

ZeU Crypto Networks Inc.
MANAGEMENT DISCUSSION AND ANALYSIS
SIX MONTHS ENDED JUNE 30, 2020

Date prepared: August 31, 2020

The following Management's Discussion and Analysis of the financial condition and results of operations ("MD&A") for ZeU Crypto Networks Inc. ("Company") should be read in conjunction with the audited financial statements for the year ended December 31, 2019 and the six months ended June 30, 2020. Those financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All currency amounts are in Canadian dollars, unless otherwise stated.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements with respect to the Company. These forward-looking statements, by their very nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated. The Company considers the assumptions upon which these forward-looking statements are based to be reasonable, but cautions the reader that these assumptions regarding future events, many of which are beyond the Company's control, may ultimately prove to be incorrect.

OVERVIEW

The Company was incorporated under the Canadian Corporation Act on January 4, 2018 as a subsidiary of St-Georges Eco-Mining Corp. (the "St-Georges") a publicly traded corporation listed on the Canadian Securities Exchange under the trading symbol "SX". The Company has become Independent from St-Georges by way of Plan of Arrangement finalized on December 24, 2019 when its common shares were listed for trading on the Canadian Securities Exchange under the trading symbol "ZEU".

The Company is a forward-thinking Canadian technology company that provides the foundation for the next generation of private and secure communication. The Company plans to initially commercialize its Random Number Generator on the blockchain solution in collaboration with gaming operators and to commercialize its blockchain-based email solution. The Company's technology maximizes transparency, security, and scalability as well as big data management. The Company's strategy is to monetize blockchain distributed ledger technology transactions in diverse sectors such as payment, gaming, data and healthcare.

In May 2018, St-Georges signed an Arrangement Agreement (the "Arrangement") providing for the spin-out of the Company with the intent of listing the Company on the Canadian Securities Exchange (the "CSE").

In July 2018, the Superior Court of Quebec approved the Arrangement, and filed to obtain conditional approval from the CSE to list the Company, the last required condition to complete the distribution of the Company shares to the St-Georges' shareholders of record on August 7, 2018. St-Georges' shareholders will receive approximately one share of the Company, for every eight shares they own of the St-Georges share.

On December 24, 2019, the CSE has accepted the listing of the common shares of the Company, and the Company started trading on the CSE on December 30, 2019 under the symbol "ZEU". On the effective date, the Company ceased to be a wholly-owned subsidiary of St-Georges upon the distribution of 11,098,074 shares of the 20,000,000 shares held by St-Georges to the St-Georges' shareholders pursuant to the Arrangement. As at June 30, 2020, the Company is holding 113,813 shares to be distributed to certain St-Georges' shareholders at a later date, and St-Georges retained 8,750,175 shares of the Company.

The Company changed its name to ZeU Technologies Inc. to reflect its activities better. The change was

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approved by the shareholders at its annual assembly on August 28, 2020.

DESCRIPTION OF BUSINESS

The Company has been working on a series of patents with a focus on technologies that can be quickly commercially deployed and conducted tests on potentially patentable new applications and testing smart contract improvements for applications in the gaming industry.

In October 2018, a US provisional patent titled “Biocrypt Digital Wallet” was filed. The invention is a newly designed biometric digital wallet allowing the cold storage of cryptocurrencies.

In early December 2018, the Company filed a provisional patent titled “System and Method for Augmenting Database Applications with Blockchain Technology”. The application developed by the Company and related to this invention patent provides a migration method that allows a database application that accesses a local database to be synchronized with a blockchain. The invention is protocol-agnostic and the management believes that it could be used as a gateway to share data between applications using different protocols.

On December 21, 2018, the Company executed an agreement with Prego International Group AS to develop and integrate certain proprietary technologies in a Global Multi Payment and E-Money Services Platform (“Services”). Prego is a global payment solution provider based in Norway. It develops and operates a range of payment services for partners and clients worldwide, including Everyday Digital. As at June 30, 2020, the Company was waiting upon Prego’s financing initiatives before moving into the phases.

In January 2019, the Company filed a provisional patent in relation to a distributed and decentralized method of random number generation. The provisional patent is titled “A Method for Generating Random Numbers in Blockchain Smart Contracts”. This method ensures that it is impossible to manipulate the random number seed or the block content. Initially developed to address issued with gaming applications, the technology will also be deployed for testing with partners to create fundamentally more secure financial transactions. The technology can also be applied wherever impartiality is required: double-blind medical trials, computer-simulated training, random sampling for quality assurance, even a military draft.

On February 4, 2019 the Company executed an asset purchase agreement with VN3T Technologies Inc. and its subsidiaries, collectively “VN3T”, an arm’s length party to acquire the key IP of VN3T’s decentralized data marketplace platform and secured development services. VN3T is based in Montreal and Gibraltar, it develops, manages and markets a decentralized data marketplace.

Under the agreement, the Company will pay \$150,000 to VN3T for the IP by the issuance of a debenture of the Company maturing two years from its issuance and convertible into common shares of the Company at a price equal to the 5-day VWAP of the shares on the Canadian Stock Exchange, subject to a minimum of \$1.85. The Company agreed to retain the services of the VN3T for a gross amount of \$60,000 to assist with the development of certain aspects of the IP. As at June 30, 2020, \$220,000 was expensed in further research and development as the technological feasibility has not yet been achieved.

On February 25, 2019, the Company retained the services of Cassiopeia Services Ltd., a UK based communication and investor awareness firm specialized in blockchain out of London UK. Cassiopeia Services Ltd. is thriving in the booming blockchain and crypto world with multiple clients working on innovative projects powered by new technologies in different industries. The Company will pay £5,000 quarterly to Cassiopeia starting March 31, 2019. The Company also granted Cassiopeia 50,000 common

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share options with an exercise price of \$1.25 per share and \$50,000 debentures convertible at a price of \$1.00 per share. On February 11, 2020, \$50,000 convertible debenture was converted into 50,000 common shares of the Company.

On March 3, 2019, the Company filed a provisional patent for Blockchain-Based Secure Email System. A complete blockchain email system supports both internal and cross-chain emails with the potential to interact with non-blockchain email systems. Through this method, as long as the sender or the recipient of the email is a blockchain mailbox, the email information will be recorded in the blockchain to ensure the authenticity of the email. Moreover, when blockchain mailboxes exchange messages, the email information will be encrypted and stored in distributed storage; only the recipient can obtain the unique cipher key and storage location of the email, thereby ensuring the security of email transmissions.

Mula Mail and the suite of related applications attached to it has become the Company's flag ship application. Mula Mail aims to marry email and marketing by allowing corporations to buy marketing campaigns. Mula Mail will be a freemium email, allowing users to opt out of marketing campaigns for a low monthly fee. However, users who engage with the marketing campaigns will receive vouchers that can be redeemed against products and services. For user not wishing to engage with brands but still want the benefits of a blockchain email, they can opt-out for a small monthly fee.

The Mula Platform team is growing and currently has five core developers. The first alfa built of the Mula Platform was completed and deployed in February 2020. In April 2020, planning started on a third product of the Mula suite (Encrypted video-conferencing and virtual office). Planning was also done for a BaaS connector to allow third-party developers to connect their applications to the platform.

On March 8, 2019, the Company agreed to provide its patent pending Blockchain Random Number Generator and other related blockchain technologies to St. James House PLC (LSE: SJH) ("St. James"), a UK licensed gaming operator, by the way of joint-venture for the establishment of a blockchain lottery. The agreement calls for the establishment of a new lottery joint-venture with its main license in Malta.

The Lottery Joint-Venture ("Lottery JV") will combine St. James' expertise in regulated lottery management and administration with the Company's innovative blockchain based technology. St. James' will act as the lottery operator and hold a 45% equity interest in the Lottery JV, and the Company will hold 19.91%, St-Georges will hold 19.9% and the balance with independent investors.

When all technology operating costs of the Lottery JV meet by the Company, and in return the Company will charge a service fee that will not exceed 90% of the revenues from the Lottery JV. Profits generated by the Lottery JV will be distributed as a dividend to the shareholders.

Additional consideration, in excess of the 19.9% of the net profits that it will receive and of the revenues generated for the technology usage, the Company will receive from St. James' new UK subsidiary, LottoCo, 100,000 non-voting, zero-coupon redeemable preferred shares of a par value of 2 pence ("Preferred Shares"). The Preferred Shares will be redeemable in 21 years, the redemption price of the Preferred Shares to be fixed within three months after the issue of the audited accounts of the Lottery JV for the second year of operations and will be based on an independent valuation report. At the discretion of the Company, the Preferred Shares may be exchanged on the basis of one Preferred Share for two ordinary shares of 1 pence each in St. James ("Ordinary Shares"), with notice to be given one day before the Preferred Shares are due to be redeemed in 21 years, i.e. a maximum of 200,000 Ordinary Shares may be issued.

On August 2, 2019, the Company and St. James House have executed a long form agreement for the creation

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of a Maltese Joint-Venture corporation that will manage the operation of a blockchain-based lottery operated by St. James and developed and maintained by the Company.

During the year ended December 31, 2019, the Lottery JV was being incorporated and established in Malta. The relevant license will be applied for from the Maltese authorities once the Lottery JV has suitably progressed and once sufficient testnet data is collected to support the license review process. As at June 30, 2020, the Lottery JV is awaiting the finalization of a series of games and lotteries applications being developed by the Company.

As at June 30, 2020, the Lottery JV remains inactive, but is expected to commence in 2020.

On May 28, 2019 the Company signed a binding term sheet with Star Epigone Capital Ltd. (“Star Epigone”) of the British Virgin Islands to provide a license for its Random Number Generator to be used by Star Epigone in its online gaming product offering. Star Epigone has access to an already established clientele through its online gaming business and is planning to integrate lotteries and other gambling offerings using the Company’s technologies solutions. All development and licensing costs will be covered by Star Epigone, the operator. The final agreement is subject to regulatory approval.

The Company also entered into a binding term sheet to acquire 2,100,000 first rank preferred shares of vSekur Network Ltd. (“vSekur”). The shares have a redemption value of \$1.00 and bear a 6% annual interest. The preferred shares can be converted into common shares of vSekur at the current value of \$1 each, or at the last equity raise price.

The Company will have the right to maintain its equity position with a right of first refusal in all future financing efforts of vSekur. If converted in common shares, this would represent more than 21% of the outstanding common shares of the Company.

vSekur is already developing the individual/client account security component of the Company’s SaaS initiative. It will now become the primary provider of anonymization solutions for the different development segments of the Company.

The binding term sheet also states that the Company will enter into an exclusive partnership agreement in order to provide cybersecurity solution services in the blockchain market.

The Company plans to subcontract the security component of its healthcare data SaaS solution representing an initial estimate of approximately \$1,500,000 over the next two years. The Company and vSekur estimate the initial six months design costs to be a minimum of \$120,000 to which the Company will contribute \$60,000, and an additional \$640,000 in the following two years. As at June 30, 2020, the Company has expensed \$280,000 for this project.

Under the binding term sheet, the Company will issue to vSekur approximately 215,325 convertible debenture units with a minimum floor conversion of \$3.25 for one year. As at June 30, 2020, the acquisition and long-term development portions of the agreement are being reviewed and the transaction is being renegotiated.

On August 8, 2019, the Company filed with the US Patent Office a provisional patent application named “A method and system to complete cross-chain transactions” for its Cross-Chain Atomic Swaps & Contract-less Distributed Ledger Applications Interoperability, the augmented engine and structure of the

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Company's Internet of Blockchain. The engine is agnostic to any and all blockchain protocols currently on the market or expected in the future.

On August 18, 2019, the Company filed with the US Patent Office a provisional patent application named "A Method and System for a Transactional Decentralized Communication Protocol Infrastructure (using the Company's Cross-Chain Multi-Chain Atomic Swap)" for a New Internet Communication Protocol. The protocol will enable a smoother transition of legacy systems into the distributed digital economy, or Web 3.0. This patent describes a method to create a highly-scalable, smart contract-less communication protocol, much like TCP/IP, using distributed consensus, an atomic transaction framework, Unspent Transaction Output (UTXO), and a Byzantine Fault Tolerance standard. This protocol leverages the cross-chain, multi-chain particularities of the Company's Atomic Swap.

In October 2019, the Company filed a new patent named "Method and system for distributed data real-time backup and recovery based on blockchain". Based on blockchain technology, the data stored can never be altered. With no central node, the system displays none of the vulnerabilities of traditional backup methods. All historical data changes are recorded, allowing users to restore data to a specified data snapshot. Compared to conventional data backup and recovery, this method combines real-time performance, security, and reliable data storage while being flexible enough to handle even difficult requirements. A recorded demo is due in November, and the solution will be released in an on-premise solution comprising of a dashboard and licensed software within nine weeks.

The Commercial deployment of vBunker will feature a module called OnChain Backup jointly developed with the Company, which enables any user to instantly backup files and data on the blockchain. The user can then recover the full length of data at any moment should be compromised for any reason such as ransomware, virus, or any other failures. The vBunker technology is co-owned with vSekur and a commercial alpha version, anonymized and using a freemium enrollment model, is expected to be deployable in the third quarter of 2020.

On November 13, 2019, the Company completed a 12% unsecured convertible debentures financing for an aggregate principal amount of \$7,834,000, subscribed in consideration of digital assets, consisting 24,000,000 Kamari("KAM"), at a deemed value of \$0.326 each.

On November 13, 2019, the Company also executed a joint venture agreement with Kamari Limited ("Kamari") of Malta for the joint development and deployment of lotteries and gaming offering in Africa ("JV Co.").

Under the terms of the JV Co., both parties agreed to invest up to Euro 50,000, the Company agreed among other things, to grant JV a non-exclusive license to its technologies in exchange for a 30% interest in JV Co., and Kamari agreed to provide JV Co. with support in accessing online lottery markets exchange for a 70% interest in JV Co. As at June 30, 2020, the JV Co. remains inactive.

On December 5, 2019, the Company filed a new provisional patent entitled "Method and System for Converting Database Applications into Blockchain Applications". The new IP provides a convenient method for combining traditional applications with blockchain technology. This method does not require any modifications to existing applications. Multiple applications on different nodes can automatically perform global data consensus to prevent data conflicts. Each node monitors the blocks on blockchain and synchronizes the data back to the database. In the case of conflicting or illegal data, the data can not pass consensus and synchronize with the other nodes in the blockchain. The local nodes automatically roll back when detecting invalid data.

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On January 14, 2020, the Company's encryption team completed the testing of its new symmetric asynchronous generative encryption or SAGE, a ground-breaking post-quantum encryption algorithm. The Company filed a provisional patent application with the US Patent Office titled "Symmetric Asynchronous Generative Encryption". The development of the algorithm was spearheaded by a joint team of shared resources between the Company and vSekur. As a result of the joint effort, the Company will issue a perpetual license to vSekur. The mechanics of the license and the mutual royalties are being negotiated.

The algorithm uses random number generation, currently the Company's Patented RNG, a code, and an encryption key to ensure the security of data. Furthermore, the key mutates every time it is used, always keeping data ahead of decryption. In addition, it does all this without sacrificing performance.

On January 31, 2020, the Company entered into a binding term sheet with Dalgo Inc., a New York AI Specialist & Data Trading Exchange Developer, that established the guidelines of a co-development, platform integration and licensed commercialization of its new symmetric asynchronous generative encryption or SAGE.

The binding term sheet executed with Dalgo Inc. calls for the signature of a series of long-form agreements within 45 days. Dalgo Inc. will be integrated into the stage 2 development of the MulaMail data trading platform and in the SaaS Patient HealthCare data auction module development. Dalgo Inc. will integrate the Company's encryption technology into its own suite of solutions and will allocate resources to allow the tech to participate in the 2020 cycle of the US Federal Procurement Process including but not limited, to the DoD Procurement Cycle.

SAGE Protocol has passed through another layer of validation and optimization during the month of February 2020. While the effort is still ongoing, the joint team has significantly advanced development work and made some fundamental breakthroughs.

SAGE has become exponentially more performant and exponentially more complex. Consequently, it has become more difficult to break in order of magnitude. It is now possible to use SAGE with an unlimited number of layers and at the highest 64 or 128 bits encoding.

The new version. SAGE V2.0 will be coded and implemented as a high-level demonstrator in order to be tested by industry interested parties who made the request. Additional R&D is still on-going and it is expected that uses and application s of ZeU/Vsekur's new family of generative encryption should be portable to a vast array of applications.

The Company will subscribe to 10% of the outstanding common shares of Dalgo Inc. By issuing \$300,000, 3 -year, 10% convertible debenture with a conversion floor price of \$1.00. The interest and capital can be repaid in shares at the discretion of the Company. The securities issued will be under a regulatory hold period.

On February 23, 2020, the Company presented the Mula plugin running on Microsoft Outlook. The Company has launched the <https://mulamail.io> website and the beta test period for the Mula plugin in small cohorts started on February 29, 2020.

The Mula Platform was designed to make privacy technology approachable by embedding it in products people use in their daily lives. User data is firmly in the hands of the user to sell, donate, keep, or give away. The Mula Platform rolls out in phases with each module designed to work seamlessly with each other.

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The phases are:

- Privacy phase launches with MulaNetwork, MulaMail, MulaMessage, and MulaWallet;
- Understanding phase contains MulaMicrofinance, MulaGraph, and MulaMeet;
- Ethical Marketing phase is MulaMarketplace;
- Exploration phase includes MulaBrowser, a smart blockchain browser focused on privacy, security and data ownership, and MulaCloud;
- Millennium phase looks toward the future and future development.

The Company imposed restrictions on its beta program in March 2020, only 1,000 beta testers accepted into the program and obtained the premium version for free for life. Shareholders and stakeholders of the Mula program are still able to obtain an email under the same conditions as before. New subscribers are enrolled in the standard product offering.

Development work started on a third product of the Mula suite (Encrypted video-conferencing and virtual office. Planning done for a BaaS connector for third-party developers). The Development resources planned to be moved to Borealis derivatives DEX EHF (“Borealis”) production version of its DEX Decentralised Markets. Borealis is a Decentralized, Distributed, Digital Derivative Marketplace.

During the period ended June 30, 2020, the development of Borealis Derivative Marketplace has accelerated. The pseudo-coding phase of the Marketplace’s platform has been initiated with the initial effort focused on the asset-spent back-stopped token. The Company monitored and learned from the recent HODLdex initiative, allowing for important paradigm changes in the conception of the marketplace. The roll-out of the marketplace commodity token should occur in late summer. Borealis mandate currently makes up the largest part of revenue of the Company. As at June 30, 2020, the Company recorded a gain of \$166,000 on the development services to Borealis.

On June 2020, four categories of the Company’s blockchain-based games are being deployed on the EOS Testnet network in an effort to collect data for the next 90 days. The generated dataset is a requirement for most of the Company’s clients currently in operation or in the process of obtaining regulated gaming licenses. The four games being deployed are dice, lottery, auction and slot.

On August 13, 2020, the Company initiated the process to obtain a license to operate a financial institution in Malta. The Company will integrate remittance and micro-lending, as well as creation Mula and ZeU-branded debit and credit cards to integrate with ZeU Crypto wallets and Mulamail accounts using the Company’s stable staking tokens. The first of the utility tokens is planned to launch in the third quarter of 2020 and will be based on the EOS network.

RESULTS OF OPERATIONS

For the period ended June 30, 2020, the Company recorded a net loss of \$16,749,417 (2019 – \$218,642) and had accumulative deficit of \$26,108,930 (2019 - \$4,630,702). The Company had no source of operating revenues or any related operating expenditures.

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SELECTED ANNUAL INFORMATION

The following table provides a brief summary of the Company's financial operations for the prior two fiscal years.

| For the year ended December 31 | 2019 | 2018 |
|--|-------------|-------------|
| | \$ | \$ |
| Cash | 62,673 | 541,795 |
| Digital assets | 9,690,414 | 705,390 |
| Working capital | 5,445,679 | 684,368 |
| Total assets | 22,417,196 | 1,247,185 |
| Shareholders' equity (deficiency) | 14,399,386 | (3,494,957) |
| Net loss and comprehensive loss for the year | (4,947,453) | (4,412,060) |
| Basic and diluted loss per share | (0.25) | (0.22) |

Year ended December 31, 2019:

The Company had no revenue, The Company incurred a net loss of \$4,947,453 in 2019. Operating expenses were \$3,331,791, the company recorded an unrealized loss on digital assets of \$1,528,913 due to the general change in digital assets in the market, loss on sale of marketable digital assets of \$72,124, gain on payment with marketable digital assets of \$6,010, and loss on fair market value change in derivative liability of \$20,635.

Year ended December 31, 2018:

The Company had no revenues. The Company incurred a net loss of \$4,412,060 in 2018. Operating expenses were \$1,408,758, and the Company recorded an unrealized loss on digital assets of \$3,003,302 due to the general decline in digital assets in the market.

SUMMARY OF QUARTERLY RESULTS

The following table outlines selected unaudited financial information of the Company for the last eight quarters.

| | <i>Jun.30,</i> <i>2020</i> | <i>Mar.31,</i> <i>2020</i> | <i>Dec.31,</i> <i>2019</i> | <i>Sept.30,</i> <i>2019</i> |
|-----------------------------------|-------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Total assets | 6,566,875 | 21,862,830 | 22,417,196 | 868,853 |
| Working capital (deficiency) | (623,007) | 6,993,018 | 5,445,679 | (5,405,785) |
| Shareholders' equity (deficiency) | (2,331,781) | 13,371,628 | 14,399,386 | (5,185,785) |
| Revenue | - | - | - | - |
| Net income (loss) | (15,703,409) | (1,046,008) | (3,692,093) | (1,051,278) |
| Net income (loss) per share | (0.64) | (0.04) | (0.18) | (0.05) |
| | <i>Jun.30,</i> <i>2019</i> | <i>Mar. 31,</i> <i>2019</i> | <i>Dec. 31,</i> <i>2018</i> | <i>Sept.30,</i> <i>2018</i> |
| Total assets | 2,005,603 | 1,421,384 | 1,247,185 | 2,103,417 |
| Working capital | 496,294 | 236,059 | 684,368 | 1,514,491 |
| Shareholders' equity (deficiency) | (4,134,507) | (4,303,185) | (3,494,957) | (3,269,201) |
| Revenue | - | - | - | - |
| Net income (loss) | 183,238 | (387,320) | (1,152,655) | (2,999,569) |
| Net income (loss) per share | 0.01 | (0.02) | (0.01) | (0.15) |

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The main factors contributing to variances to the quarters up to June 30, 2020 were unrealized losses on digital assets of \$15,309,139 recorded in the quarter ended June 30, 2020, \$487,241 recorded in the quarter ended March 31, 2020, and \$1,923,214 recorded in the quarter ended December 31, 2019, a gain of \$70,168 on sale of Ether coins and a gain of \$44,957 on payments with Ether coins in the quarter ended June 30, 2019. The Company recorded a loss of \$130,959 on sale of certain Ether coins, a loss of \$37,484 on payments with Ether coins and unrealized loss on digital assets of \$228,762 in the quarter ended September 30, 2019, unrealized loss on digital assets of \$3,003,302, and research and development expenses of \$517,960 in the quarter ended December 31, 2018

Total assets and working capital increased largely in the period ended December 31, 2019 as a result of a financing of convertible debentures for \$7,834,000 in November 2019, and in the period ended September 30, 2018 as a result of a completion of convertible debentures for \$4,783,692 in July 2018. The Company sold certain Ether coins for proceeds totalling \$745,046 in the year ended December 31, 2019.

THREE MONTHS ENDED JUNE 30, 2020 AND 2019

For the three months ended June 30, 2020 and 2019, the Company incurred a net loss of \$15,703,409 in the period compared to a net income of \$183,238 in the prior comparable period. Operating expenses for the three months ended June 30, 2020 were \$475,270 (2019 - \$507,741).

Major variances in expenses were as follows:

- Accretion and interest expenses were \$288,733 (2019 - \$184,338);
- Compensation expenses were \$nil (2019 - \$33,982);
- Consulting fees were \$24,409 (2019 - \$67,669);
- Listing and filing fees were \$14,956 (2019 - \$nil);
- Management fees were \$nil (2019 - \$72,373);
- Marketing and promotion fees were \$708 (2019 - \$5,429);
- Office expenses were \$22,186 (2019 - \$1,262)
- Professional fees were \$32,435 (2019 - \$14,914);
- Research and development expenses were \$86,105 (2019 - \$101,584); and
- Travel expenses were \$8,777 (2019 - \$17,628).

During the three months ended June 30, 2020, the Company recognized a gain of \$nil (2019 - \$44,957) on payments with Ether coins and a gain of \$nil (2019 - \$70,168) upon sale of certain Ether coins. The Company recorded an unrealized loss on digital assets of \$15,309,139 (2019 - \$575,854 gain) as a result of general market changes in the digital assets held. During the three months ended June 30, 2020, the Company recorded a gain of \$81,000 on the development of Borealis Derivative Marketplace.

SIX MONTHS ENDED JUNE 30, 2020 AND 2019

For the six months ended June 30, 2020 and 2019, the Company incurred net losses for the period of \$16,749,417 (2019 - \$218,642). Operating expenses for the six months ended June 30, 2020 were \$1,143,091 (2019 - \$956,830).

Major expenses are as follows:

- Accretion and interest expenses were \$570,839 (2019 - \$364,209);
- Compensation expenses were \$nil (2019 - \$67,591);

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- Consulting fees were \$46,139 (2019 -\$74,229);
- Listing and filing fees were \$23,086 (2019 - \$14,560);
- Management fees were \$85,807(2019 - \$139,248);
- Office expenses were \$31,008 (2019 - \$1,262);
- Professional fees were \$39,437 (2019 - \$19,914);
- Research and development expenses were \$322,399 (2019 - \$191,301); and
- Travel expenses were \$8,777 (2019 - \$17,628).

During the six months ended June 30, 2020, the Company recognized a gain of \$332 (2019 - \$44,957) on payments with Ether coins and a gain of \$nil (2019 - \$70,168) upon sale of certain Ether coins. The Company recorded an unrealized loss on digital assets of \$15,796,380 (2019- \$623,063 gain) as a result of general market changes in the digital assets held. The Company also recorded a gain of \$23,722 on redemption of convertible debenture. During the six months ended June 30, 2020, the Company recorded a gain of \$166,000 on the development of Borealis Derivative Marketplace.

LIQUIDITY AND CASH FLOW

At June 30, 2020, the Company had cash of \$407 (December 31, 2019 -\$62,673) and working capital deficiency of \$623,007 (December 31, 2019 - \$5,445,679 working capital).

For the period ended June 30, 2020 significant cash flows were as follows:

Net cash used in operating activities for the period was \$38,545. Net loss for the period of \$16,749,417 included non-cash accretion and accrued interest expenses of \$570,839 on convertible debentures; unrealized loss on marketable digital assets of \$15,796,380 and gain on payment with marketable digital assets of \$332. Net changes in working capital items were \$355,679 from an increase in accounts payable and accrued liabilities, \$14,743 from an increase in accounts receivable, and \$3,049 from a decrease in prepaid expenses.

Net cash provided in financing activities for the period was \$23,721. The Company issued 50,000 shares on the conversion of \$50,000 debentures at a deem price of \$1.00 per share.

On December 30, 2019, the Company converted \$1,191,209, representing 25% of the principal amount of the debenture issued on July 5, 2018 , together with accrued interest of the outstanding 10% debentures into 1,191,209 common shares of the Company at a deemed price of \$1 per share upon the listing for trading of the shares on the CSE (Liquidity Event).

On November 13, 2019, the Company completed a 12% unsecured convertible debentures financing for an aggregate principal amount of \$7,834,000, subscribed in consideration of digital assets, consisting 24,000,000 Kamari("KAM"), at a deemed value of \$0.326 each. Each convertible debenture shall be convertible into common shares of the Company at a price equal to the greater of (i) \$1.5, and (ii) if the date of any conversion occurs after the Company completed a transaction ("Liquidity Event") pursuant to which it will become a "reporting issuer" under applicable Canadian securities laws and the shares of the Company would be listed and posted for trading on a recognized exchange, the 10-day volume-weighted average trading price of the share of the Company, immediately prior to the applicable conversion date. The debenture issued pursuant to the offering will have a maturity date of May 12, 2022.

The KAM forming the consideration are subject to the following voluntary transfer restrictions: (i) in any one-month period, transfer, directly or indirectly, is limited to 1/30th of the total number of KAM forming

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the consideration; and (ii) in any given day, any sale on an exchange is limited to 5% of the total volume of KAM traded, without the prior written consent of KAM. As of December 31, 2019, 800,000 KAM were released from escrow.

Upon the occurrence of a Liquidity Event, the Company will be entitled to require the holders of the convertible debentures to convert up to 50% of the principal amount outstanding, together with any accrued and unpaid interest owing thereon, into shares of the Company at the conversion price.

On December 30, 2019, the Company converted \$3,963,445, representing 50% of the principal amount together with accrued interest of the outstanding 12% debentures into 2,642,297 common shares of the Company at a deemed price of \$1.50 per share, upon the listing for trading of the shares on the CSE (Liquidity Event).

On February 11, 2020, the Company issued 50,000 common shares on conversion of \$50,000 debentures in shares of the Company at a price of \$1 per share to Cassiopeia Services Ltd.

On July 30, 2020, the Company announced that it has entered into amending agreements with debenture holders to amend the terms of \$474,979 of the \$3,157,524 principal and accrued interest of \$677,573 which was issued in July 5, 2018, came to maturity and was payable on July 5, 2020. \$614,510 of original debenture could be converted into share of the Company. The Company is confident that the remaining of the original debenture and accrued interest should be settled in cash over the next few years based on its internal revenue projections.

Under the terms of the amended debentures (“Amended Debentures”), the maturity date has been extended two years from July 5, 2020 to July 5, 2022, and in exchange:

- 1) The floor conversion price of the principal amount of the Amended Debentures has been reduced from \$1.00 to \$0.25 per share;
- 2) The interest has been raised from 10% to 12%;
- 3) The Amended debentures now rank in priority of all unsecured debts; and
- 4) The Company issued 2 years, \$0.30 common share purchase warrants for every tranche of \$0.25 of original debenture principal amount amended. The proceeds of the warrants will be used to buy back the debentures if it has not been repaid or converted at the time of the warrants exercise.

The Company agreed to assign 30% of all net private placement proceeds, minus the insiders’ subscriptions, and 60% of its future profits to repay the debentures in priority until the debt is settled in full. The amendments are subject to approval by the CSE.

On July 30, 2020, the Company also announced to offer an equity financing from a minimum of 1,000,000 units up to 3,000,000 units at a price of \$0.25 per unit. Each unit will be comprised of one common share of the Company and one share purchase warrants, with each warrant exercisable to purchase one common share of the Company for a period of two years at a price of \$0.30 per warrant share in the first year and \$0.50 per warrant share in the second year. The proceeds will be used for development, licenses, and patents, and 30% of the net, minus insiders’ subscriptions will be used to repay part of the debentures.

The Company plans to offer certain creditors the opportunity to be paid in shares and plans to issue shares for debt for up to \$200,000 at a price of \$0.25 per share.

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FINANCIAL RISK MANAGEMENT AND FINANCIAL ESTIMATES

Financial Risk

The primary goals of the Company's financial risk management 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 balance sheet from events that have the potential to materially impair its financial strength. Balancing risk and reward are achieved through aligning risk appetite with business strategy, diversifying risk, pricing appropriately for risk, mitigating risks through preventive controls and transferring risk to third parties.

The Company's exposure to potential loss from financial instruments is primarily due to various market risks, including interest rate, liquidity and credit risk. There has been no change in the financial risk of the Company during the period.

Market Risk

Market risk is the risk of loss arising from adverse changes to market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. Below is a discussion of the Company's primary market risk exposures and how those exposures are currently managed.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash flow commitments associated with financial instruments. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. To manage cash flow requirements, the Company may have to issue additional common shares or conclude private investments.

As at June 30, 2020, the Company has accounts payable and accrued liabilities of \$658,642 (December 31, 2019 - \$306,664), \$3,827,873 (December 31, 2019 - \$3,579,727) in debentures due within 12 months, and has cash of \$407 (December 31, 2019 - \$62,673), and digital assets, current portion of \$4,272,424 (December 31, 2019 - \$9,690,414) to meet its current obligations. As a result, the Company faces liquidity risk as it expends funds towards its projects.

Credit Risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments that potentially subject the Company to credit risk consist primarily of cash. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada. This amount best represents the Company's maximum exposure to any potential credit risk. The risk is assessed as low.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market-interest rates. The Company's convertible debentures fixes interest at 10% per annum and accordingly is not subject to cash flow interest rate risk due to changes in the market rate of interest. The Company does not use financial derivatives to reduce its exposure to risk. The management of the Company considers its interest rate risk is minimal.

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Fair Value Measurement

Fair value is the amount at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on present value and other valuation techniques using rates that reflect those that the Company could currently obtain, on the market, for financial instruments with similar terms, conditions and maturities.

The carrying amount and fair value of financial instruments, with the exception of the secured debenture, are considered to be a reasonable approximation of fair value because of their short-term maturities.

The carrying values of the convertible debentures approximate its fair value at the reporting date because the convertible debentures were calculated by discounting future cash flows using rates that the Company would otherwise use for such debt with similar terms, conditions and maturity dates, adjusted for the Company's credit risk. Management believes that no significant change occurred in the risk of these instruments.

COVID-19 Disclosure

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods

CAPITAL MANAGEMENT

Capital is comprised of the Company's shareholders' equity and any debt that it may issue. As at June 30, 2020, the Company's shareholders' deficiency was \$2,331,781 (December 31, 2019 - \$14,399,386 equity). The Company's objectives when managing capital are to maintain financial strength and to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels. To meet these objectives, management monitors the Company's capital requirements against unrestricted net working capital and assesses additional capital requirements on specific business opportunities on a case-by-case basis.

Capital for expansion comes mostly from proceeds from the issuance of common shares. The net proceeds raised will only be sufficient for a certain amount of research and development work on its blockchain technologies, and for working capital purposes. Additional funds are required to finance the Company's corporate objectives. There was no change in the Company's capital management policy for the period ended June 30, 2020.

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The Company is not currently exposed to any externally imposed capital requirements.

RELATED PARTY TRANSACTIONS

a) Related party transactions

During the period, the Company incurred transactions with related parties including a company controlled by its Chief Architect, Chief Technology Officer, and Chief Executive Officer.

During the period ended June 30, 2020, the Company incurred consulting fees of \$162,372 (2019 - \$189,924) which were expensed as research and development costs, management fees of \$85,807 (2019 - \$139,248), and consulting fees of \$nil (2019 - \$51,879). 50% of the CEO's time was devoted to research and development. The Board of directors and officers of the Company did not receive any compensation in the second quarter of 2020 to mitigate the financial impacts of the pandemic.

b) Due to Related Parties

As at June 30, 2020, included in accounts payable is \$278,174 (December 31, 2019 - \$115,587) owing to directors. These amounts are non-interest bearing, unsecured and have no fixed terms of repayment.

As at June 30, 2020, the Company owes \$346,507 (December 31, 2019 - \$346,507) to a shareholder of the Company. These amounts are non-interest bearing, unsecured and have no fixed terms of repayment. During the period ended June 30, 2020, the shareholder advanced \$nil (December 31, 2019 - \$122,911) to the Company.

On July 30, 2020, the Company converted all of the advance of \$346,507 from St-Georges to a secure promissory note. The promissory note is no interest. The Company also granted 1,386,016 warrants to St-Georges, one warrant for every unit of \$0.25 of debenture. The 2-year warrants exercise price is \$0.30 per share.

The board of directors is as follows:

Frank Dumas, President, CEO and Director
Mark Billings, CFO and Director
The Honorable Lord Timothy Edward Razzall, Director
Neha Tally, Corporate Secretary and Director
Jean-Philippe Beaudet, CTO and Director
Fenglian (Frances) Xu, Director (resigned on May 14, 2020)
Jasseem Allybokus, Director (appointed in April 2020)
Yuming Qian, Chief Architect

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Outstanding Share Data

As at June 30, 2020, and as of the current date, the Company has 24,493,772 common shares outstanding of which 9,300,959 of the issued shares are held in escrow.

Warrants

As at June 30, 2020, the Company has no warrants outstanding. Subsequent to the period ended June 30, 2020, 1,386,016 warrants were granted. As of the current date, the Company has 1,386,016 warrants outstanding.

RISK FACTORS

Financing and Development

The Company does not presently have sufficient financial resources to undertake its planned research and development programs. Development of the Company's blockchain depends on its ability to raise the additional funds required. There can be no assurance that the Company will succeed in obtaining the funding required. The Company also has limited experience in developing blockchain, and its ability to do so depend on the use of appropriately skilled personnel or signature of agreements with other large resource companies that can provide the required expertise.

Digital assets - valuation

Many digital assets are traded in active markets and are valued based upon quoted prices (less costs to sell), a portion of such digital assets may not be actively traded and are valued based upon quoted prices for similar assets or based upon unobservable inputs. These valuations require the Company to make significant estimates and assumptions. Digital assets are generally considered to be commodities or similar to commodities. Unrealized gains and losses on digital assets are recorded as net unrealized gain (loss) on digital assets. In the statement of loss and comprehensive loss unrecognized gains above the cost or fair market value on the date of recognition are recorded in other comprehensive income.

signed "Frank Dumas"
President and Chief Executive Officer

signed "Mark Billings"
Chief Financial Officer