



# Tokens.com

Management's Discussion and Analysis

For the three and six months ended March 31, 2024

(Expressed in United States Dollars)

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## **Introduction**

This Management's Discussion and Analysis ("MD&A") is dated May 9, 2024, and consolidates management's review of the factors that affected Tokens.com Corp.'s ("Tokens.com" or the "Company") financial and operating performance for the three and six months ended March 31, 2024, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's financial statements for the three and six months ended March 31, 2024 ("Interim Financial Statements") and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). This MD&A should also be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2023, the annual MD&A for the year ended September 30, 2023, and the annual information form ("AIF") dated January 31, 2024, which can be found on the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedarplus.ca](http://www.sedarplus.ca).

Unless otherwise stated, results are reported in United States dollars, unless otherwise noted. The Company applies International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and interpretations issued by the IFRS Interpretations Committee. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results presented in the MD&A are not necessarily indicative of the results that may be expected for any future period.

This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results presented are not necessarily indicative of the results that may be expected for any future period.

## **FORWARD-LOOKING STATEMENTS**

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company's ability to predict or control. For a complete list of the factors that could affect the Company, please make reference to those risk factors referenced in the Company's annual information form dated January 31, 2024, a copy of which is available electronically on SEDAR at [www.sedarplus.ca](http://www.sedarplus.ca). Readers are cautioned that such risk factors, uncertainties and other factors are not exhaustive. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. Specifically, this MD&A includes, but is not limited to, forward-looking statements regarding: the Company's ability to meet its working capital needs at the current level for the next twelve-month period; management's outlook regarding future trends; sensitivity analysis on financial instruments, which may vary from amounts disclosed; and general business and economic conditions.

All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly, or otherwise revise, any forward-looking statements, whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

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## Overview

Tokens.com is a technology company focused on building ultra-realistic humanoid robotics and companionship-based AI. Tokens.com owns 100% of Simulacra Corp, 15.3% of StoryFire Inc., an inventory of cryptocurrencies and ownership of crypto related domain names.

On November 8th, 2023, the Company announced that it had commenced a strategic review. On April 18th, 2024, the strategic review was concluded.

Highlights of the results of the strategic review include:

(i) The disposition of the assets of Metaverse Group and Hulk Labs to StoryFire Inc., on March XX in exchange for a 15.3% equity interest in StoryFire Inc, and \$500,000 in StoryFire Blaze tokens;

(ii) The Company's key domain, Tokens.com, was placed for sale in January 2024 with an initial ask price of \$8 million;

(iii) A move from the CBOE Exchange to the TSX Venture Exchange, effective on March 28, 2024; and

(iv) On April 18th, 2024, the Company acquired Simulacra Corporation, a Nevada-based technology company. Simulacra owns and operates three subsidiaries focused on the integration of artificial intelligence ("AI") and high quality, humanoid robots that improve the human experience through connection, learning, and play.

Management is currently working on a rebranding strategy and ticker symbol change to better reflect the changes that resulted from the strategic review.

Going forward, the Company's main operating business will be the production of relationship-based AI and the creation of realistic humanoid robots. Tokens.com will also continue to manage its inventory of cryptocurrencies. It may, from time to time, sell portions of its inventory or acquire additional tokens.

## Simulacra Acquisition Details

Tokens.com issued 75 million common shares to Simulacra shareholders in consideration for the acquisition. This equates to approximately 38% of outstanding common shares of Tokens.com. The common shares issued to Simulacra shareholders will be escrowed for 12 months and then gradually released between months 12 to 24 following the closing date. Tokens.com will also grant an aggregate of 7,500,000 stock options in exchange for the cancellation of 567,101 stock options of Simulacra. The Tokens.com stock options will be granted at an exercise price of \$0.15 per stock option and will expire on the 10th anniversary of the closing date of the Transaction.

In addition, Simulacra shareholders will have the opportunity to earn an additional 10 million Tokens.com shares if they achieve revenue targets of \$8 million within any 12 month period during the first 24 months following the completion of the Transaction and an additional 10 million Tokens.com shares if they achieve revenues of \$10 million with any 12 month period between months 24 and 48 following the closing date. Each of Simulacra and its shareholders are arm's length parties to the Company. No broker, agent or finder's fee is payable in connection with the Transaction.

## Simulacra Subsidiaries

(i) [Realbotix](#) builds customized ultra-realistic robots that are AI-enabled. These robots look, talk, and move like humans. Invented for use in entertainment, companionship, healthcare, and education markets. For an example of Realbotix's products, please see the link [here](#).

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(ii) Anthropomorphic Figure Dynamics ("AFD") caters to government and healthcare projects that require highly realistic humanoids. This would include previous contracts with the US military and John Hopkins hospital.

(iii) Abyss Creations builds companionship-based humanoid figures that have the ability to be integrated with AI features.

### **Humanoid Robotics Market**

Simulacra is focused on the convergence of AI Software and Hardware to enable humanoid robotics. The robotics sector is estimated to exceed \$24 trillion in revenue annually according to ARK Investment management. Goldman Sachs predicts the humanoid robot market is anticipated to be USD \$13.8 billion by 2028 and US \$38 billion by 2035. The growing use of technology in education is fueling the deployment of humanoid robots in schools and driving the market's growth for the education and entertainment application segment. By blending entertainment and functionality, humanoid robots are revolutionizing how we interact and engage with technology in various sectors.

### **Artificial Intelligence Market**

According to MarketsandMarkets, the global AI market was valued at \$150.2 billion in 2023 and is expected to grow at a CAGR of 36.8% from 2023 to 2030. AI is revolutionizing multiple industries, emerging as a key driver for the advancement of technologies such as big data analytics, robotics and the Internet of Things. The rise of AI tools highlight the sector's mainstream appeal. With its current trajectory, the AI industry is poised to be a powerful tool for technological innovation, propelling advancements in the near future.

### **Crypto Market Environment**

The total crypto market capitalization, which adds up the value of all crypto assets together, has risen approximately 64.5% during the quarter, reaching a high of \$2.9 trillion on March 13th, 2024. In absolute terms, the growth of the quarter (+\$1.1 trillion) was almost double that of the previous quarter (+\$0.61 trillion). Bitcoin ETFs were approved by the Securities and Exchange Commission in January, which has resulted in significant inflows to these ETFs and more mainstream application of cryptocurrencies in general. In addition, Bitcoin underwent its fourth halving on April 19th, 2024, reducing the rate of issuance of new bitcoin to 3.125 per block. This has historically led to a strong post-halving market for crypto assets more broadly.

Tokens.com is not involved in offering any crypto retail products. As a result, management does not expect to be impacted by any new crypto regulations. The Company is in favor of further regulation and other safeguards to protect investors.

## **PART I – COMPANY AND HIGHLIGHTS**

### **THE COMPANY**

Tokens.com Corp is a publicly traded technology company that invests in web3 assets and builds web3 businesses.

Tokens.com and its subsidiaries do not engage in the lending of tokens, digital assets, or in using derivative products to enhance returns. We do not engage in the active trading or hedging of crypto assets. Tokens.com also does not provide third party custodial services and only custodies its own assets.

Tokens.com is required to mark-to-market these assets at every reporting quarter. As a result, the Company's financial statements will have non-cash related gains or losses based on the market performance of the digital assets owned from quarter to quarter. These non-cash revaluations of owned digital assets do not impact the operations or growth within our business segments. The digital assets are owned for the purpose of generating revenue within each business segment. In some instances, the Company may choose to dispose of certain assets if they no longer meet our ownership criteria.

On January 29th, 2024, the Company entered into a definitive agreement to sell the assets of Metaverse Group and Hulk Labs to Story Fire Inc., including a transfer of its workforce and contractors. The Company will receive 2,295,000 common shares of StoryFire, as well as a number of its native cryptocurrency tokens. The transaction was closed on March 1st, 2024. Following the completion of the transaction, the Company will no longer have an active business in metaverse or web3 gaming.

### **Cryptocurrency Staking Operations**

A cryptocurrency is an encrypted and decentralized digital asset, transferred directly between peers across the Internet, with transactions being settled, confirmed, recorded and secured in a distributed public ledger called the blockchain, either through a process known as “mining” or a process known as “staking”. Miners and stakers are incentivized to provide their services, which secure and verify transactions, through compensation in newly minted units or tokens for the cryptocurrency being mined or staked.

The units of a cryptocurrency, or “tokens”, exist only as data on the Internet, and are not issued or controlled by any single institution, authority, or government. Whereas most of the world's fiat money currently exists in the form of paper and metal managed by central authorities such as banks, crypto tokens exist as electronic records in the blockchain, which is decentralized and intended to be tamper-proof. The blockchain ledger is publicly available to anyone and secured with public key encryption.

Cryptocurrency staking is the process of validating blocks for a blockchain and is similar to the process performed by crypto miners. Stakers are compensated similarly (in native cryptocurrency tokens) and provide the same end result as a crypto miner. However, the staking process relies on ownership of digital assets instead of the use of hardware and electricity. In addition to the revenue generated from staking, Tokens.com may also benefit from the potential appreciation in the underlying digital asset inventory used for staking. Proof-of-stake systems require users to stake their cryptocurrency as a security measure to confirm and secure new data blocks. Ethereum abandoned its original proof-of-work consensus mechanism in September 2022, leaving Bitcoin as the only popular proof-of-work digital currency. This controversial move was done for both environmental reasons and to increase transaction through-put.

Staking has become one of the most common technologies used by cryptocurrencies, such as Ethereum 2.0, to secure their networks. Unlike traditional cryptocurrency mining, which is used to mine older blockchains like Bitcoin and Ethereum 1.0, staking is not reliant on specialized hardware that can rapidly become outdated and does not consume vast amounts of electricity. Instead, staking technology uses validation rights attached to digital asset ownership to make digital asset transactions secure, reliable, and sustainable.

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As a staker, Tokens.com is compensated in the form of additional token rewards for staking tokens to secure and process transactions across selected blockchain-based digital assets. The token rewards are expected to be re-staked, with approximately 50% of the rewards converted to fiat equivalent currencies (CAD or USD) periodically to be used for corporate overhead. The Company may convert more staking rewards to fiat depending on its internal corporate cash requirements.

In order to stake, Tokens.com is required to purchase crypto tokens that meet its criteria. These tokens are placed into cold storage protection and then delegated to one of Tokens' staking partners for the execution of the staking process. The staking tokens never leave custody and Tokens is always in possession of its staking tokens. Unlike lending, in token staking there is no counterparty risk and there is no transfer of assets or capital.

The Company's current inventory is shown below, as of the date of this MD&A:

Key Tokens Held	Owned	Held by Genesis
Ethereum	2,835	340
Polkadot	229,479	nil
Solana	55	18,001

The Company's current staking portfolio as a portion of the above is as follows:

Token	Staked	Market Yields	Lock-up Period
Ethereum	2,624	3.4%	3-7 days
Polkadot	112,955	11.91%	28 days

The Company's average gross staking yields decreased to 4.27% for the three months ended March 31, 2024, compared to 6.24% for the three months ended December 31, 2023 due to decreased market yields for DOT. The yields presented are pro forma for tokens staked during the entire period. Actual yields may vary based on the amount of time the tokens are staked.

During the quarter, Tokens.com un-staked its DOT position to provide management with flexibility to operate under changing market conditions.

The Company does not run its own validator nodes and instead partners with providers including Staked.us (owned by Kraken) and Figment.com to run validator nodes on the Company's behalf in a more efficient and cost-effective manner. In addition, Tokens.com is not seeking to build its own staking operations or to stake on behalf of third parties. In carefully evaluating the market, it is management's conclusion that it is more cost effective to use third parties.

Tokens.com entered into a staking node services agreement with Staked Securely, Inc. (Staked.us) in 2021 whereby Staked.us provides Ethereum staking node validators to Tokens.com. The Company also entered into a staking agreement with Figment Inc. in 2022 whereby Figment provides Polkadot validator nodes to Tokens.com. Tokens self-custodies and internally manages the wallets associated with these assets that are staked by these providers - reducing the counterparty risk associated with the agreement.

Tokens.com has also conducted external diligence on both Figment and Staked.us including an evaluation of its technology, pricing, and ensured that the entity was in good standing. This included numerous interviews with

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management and staff at these entities, as well as through market research with respect to the quality of the service provided, the financial backing of each entity and a conversation with the head of staking technology at each form. To date, Tokens.com has not encountered any issues with respect to its staking operations with its node service providers.

While the Company has reduced exposure to a handful of staking tokens, management still actively reviews projects that may be added to our staking operations.

Tokens.com self-custodies its staking assets using technology tools such as Fireblocks and Ledger hardware wallets. These assets are managed by multiple key executives at the firm using industry-wide best practices. The Company does not store assets with 3rd party custodians.

Our token selection policy has remained consistent with our past disclosure. Tokens.com generally focuses on large, layer-one established tokens. These are tokens that are designed to be programmed and have utility functions within their ecosystems. We also seek tokens that have large market capitalization above \$500 million and an amount of liquidity that would enable us to buy or sell that token quickly and without impacting the market price.

On April 12<sup>th</sup>, 2023, the Ethereum's Shapella upgrade went into effect. This hard fork, which involves upgrading the blockchain by creating a new one, is considered a significant milestone in Ethereum's multi-year shift towards a complete proof-of-stake network. The upgrade occurred successfully and without interruption to the network. From a practical standpoint, the Shapella upgrade, named after the two upgrades, Shanghai and Capella, will allow Validators (stakers) to conduct either partial withdrawals or full withdrawals of their ETH. In layman's terms, any ETH rewards received so far from staking will be redeemable, and so can the original staked ETH position if you wish to exit the network's consensus process. The result is that ETH locked in staking platforms is now easily withdrawn from staking than prior to the upgrade.

StoryFire Inc

The StoryFire platform, powered by the BLAZE token, will revolutionize the metaverse paradigm by combining SocialFi, GameFi, and DeFi into one unified experience.

Domain Names:

The Company owns a collection of domain names associated to its businesses listed below:

Tokens.com	Tokenstrading.com	Tokensart.com
Tokensgaming.com	Tokenstrade.com	Metaverse-Architechs.com

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**FINANCIAL SUMMARY AND OPERATIONAL HIGHLIGHTS**

<i>For the periods ended March 31</i>	Three months ended		Six months ended	
	2024	2023	2024	2023
Staking revenue	\$ 286,415	\$ 44,223	\$ 451,643	\$ 84,398
Consulting revenue	-	246,325	53,646	331,325
Leasing revenue	-	11,732	-	34,942
Gaming revenue	-	937	-	4,400
	<b>\$ 286,415</b>	<b>\$ 303,217</b>	<b>\$ 505,289</b>	<b>\$ 455,065</b>
Operating expenses	\$ (480,481)	\$ (1,059,996)	\$ (1,336,146)	\$ (1,778,369)
Gain (loss) on disposal of digital assets - cryptocurrency	\$ -	\$ 11,771	\$ 93,611	\$ (90,552)
Gain on revaluation of digital assets - cryptocurrency	\$ 3,982,191	\$ 2,635,777	\$ 6,604,286	\$ 1,384,937
Net income attributable to Tokens.com	\$ 3,831,152	\$ 1,863,351	\$ 5,950,572	\$ 214,762
Total comprehensive income attributable to Tokens.com	\$ 3,831,152	\$ 2,595,227	\$ 5,950,572	\$ 946,638
<b>Earnings per share</b>				
Basic and diluted	\$ 0.03	\$ 0.02	\$ 0.05	\$ 0.00

- Total revenue for the three and six months ended March 31, 2024 of \$286k and \$505k, compared to the three and six months ended March 31, 2023 ("Q2-2023") of \$303k and \$455k, respectively:
  - Strong staking revenue in Q2-2024 due to the crypto prices rebound during the quarter.
  - Exclusion of revenue from Metaverse Group and Hulk Labs as the Company divested these subsidiaries.
- Operating expenses for the three and six months ended March 31, 2024 of \$480k and \$1.3 million, compared to prior-year expenses of \$1.1 million and \$1.8 million.
  - The divestiture of Metaverse Group and Hulk Labs eliminated additional expenses with regards to headcount, consulting fees, and other general expenses.
- Digital assets activities include:
  - Gain on revaluation of digital assets - cryptocurrency of \$4.0 million and \$6.6 million, for the three and six months ended March 31, 2024, compared to gain of \$2.6 million and \$1.4 million from the same periods last year.
- Net income and comprehensive income of \$3.8 million and \$6.0 million during the three and six months ended March 31, 2024, attributable to owners of Tokens.com.
- Basic and diluted earnings per share of \$0.03 and \$0.05, respectively, for Q2-2024, compared to basic earnings per share of \$0.02 for the three months ended March 31, 2023.
- On January 2<sup>nd</sup>, 2024, Hulk Labs Corp. was dissolved, eliminating all ownership of the Company within the entity. All assets and operations were transferred over to Metaverse Group instead while the Company continues its strategic review on these business divisions.
- On January 29<sup>th</sup>, 2024, the Company entered into a definitive agreement to sell the assets of Metaverse Group and Hulk Labs to Story Fire Inc., including a transfer of its workforce and contractors. The Company received 2,295,000 common shares of StoryFire Inc., as well as a number of its native cryptocurrency tokens. The transaction was closed on March 1<sup>st</sup>, 2024. Following the completion of the transaction, the Company no longer has an active business in metaverse or web3 gaming.
- On April 4, 2024, the Company announced it has entered into a share purchase agreement to acquire all of the issued and outstanding shares of Simulacra Corporation, a Nevada-based technology company that focuses on the integration of artificial intelligence and high quality, humanoid robots that

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improve the human experience through connection, learning and play. On April 18, 2024, the transaction was completed.

## PART II – KEY FINANCIAL RESULTS

### Revenue

<i>For the periods ended March 31</i>	Three months ended		Six months ended	
	2024	2023	2024	2023
Staking revenue <sup>(i)</sup>	\$ 286,415	\$ 44,223	\$ 451,643	\$ 84,398
Consulting revenue <sup>(ii)</sup>	-	246,325	53,646	331,325
Leasing revenue <sup>(iii)</sup>	-	11,732	-	34,942
Gaming revenue <sup>(iv)</sup>	-	937	-	4,400
<b>Total revenue</b>	<b>\$ 286,415</b>	<b>\$ 303,217</b>	<b>\$ 505,289</b>	<b>\$ 455,065</b>

- (i) Rewards received from staking digital assets.  
(ii) Revenue earned from metaverse consulting and advisory services offered by Tokens.com's subsidiary Metaverse Group Ltd.  
(iii) Revenue earned from virtual real estate rental services offered by Tokens.com's subsidiary Metaverse Group Ltd.  
(iv) Revenue earned from play-to-earn gaming operation by Tokens.com's subsidiary Hulk Labs Corp.

### Operating expenses

A breakdown of the operating expenses is as follows:

<i>For the periods ended March 31</i>	Three months ended		Six months ended	
	2024	2023	2024	2023
Cost of revenue	\$ -	\$ 101,515	\$ 21,930	\$ 154,252
Management fees and salaries	105,902	109,284	211,804	226,036
General and administrative	108,753	228,392	217,506	357,532
Professional fees <sup>(i)</sup>	291,278	536,647	798,314	781,867
Investor relations <sup>(ii)</sup>	31,278	28,912	62,556	83,478
Regulatory	8,913	12,318	17,826	35,221
Share-based payments <sup>(iii)</sup>	(65,643)	42,928	6,210	139,983
<b>Total operating expenses</b>	<b>\$ 480,481</b>	<b>\$ 1,059,996</b>	<b>\$ 1,336,146</b>	<b>\$ 1,778,369</b>

- (i) Primarily consisted of corporate legal and audit fees, and other business consulting.  
(ii) Pertaining to outsourced investor and public relations fees. At no time, any of these expenses are related to the promotion or distribution of crypto or NFT assets.  
(iii) Value of options and DSUs that vested during the period.

Other items included in net income before income taxes are:

<i>For the periods ended March 31</i>	Three months ended		Six months ended	
	2024	2023	2024	2023
Gain (loss) on disposal of digital assets <sup>(i)</sup>	\$ -	\$ 11,771	\$ 93,611	\$ (90,552)
Gain on revaluation of digital assets - cryptocurrency <sup>(ii)</sup>	3,982,191	2,635,777	6,604,286	1,384,937
Net interest income	-	15,283	30,756	15,283
Gain (loss) on revaluation of warrant liability <sup>(iii)</sup>	42,501	(184,336)	45,858	(41,756)
Foreign exchange gain (loss)	(8,969)	28,135	(5,768)	48,252
Gain on revaluation of contingency consideration	-	-	-	29,964
	<b>\$ 4,015,723</b>	<b>\$ 2,506,630</b>	<b>\$ 6,768,743</b>	<b>\$ 1,346,128</b>

- (i) Represents the loss of exchanging digital assets hold as treasury either for cash or for other digital assets for the purposes of rebalancing those assets.

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- (ii) Gain or loss on revaluation of digital assets – cryptocurrency revalued at period end.
- (iii) Certain warrants of the Company meet the criteria for classification as a financial liability and are re-measured at fair value at each reporting period.

**Comprehensive loss**

<i>For the periods ended March 31</i>	Three months ended		Six months ended	
	2024	2023	2024	2023
<b>Net income</b>	\$ 3,821,657	\$ 1,749,851	\$ 5,937,886	\$ 22,824
<b>Other comprehensive income</b>				
Fair value change of non-controlling interest	-	731,876	-	731,876
<b>Total comprehensive income</b>	\$ 3,821,657	\$ 2,481,727	\$ 5,937,886	\$ 754,700

**Selected Quarterly Information**

The following table summarizes the Company's quarterly financial information.

Quarter Ended	Revenues (\$)	Net Income (Loss) attributable to owners of Tokens.com	
		Total (\$)	Basic and Diluted Income (Loss) Per Share (\$)
March 31, 2024	286,415	3,831,152	0.03
December 31, 2023	218,874	2,119,420	0.02
September 30, 2023	156,603	(9,252,772)	(0.08)
June 30, 2023	128,728	(692,444)	(0.01)
March 31, 2023	303,217	1,863,351	0.02
December 31, 2022	151,848	(1,648,589)	(0.02)
September 30, 2022	101,235	(150,689)	(0.00)
June 30, 2022	250,714	(11,534,471)	(0.12)

## **PART III – FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES**

### **Liquidity and Capital Resources**

As at March 31, 2024, the Company had a working capital balance of \$1.9 million (September 30, 2023 - \$2.8 million), and shareholders' equity, attributable to the owners of the Company, of \$14.9 million (September 30, 2023 - \$8.9 million). The Company operates in a nascent industry for which long-term viability remains to be demonstrated. The ability of the Company to achieve profitable operations in this industry over the long-term is uncertain and depends on the establishment of Blockchain technology reaching wide-range adoption.

The following summarizes and explains our cash flow activities:

<i>For the six months ended March 31</i>		<b>2024</b>
Net cash used in:		
Operating activities	\$	(1,145,319)
Investing activities		-
Financing activities		-
FX effect		-
<b>Decrease in cash</b>	<b>\$</b>	<b>(1,145,319)</b>

The Company's use of cash at present occurs, and in the future is expected to occur, principally in two areas: the funding of its general and administrative expenditures, and as a deployment of capital to acquire digital assets for the purposes of earning a staking revenue. In connection with the Company's operating and investment activities, when required, the Company will seek to raise capital primarily through the issuance of equity securities. The Company has incurred significant operating losses and negative cash flows from operations in recent years. Whether and when the Company can attain profitability and positive cash flows is uncertain. These events and conditions indicate that material uncertainties exist that may cast doubt upon the Company's ability to continue as a going concern.

The Company has no capital commitments as at the date of this report.

### **Off-Balance Sheet Arrangements**

As of the date of this MD&A, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

### **Financial Instruments and Business Risks**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

#### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to discharge an obligation. Financial instruments which are potentially subject to credit risk for the Company consist of cash.

The Company has credit exposure relating to accounts receivable and other of \$nil (September 30, 2023 - \$88,971). The expected credit loss is not significant.

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The carrying amount of financial assets represents the maximum credit exposure. The Company has credit exposure at March 31, 2024 relating to cash of \$2,345,315 (September 30, 2023 – \$3,490,634). All cash is held at a Canadian chartered bank.

Currency risk

The Company generates all revenue in United States dollars but expenses are incurred in both U.S. and Canadian dollars, exposing the Company to fluctuations in earnings from volatility in foreign currency rates. The fluctuation in foreign currencies in relation to the United States dollar will consequently impact the profitability of the Company and may also affect the value of the Company's assets and liabilities and the amount of equity. Management however concludes the exposure to currency risk is not material and the Company does not utilize any financial instruments or cash management policies to mitigate such currency risks. As at March 31, 2024, the Company held \$849,610 (September 30, 2023 - \$1,918,548) denominated in Canadian dollars. A 10% change in the foreign exchange rate would result in an impact of \$84,961 (September 30, 2023 - \$190,000) on the Company's operations.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to this risk mainly with respect to ensuring the sufficiency of funds for working capital and commitments. The Company monitors the maturity dates of existing accounts payable and accrued liabilities, loans payable, and commitments to mitigate this risk. The Company manages company-wide cash projections centrally and regularly updates projections for changes in business and fluctuations caused in digital currency prices and exchange rates. The Company's financial liabilities are comprised of loan payable, accounts payable and accrued liabilities. As at March 31, 2024, loan payable, accounts payable and accrued liabilities of \$437,080 (September 30, 2023 - \$893,267) are expected to mature within one year.

Fair Value Risk

Due to their short-term nature, the carrying value of cash, amounts receivable, and accounts payable approximate their fair value.

The Company is exposed to additional risks due to operating in the nascent digital asset industry, for which standards and regulations have not yet been broadly established. These risks include, but are not limited to:

Safeguarding of Digital Assets

The Company's policy is to retain custody of all of its digital assets, with the exception of digital assets held as collateral, which includes the safeguarding of private keys. The Company employs a combination of methods for doing so, including the self-custody of multi-signature wallets, and by working with a third party who provides the Company a secure medium to access its digital wallets and transact with reputable, exchanges on sales of its digital assets. The loss of access to the private keys associated with the Company's digital currency holdings may be irreversible and could adversely affect an investment. Digital currencies are controllable only by an individual that possesses both the unique public key and private key or keys relating to the "digital wallet" in which the digital currency is held. To the extent a private key is lost, destroyed or otherwise compromised and no backup is accessible the Company may be unable to access the digital currencies.

Staking of Digital Assets

The Company stakes certain digital assets in order to generate income. Staked digital assets remain in the Company's custody, however, are subject to un-bonding periods determined by the specific blockchain network before they can be de-staked and freely traded. Unbonding periods are typically not significant, however there is a risk that staked digital assets may not be immediately liquidated on demand. The performance on staked digital assets to generate returns is dependent on global supply and demand forces which influence pricing of

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those digital assets, the performance of specific validators the Company uses as partners, and the level of participation in staking activities from the broader market.

### **Executive compensation**

Executive's base compensation was discussed and determined prior to the start of employment with the executive officer. The Board's Compensation Committee looked at comparable from other companies within the same industry and stage of growth to decide upon the amount offered to the executive officer.

Annual incentive compensation is also discussed annually with the executive officer. Since the Company operates in a volatile industry, it is challenging for the Compensation Committee to put forward a fixed set of corporate objectives. However, the consensus communicated to the executive officer has been that it is always in the Company's best interest to preserve cash and reduce corporate overheads; and these base objectives form the basis for the Compensation Committee to decide upon the annual incentive payment to the executive officer.

### **Capital Management**

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to acquire more digital assets and fund the operation of the Company. To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through equity or debt financing. The Company is not subject to any external capital requirements imposed by a regulator.

### **Outstanding securities as at May 9, 2024:**

Common shares	<b>195,955,592</b>
Dilutive securities:	
Warrants	9,777,289
Stock options	9,432,450
Deferred share units	1,902,540
Fully diluted shares	<b>217,067,871</b>

The Company has an obligation to issue 3,105,650 stock options in connection with the Metaverse Group acquisition on June 5, 2023.

## **PART IV – MATERIAL INFORMATION**

### **Staked Tokens**

Tokens.com seeks to stake tokens that are linked to the fast-growing DeFi and NFT sectors. The tokens staked are the programmable building blocks required by DeFi and NFT applications. Thus, as those sectors grow, the greater the requirement for third party stakers like Tokens.com.

Tokens secures its digital assets where possible using Fireblocks MPC (multi-party-computation) based custody technology. See a summary of our agreement with Fireblocks below.

### **Fireblocks Agreement**

The Fireblocks License Agreement was entered into in February 2022, between Tokens and Fireblocks. Fireblocks agreed to provide custody technology software to Tokens.

Fireblocks is an enterprise-grade platform delivering a secure infrastructure for moving, storing, and issuing digital assets. Fireblocks enables exchanges, lending desks, custodians, banks, trading desks, and hedge funds to securely scale digital asset operations through the Fireblocks Network and MPC-based Wallet Infrastructure.

Fireblocks has raised over \$1 billion dollars from investors including Sequoia Capital and BNY Mellon, has 1,300 institutional clients, and has securely transferred over \$3 trillion in digital assets.

Alongside its security evaluations and improvements, Fireblocks recently received certification in the categories of security (ISO 27001), cloud (ISO 27017), and privacy (ISO 27018) from the International Organization for Standards (ISO). This accreditation makes Fireblocks the only crypto tech company to achieve all three certifications, covering the main areas of concern for most traditional finance customers.

In accordance with the terms of the agreement, Fireblocks provides access to its secure mpc (multi-party-computation) based wallet which allows Tokens to securely store assets, create a protocol that enables Tokens team members to administer transactions (such as buying, selling, and transferring tokens) based on internally defined policies, and allows the Company to interact directly with other Fireblocks customers (exchanges, etc) using an internal network that is faster and cheaper than traditional blockchain-based transactions.

Although Tokens.com's cryptocurrency assets are not stored in a physical sense, the transaction records included in the blockchain assign a location for each of Tokens.com's cryptocurrency assets to the wallet established by Fireblocks. Private keys are segregated amongst multiple members of Tokens' management team. Individual wallets within Tokens.com's wallet digitally hold the cryptocurrency and permit Tokens.com to transfer and/or sell upon a series of approvals based on Tokens custom digital asset management policy.

As Tokens.com has gained increasing comfort in the use of Fireblocks technology, it has terminated its previous agreement with Coinbase Custody.

### **Approval**

The Board of Directors of the Company has approved the disclosures contained in this MD&A.

## **PART V – RISKS**

### **Risks and Uncertainties**

The results of operations, business prospects and financial considerations of the Company remain subject to a number of risks and uncertainties and are affected by a number of factors outside of our control. For more information about our risks and uncertainties, please refer to the “Risks and Uncertainties” section of our MD&A for the year ended September 30, 2023, and the “Risk Factors” section of the AIF dated January 31, 2024. The risks and uncertainties remain substantially unchanged from those previously disclosed.

## **PART VI – ACCOUNTING POLICIES, CRITICAL ACCOUNTING ESTIMATES AND INTERNAL CONTROLS**

### **Critical Accounting Estimates and Accounting Policies**

The preparation of the consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and reported assets, liabilities, revenue and expenses, consistent with those described in the Company's annual financial statements and as described in these interim financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Estimates are based on historical experience and other assumptions that are considered reasonable in the circumstances. The actual amount or values may vary in certain instances from the assumptions and estimates made. Changes will be recorded, with corresponding effect in profit or loss, when, and if, better information is obtained. The future impact of uncertainties around the outbreak of the novel coronavirus (“COVID-19”) pandemic could generate, in future reporting periods, a significant risk of material adjustment to the reported amounts of assets, liabilities, revenue and expenses in the interim financial statements. Examples of accounting estimates and judgments that may be impacted by the pandemic include: revenue recognition, impairment of goodwill and intangible assets.

The Company is in the business of digital currencies, many aspects of which are not specifically addressed by current IFRS guidance. IFRS does not currently provide specific guidance to address many aspects of the digital asset industry. The Company is required to make judgments as to the application of IFRS and the selection of its accounting policies. The Company has disclosed its presentation, recognition and derecognition, and measurement of digital currencies, and the recognition of revenue as well as significant assumptions and judgments, however, if specific guidance is enacted by the IASB in the future, the impact may result in changes to the Company's earnings and financial position as presented.

For a full discussion of accounting policies, including new and revised standards issued by the IASB and estimates and judgments, refer to the audited consolidated financial statements for the year ended September 30, 2023.

### **Management's Report on Disclosure Controls and Procedures and Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate disclosure controls and procedures (“DC&P”) and internal controls over financial reporting (“ICFR”), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the Company. The DC&P provide reasonable assurance that material information relating to the Company is made known to the Chief Executive Officer and the Chief Financial Officer of the Company. The ICFR have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

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No changes were made in the Company's design of internal controls over financial reporting during the quarter ended March 31, 2024, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

We, including the Chief Executive Officer and Chief Financial Officer, have assessed the effectiveness of the Company's internal control over financial reporting in accordance with Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In connection with its financials for the year ended September 30, 2023, the Company's auditors identified five material weaknesses in internal controls. While the Company believes that it has sufficient personnel and review procedures to allow it to maintain an effective system of internal controls, there can be no assurance that it will always successfully detect misstatements or implement necessary improvements in a timely fashion. Further, if the Company fails to maintain an effective system of internal controls, it might not be able to report its financial results accurately or prevent misstatement; and in that case, its shareholders could lose confidence in its financial reporting, which could harm its business and negatively impact the value of its shares.

Due to inherent limitations in all control systems, a control system can provide only reasonable, not absolute, assurance that the objective of the control system is met and may not prevent or detect misstatements or instances of fraud. Management's estimates may be incorrect, or assumptions about future events may be incorrect, resulting in varying results. Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people or by Management override.