value less costs of disposal, and value in use. When the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. Any impairment is recognized immediately in profit or loss and comprehensive profit or loss.

L. Share-based payments

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted. In situations where equity instruments are issued to non-employees and some of all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense recognized for equity-settled transaction at each reporting date until the vesting date reflects the Company’s best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in contributed surplus.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as a measure at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings or loss per share.

M. Loss per share

Basic loss per share is calculated using the weighted average number of multiple, subordinate and common shares outstanding during the period.

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

(In Canadian Dollars)

3. Summary of Significant Accounting Policies - continued**M. Loss per share - continued**

Diluted loss per share is calculated by dividing net loss available to shareholders for the period by the diluted weighted average number of multiple, subordinate and common shares outstanding during the period. The diluted weighted average number of shares includes the potential dilution from shares issuable through stock options, if dilutive. This assumes that the proceeds from any shares issued on the exercise of stock options are used by the Company to repurchase and cancel shares at the average market price of the Company's share price for the period. As such, where the strike price of stock options exceeds the average market price of the Company's shares for the reporting period, the inclusion of these shares under the treasury stock method would be anti-dilutive, so these shares are excluded from the calculation of the weighted average number of diluted shares outstanding.

4. Significant New Accounting Standards

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ending December 31, 2021 and, accordingly, have not been applied in preparing these consolidated financial statements.

A. Improving Accounting Policy Disclosures and Clarifying Distinction between Accounting Policies and Accounting Estimates (Amendments to IAS 1 and IAS 8)

In February 2021, the IASB issued narrow-scope amendments to IAS 1 Presentation of Financial Statements, IFRS Practice Statement 2 Making Materiality Judgments and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments to IAS 8 clarify how companies should distinguish changes in accounting policies from change in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

B. IAS 12: Amendment to IAS 12, Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

In May 2021, the IASB issued targeted amendments to IAS 12 – Income Taxes to specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, companies are exempt from recognizing deferred tax when they recognize assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations transactions for which companies recognize both an asset and a liability. The amendments clarify that the exemption does not apply and that companies are required to recognize deferred tax on such transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. The Company is assessing the potential impact of the amendment. The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2021. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

(In Canadian Dollars)

4. Significant New Accounting Standards - continued**C. Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)**

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest

Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued

Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the consolidated financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

D. Covid-19-Related Rent Concessions beyond June 30, 2021 Amendments to IFRS 16

On May 28, 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until June 30, 2021, but as the impact of the Covid-19 pandemic is continuing, on March 31, 2021, the IASB extended the period of application of the practical expedient to June 30, 2022. The amendment applies to annual reporting periods beginning on or after April 1, 2021.

However, the Company has not received Covid-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

5. Business Combination

The Company acquired 60% of the shares of Layer2 Blockchain Inc. ("Layer2"), on July 8, 2021, as consideration the Company issued 25,000,000 common shares of the Company to the shareholders of Layer2. The Company subsequently acquired the remaining 40% of the shares of Layer2 on September 13, 2021, as consideration the Company issued a further 25,000,000 common shares of the Company to the shareholders of Layer2 for a total purchase price of \$21,670,375. Layer2 is a technology company focused on the rapidly emerging Ethereum Layer Two decentralized finance ecosystem. The Company incurred acquisition-related costs of \$43,149, representing legal and other fees, which were recognized through profit or loss in the period.

Goodwill calculated in this acquisition represents the expected synergies from combining the operations of Layer2 with the Company, revenue growth, future market development and expertise in the sector. These benefits are not recognized separately from goodwill as their fair value cannot be measured reliably individually. Goodwill from this acquisition is deductible for tax purposes, and was established as follows:

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

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(In Canadian Dollars)

5. Business Combination - continued

| | | |
|--------------------|----|-------------|
| Purchase price | \$ | 21,670,375 |
| Cash | | (199,216) |
| Digital currencies | | (1,821,878) |
| Accounts payable | | 55,601 |

| | | |
|----------|----|------------|
| Goodwill | \$ | 19,704,882 |
|----------|----|------------|

Selected information for the acquisition since the acquisition date:

| | | |
|---------------------------------------|----|-----------|
| Revenue | \$ | 862,671 |
| Operating expenses | | (808,193) |
| Net income | | 54,478 |
| Unrealized gain on digital currencies | | 1,653,269 |

| | | |
|----------------------|----|-----------|
| Comprehensive income | \$ | 1,707,747 |
|----------------------|----|-----------|

Selected information for the acquisition as if the acquisition had taken place at the beginning of the reporting period:

| | | |
|---------------------------------------|----|-----------|
| Revenue | \$ | 862,671 |
| Operating expenses | | (863,807) |
| Net loss | | (1,136) |
| Unrealized gain on digital currencies | | 1,174,373 |

| | | |
|----------------------|----|-----------|
| Comprehensive income | \$ | 1,173,237 |
|----------------------|----|-----------|

6. Digital Currencies

The continuity of digital currencies for the year ended December 31, 2021:

| | December 31 2021 | December 31 2020 |
|----------------------------------|---------------------|---------------------|
| Opening balance | \$ - | \$ - |
| Acquired on business combination | 1,821,877 | - |
| Purchased | 1,850,100 | - |
| Fee income earned | 653,949 | - |
| Realized gain on dispositions | 208,722 | - |
| Revaluation adjustment | 1,653,269 | - |
| Total | \$ 6,187,917 | \$ - |

7. Prepaid Expenses and Deposits

| | December 31 2021 | December 31 2020 |
|-----------------------------|---------------------|---------------------|
| Prepaid consulting contract | \$ 16,950 | \$ - |
| Prepaid insurance | 43,354 | - |
| Lease security deposit | 11,686 | - |
| Other prepaid | - | 750 |
| Total | \$ 71,990 | \$ 750 |

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

(In Canadian Dollars)

8. Bridge Loans

| | | Due Date | Stated Interest Rate | | December 31 2021 | December 31 2020 |
|------------------------|-----|---------------------|-------------------------------------|----|-----------------------------|-----------------------------|
| Individual Corporation | (a) | October 31, 2021 | 12% | \$ | 10,000 | \$ 10,000 |
| Corporation | (b) | June 30, 2020 | 12% | | - | 26,020 |
| Corporation | (c) | March 2, 2026 | 12% | | 89,520 | - |
| Total | | | | \$ | 99,520 | \$ 36,020 |

The fair values of the notes receivable are estimated to be approximately equivalent to their carrying values as the market rate of interest approximates the effective interest rate.

- As at December 31, 2021, \$7,539 (December 31, 2020 - \$5,931) in interest has been accrued. The loan is secured by a promissory note, a corporate guarantee, and equipment. A payment of \$6,000 was due in May 2021 with the remaining principal and interest due on October 31, 2021.
- The loan was based in US dollars and the principal amount of the loan was US\$129,029 or C\$164,396 (December 31, 2020 - C\$164,280). US\$105,000 or C\$133,780 (December 31, 2020 - C\$133,686) was syndicated to other lenders and therefore the net amount of the loan to the Company was US\$24,029 or C\$29,781 (December 31, 2020 - C\$30,594). During the reporting period this loan was settled with shares of Hank Payments Corp. (note 9(c)).
- The principal of the loan is \$148,765. As at December 31, 2021, \$Nil (December 31, 2020 - \$Nil) of interest has been accrued. The Company determined that the interest rate was preferential and has discounted the future cash flows at an effective rate of 12%, with a discount on note of \$ 71,074 recorded in the year.

9. Portfolio Investments

| | | December 31 2021 | December 31 2020 |
|--|----|-----------------------------|-----------------------------|
| Common shares in Marathon Mortgage Corp. (a) | \$ | - | \$ - |
| Other marketable securities (b) (c) | | 94,179 | 258,866 |
| Total | \$ | 94,179 | \$ 258,866 |

- As at December 31, 2021, the Company held nil (2020 – 3,358,636) common shares of Marathon Mortgage Corp. (“MMC”). On March 2, 2021, the Company sold its 3,358,636 common shares of MMC at a value of \$670,000.
- As at December 31, 2021, the Company held 1,391,085 –2020 - 437,500) common shares of Uptempo Inc. A fair value adjustment of \$152,076 was recorded in the year.
- As at December 31, 2021, the Company held 284,656, (2020 – nil) common shares of Hank Payments Corp. A fair value adjustment of \$39,852 was recorded in the year.

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Notes to the Consolidated Financial Statements

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(In Canadian Dollars)

10. Office Premise and Other

| | Office Premise (Right-of-Use Asset) | Leasehold Improvements | Furniture & Office Equipment | Total |
|---------------------------------|--|-----------------------------------|---|--------------------|
| Cost | | | | |
| Balance, January 1, 2021 | \$ - | \$ - | \$ - | \$ - |
| Additions | 660,660 | 306,875 | 106,042 | 1,073,577 |
| Disposals | - | - | - | - |
| Balance, December 31, 2021 | <u>\$ 660,660</u> | <u>\$ 306,875</u> | <u>\$ 106,042</u> | <u>\$1,073,577</u> |
| Accumulated Amortization | | | | |
| Balance, January 1, 2021 | \$ - | \$ - | \$ - | \$ - |
| Amortization | (44,044) | (20,458) | (10,604) | (75,106) |
| Balance, December 31, 2021 | <u>\$ (44,044)</u> | <u>(20,458)</u> | <u>(10,604)</u> | <u>(75,106)</u> |
| Carrying Amount | | | | |
| Balance, December 31, 2021 | <u>\$ 616,616</u> | <u>\$ 286,417</u> | <u>\$ 95,438</u> | <u>\$ 998,471</u> |

11. Goodwill

| | |
|-------------------------------|----------------------|
| Cost | |
| Balance, January 1, 2021 | \$ - |
| Business combination (note 5) | 19,704,882 |
| Balance, December 31, 2021 | <u>\$ 19,704,882</u> |
| Carrying Amount | |
| Balance, December 31, 2021 | <u>\$ 19,704,882</u> |

12. Lease Liability

The Company leases an office premise at 87 Scollard Street, Suite 100, Toronto, Ontario M5R 1G4. The lease expires in 2026, with a five-year option to extend.

The lease liability is measured at the present value of the lease payments that are not paid at the balance sheet date. Lease payments are apportioned between interest expense and a reduction of the lease liability using the Company's incremental borrowing rate to achieve a constant rate of interest on the remaining balances of the liability.

The carrying value of the Company's lease liability is as follows:

| | |
|--|-------------------|
| Balance, January 1, 2021 | \$ - |
| Addition of lease liability | 636,753 |
| Interest expense | 15,757 |
| Cash payments | (35,057) |
| Balance, December 31, 2021 | <u>\$ 617,453</u> |
| Current portion of lease liability | <u>(103,718)</u> |
| Non-current portion of lease liability | <u>\$ 513,735</u> |

As at December 31, 2021, the carrying rate of the Company's lease liability was \$617,453 (December 31, 2020 - \$Nil) and the carrying rate of the right-of-use asset was \$616,616 (December 31, 2020 - \$Nil). During the year ended December 31, 2021, the Company incurred amortization expense of \$44,044 (December 31, 2020 - \$Nil) on the right-of-use asset.

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Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

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13. Convertible Debentures

On December 23, 2021, the Company completed the offering of \$5,854,000 aggregate principal amount of 10% unsecured convertible debentures of the Company. Each convertible debenture matures 36 months following the closing of the offering and bears interest at a rate of 10% per annum, payable quarterly in cash. As at December 31, 2021, \$ 12,996 of interest has been paid.

The convertible debentures are convertible into common shares of the Company at the option of the holder at any time prior to the maturity date or on the business day immediately preceding a date fixed for redemption of the convertible debentures, at a conversion price equal to \$0.60 per common share. The Company has the right to force conversion of the convertible debentures at the conversion price if the daily volume weighted average trading price of the common shares on the Canadian Securities Exchange is greater than \$1.20 for 10 consecutive trading days.

Each convertible debenture includes 1,667 common share purchase warrants of the Company. Each warrant is exercisable into one common share at a price of \$0.90 per common share for a period of 36 months from the closing of the offering.

The host liability component of the convertible debentures recognized on the consolidated financial statements of financial position was calculated as follows:

| | | |
|---|----|------------------|
| Principal amount outstanding | \$ | 5,854,000 |
| Less: Transaction costs (net of amortization) | | (744,923) |
| Liability component on initial recognition | | 5,109,077 |
| Debenture discount (net of amortization) | | (291,354) |
| | \$ | <u>4,817,723</u> |

14. Share Capital

a) Authorized:

Unlimited common shares ("CS")

b) Shares issued and outstanding:

| For the year ended December 31 | SVS | | MVS | | CS | |
|--|---------------------|------------------|---------------------|----------------|---------------------|-------------------|
| | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Amount |
| Balance December 31, 2019 | 23,752,062 | 2,559,257 | 5,762,179 | 676,152 | - | - |
| Converted from MVS to SVS | 57,333 | 7,783 | (57,333) | (7,783) | - | - |
| Balance December 31, 2020 | 23,809,395 | 2,567,040 | 5,704,846 | 668,369 | - | - |
| Converted from MVS to SVS (i) | 946,491 | 110,889 | (946,491) | (110,889) | - | - |
| Converted from MVS/SVS to CS (ii) | (61,555,885) | (3,444,740) | (4,758,355) | (557,480) | 66,314,240 | 4,002,220 |
| Private placement, net of costs (iii) | 25,000,000 | 199,795 | - | - | - | - |
| Private placement, net of costs (iv) | 9,999,999 | 405,983 | - | - | - | - |
| Private placement, net of costs (v) | - | - | - | - | 10,000,000 | 954,090 |
| Issuance for business combination (vi) | - | - | - | - | 51,000,000 | 21,670,375 |
| Issuance for fee payable (vii) | - | - | - | - | 250,000 | 150,000 |
| Convertible debentures, net of costs | - | - | - | - | - | 160,624 |
| Warrant exercise | - | - | - | - | 4,382,972 | 1,257,884 |
| Stock option exercise | 1,800,000 | 161,033 | - | - | 200,000 | 132,160 |
| Balance December 31, 2021 | - | - | - | - | 132,147,212 | 28,327,353 |

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

(In Canadian Dollars)

14. Share Capital - continued

- (i) During the three months ended March 31, 2021, 946,491 multiple voting shares ("MVS") were converted on a one for one basis to 946,491 subordinate voting shares ("SVS"). The rights of MVS and SVS are identical other than voting rights. MVS are entitled to four votes per share whereas SVS are entitled to one vote per share.
- (ii) During the three months ended June 30, 2021, all of the issued and outstanding SVS and MVS of the Company were automatically converted into common shares of the Company on the basis of one common share for each SVS and MVS outstanding.
- (iii) On March 19, 2021, the Company closed a non-brokered private placement issuing 25,000,000 units at a price of \$0.05 per Unit for gross proceeds of \$1,250,000. Each Unit consisted of one subordinated voting common share of the Company and one subordinate voting share purchase warrant. Each full warrant entitles the holder to acquire one additional subordinate voting share expiring on March 19, 2024 at an exercise price of \$0.25. The Company incurred issuance costs of \$422,450 including finder's fees/commissions of \$80,250, \$23,000 in legal fees and 1,750,000 finders warrants entitling certain eligible persons to acquire a Unit exercisable at a price of \$0.05 for a period of thirty-six months from closing, of these costs, \$101,992 has been recorded as share issuance costs.
- (iv) On April 23, 2021, the Company closed a non-brokered private placement issuing 9,999,999 units at a price of \$0.15 per Unit for gross proceeds of \$1,500,000. Each Unit consisted of one subordinated voting common share of the Company and one Common Share purchase warrant. Each full warrant entitles the holder to acquire one additional Common Share for a period of thirty-six months expiring on April 23, 2024 at an exercise price of \$0.25. However, should the closing price at which the Common Shares trade on the Canadian Securities Exchange (or any such other stock exchange in Canada as the Common Shares may trade at the applicable time) exceed \$0.75 for 10 consecutive trading days at any time following the date of issuance, the Company may accelerate the Warrant Term such that the Warrants shall expire on the date which is 30 business days following the date a press release is issued by the Company announcing the Reduced Warrant Term. The Company incurred issuance costs of \$299,915, including finder's fees/commissions of \$126,300, \$29,400 in legal fees and 491,466 finders warrants entitling certain eligible persons to acquire one common share exercisable at a price of \$0.25 for a period of thirty-six months from closing, of these costs, \$101,460 has been recorded as share issuance costs.
- (v) On June 1, 2021, the Company closed a non-brokered private placement issuing 10,000,000 units at a price of \$0.30 per Unit for gross proceeds of \$3,000,000. Each Unit consisted of one common share of the Company and one Common Share purchase warrant. Each full warrant entitles the holder to acquire one additional Common Share for a period of thirty-six months expiring on June 1, 2024 at an exercise price of \$0.50. However, should the closing price at which the Common Shares trade on the Canadian Securities Exchange (or any such other stock exchange in Canada as the Common Shares may trade at the applicable time) exceed \$1.00 for 10 consecutive trading days at any time following the date of issuance, the Company may accelerate the Warrant Term such that the Warrants shall expire on the date which is 30 business days following the date a press release is issued by the Company announcing the Reduced Warrant Term. The Company incurred issuance costs of \$588,697, including commission of \$210,000, \$56,850 in legal fees and 700,000 brokers warrants entitling certain eligible persons to acquire one common share exercisable at a price of \$0.50 for a period of thirty-six months from closing, of these costs, \$232,932 has been recorded as share issuance costs.
- (vi) On July 9, 2021, the Company issued an aggregate of 25,000,000 common shares as consideration for 60% of the issued and outstanding common shares of Layer2. On September 13, 2021, the Company issued an aggregate of 25,000,000 common shares as consideration for the remaining 40% of the issued and outstanding common shares of Layer2. All common shares issued are subject to a four-month and one day resale restriction and voluntary lock-ups of up to 21 months, subject to certain accelerated relates in the event the Company's common shares trade above certain prices. The Company issued 1,000,000 common shares to certain eligible finders. The shares issued to such finder are subject to a four-month and one date resale restriction and the same lock-ups as noted above.

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Notes to the Consolidated Financial Statements

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(In Canadian Dollars)

14. Share Capital - continued

(vii) On September 13, 2021, the Company issued an aggregate of 250,000 common shares to North Equities Corp. as consideration for a fee payable of \$150,000 for a 6-month marketing and consulting contract. These shares will be subject to a statutory holding period expiring on the date that is four months and one day from the issuance date.

c) Warrants

(i) On March 19, 2021, the Company issued 25,000,000 warrants as part of the private placement financing described in note 8(b). Each warrant entitles the holder to acquire one additional subordinate voting share expiring on March 19, 2024 at an exercise price of \$0.25. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 0.53% discount rate, 0% expected dividend. The resulting value represented approximately 75.9% of the value of the Unit with the remaining 24.1% attributed to the value of the subordinate voting share within the Unit. The warrants were allocated \$948,213 of the net proceeds of the financing.

The Company issued 1,750,000 finders warrants as part of the private placement financing described in note 8(b). Each warrant entitles the holder to acquire one additional Unit expiring on March 19, 2024 at an exercise price of \$0.05. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 0.53% discount rate, 0% expected dividend. The warrants had a value of \$319,200.

(ii) On April 23, 2021, the Company issued 9,999,999 warrants as part of the private placement financing described in note 8(b). Each warrant entitles the holder to acquire one additional subordinate voting share expiring on April 23, 2024 at an exercise price of \$0.25. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 0.49% discount rate, 0% expected dividend. The resulting value represented approximately 66.2% of the value of the Unit with the remaining 33.8% attributed to the value of the subordinate voting share within the Unit. The warrants were allocated \$992,557 of the net proceeds of the financing.

The Company issued 491,466 finders warrants as part of the private placement financing described in note 8(b). Each warrant entitles the holder to acquire one common share expiring on April 23, 2024 at an exercise price of \$0.25. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 0.49% discount rate, 0% expected dividend. The warrants had a value of \$144,196.

(iii) On April 27, 2021, the Company entered into a service agreement with Ninepoint Partners GP Inc. who will receive a \$25,000 per month advisory fee and were issued 5,000,000 performance warrants exercisable at a price of \$0.35 to purchase common shares of the Company for a period expiring on the earlier of 3 years or a date that is 90 days after the advisory ceases to provide services to the Company. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 0.48% discount rate, 0% expected dividend. The warrants had a value of \$1,731,500 which were recorded as a service agreement expense.

(iv) On June 1, 2021, the Company issued 10,000,000 warrants as part of the private placement financing described in note 8(b). Each warrant entitles the holder to acquire one additional subordinate voting share expiring on June 1, 2024 at an exercise price of \$0.50. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 0.51% discount rate, 0% expected dividend. The resulting value represented approximately 60.4% of the value of the Unit with the remaining 39.6% attributed to the value of the subordinate voting share within the Unit. The warrants were allocated \$1,812,978 of the net proceeds of the financing.

The Company issued 700,000 brokers warrants as part of the private placement financing described in note 8(b). Each warrant entitles the holder to acquire one common share expiring on June 1, 2024 at an exercise price of \$0.50. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 0.51% discount rate, 0% expected dividend. The warrants had a value of \$320,740.

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(In Canadian Dollars)

14. Share Capital - continued

On December 23, 2021, the Company issued 473,333 warrants to the lead agent in connection with the issuance of convertible debentures. Each warrant entitles the holder to acquire one common share expiring on December 23, 2024 at an exercise price of \$0.90. The value of a warrant was determined using the Black-Scholes model, using 150% volatility, 3-year term, 1.04% discount rate, 0% expected dividend. The warrants had a value of \$160,650.

d) Stock Options

The Company has a stock option plan (the "Plan") under which the Company may grant options to directors, officers, employees and consultants. The maximum number of common shares reserve for issue under the plan at any point in time may not exceed 10% of the number of shares issued and outstanding. As at December 31, 2021, the Company had 5,489,721 (December 31, 2020 – 480,940) options available for issuance under the plan.

The continuity of outstanding stock options for the year ended December 31, 2021 is as follows:

| | Number of stock options | Weighted average exercise price per share \$ |
|--|-------------------------|--|
| Balance, December 31, 2019 and 2020 | 1,900,000 | 0.07 |
| Exercised | (2,000,000) | 0.07 |
| Expired | (100,000) | 0.07 |
| Granted | 7,925,000 | 0.43 |
| Balance, December 31, 2021 | 7,725,000 | 0.43 |

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the share-based payments for the stock options issued during the year ended December 31, 2021:

| Grant Date | March 19, 2021 | April 28, 2021 | June 23, 2021 | July 22, 2021 |
|-------------------------------|-----------------------|--------------------------|--------------------------|--------------------------|
| Number of options | 1,400,000 | 2,150,000 | 875,000 | 600,000 |
| Exercise Price | \$0.22 | \$0.42 | \$0.60 | \$0.35 |
| Expected life in years | 3 | 3 | 3 | 3 |
| Volatility | 150% | 150% | 150% | 150% |
| Risk-free interest rate | 0.46% | 0.48% | 0.61% | 1.42% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Vesting | Immediately | Immediately | Immediately | Immediately |
| Fair value of options granted | \$236,040 | \$729,065 | \$353,325 | \$186,480 |
| Grant Date | August 4, 2021 | September 1, 2021 | September 8, 2021 | December 31, 2021 |
| Number of options | 500,000 | 500,000 | 500,000 | 1,400,000 |
| Exercise Price | \$0.36 | \$0.36 | \$0.45 | \$0.60 |
| Expected life in years | 3 | 3 | 3 | 3 |
| Volatility | 150% | 150% | 150% | 150% |
| Risk-free interest rate | 1.42% | 1.28% | 0.54% | 1.02% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Vesting | 6 months | 6 months | 6 months | Immediately |
| Fair value of options granted | \$164,000 | \$145,750 | \$157,550 | \$454,440 |

During the year ended December 31, 2021, the Company recognized \$2,299,725 of stock based compensation related to stock options granted (December 31, 2020 - \$Nil).

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15. Income (loss) per Share

Basic income (loss) per share has been calculated using the weighted average number of SVS, MVS and CS outstanding during the period. Diluted income (loss) per share has been calculated using the weighted average number of SVS, MVS and CS outstanding during the period as the effect of stock options and warrants issued and outstanding are considered antidilutive.

16. Income Taxes

The following table reconciles the expected income tax provision at the Canadian federal and provincial statutory rate of 26.5% (2020 – 26.5%) to the amounts recognized in the consolidated statement of operations and comprehensive loss:

| | December 31, 2021 | December 31, 2020 |
|---------------------------------------|------------------------------|----------------------|
| Loss before income taxes | \$ (4,307,809) | \$ (375,333) |
| Expected income tax recovery | (1,141,569) | (99,460) |
| Stock based compensation | 609,427 | - |
| Unrealized gain on digital currencies | (438,116) | - |
| Other adjustments | - | (340) |
| Change in tax benefits not recognized | 970,258 | 99,800 |
| Income tax | \$ - | \$ - |

Deferred taxes are provided as a result of temporary differences that arise due to the difference between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences.

| | December 31, 2021 | December 31, 2020 |
|--|------------------------------|----------------------|
| Non-capital losses | \$ 1,496,490 | \$ 2,269,380 |
| Leasehold improvements, furniture & office equipment | (24,596) | - |
| Office premise | 222 | - |
| Financing fees | (38,085) | - |
| Marketable securities | - | 890,850 |
| Bridge Loans | - | 12,260 |
| Share issuance costs | - | 1,640 |
| Tax asset not recognized | (1,434,031) | (3,174,130) |

As at December 31, 2021, the Company has approximately \$5,647,132 of non-capital losses carry forward available to reduce taxable income for future years. These losses will expire in 2035 to 2041.

17. Fair Value and Financial Risk Management

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the observability of significant inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 Valuation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 Valuation techniques are based on inputs other than quoted prices included in Level 1 that are observations for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 Valuation techniques include one or more significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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17. Fair Value and Financial Risk Management - continued

The fair value hierarchy required the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Investments consisted of the following at December 31, 2021 and 2020.

| | Level 1 Quoted Market Price \$ | Level 2 Observable Market Inputs \$ | Level 3 Non- Observable Market Inputs \$ | Total Fair Value \$ |
|--------------------------------|---|--|---|------------------------------------|
| Investments | | | | |
| As at December 31, 2021 | | | | |
| Equities | 94,179 | - | - | 94,179 |
| Total Investments | 94,179 | - | - | 94,179 |
| As at December 31, 2020 | | | | |
| Equities | 21,663 | - | 231,603 | 258,866 |
| Total Investments | 21,663 | - | 231,603 | 258,866 |

There were no changes in the classification of financial instruments between levels 1, 2, and 3 during the years ended December 31, 2021 and 2020.

The primary goals of the Company's risk management programs are to ensure that the outcomes of activities involving elements of risk are consistent with the Company's objectives and risk tolerance, and to maintain an appropriate risk/reward balance while protecting the Company's financial operations from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through aligning risk tolerance with the Company's business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventative controls and transferring risk to third parties.

Capital Management

The Company considers the items included in shareholders' equity as capital. The Company's capital management objectives are to maintain a strong and efficient capital structure to provide liquidity to support continued asset growth. A strong capital position also provides flexibility in considering accretive growth opportunities. It is the intention of the Company in the long term to pay out a portion of its future annual earnings to shareholders in the form of dividends. There has been no change in the capital management approach from the prior period.

Risk Management

The success of the Company is dependent upon its ability to assess and manage all forms of risk that affect its operations. The Company is exposed to many factors that could adversely affect its business, financial conditions or operating results. Developing policies and procedures to identify risk and the implementation of appropriate risk management policies and procedures is the responsibility of senior management and the Board of Directors. The Board directly, or through its committees, reviews and approves these policies and procedures, and monitors their compliance with them through ongoing reporting requirements. A description of the Company's most prominent risks follows.

Credit Risk

Concentration of credit risk may arise from exposures to a single debtor or to a group of debtors having similar characteristics such that their ability to meet their current obligations is expected to be affected similarly by changes in economic or other conditions. The Company is exposed to credit risk on its cash, accrued interest receivable, and bridge loans. The Company's maximum exposure to credit risk is \$6,760,047 (December 31, 2020 - \$96,908).

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

(In Canadian Dollars)

17. Fair Value and Financial Risk Management - continuedMarket Risk

The Company is exposed to certain market risk that the value of, or future cash flows from, the Company's financial assets will significantly fluctuate due to changes in market prices. The value of the financial assets can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is required to mark to market its fair value through profit or loss investments at the end of each reporting period. This process could result in significant write-downs of the Company's portfolio investment over one or more reporting periods, particularly during periods of overall market instability, which would have a significant unfavorable effect on the Company's financial position.

Digital Currencies Risk

Digital currencies are measured using level two fair values, determined by taking the rates from www.polygonscan.com, www.etherscan.io, www.bscscan.com, www.urorascan.dev and www.explorer.roninchain.co.

Digital currency prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the global political and economic conditions. The profitability of the Company is directly related to the current and future market price of coins; in addition, the Company may not be able to liquidate its inventory of digital currency at its desired price if required. A decline in the market prices for coins could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its coin sales.

Digital currencies have a limited history, and the fair value historically has been very volatile. Historical performances of digital currencies are not indicative of their future price performance.

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash to meet its obligations as they become due. As at December 31, 2021, the Company has cash of \$6,652,988 (December 31, 2020 - \$18,424) to meet current financial liabilities of \$533,383 (December 31, 2020 - \$530,364).

Currency Risk

The Company is exposed to certain currency risks that the value of certain financial instruments will fluctuate due to changes in foreign exchange rates. At December 31, 2021, none (December 31, 2020 - one) of the Company's bridge loans receivable is denominated in US dollars. A 10% fluctuation in the US dollar foreign exchange closing rate would have resulted in a fluctuation of approximately \$nil (December 31, 2020 - \$1,300) in net loss. The Company does not hedge against this foreign currency risk.

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

(In Canadian Dollars)

18. Transactions with Related Parties

- a) The bridge loan described in note 8(c) was made to a company that has a common director with the Company.
- b) Compensation of key management personnel

The remuneration expense of directors and other members of key management personnel during the year ended December 31, 2021 and 2020 as follows:

| | 2021 | 2020 |
|------------------------------|---------------------|-------------------|
| Consulting fees and salaries | \$ 404,170 | \$ 112,000 |
| Stock based compensation | 1,153,835 | - |
| | <u>\$ 1,558,005</u> | <u>\$ 112,000</u> |

- c) As at December 31, 2021, included in accounts payable is \$68,905 (December 31, 2020 - \$202,382) due to directors and officers of the Company.
- d) Equity transactions

A director and key management personnel were issued 3,100,000 shares of the Company with a value of \$59,436 during the year.

A director and key management personnel were issued 3,100,000 warrants of the Company with a value of \$147,562 during the year.

Current and former directors and officers of the Company exercised 1,700,000 stock options for total gross proceeds of \$175,000 during the year.

19. Commitments and ContingenciesManagement Contingency

The Company is party to certain management contracts. These contracts require that additional payments of up to approximately \$1,080,000 be made upon the occurrence of certain events such as a change of control or termination. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

Legal Contingency

The Company is, from time to time, involved in various claims and legal proceedings. The Company cannot reasonably predict the likelihood or outcome of these activities. The Company does not believe that adverse decisions in any ending or threatened proceedings related to any matter, or any amount which may be required to be paid by reasons thereof, will have a material effect on the financial condition or future results of operations.

20. Subsequent Events

On February 12, 2022, a claim was commenced against Layer2 Blockchain Inc. and several other defendants for equitable relief or, in the alternative, damages in an amount to be determined. The Company believes this action is without merit and it intends to defend the proceeding. At this stage, it is not possible to predict the outcome of the proceedings.

Prophecy DeFi Inc. (formerly Bucephalus Capital Corp.)

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2021

(In Canadian Dollars)

20. Subsequent Events - continued

On April 6, 2022, the Company provided an update regarding the exposure it's wholly owned subsidiary, Layer2 Blockchain Inc. had to the Ronin Network and its recent security breach. Layer2 has been providing liquidity to the decentralized exchange (DEX), Katana, which runs on the Ronin blockchain. Layer2 had approximately \$1 million of tokens deployed into a liquidity pool on the Katana DEX prior to the security breach. Currently, Layer2 has access to the tokens it has deployed into a Katana liquidity pool. The Ronin Network bridge will open once it has undergone a security upgrade and several audits.

21. Comparatives

Certain comparative information has been rearranged wherever necessary for the purpose of comparison.

PROPHECY DEFI INC.
(Formerly Bucephalus Capital Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

DATE OF MD&A

This MD&A was prepared on May 2, 2022.

Basis of Presentation

The following discussion and analysis of Prophecy DeFi Inc.'s (the "Company's" or "Prophecy's") financial condition as at December 31, 2021 should be read in conjunction with the Company's audited consolidated financial statements as at December 31, 2021. These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). All figures are expressed in Canadian dollars unless otherwise indicated. See "Risk Factors" for a discussion of the risks inherent in the business of the Company, which may also affect its continuing financial condition, cash flows and operating results.

Overall Performance

Overview of the Business

Prophecy has its principal offices located at 87 Scollard Street, Suite 100, Toronto, ON M5R 1G4.

Prophecy Defi's primary objective is to invest its funds for purposes of generating returns from capital appreciation and income. It plans to accomplish these goals by bringing together technology start-ups in the Blockchain and Decentralized Finance sectors to fund innovation, elevate industry research, and create new business opportunities in a coherent ecosystem. The Company is pursuing investments in companies that are addressing these opportunities in innovative and technologically advanced ways. Our team will strive to accelerate the growth of these companies by providing capital, establishing advisory relationships, and providing strategic advice to leadership.

Effective December 31, 2015, Bucephalus Capital Corp. ("Bucephalus Capital") completed a reverse takeover transaction with Bucephalus Financial Corp. ("Bucephalus Financial"). The composition of the Board of Directors became Chris Carmichael, Jason Ewart, Michael Allen and Alec Regis and Chris Carmichael was appointed as Chief Executive Officer.

In March 2016, Bucephalus Capital listed its 20,215,887 Subordinate Voting Shares ("SV") on the Canadian Securities Exchange (the "CSE") under the symbol BCA. The Bucephalus Capital Multiple Voting Shares were not listed on an exchange but they were convertible into Bucephalus Capital SV Shares on a one for one basis.

On February 23, 2018, Lucas Ewart was appointed the Chief Executive Officer and as a Director of the Company. Lucas Ewart has extensive experience in finance, senior management and corporate development of public and private companies. He has served as Chairman, CEO as well as Chief Restructuring Officer of numerous companies on an international scale having worked in Canada, USA, Australia, Mexico, and South East Asia (Hong Kong, Singapore, Philippines and China). In addition, he served as a Principal to GC-Global Capital Corp. for 10 years which specialized in securitized bridge loans.

On April 22, 2019, the Company announced that it had changed its name to Bucephalus Capital Corp. after receiving shareholder approval at its Annual and Special Meeting held on June 12, 2018.

On March 2, 2021, the Company appointed John A. McMahon to serve as Chairman and Chief Executive Officer and the addition of Tim Diamond to the Board. The Company also sold its ownership in Marathon Mortgage Corp. (“MMC”) for \$670,000. In 2019, the Company adjusted the fair value of its MMC shares to \$Nil.

On March 19, 2021, the Company closed a \$1,250,000 private placement financing at a price of \$0.05 per unit with each unit consisting of one subordinate voting share (“SVS”) and one warrant. Each warrant converts into one SVS at a price of \$0.25 with an expiry date of thirty-six months. Further, the Company announced that it has appointed Roland Nimmo to its executive management team as Chief Financial Officer, replacing Chris Carmichael.

On April 23, 2021, the Company closed a \$1,500,000 private placement financing at a price of \$0.15 per unit with each unit consisting of one subordinate voting share (“SVS”) and one warrant. Each warrant converts into one SVS at a price of \$0.25 with an expiry date of thirty-six months.

April 28, 2021, the Company announced that it has entered into a service agreement with Ninepoint Partners (“Ninepoint”) through its Ninepoint Digital Asset Group division. Through this partnership, Ninepoint will provide Prophecy ongoing marketing and strategic advice, assist with the corporate development of planned investment opportunities and provide introductions to certain parties that may further the business of the corporation. Ninepoint is among the largest independent asset management firms in Canada, with over \$8 billion in assets under management and institutional contracts. Ninepoint manages unique alternative investment solutions that offer investors the benefits of better diversification. It manages investment strategies that are uncorrelated from traditional asset classes, such as equities and bonds, with the goal of lowering overall portfolio risk. In consideration for services, Ninepoint will be paid a \$25,000 per month advisory fee and be issued 5,000,000 performance warrants exercisable at a price of \$0.35 to purchase common shares of the Company for a period expiring on the earlier of 3 years or a date that is 90 days after Ninepoint ceases to provide services to the Company. The warrants have a value of \$1,731,500 which have been recorded as a service agreement expense.

On April 28, 2021, the Company announced that it has entered into a non-binding letter of intent to acquire a 100% interest in Layer2 Blockchain Inc., a company which manages capital, technology and infrastructure in the decentralized finance (DeFi) cryptocurrency sector, with a focus on scalable layer two DeFi protocols. Layer2 is led by Andrew Young, Jake Hannah and

Julian Wilson, a seasoned team of blockchain and DeFi entrepreneurs with a proven track record as investors, technologists, and business builders in this emerging industry, having successfully launched a top DeFi protocol. (the “Proposed Transaction”). The Proposed Transaction is subject to the parties completing its respective due diligence and negotiating and entering into a definitive agreement and other ancillary documents necessary to complete the Proposed Transaction.

On June 1, 2021, the Company closed a \$3,000,000 private placement financing at a price of \$0.30 per unit with each unit consisting of one common share and one warrant. Each warrant converts into one common share at a price of \$0.50 with an expiry date of thirty-six months.

On June 8, 2021, the Company announced that it has entered into a definitive agreement with Layer2 Blockchain Inc. to initially acquire 60% of the issued and outstanding common shares of Layer 2 in exchange for 25,000,000 common shares in the capital of the Company at a price per common share of \$0.50, such common shares to be distributed pro rata to the shareholders of Layer2. Additionally, pursuant to the terms of the definitive agreement the Company has agreed to issue an additional 25,000,000 common shares for the remaining 40% of Layer 2 at a price of \$0.59 on the earlier of: (i) six months from the closing date of the initial acquisition or (ii) the date when Layer2 creates a minimum of 15 token positions in liquidity pools.

On June 23, 2021, the Company announced that it had filed articles of amendment to changed its name to Prophecy DeFi Inc. from Bucephalus Capital Corp. and to provide for the conversion of all of the subordinate voting shares and multiple voting shares into common shares after receiving shareholder approval at its Annual and Special Meeting held on June 8, 2021. The new name is designed to emphasize the Company’s focus in the new and transformative financial sector. The common shares commenced trading under the new name on June 28, 2021 and under the new symbol “PDFI”. The Company also announced that it has entered into a 6-month marketing and consulting contract with Toronto-based marketing firm, North Equities Corp. North Equities Corp. specializes in various social media platforms and will be able to facilitate greater awareness and widespread dissemination of the Company’s news. The contract has a fee payable of \$150,000, which will be satisfied through the issuance of 250,000 common shares at a deemed price of \$0.60 per share. Further, the Company’s announced that it has appointed Charlie Morris to its Board of Directors.

On June 29, 2021, the Company announced that is has become a member of the Blockchain Research Institute. As a member of the BRI, the Company receives access to a research library of 100+ projects and joins a global community of blockchain innovators, experts, builders and thought leaders.

On July 9, 2021, the Company announced that is has completed the previously announced acquisition of 60% of the issued and outstanding common shares of Layer2 Blockchain Inc. As consideration, the Company issued an aggregate of 25,000,000 common shares of the Company to the shareholders of Layer2 on a pro rata basis. Layer2 is a technology company focused on the rapidly emerging “Ethereum Layer Two” decentralized finance ecosystem. DeFi is currently the fastest growing and most innovative subsector in cryptocurrencies.

On July 22, 2021, the Company appointed Mr. Stuart Hensman to the Company's Board of Directors.

On August 4, 2021, the Company appointed Mr. Sandeep Nailwal to the Company's Advisory Committee.

On September 2, 2021, the Company appointed Ms. Galia Benartzi to the Company's Advisory Committee.

On September 13, 2021, the Company announced it has completed the previously announced acquisition of the remaining 40% of the issued and outstanding common shares of Layer2 Blockchain Inc. As consideration, the Company issued a further 25,000,000 common shares of the Company to the shareholders of Layer 2 on a pro rata basis. Layer2 specializes in liquidity provisioning, pooled lending and staking in non-Ethereum DeFi protocols. By providing capital to emerging marketplaces, Layer2 does not just profit from high yields, but also takes an early ownership stake in these growing exchanges. The Company also announced that it has agreed to extend a consulting contract with an investor relations firm, The Bid Capital. The contract has a fee payable of \$250,000, which will be satisfied through the issuance of 500,000 common shares at a deemed price of \$0.50 per share.

On September 21, 2021, the Company appointed Mr. Peng Zhong to the Company's Advisory Committee.

On October 19, 2021, the Company provided an operational update on its wholly owned subsidiary, Layer2 which has generated yield and capital gains of \$2,001,000 or 55% in a 90-day period beginning on July 17, 2021. Layer2 purchased a total of \$3,650,000 in digital assets across three purchases on July 17, August 6 and October 4, 2021 and has deployed these digital assets across eleven positions to generate an annualized rate of return of 492.5%.

On November 12, 2021, the Company provided an operational update on its wholly owned subsidiary, Layer2 which has continued to produce significant returns from existing positions, generating yield and capital gains of \$2,980,000 from its original \$3,650,000 in deployed capital in under 120 days of operations. On November 11, 2021, the Company provided additional capital to Layer2 in order to take advantage of net market opportunities. This increased Layer2's total deployable capital base to \$7,130,000. Layer2 identified Impermax as an innovative new DeFi protocol, which has tremendous potential. Layer2 worked directly with Impermax's founders to acquire a position of IMX, the protocol's governance token. Layer2 has deployed \$152,832 in the form of single sided and traditional liquidity to Impermax, which now has a market value of \$473,549 and has returned an additional \$44,595 in yield.

On December 23, 2021, the Company announced that it closed a brokered private placement of an aggregate of 5,680 convertible debenture units at an issue price of \$1,000 per unit for aggregate gross proceeds of \$5,680,000. Each debenture unit is comprised of \$1,000 principal amount of 10% unsecured convertible debentures of the Company and 1,667 common share purchase warrants of the Company. Each convertible debenture matures 36 months following the closing

of the offering and bears interest at a rate of 10% per annum from the date of issue payable quarterly in cash.

On April 6, 2022, the Company provided an update regarding the exposure it's wholly owned subsidiary, Layer2 Blockchain Inc. had to the Ronin Network and its recent security breach. Layer2 has been providing liquidity to the decentralized exchange (DEX), Katana, which runs on the Ronin blockchain. Layer2 had approximately \$1 million of tokens deployed into a liquidity pool on the Katana DEX prior to the security breach. Currently, Layer2 has access to the tokens it has deployed into a Katana liquidity pool. The Ronin Network bridge will open once it has undergone a security upgrade and several audits.

As of December 31, 2021, the Company had cash of \$6,652,988 (Dec 31, 2020 - \$18,424), digital currencies of \$6,187,917 (Dec 31, 2020 - \$Nil), prepaid expenses and deposits of \$71,990 (Dec 31, 2020 - \$750), bridge loans of \$99,520 (Dec 31, 2020 - \$36,020) with associated accrued interest receivable of \$7,539 (Dec 31, 2020 - \$24,811), accounts receivable of \$Nil (Dec 31, 2020 - \$17,653), portfolio investments of \$94,179 (Dec 31, 2020 - \$258,866), office premise of \$998,471 (Dec 31, 2020 - \$Nil) and goodwill of \$19,704,882 (Dec 31, 2020 - \$Nil).

As of December 31, 2021, the Company had accounts payable and accrued liabilities of \$429,665 (Dec 31, 2020 - \$530,364), a lease liability of \$617,453 (Dec 31, 2020 - \$Nil), convertible debentures of \$4,817,723 (Dec 31, 2020 - \$Nil) and total shareholders' equity of \$27,952,645 (Dec 31, 2020 - (\$173,840)).

Prophecy's philosophy and strategy is to follow a disciplined and systematic approach to investment and be guided by four core principles which will be applied consistently across all industries:

- Capital Preservation;
 - Secure Generation of Income;
 - Risk Management; and
 - Shareholder Value.
- (1) **Capital Preservation:** This principle is at the core of Prophecy's investment guidelines. Prophecy secures its bridge loans through a variety of instruments, including by taking a first charge on company assets and marketable securities and/or guarantees, which generally provide Prophecy with two to three times asset coverage.
 - (2) **Secure Generation of Income:** Investments that provide cash flows in the form of dividends, interest payments and/or distributions will be a factor in each of Prophecy's investment requirements. Prophecy's goal is to have the ability to payout a dividend to its shareholders on an annual basis.
 - (3) **Risk Management:** Prophecy's management will take on an active role in each of its investments by requiring Prophecy Board representation as well as weekly reporting of an investee company's operations.

- (4) **Shareholder Value:** The principal driver of Prophecy’s corporate initiatives and investment decisions is the objective of creating and enhancing long-term value for its shareholders.

The Company supplements its active investment business by making investments with its unallocated cash in a diversified portfolio of high-yielding marketable securities such as bonds, preferred shares and royalty and income trusts, thus increasing its overall yield. Prophecy seeks to maximize income and preserve capital with these investments. Investment of Prophecy’s funds are chosen on a fundamental basis with emphasis on the track record of management and quality of assets as well as competitive and sustainable business advantages.

Prophecy works with management of operating companies in order to create and enhance value for businesses in which Prophecy assumes a position. These activities include equity financings, developing mergers and acquisitions, providing operational management support and structuring and negotiating debt and equity placements. Prophecy may also acquire positions in private companies at valuations that incorporate conservative earnings multiples and stable cash flows.

Loan Portfolio

As at December 31, 2021 Prophecy has two (Dec 31, 2020 – two) bridge loans outstanding for a total of \$99,520 (Dec 31, 2020 - \$36,020) with accumulated interest and fees of \$7,539 (Dec 31, 2020 - \$24,811). The interest rate for the loans held in 2021 is between prime and 12% (Dec 31, 2020 – 12%).

Investment Portfolio

As at December 31, 2021, Prophecy owned common shares of companies with a value of \$94,179 (December 31, 2020 - \$258,866).

During the year ended December 31, 2021, the Company had a change in the value of portfolio investments of \$164,687 (Dec 31, 2020 – (\$92)) and a realized gain on sale of portfolio investments of \$693,508 (Dec 31, 2020 - \$Nil) due to the sale of the Company’s ownership of its Marathon Mortgage Corp.

Digital Currencies

The continuity of digital currencies for the year ended December 31, 2021:

| | December 31 2021 | December 31 2020 |
|----------------------------------|-----------------------------|-----------------------------|
| Opening balance | \$ - | \$ - |
| Acquired on business combination | 1,821,877 | - |
| Purchased | 1,850,100 | - |
| Fee income earned | 653,949 | - |
| Realized gain on dispositions | 208,722 | - |
| Revaluation adjustment | 1,653,269 | - |
| Total | \$ 6,187,917 | \$ - |

The Company derives its income from digital currency received for providing liquidity to decentralized cryptocurrency exchanges. Revenue is recognized by the Company when payment, in the form of digital currency, is received for liquidity services rendered. Revenue is measured based on the fair value of the coins received. The fair value is determined using the daily weighted close price for the digital currency on a cryptocurrency data aggregator.

Realized gains (losses) on disposal of digital currencies are reflected in the statements of operations and comprehensive loss on the transaction date. The Company has the control of the crypto assets prior to the sale and records revenue at the point in time when the sale is confirmed on the respective blockchain.

From the date of acquisition of control of Layer2 on July 9, 2021 to December 31, 2021, the Company generated fee income of \$653,949, a realized gain on digital currencies of \$208,722 and an unrealized gain on digital currencies of \$1,653,269.

Business Combination

The Company acquired 60% of the shares of Layer2 Blockchain Inc. (“Layer2”), on July 8, 2021, as consideration the Company issued 25,000,000 common shares of the Company to the shareholders of Layer2. The Company subsequently acquired the remaining 40% of the shares of Layer2 on September 13, 2021, as consideration the Company issued a further 25,000,000 common shares of the Company to the shareholders of Layer2 for a total purchase price of \$21,670,375. Layer 2 is a technology company focused on the rapidly emerging Ethereum Layer Two decentralized finance ecosystem. The Company incurred acquisition-related costs of \$43,149, representing legal and other fees, which were recognized through profit or loss in the period.

Goodwill calculated in this acquisition represents the expected synergies from combining the operations of Layer2 with the Company, revenue growth, future market development and expertise in the sector. These benefits are not recognized separately from goodwill as their fair value cannot be measured reliably individually. Goodwill from this acquisition was established as follows:

| | |
|--------------------|----------------------|
| Purchase price | \$ 21,670,375 |
| Cash | (199,216) |
| Digital currencies | (1,821,878) |
| Accounts payable | 55,601 |
| <hr/> | |
| Goodwill | \$ 19,704,882 |

Selected information for the acquisition since the acquisition date:

| | |
|---------------------------------------|---------------------|
| Revenue | \$ 862,671 |
| Operating expenses | (808,193) |
| Net income | 54,478 |
| Unrealized gain on digital currencies | 1,653,269 |
| <hr/> | |
| Comprehensive income | \$ 1,707,747 |

Selected information for the acquisition as if the acquisition had taken place at the beginning of the reporting period:

| | | |
|---------------------------------------|----|-----------|
| Revenue | \$ | 862,671 |
| Operating expenses | | (863,807) |
| Net loss | | (1,136) |
| Unrealized gain on digital currencies | | 1,174,373 |
| Comprehensive income | \$ | 1,173,237 |

Operating Results as at December 31, 2021

Revenues

For the year ended December 31, 2021, Prophecy had fee income of \$653,949 (Dec 31, 2020 - \$Nil), a realized gain on digital currencies of \$208,722 (Dec 31, 2020 - \$Nil), interest income on its bridge loans of \$11,181 (Dec 31, 2020 - \$5,098), realized gain on sale of portfolio investments of \$693,508 (Dec 31, 2020 - \$Nil) change in value of portfolio investment of \$154,934 (Dec 31, 2020 - (\$92)), a foreign exchange gain of \$45 (Dec 31, 2020 - (\$912) dividend income of \$Nil (Dec 31, 2020 - \$1,268) and a discount on note for (\$71,074) (Dec 31, 2020 - \$Nil) for total revenue from operations of \$1,341,397 (Dec 31, 2020 - (\$53,466)). Further, Prophecy had an unrealized gain on digital currencies of \$1,653,269 (Dec 31, 2020 - \$Nil).

Expenses

Prophecy incurred \$448,962 (Dec 31, 2020 - \$17,100) for audit and legal costs, \$1,041,839 (Dec 31, 2020 - \$Nil) in promotional fees, \$118,350 (Dec 31, 2020 - \$25,336) in filing fees, \$652,827 in consulting fees (Dec 31, 2020 - \$276,000), \$1,731,500 (Dec 31, 2020 - \$Nil) in a service agreement expense related to the issuance of performance warrants to Ninepoint, \$484,648 (Dec 31, 2020 - \$Nil) in salaries, \$2,299,725 (Dec 31, 2020 - \$Nil) in stock based compensation, \$38,880 in insurance (Dec 31, 2020 - \$Nil), \$124,223 in director fees (Dec 31, 2020 - \$Nil), \$135,735 in office expenses (Dec 31, 2020 - \$3,431), \$75,107 (Dec 31, 2020 - \$Nil) in amortization, \$57,883 (Dec 31, 2020 - \$Nil) for memberships, \$64,043 (Dec 31, 2020 - \$Nil) in news releases and investor relations, \$15,757 (Dec 31, 2020 - \$Nil) in interest on lease liability and \$12,996 (Dec 31, 2020 - \$12,996) in interest on convertible debentures for total expenses of \$7,302,475 (Dec 31, 2020 - \$321,867). The Company anticipates lower promotional and consulting fees for 2022.

Net Loss for the period attributable to the shareholders of Prophecy was (\$5,961,078) (Dec 31, 2020 - (\$375,333)) or (\$0.06) per share (Dec 31, 2020 - (\$0.01)).

Summary of Quarterly Results

| For the quarters ended | Dec 31/21 | Sep 30/21 | June 30/21 | Mar 31/21 |
|--|------------------|------------------|-------------------|------------------|
| Total revenue | \$ 1,341,397 | \$ 495,101 | \$ 4,303 | \$ 624,500 |
| Net income (loss) for the period | (4,307,809) | (704,930) | (3,435,421) | 125,424 |
| Net income (loss) per share ⁽¹⁾ | \$ (0.06) | \$ (0.01) | \$ (0.05) | \$ 0.00 |
| For the quarters ended | Dec 31/20 | Sep 30/20 | Jun 30/20 | Mar 31/20 |
| Total revenue | \$ (60,305) | \$ 1,207 | \$ 646 | \$ 4,986 |
| Net income (loss) for the period | (142,214) | (77,529) | (82,062) | (73,528) |
| Net income (loss) per share ⁽¹⁾ | \$ (0.01) | \$ (0.00) | \$ (0.00) | \$ (0.00) |

(1) Net income (loss) per share has been calculated using the weighted average number of common shares during each period.

Liquidity

As at Dec 31, 2021, Prophecy had \$6,652,988, (Dec 31, 2020 - \$18,424) in cash. The Company had working capital of \$12,491,230 (Dec 31, 2020 – (\$173,840)).

Management is not aware of any trends or expected fluctuations that would create any liquidity deficiencies. The Company believes that cash flow from continuing operations and existing cash resources will be sufficient to meet the Prophecy's short-term requirements, as well as ongoing operations, and will be able to generate sufficient capital to support the Company's operations in the long-term. However, Prophecy may procure debt or equity financing from time to time to fund its operations.

Capital Resources

Management is not aware of any significant commitments or expected fluctuations with respect to its capital resources at the date of its financial statements.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

Subsequent Events

On February 12, 2022, a claim was commenced against Layer2 Blockchain Inc. and several other defendants for equitable relief or, in the alternative, damages in an amount to be determined. The Company believes this action is without merit and it intends to defend the proceeding. At this stage, it is not possible to predict the outcome of the proceedings.

On April 6, 2022, the Company provided an update regarding the exposure it's wholly owned subsidiary, Layer2 Blockchain Inc. had to the Ronin Network and its recent security breach. Layer2 has been providing liquidity to the decentralized exchange (DEX), Katana, which runs on the Ronin blockchain. Layer2 had approximately \$1 million of tokens deployed into a liquidity pool on the Katana DEX prior to the security breach. Currently, Layer2 has access to the tokens it has deployed into a Katana liquidity pool. The Ronin Network bridge will open once it has undergone a security upgrade and several audits.

Transactions with Related Parties

During 2018, the Company loaned US\$303,000 to a company who has a common director with the Company. As at December 31, 2021 the remaining principal amount of the loan is \$Nil (Dec 31, 2020 - C\$164,280). US\$105,000 or C\$133,780 (December 31, 2020 - C\$133,686) was syndicated to other lenders, the net amount of the loan to the Company is \$Nil (December 31, 2020 - C\$30,593). During 2021, this loan was settled with shares of Hank Payments Corp.

Compensation of key management personnel

The remuneration expense of directors and other members of key management personnel during the year ended December 31, 2021 and 2020 as follows:

| | December 31, 2021 | December 31, 2020 |
|------------------------------|------------------------------|------------------------------|
| Consulting fees and salaries | \$ 404,170 | \$ 112,000 |
| Share based compensation | 1,153,835 | - |
| | <u>\$ 1,558,006</u> | <u>\$ 112,000</u> |

A director and key management personnel were issued 3,100,000 shares of the Company with a value of \$59,436 during the year.

A director and key management personnel were issued 3,100,000 warrants of the Company with a value of \$147,562 during the year.

Current and former directors and officers of the Company exercised 1,700,000 stock options for total gross proceeds of \$175,000 during the year.

Proposed Transactions

There were no proposed transactions as at the date of the Company's financial statements.

Critical Accounting Estimates

The preparation of these financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Financial statement items subject to significant management judgment include:

Credit losses – Management exercises judgement to determine the expected credit losses on loans.

Valuation of portfolio investments – Where investments are not traded in an active market, management exercises judgement to determine the fair value of these assets. These assumptions include observation of recent private sales on the underlying securities (if available) and estimating the inputs to the Black-Scholes option pricing model.

The Black-Scholes option pricing model is used to determine the fair value of the share-based payments and utilizes subjective assumptions such as expected price volatility and expected life of the option. Discrepancies in these input assumptions can significantly affect the fair value estimate.

Business combinations – assumptions and estimates are made in determining the fair value of assets and liabilities, including the identification and valuation of separately identifiable intangible assets acquired as part of an acquisition and the allocation of the purchase price. These estimates may be further based on management’s best assessment of the related inputs used in valuation models, such as future cash flows and cost of capital.

Office premise and other – Management determines the carrying value of its office premise based on policies that incorporate assumptions, estimates and judgements relative to the useful lives and residual values of assets.

Impairment of non-financial assets – Impairment exists where the carrying value of an asset, including or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value. The fair value less costs of disposal calculated is based on available data from binding sales transactions in an arm’s length transaction of similar assets or other observable market prices less incremental costs of disposal. The value in use calculation is based on discounted cash flow models. The estimated future cash flows are derived from management assumptions, estimates, budgets and past performance and do not include activities that the Company is not yet committed to or significant investments that will enhance the asset’s performance of the CGU being tested. The recoverable amount is sensitive to the cost of capital used for the discounted cash flow model as well as the expected future cash flows.

Revenue recognition – The Company recognizes revenue from the provision of liquidity. As consideration for these services, the Company receives digital currency. Management has exercised significant judgment in determining the completion stage for this revenue stream and examined various factors surrounding the substance of the Company’s operations, and determined the stage of completion being the receipt of proceeds to the Company’s control.

Going concern – The Company regularly reviews and makes an assessment of its ability to continue as a going concern. This assessment relies on significant judgements and assumptions, taking into account all known future information.

Digital currencies valuation – Digital currencies consist of cryptocurrency denominated assets and are included in current assets. The digital currency market is still a new market and is highly volatile, historical prices are not necessarily indicative of future value and a significant change in the market prices for digital currencies would have a significant impact on the Company’s earnings and financial position.

Income taxes – Income taxes are subject to measurement uncertainty due to possible changes in tax legislation or changes in the characterization of income sources. Further, estimating income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income. The Company’s assessment to recognize a deferred tax asset is based upon estimating tax laws and estimates of future taxable income.

While management believes that the estimates and assumptions are reasonable, actual results may differ materially from those estimates.

Significant New Accounting Standards

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ending December 31, 2021 and, accordingly, have not been applied in preparing the consolidated financial statements.

A. Improving Accounting Policy Disclosures and Clarifying Distinction between Accounting Policies and Accounting Estimates (Amendments to IAS 1 and IAS 8)

In February 2021, the IASB issued narrow-scope amendments to IAS 1 Presentation of Financial Statements, IFRS Practice Statement 2 Making Materiality Judgments and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments to IAS 8 clarify how companies should distinguish changes in accounting policies from change in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

B. IAS 12: Amendment to IAS 12, Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

In May 2021, the IASB issued targeted amendments to IAS 12 – Income Taxes to specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, companies are exempt from recognizing deferred tax when they recognize assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations transactions for which companies recognize both an asset and a liability. The amendments clarify that the exemption does not apply and that companies are required to recognize deferred tax on such transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. The Company is assessing the potential impact of the amendment. The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2021. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

C. Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest

Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued

Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the consolidated financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

D. Covid-19-Related Rent Concessions beyond June 30, 2021 Amendments to IFRS 16

On May 28, 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until June 30, 2021, but as the impact of the Covid-19 pandemic is continuing, on March 31, 2021, the IASB extended the period of application of the practical expedient to June 30, 2022. The amendment applies to annual reporting periods beginning on or after April 1, 2021.

However, the Company has not received Covid-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Risks and Uncertainties

Capital Management

The Company considers the items included in shareholders' equity as capital. The Company's capital management objectives are to maintain a strong and efficient capital structure to provide liquidity to support continued asset growth. A strong capital position also provides flexibility in considering accretive growth opportunities. It is the intention of the Company in the long term to pay out a portion of its future annual earnings to shareholders in the form of dividends. There has been no change in the capital management approach from the prior period.

Risk Management

The success of Prophecy is dependent upon its ability to assess and manage all forms of risk that affect its operations. Like other financial institutions, Prophecy is exposed to many factors that could adversely affect its business, financial conditions or operating results. Developing policies and procedures to identify risk and the implementation of appropriate risk management policies and procedures is the responsibility of senior management and the Board of Directors. The Board directly, or through its committees, reviews and approves these policies and procedures, and monitors their compliance with them through ongoing reporting requirements. A description of the Company's most prominent risks follows.

Credit Risk

Concentration of credit risk may arise from exposures to a single debtor or to a group of debtors having similar characteristics such that their ability to meet their current obligations is expected to be affected similarly by changes in economic or other conditions. The Company is exposed to credit risk on its cash, accrued interest receivable, accounts receivable, and bridge loans. The Company's maximum exposure to credit risk is \$6,760,047 (December 31, 2020 - \$96,908).

Market Risk

The Company is exposed to certain market risk that the value of, or future cash flows from, the Company's financial assets will significantly fluctuate due to changes in market prices. The value of the financial assets can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is required to mark to market its fair value through profit or loss investments at the end of each reporting period. This process could result in significant write-downs of the Company's portfolio investment over one or more reporting periods, particularly during periods of overall market instability, which would have a significant unfavorable effect on the Company's financial position.

Digital Currencies Risk

Digital currencies are measured using level two fair values, determined by taking the rates from www.polygonscan.com, www.etherscan.io, www.bscscan.com, www.urorascan.dev and www.explorer.roninchain.co.

Digital currency prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the global political and economic conditions. The profitability of the Company is directly related to the current and future market price of coins; in addition, the Company may not be able to liquidate its inventory of digital currency at its desired price if required. A decline in the market prices for coins could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its coin sales.

Digital currencies have a limited history, and the fair value historically has been very volatile. Historical performances of digital currencies are not indicative of their future price performance.

Liquidity Risk

Liquidity risk is the risk that Prophecy will not have sufficient cash to meet its obligations as they become due. This risk arises from fluctuations in cash flows from making loan advances, receiving loan repayments and making investments. The goal of liquidity management is to ensure that adequate cash is available to honour all future investments. As well, effective liquidity management involves determining the timing of such commitments to ensure cash resources are optimally utilized.

As at December 31, 2021, Prophecy had \$6,652,988 (December 31, 2020 - \$18,424) in cash. The Company had working capital of \$6,259,414 (December 31, 2020 – (\$173,841)).

The Company does not have any bank indebtedness. In managements' opinion, Prophecy Capital has sufficient resources to meet its current cash flow requirements.

Management is not aware of any trends or expected fluctuations that would create any liquidity deficiencies. Prophecy believes that cash flow from continuing operations and existing cash resources will be sufficient to meet Prophecy's short-term requirements, as well as ongoing operations, and will be able to generate sufficient capital to support Prophecy's operations in the long-term.

Currency Risk

The Company is exposed to certain currency risks that the value of certain financial instruments will fluctuate due to changes in foreign exchange rates. At times Prophecy intends to take advantage of foreign exchange contracts to manage the risk of currency fluctuations. As of December 31, 2021, the Company did not hold any such contracts.

Other Risks

Dependence on Key Personnel

Prophecy is dependent upon the personal efforts, performance and commitment of its senior officers and directors, who are responsible for the development of Prophecy's business. Investors will be relying upon the business judgment, expertise and integrity of Prophecy's senior officers and directors. To the extent that the services of any of the senior officers or directors would be unavailable for any reason, a disruption to the operations of Prophecy could result, and other persons would be required to manage and operate Prophecy. Prophecy's future success will also depend in large part upon its ability to attract and retain highly skilled personnel. There can be no assurance that Prophecy will be successful in attracting and retaining such personnel.

Possible Volatility of Stock Price

The market price of the common shares could be subject to wide fluctuations in response to factors such as actual or anticipated variations in Prophecy's results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of the common shares.

Competition

Prophecy operates in an increasingly competitive environment. Both large and small competitors compete with Prophecy. Some of these competitors may have longer operating histories, greater name recognition and greater financial and marketing resources than Prophecy. Prophecy believes that its ability to compete effectively is dependent upon the quality of its product and client service. There can be no assurance that Prophecy will be able to compete effectively and retain its existing clients or attract and retain new clients. Prophecy's current and potential competitors may develop and market new products or services that render Prophecy's existing and future products and services less marketable or competitive.

Maintenance of Client Relationships

The ability of Prophecy to attract and maintain clients requires that it provide a competitive offering of products and services that meet the needs and expectations of its clients. Prophecy's ability to satisfy the needs or demands of its clients may be adversely affected by factors such as the inability or failure to identify changing client needs or expectations or the inability to adapt in a timely and cost-effective manner to innovative products and services offered by competitors.

Strategic Relationships

Prophecy anticipates that, from time to time, it will enter into strategic relationships to syndicate certain bridge loans where appropriate, as part of its strategy to diversify and manage risks associated with its bridge loan portfolio. Syndication will afford Prophecy the opportunity to participate in much larger transactions. There can be no assurance that Prophecy will be able to enter into such relationships in the future, and its inability to do so may adversely affect its ability to continue to service its existing and prospective clients.

Share Data

The Company's issued and outstanding share capital is as follows:

Outstanding Shares

| | May 2, 2022 | Dec 31, 2021 | Dec 31, 2020 |
|--------------------------|--------------------|---------------------|---------------------|
| Common Shares | 132,147,212 | 132,147,212 | - |
| Subordinate Shares | - | - | 23,809,395 |
| Multiple Shares | - | - | 5,704,846 |
| Total Shares Outstanding | <u>132,147,212</u> | <u>132,147,212</u> | <u>29,514,241</u> |

Outstanding Warrants

| | May 2, 2022 | Dec 31, 2021 | Dec 31, 2020 |
|--------------------|--------------------------------|--------------------------------|---------------------|
| Number of warrants | 60,433,358 | 60,433,358 | - |
| Price | \$0.25 - \$0.90 | \$0.25 - \$0.90 | - |
| Expiry date | March 2024 to December 2024 | March 2024 to December 2024 | - |

Outstanding Options

| | May 2, 2022 | Dec 31, 2021 | Dec 31, 2020 |
|-------------------|---|--|---------------------|
| Number of options | 7,725,000 | 7,725,000 | 1,900,000 |
| Price | \$0.22 - \$0.60 | \$0.22 - \$0.60 | \$0.07 |
| Expiry date | March 19, 2024 to December 31, 2024 | March 19, 2024 to September 31, 2024 | May 27, 2021 |

Forward-Looking Information

These materials include certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Other than statement of historical fact, all statements in this material, including, without limitation, statements regarding disclosure of contingent liabilities at the date of the consolidated financial statements and financial statement items subject to significant management judgment include revenue recognition; loan impairment and losses; the valuation of accounts receivable, the valuation of bridge loans and development and rental properties, future income tax assets, estimated asset retirement obligations, and future plans and objectives of the Company, are forward-looking statements that involve various known and unknown risks, uncertainties and other factors. There can be no assurance that such statements will prove accurate. Actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date of these materials. Important factors that could cause actual results to differ materially from the Company’s expectations include, without limitation, the level of bridge loans completed, the nature and credit quality of the collateral security, estimated asset retirement obligations, as well as those factors discussed in the Company’s documents filed from time to time with the Canadian Securities Exchange, Canadian securities regulators and other regulatory authorities. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by this notice.

