

Graph Blockchain Inc

Management's Discussion and Analysis

October 31, 2020

(Expressed in Canadian dollars)

Graph Blockchain Inc.

Management's Discussion and Analysis for the Six Months Ended October 31, 2020 (Canadian dollars, except share and unit information)

The following discussion and analysis, prepared as of December 22, 2020, provides information that management believes is relevant to an assessment and understanding of the results of operations and financial conditions of Graph Blockchain Inc. (the "Company"). The Management's Discussion and Analysis ("MD&A") should be read in conjunction with the interim condensed consolidated financial statements of the Company for the three and six months ended October 31, 2020 and the audited consolidated financial statements of the Company for the year ended April 30, 2020. Unless otherwise noted, all financial information in the MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in Canadian dollars unless otherwise indicated.

Forward Looking Statements

This MD&A contains or incorporates forward-looking statements within the meaning of Canadian Securities legislation (collectively, "forward-looking statements"). These forward-looking statements relate to, among other things, revenue, earnings, changes in cost and expenses, capital expenditures and other objectives, strategic plans and business development goals, and may also include other statements that are predictive in nature or that depend upon or refer to future events or conditions, and can generally be identified by words such as "may", "will", "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions. In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances are forward-looking statements. These statements are not historical facts but instead represent only the Company's expectations, estimates, and projections regarding future events.

Although the Company believes the expectations reflected in such forward-looking statements are reasonable, such statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Undue reliance should not be placed on such statements. Certain material assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements.

The forward-looking statements contained in this MD&A are made as at the date of this MD&A and, accordingly, are subject to change after such date. Except as required by law, the Company, does not undertake any obligation to update or revise any forward-looking statements made or incorporated in this MD&A, whether as a result of new information, future events or otherwise.

Selected Financial Information

EBITDA and Adjusted EBITDA

Management believes that EBITDA and Adjusted EBITDA are effective measures for analyzing the performance of the Company. The term "EBITDA" refers to earnings before deducting interest, taxes, depreciation and amortization. The Company calculates Adjusted EBITDA as earnings before deducting interest and accretion, taxes, depreciation and amortization, listing expense, other reverse take-over fees, acquisition related costs, and share-based compensation. "EBITDA" and "Adjusted EBITDA" are both non-GAAP measures. The Company believes that Adjusted EBITDA is useful additional information to management, the Board and investors as it provides an indication of the operational results generated by its business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and amortization and it excludes items that could affect the comparability of our operational results and could potentially alter the trends analysis in business performance. Excluding these items does not necessarily imply they are non-recurring, infrequent or unusual. Adjusted EBITDA is also used by some investors and analysts for the purpose of valuing a company. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to operating earnings or net earnings determined in accordance with IFRS as an indicator of the Company's financial performance or as a measure of the Company's liquidity and cash flows. Adjusted EBITDA does not take into account the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the consolidated statement of cash flows.

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The following table reconciles income from operations to EBITDA and Adjusted EBITDA for the six months ended October 31, 2020 and 2019:

	Three months ended October 31, 2020 \$	Three months ended October 31, 2019 \$	Six months ended October 31, 2020 \$	Six months ended October 31, 2019 \$
Net income (loss)	84,483	(11,429)	(73,050)	(645,304)
Depreciation and amortization	131	20,049	262	40,408
Interest expense	4	1,923	2,355	1,834
EBITDA	84,618	10,543	(70,433)	(603,062)
Share-based compensation	-	6,285	-	17,212
Adjusted EBITDA	84,618	16,828	(70,433)	(603,062)
Weighted average number of common shares	157,832,553	137,778,899	154,273,850	137,627,808
Adjusted EBITDA per share	0.001	0.001	(0.001)	(0.005)

Please refer to the Summary of Operations section in this MD&A for further details and other financial information.

Business Overview

The Company is a private blockchain technology company that develops, markets and implements high performance private blockchain database management solutions. The Company's solution provides for a unique and more streamlined way of filtering through blockchain based data, providing users with querying capabilities, meta data management, and advanced analytics. The Company has modified these operations and commenced developing leading-edge business intelligence and data management solutions that is implemented into BluStem (blustem.com). BluStem is an e-commerce marketplace for B2C and B2B audiences in support of scaling both its own and its partner brands with vending of all essential products including lab equipment and supplies as well as Personal Protective Equipment ("PPE").

The Company will start marketing PPEs due to the current SARS-CoV-2 (COVID-19) pandemic with 30 million infected in over 188 countries and territories. Revenue growth will come through the sale of products, marketing, licensing, and product fulfillment fees including the Company's own brand "BlueStem" that will leverage white-labeling supply chain partnership agreements.

The Company is a publicly traded corporation, incorporated in the province of British Columbia, and its head office is located at 4711 Yonge St., Suite 1000, Toronto, Ontario, M2N 6K8 Canada. The Company's common shares are listed on the Canadian Securities Exchange under the trading symbol "GBLC". The Company was incorporated under the laws of the Province of British Columbia on October 6, 1982. On November 6, 2018, the Company completed its acquisition of BluStem Ltd. (formerly Graph Blockchain Limited) ("BluStem") through a reverse takeover, and changed the Company's name to Graph Blockchain Inc.

Summary of Operations

Revenue

For the three and six months ended October 31, 2020, revenue from operations was \$397,051 (2019 - \$Nil) and \$397,051 (2019 - \$Nil), respectively, and Graph Korea discontinued its operations at the end of April 2020.

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Expenses

For the six months ended October 31, 2020, the Company incurred \$354,361 (2019 - \$643,426) of operating expenses. Certain significant items are noted:

- Salaries, benefits and management fees of \$51,224 (2019 – \$170,261) decreased mainly as a result the completion of an 8 month management consulting agreement commencing on November 1, 2018 during the comparative period, refer to “Related Party Transactions” section for more information.
- Office and general of \$13,319 (2019 - \$190,801) decreased mainly due to the discontinued operations of Graph Korea and reduction in sales and marketing expenses as the Company focuses on pursuing other business opportunities.
- Other operating expenses in the amount of \$281,751 (2019 - \$224,744) mainly consisted of consulting fees and professional fees, refer to “Related Party Transactions” section for more information.

For the three months ended October 31, 2020, the Company incurred \$206,304 (2019 - \$9,462) of operating expenses. Significant items are as discussed above. During the three months ended October 31, 2020, the Company recorded a gain on settlement of debts of \$193,002 resulting from the issuance of 7,720,080 common shares valued at \$193,002 to settle total debts in the amount of \$386,004.

Summary of Quarterly Results

The following is a summary of the Company's quarterly results, beginning with the three months ended January 31, 2019 (“Q3 - 19”).

	Q2 – 21	Q1 – 21	Q4 – 20	Q3 – 20	Q2 – 20	Q1 – 20	Q4 – 19	Q3 – 19
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue	397,051	-	-	-	-	-	1,089,269	281,363
Management fees	-	-	-	-	-	-	24,697	44,693
Net income (loss)	84,483	(157,533)	(317,574)	204,347	(11,429)	(633,875)	(1,249,627)	(2,587,035)
Net income (loss) per share	0.001	(0.001)	(0.002)	0.001	(0.0001)	(0.005)	(0.009)	(0.019)
EBITDA	84,618	(155,051)	(285,561)	176,157	(10,543)	(613,605)	(1,248,982)	(2,589,722)
Adjusted EBITDA	84,618	(155,051)	(274,634)	178,530	(4,258)	(613,605)	(1,232,896)	(708,883)
Adjusted EBITDA per share	0.001	(0.001)	(0.002)	0.001	(0.000)	(0.004)	(0.009)	(0.005)

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Segment information

The Company has two geographic segments as defined in note 4 to the interim condensed consolidated financial statements.

Segment information of the Company is summarized as follows:

	Graph Canada \$	Graph Korea \$	Consolidated totals \$
For the six months ended October 31, 2020			
Revenue from external customers	397,051	-	397,051
Segment loss	(62,875)	(10,175)	(73,050)
As at October 31, 2020			
Segment assets	546,696	2,596	549,292
Segment liabilities	594,087	21,589	615,676
For the October months ended October 31, 2019			
Revenue from external customers	-	-	-
Segment loss	(456,227)	(189,077)	(645,304)
As at April 30, 2020			
Segment assets	127,338	10,496	137,834
Segment liabilities	447,562	210,189	657,751

Liquidity, Capital Resources, and Cash Flow

The Company has financed its operations to date through the issuance of common shares and warrants. The Company continues to seek capital through various means including the issuance of equity. The interim condensed consolidated 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 interim condensed consolidated financial statements were prepared on a going concern basis under the historical cost basis of accounting. As at October 31, 2020, the Company has an accumulated deficit of \$10,573,894 (April 30, 2020 - \$10,500,844). For the six months ended October 31, 2020, the Company recognized a net loss of \$73,050 (2019 - \$633,875) and had net cash outflows from operating activities of \$427,866 (2019 - \$282,645). At October 31, 2020, the Company has insufficient cash to fund its planned operations for the next twelve months. These conditions indicate the existence of a material uncertainty that raise substantial doubt about the Company's ability to continue as a going concern

The Company's ability to continue as a going concern is dependent upon the ability of the Company to generate sufficient revenues and positive cash flows from its operating activities and/or obtain sufficient additional financing to settle its obligations and fund its planned operations. Accordingly, the Company may need further financing in the form of debt, equity or a combination thereof for the next twelve months. There can be no assurance that additional funding will be available to the Company, or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may be required to delay or reduce the scope of any or all of its projects.

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The interim condensed consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to generate sufficient cash flow from operations or financing activities, the carrying value of the Company's asset could be subject to material adjustments and other adjustments may be necessary to these interim condensed consolidated financial statements.

Related Party Transactions

a) Accounts payable and accrued liabilities

As at October 31, 2020, an amount of \$168,136 (April 30, 2020 - \$21,377) included accounts payable and accrued liabilities is due to certain officers and a shareholder company of the Company.

b) Loans payables

As at October 31, 2020, the Company has loan advancements from a shareholder company for a total amount of \$Nil (April 30, 2020 - \$65,700). During the year ended April 30, 2020, the Company was repaid the prior year's amount and an additional amount was advanced to the Company resulting in a loan payable balance. This loan is unsecured, non-interest bearing and repayable on demand.

As at October 31, 2020, the Company has loan advancements due on demand from the Korea segment of a shareholder company for a total amount of \$Nil (April 30, 2020 - \$191,380) bearing interest at 5.0% per annum and unsecured. Interest accrued of \$2,351 during the six months ended October 31, 2020 was included in accounts payable and accrued liabilities. Loan advances were made in the amount of \$76,180 during the year ended April 30, 2020.

c) Compensation of key management personnel

Key management includes members of the Board and executive officers of the Company. Compensation awarded to key management is listed below:

	Six months ended October 31, 2020 \$	Six months ended October 31, 2019 \$
Accounting fees included in other operating expenses	2,000	-
Consulting fees included in other operating expenses	52,000	(20,000)
Management fees	43,500	-
	<u>97,500</u>	<u>(20,000)</u>

Subsequent Event

On December 10, 2020, the Company granted incentive stock options to certain directors and officers of the Company to purchase up to 8,500,000 common shares of the Company at a price of \$0.05 per share for a period of 2 years from the date of grant.

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Off Balance Sheet Arrangements

In March 2020, the Company entered into a service agreement with a financial advisor. According to the agreement, the Company has obligation to grant the advisor share options to purchase Common shares in the Company which will equal 2.5% of the total fully diluted shares. The Options will be granted once the Option Plan is in place and approved at the Company's upcoming AGM and is subject to approval from the regulatory (such as Canadian Securities Exchange) bodies. The Company entered into a twelve-month agreement included in the service agreement with financial advisor. The payment shall be comprised of \$15,00 monthly payments made in stock that will be paid at a deemed price of \$0.05 per share. As at October 31, 2020, no shares have been issued to the financial advisor.

Outstanding Share Information

The Company is authorized to issue an unlimited number of common shares with no par value. As at the date this discussion and analysis is prepared, the Company had 161,837,880 common shares issued and outstanding and 9,133,218 warrants issued.

Risk Factors

The Company is exposed to a number of risks and uncertainties that are common to other companies engaged in the same or similar businesses. Material risks that could significantly affect the financial condition, operating results or business of the Company are listed in the Company's MD&A for the year ended April 30, 2020 dated August 28, 2020 available on SEDAR.

COVID-19

Beginning in March 2020, the Governments of Canada and the United States, as well as other foreign governments instituted emergency measures as a result of the COVID-19 virus outbreak. The virus has had a major impact on North America and international securities, currency markets and consumer activity which may impact the Company's financial position, its results of future operations and its future cash flows significantly. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of future operations, financial position, and liquidity in fiscal year 2021.

Other Information

Additional information regarding the Company is available on SEDAR at www.sedar.com