

The INX Digital Company, Inc.
(Formerly known as Valdy Investments Ltd.)
(A Capital Pool Company)

FORM 51-102FI
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2021

The following management discussion and analysis for The INX Digital Company, Inc. (Formerly known as Valdy Investments Ltd.) (“the Company”) is prepared as of May 2, 2022 and should be read together with the audited financial statements for year ended December 31, 2021 and 2020 and related notes attached thereto (financial statements), which were prepared in accordance with the International Financial Reporting Standards (“IFRS”).

All dollar figures included therein and in the following MD&A are quoted in Canadian dollars. Additional information related to the Company is available for view on SEDAR under the Company’s profile at www.sedar.com.

Description of Business

The Company was incorporated under the provincial Business Corporations Act (British Columbia) on August 22, 2018 and its registered office is at 4619 West 3rd Avenue, Vancouver, BC V6R 1N5. The Company completed its initial public offering (“IPO”) during fiscal 2019 and is classified as a Capital Pool Company (“CPC”) as defined in Policy 2.4 of the TSX Venture Exchange (the “Exchange”). The principal business of the Company is to identify and evaluate assets or businesses with a view to potentially acquire them or an interest therein by completing a purchase transaction, by the exercising of an option or by any concomitant transaction (“Qualifying Transaction”). The purpose of such an acquisition is to satisfy the related conditions of a Qualifying Transaction under the Exchange rules.

Proposed Transaction:

Subsequent to December 31, 2021, the Company:

The Company consolidated its issued and outstanding common shares (the “Consolidation”) such that the outstanding common shares are 5,124,740.

The Company acquired all of the issued and outstanding securities of INX from the INX Securityholders by way of a securities exchange as follows:

- i) the Company issued to the former shareholders of INX 167,331,410 post-Consolidation common shares on a partially diluted basis, reflecting the exercise of the INX Legacy Warrants (as defined below).
- ii) The holders of 10,381,959 outstanding options to purchase INX shares (each, an “INX Option”) have surrendered for cancellation each INX Option held by them, and for each INX Option surrendered, the Company issued to such holder an option to acquire a post-Consolidation share (each, a “Consideration Option”) having terms equivalent to the surrendered INX Option with respect to vesting conditions and expiry date, and adjusted pursuant to the conversion ratio (in respect of exercise price and the number of shares issuable upon exercise thereof);
- iii) The holders of 7,668,591 outstanding warrants to purchase INX shares (each, an “INX Legacy Warrant”) have surrendered for cancellation each INX Legacy Warrant held by them, and for each INX Legacy Warrant surrendered, the Company issued to such holder an warrant to acquire post-Consolidation shares (each, a “Consideration Warrant”) having terms equivalent to the surrendered INX

Legacy Warrant with respect to expiry date, and adjusted pursuant to the conversion ratio in respect of exercise price and the number of shares issuable upon exercise thereof; and

iv) Each of the warrants to purchase INX shares issued pursuant to the concurrent financing (a private placement of 31,680,000 subscription receipts, at a price of \$1.25 per receipt, in a total aggregate amount of \$39,600,000), shall, in accordance with its terms, become exercisable to purchase an equivalent number of post-Consolidation shares at the same exercise price as the INX shares to which such warrant was previously exercisable for.

On closing of the Transaction dated January 10, 2022, the Company entered into five-year advisory agreements (each, an “Advisory Agreement”) with James Decker and Johnny Ciampi (each, an “Advisor”) which are related parties. Each Advisory Agreement will provide for the issuance of 1,000,000 immediately vesting options to purchase shares of the Company (each, an “Advisor Option”) under the Company’s stock option plan to the applicable Advisor, with 500,000 Advisor Options being exercisable at a price of \$1.25 per share and 500,000 Advisor Options being exercisable at a price of \$2.50 per share, and all Advisor Options expiring on the date that is five years from the closing.

In connection with the Transaction, the Company has entered into a finder’s fee agreement with Peter Hough, pursuant to which the Company has agreed to issue 238,386 Shares on a post-Consolidation basis to Mr. Hough on closing of Transaction to the approval of the Neo Exchange. On January 10, 2022 the Company issued these shares.

Changes in share capital during the year ended December 31, 2021

On February 5, 2021, the Company completed a private placement, pursuant to which the Company issued 1,680,930 Common shares at \$0.16 per share for total proceeds of \$275,000. The Company paid \$2,231 in cash as share issuance costs relating to the private placement.

On April 27, 2021, the Company issued 91,687 Common shares for warrants exercised for gross proceeds of \$25,000.

On April 27, 2021, the Company issued 421,760 Common shares exercised for gross proceeds of \$103,750.

On November 12, 2021, the Company’s escrow agreement was amended and an aggregate of 183,374 shares held by arm’s length parties were released from escrow.

On November 16, 2021, the Company voluntarily delisted from the Exchange in connection with the Transaction. In connection with the delisting, an aggregate of 1,155,257 shares held by non-arm’s length parties were cancelled.

During the year ended December 31, 2021, the Company issued 165,037 fully-vested stock options to officers and directors (being key management personnel) of the Company with an exercise price of \$ 0.20 per share, at a fair value of \$30,094. The weighted average fair value per option was \$ 0.19. The fair value of the options is estimated using the Black-Scholes option pricing model assuming a life expectancy of 10 years, a risk-free rate of 0.99%, a forfeiture rate of 0%, and volatility of 100%.

Changes in share capital during the year ended December 31, 2020

No share capital transactions for the year end December 31, 2020.

Overall Performance

As at December 31, 2021, the Company had \$637,967 (December 31, 2020 - \$425,298) in cash and working capital was \$418,658 (December 31, 2020 – \$402,650).

The year ended December 31, 2021

The Company incurred a loss and comprehensive loss of \$415,605 (December 31, 2020 - \$49,321) during the year ended December 31, 2021, which included professional fees of \$360,254 (2020 – \$36,639), share-based payments of \$30,094 (2020 - \$Nil) and transfer agent and filing fees of \$25,257 (2020 - \$12,682). The increase in loss is mainly due to increased legal services associated with the definitive agreement intended to constitute the Company's qualifying transaction.

Unaudited three months ended December 31, 2021 and 2020

The Company incurred a loss and comprehensive loss of \$198,180 (December 31, 2020- \$20,076) during the three-month period ended December 31, 2021, which included professional fees of \$196,806 (2020 – \$16,933) and transfer agent and filing fees of \$1,371 (2020 - \$3,143). The increase in loss is mainly due to increased legal services associated with the definitive agreement intended to constitute the Company's qualifying transaction.

Selected Annual Information

The following information is derived from the financial statements of the Company for the years ended December 31, 2021, 2020 and 2019.

	December 31, 2021 \$	December 31, 2020 \$	December 31, 2019 \$
Loss and comprehensive loss	(415,605)	(49,321)	(156,973)
Basic and diluted loss per share	(0.13)	(0.03)	(0.13)
Total assets	637,967	425,298	460,824
Total liabilities	219,309	22,648	8,853

For the year ended, December 31, 2021 there is an increase in loss and comprehensive loss compared to December 31, 2020 and 2019. The increase is due to the Company completing its initial public offering as a capital pool company on May 27, 2019 and incurring legal services associated with the definitive agreement intended to constitute the Company's qualifying transaction.

Summary of Quarterly Reports

	Unaudited Three Months Ended			
	December 31,	September 30,	June 30,	March 31,
	2021	2021	2021	2021
	\$	\$	\$	\$
Interest income	Nil	Nil	Nil	Nil
Net loss	(198,180)	(24,610)	(50,903)	(141,739)

	Unaudited Three Months Ended			
	December 31,	September 30,	June 30,	March 31,
	2020	2020	2020	2020
	\$	\$	\$	\$
Interest income	Nil	Nil	Nil	Nil
Net loss	(20,076)	(9,748)	(5,634)	(13,863)

Related Party Transactions

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and Board of Director members.

During the year ended December 31, 2020, there was no compensation paid to key management.

During the year ended December 31, 2021, the Company issued 165,037 fully-vested stock options to officers and directors (being key management personnel) of the Company with an exercise price of \$ 0.20 per share, at a fair value of \$30,094. The weighted average fair value per option was \$ 0.19. The fair value of the options is estimated using the Black-Scholes option pricing model assuming a life expectancy of 10 years, a risk-free rate of 0.99%, a forfeiture rate of 0%, and volatility of 100%.

Liquidity and Capital Resources

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

As At	December 31,	December 31,
	2021	2020
	\$	\$
Cash	637,967	425,298
Payables	219,309	22,648
Working capital	418,658	402,650
Shareholders' equity	418,658	402,298

Net cash used in operating activities for the year ended December 31, 2021, was \$188,850 (2020 – \$35,526). This amount consists of a net operating loss of \$415,605 (2020 - \$49,321). Changes in non-cash working capital consists of a change in accounts payable and accrued liabilities of \$196,661 (2020

– \$13,795) and share-based payments \$30,094 (2020 - \$Nil).

There were no investing activities during the current and comparative year end.

The Company completed a private placement during the year ended December 31, 2021, net of share issuance costs of \$272,769 (2020 – \$Nil). The Company issued 91,687 common shares for warrants exercised for gross proceeds of \$25,000. The Company issued 421,760 common shares for stock options exercised for gross proceeds of \$103,750.

The Company has sufficient funds to cover anticipated administrative expenses throughout the year.

Financial Instruments and Risk Management

Overview

The Company's financial instruments consist of cash and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to short term nature.

Credit Risk

Credit Risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash is held with reputable institutions in Canada.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2021, the Company had a cash balance of \$637,967 to pay liabilities of \$219,309.

Capital Management

The Company's capital consists of share capital. The Company's objective for managing capital is to maintain sufficient capital to identify, evaluate and complete the Transaction. The Company sets the amount of capital in relation to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets.

The Company's objectives when managing capital are:

- to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and
- to maintain investor, creditor and market confidence in order to sustain the future development of the business.

The Company is not subject to any externally or internally imposed capital requirements at year end, except as discussed below.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements as at December 31, 2021 or as at May 02, 2022.

Outstanding Share Data

The following table summarizes the outstanding share capital as of the date of the MD&A:

	Number	Exercise Price	Expiry Date
Common Shares	3,606,357	n/a	n/a
Stock Options	Nil	n/a	n/a
Warrants	Nil	n/a	n/a

The Company has 916,870 Common shares subject to an escrow agreement as at December 31, 2020, whereby 10% of the shares will be released from escrow upon the completion of the Qualifying Transaction. An additional 15% of the escrowed Common shares will be released on each six-month anniversary thereafter unless otherwise permitted by the Exchange. Common shares issued upon the exercise of options held by officers and directors are subject to the same escrow conditions to the extent of options exercised prior to the completion of a Qualifying Transaction. Escrowed shares may be subject to cancellation if the Qualifying Transaction is not completed.

According to the escrow agreement, the Common shares issued for stock options which were exercised on April 27, 2021, in total of 421,760 are subject to escrow.

According to the amendment of the Company's escrow agreement on November 12, 2021, an aggregate of 183,374 shares held by arm's length parties were released from escrow.

On November 16, 2021 the Company ceased to be a Capital Pool Company (as defined in Exchange policy), and all the escrowed securities (1,155,257) were cancelled in accordance with Exchange policy and the Company's escrow agreement.

As at December 31, 2021 the Company has no common shares subject to an escrow agreement.

Critical Judgement and Estimates

The details of the Company's accounting policies are presented in Note 2 of the financial statements ended December 31, 2021. The accounting policies applied in preparation of the financial statements are consistent with those applied and disclosed in the Company's audited financial statements for the year ended December 31, 2021.

Management's responsibility for the financial statements

Information provided in this report, including the financial statements, is the responsibility of management. In the preparation of the statements, estimates are sometimes necessary to make a determination of future value for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements. Management maintains a system of internal controls to provide reasonable assurances that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

COVID-19

In early 2020, an outbreak of the novel strain of a coronavirus, which causes a disease named COVID-19, spread worldwide. As a result of the coronavirus pandemic, governments and industries have instituted drastic actions to contain the coronavirus or treat its impact. Such actions, including bans on international and domestic travel, quarantines, and prohibitions on accessing work sites, have caused significant disruptions to global and local economies, and have led to dramatic volatility in the capital markets.

The extent to which the coronavirus pandemic impacts the Company's operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence. Factors that may result in material delays and complications with respect to the Company's business, financial condition and results of operation include the duration and severity of the outbreak, and the actions that may be required to contain the coronavirus or treat its impact.

Corporate Governance

The Company's Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The Audit Committee of the Company fulfills its role of ensuring the integrity of the reported information through its review of the interim and audited annual financial statements prior to their submission to the Board of Directors for approval. The Audit Committee, comprised of three directors, all of whom are independent, meets with management of the Company on a quarterly basis to review the financial statements, including the MD&A, and to discuss other financial, operating and internal control matters as required.

Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking information and forward-looking statements within the meaning of applicable securities legislation (collectively "forward-looking statements"). Forward-looking information may include financial and other projections, as well as statements regarding future events, plans, objectives or economic performance, or the assumption underlying any of the foregoing. The use of any of the words "may", "would", "could", "will", "likely", "except", "anticipate", "believe", "intend", "plan", "forecast", "project", "estimate", and other similar expressions are intended to identify forward-looking statements.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to differ materially from any future results, performance or achievements expressed or implied by the forward-looking information. In evaluating these statements, the prospective purchasers should not place undue reliance on any such forward-looking information and should specifically consider various factors, including the risks outlined under 'Risk Factors'. Further, any forward-looking statement speaks only as of the date on which such statement is made. New factors emerge from time to time, and it is not possible for management to predict

all of such factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.