

Banxa Holdings Inc.

(TSXV: BNXA, OTCQX: BNXAF, FSE: AC00)

Well Positioned to Capitalize on the Rising Investor Appetite for Cryptos – Initiating

BUY

Current Price: C\$5.88

Fair Value: C\$15.58

Risk*: 4

Sector/Industry: Cryptocurrency

[Click here for more research on the company and to share your views](#)

Highlights

- Australia based Banxa is a **Payment Service Provider/PSP company**, that allows users to convert fiat-to-crypto and vice versa.
- The company is the **first and only PSP to go public to date. Shares are up 60% since our introductory note on January 7, 2021.**
- Banxa serves both B2B and B2C markets, with its flagship B2B solutions reaching 30M+ customers across 130+ countries through multiple partners. **Partners include top cryptocurrency exchanges such as Binance, Huobi, and OKEx.**
- Banxa's Total Transaction Value (TTV) in H1-FY2021 (ended December 31, 2020) was \$195M, up 780% YoY. TTV in the first two months of Q3 was \$125M, surpassing full Q2-FY2021's \$111M. Q2 revenue was A\$4.5M, up 228% YoY.**
- Bitcoin prices hit record highs this year.** The total MCAP of cryptos still accounts for less than 1% of fiat. The recent increase in investor appetite for cryptos has resulted in a significant increase in trading volume. For example, Binance's trading volume on March 11, 2021, was US\$25B vs US\$6B on January 1, 2021.
- We believe the popularity of cryptos is driven by their fast execution of transactions, the ability to bypass conventional intermediary fees, and in some cases, its use as a potential hedge against inflation (i.e. Bitcoin's limited supply). Although the sector is highly competitive, we believe **Banxa's affiliation with the top crypto exchanges, along with its early mover advantage, sets the company up for growth going forward.**

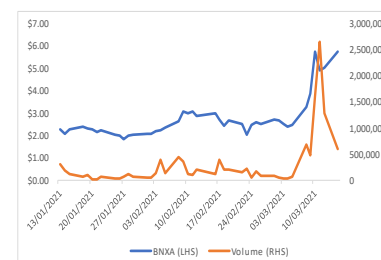
Risks

- The cryptocurrency market is subject to regulatory scrutiny and intervention.
- The company operates in a highly competitive landscape.**
- Risk of technology failure.
- Cybersecurity risk.**
- Crypto prices have been highly volatile.

Sid Rajeev, B.Tech, CFA, MBA
Head of Research

Iftekhar Mahmud, MBA, MSc
Analyst

BNXA Price and Volume (YTD)



| | YTD | 12M |
|------|------|------|
| BNXA | 156% | N/A |
| TSXV | 11% | 179% |

Company Data

| | |
|---------------|-------------------|
| 52-Week Range | C\$1.58 - C\$6.88 |
| Shares O/S | 40,710,704 |
| Market Cap. | C\$239M |
| Current Yield | N/A |
| P/E (forward) | N/A |
| P/B | 33.74 |

| Key Financial Data (FYE - June 30) | H1-2021 | 2021E | 2022E | 2023E |
|------------------------------------|---------------|----------------|---------------|----------------|
| A\$ | | | | |
| Cash | \$ 3,302,948 | \$ 2,358,250 | \$ 6,242,550 | \$ 26,534,122 |
| Working Capital | \$ 7,234,122 | \$ 5,855,629 | \$ 13,789,032 | \$ 33,199,108 |
| Total Assets | \$ 14,819,138 | \$ 14,833,802 | \$ 25,097,907 | \$ 50,546,106 |
| Total Debt | \$ 3,525,379 | \$ 3,525,379 | \$ 1,525,379 | \$ 1,525,379 |
| Revenue | \$ 7,399,281 | \$ 23,442,741 | \$ 54,870,436 | \$ 104,178,516 |
| Net Income | \$ (908,045) | \$ (1,662,766) | \$ 7,399,113 | \$ 18,379,147 |
| EPS (basic) | \$ (0.03) | \$ (0.04) | \$ 0.18 | \$ 0.45 |

***See last page for important disclosures, rating, and risk definitions. All figures in A\$ unless otherwise specified.**

Company Overview

Banxa went public in the first week of January 2021, making it the first publicly traded PSP in the digital assets industry.

The first payment gateway company in the Digital Assets industry to go public

Banxa has operated fiat gateway payment channels since 2014. In 2018, it launched its B2B product, and to date, has onboarded over 30 clients with over 30M customers. The company currently has over 50 employees, with operations in Australia (primary source of revenue), Europe, and North America.

Banxa provides an internationally compliant solution enabling customers to engage in fiat-to-crypto as well as crypto-to-fiat transactions. The company targets both consumers and businesses in over 130 countries. **It is a gateway partner for top cryptocurrency exchanges like Binance, Huobi and OKEx.** Banxa's solution allows exchanges to offer conversion options to their customers.

Provider of both fiat-to-crypto and crypto-to-fiat transaction solutions

Conduit Between Crypto and Fiat



Source: Company Filings

Value Proposition

Banxa is focused on building **an internationally compliant fiat-to-crypto payment infrastructure for exchanges, wallets, and other businesses in the space.** It attempts to address the following issues in the digital assets sector:

Focused on building an internationally compliant payment infrastructure that addresses the current challenges of the Digital Assets Industry

| Digital Assets Sector Challenges | Banxa Solution |
|--|---|
| <ul style="list-style-type: none"> Regulatory complexity, along with continually changing regulatory landscape in digital assets Fragmented payment structure Inefficiencies in running and managing multiple fiat-to-crypto networks and banking channels Liquidity challenges in digital currencies Fraud and other compliance related challenges | <ul style="list-style-type: none"> Local and global payment options Single interface for exchanges, wallets, and other cryptocurrency businesses Compliant in markets it operates Full Anti-Money-Laundering (AML) and Know-Your-Customer (KYC) compliant infrastructure Fast processing times |

Source: Company Filings, FRC

Revenue Model

Banxa generates revenue by charging a 0.5-5% commission on transaction value, which is inline with other operators. According to the company, TTV in H1-FY2021 (ended December 31, 2020) was \$195M, up 780% YoY. TTV in the first two months of Q3 was \$125M, surpassing full Q2-FY2021's \$111M.

Commission of up to 5%, in line with peers

Earns an additional 0-3% spread on customized solutions for B2B customers

Surge in transactions due to the recent investor appetite for digital assets

Serves both B2B and B2C markets

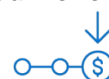
Banxa's Current and Planned Revenue Drivers



Currently

0-5% commission
on order value

0-3% on spread
depending on the supplier and partner

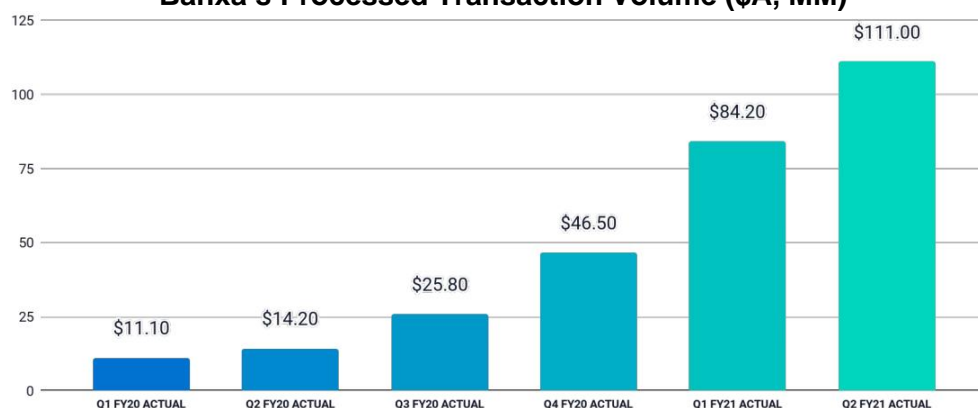


Future

Offering financial services
(subject to financial services licenses etc)

- borrowing and lending
- interest bearing accounts
- trading fees
- other products typically seen at other financial institutions
- advertising revenue

Banxa's Processed Transaction Volume (\$A, MM)



Source: Company

Technology and Adoption

Business-to-Business

The company provides a plug-and-play Application Programming Interface (API), allowing its partners to offer end-to-end services (such as trade, borrow, lend, etc.) to their customers.

How Banxa Works on a B2B Platform



Step 1
Visit Partner Platform



Step 2
Select "Buy Crypto via Banxa"



Step 3
Choose one of Banxa's 12 global and local payment methods



Step 4
Make payment



Step 5
Crypto is sent straight into the users exchange/wallet account - no deposit address needs to be added, this is provided via API

Source: Company

Highly competitive space

Banxa's fee structure is similar to other operators. In addition to Banxa, there are several alternative payment gateway providers, and the sector is highly competitive. Companies such as Moonpay (250+ partners and 80+ cryptocurrencies) and Simplex (350+ partners and 50+ cryptocurrencies) are direct competitors. **We believe Banxa has a competitive advantage as it allows local payment options in each market it operates in** (such as POLi in Australia, SEPA in Europe, Interac in Canada) – **providing local and easier conversion options for customers.**

Banxa on Binance Platform

1. Choose your payment channel

- Simplex
- POLi
- BPAY
- BANXA** (highlighted)

2. Payment details

Payment Method: BANXA

Total including fee: 100.00 AUD

Price: 1 BTC = 51,000.04 AUD

You will get: 0.00196078 BTC

Disclaimer

You will now leave Binance.com and be taken to Banxa. Services relating to payments are provided by Banxa which is a separate platform owned by a third party. Please read and agree to Banxa's [Terms of Use](#) before using their service. For any questions relating to payments, please contact support@banxa.com. Binance does not assume any responsibility for any loss or damage caused by the use of this payment service.

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Source: Company

Banxa's payment service can be accessed through banxa.com, B2B customers (exchanges), and/or company-owned domain names. Per management, the company has compliance procedures in place to ensure that every transaction is verified, and in compliance with local regulations. Banxa also works with multiple security providers to ensure safety to its clients. One such provider is Chainalysis – a U.S. based blockchain analysis company that provides investigation, compliance, and risk management services in 50 countries.

Simplifying process for partner companies, while ensuring compliance and verifications

| Customers | | | | Permitted Payment Methods | | | |
|-----------|------------|---------|-------------|---------------------------|--------------|-----------|--------------------|
| Exchanges | | Wallets | | Global* | Australia | Europe | Canada |
| BINANCE | bitfalcon | bithumb | edge | VISA | POLi | PayID | Interac e-Transfer |
| bybit | changelly | Huobi | CoolBitX | mastercard | Post Billpay | iBPAY | |
| KUCCOIN | LATOKEN | MINE | Dove Wallet | Apple Pay | flexepin | Newsagent | |
| MXC | OCEANEX | OKEX | | | | | |
| Phemex | ShapeShift | tokens | | | | | |

Source: Company

Management has indicated that they have a strong pipeline of new customers awaiting to be onboarded. Going forward, Banxa plans to become a fintech platform offering its own financial services, such as borrowing, lending, interest bearing accounts, and trading, subject to receipt of licenses.

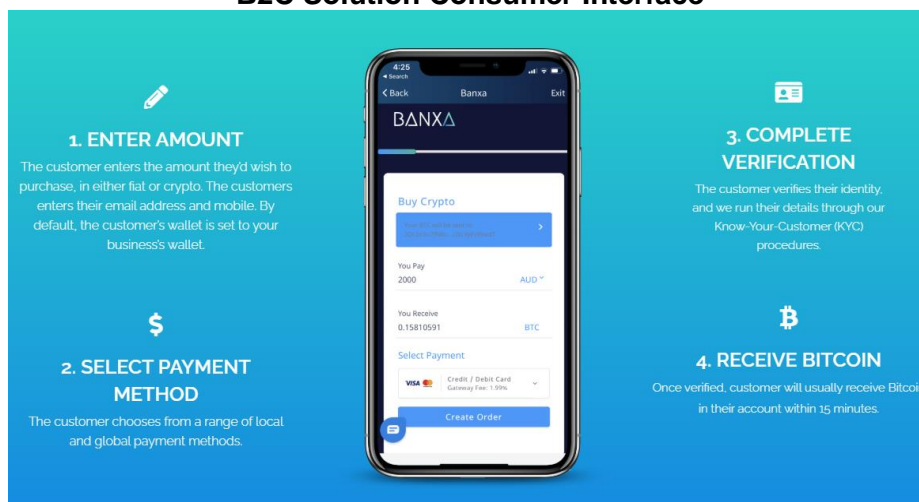
Business-to-Consumer

Banxa owns a range of domains in various countries to enable retail customers to convert fiat to digital currencies.



B2C Solution Consumer Interface

Designed to allow retail customers to convert fiat-to-crypto with ease



Source: Company

We found that Banxa's service has high ratings on Trustpilot – 4.3 / 5 based on 6,124 reviews. The vast majority of reviews cited a very efficient and trustworthy process.

High ratings by users, noting efficiency and trustworthiness



Banxa.com

Reviews 6,124 • Excellent

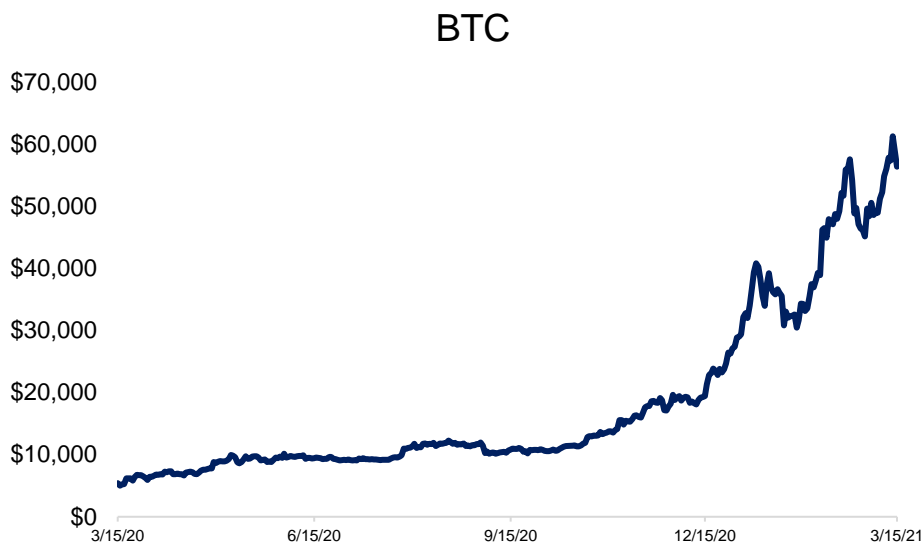


Source: Trustpilot

Market Overview

Bitcoin prices hit record highs this year, and have brought significant investor attention to digital assets. **Bitcoin is currently trading at US\$56k, an increase of 945% YoY.**

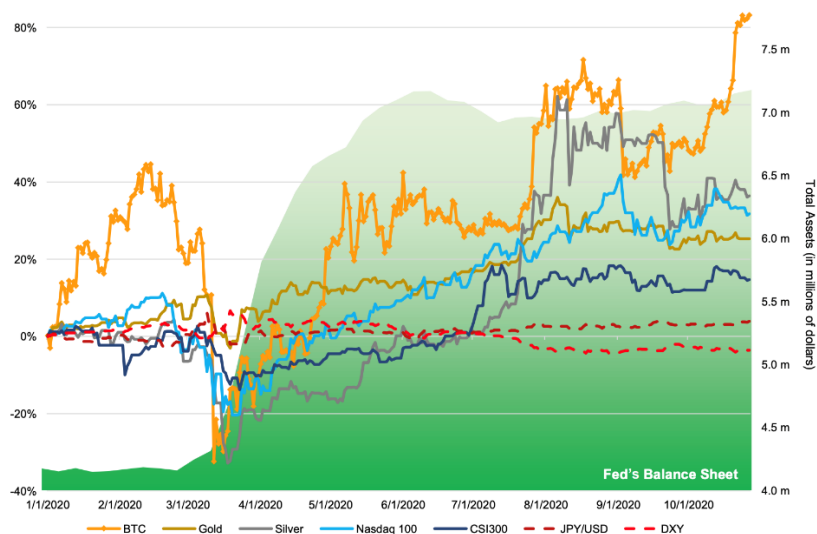
Bitcoin prices at record highs



Source: Yahoo! Finance, FRC

Bitcoin outperformed other major asset classes and indices in 2020.

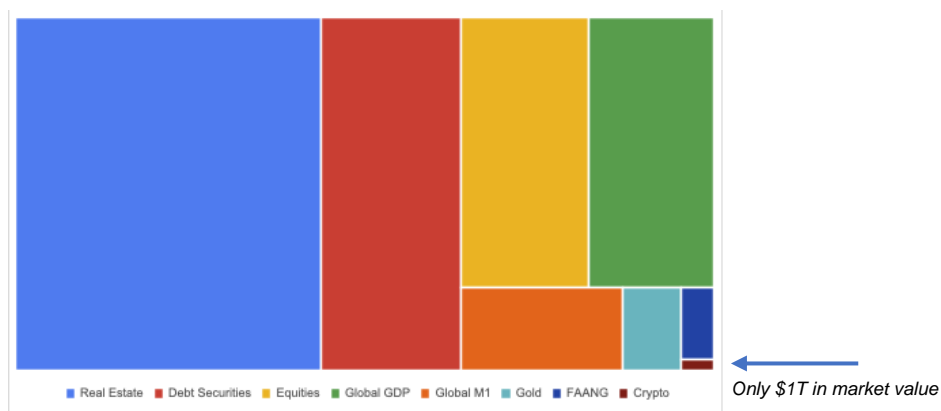
Bitcoin outperformed major indices in 2020



Source: Coinmarketcap.com

According to Coinmarketmap, the total market capitalization of cryptocurrencies is currently US\$1.55T; this is less than 1% of the global fiat market.

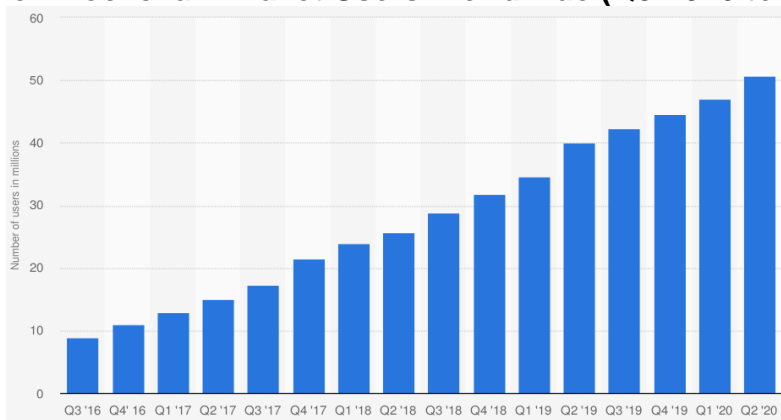
Despite the huge growth, cryptos are still a very small percentage of global assets



Source: *Blockworks.co*

The number of blockchain wallet users has grown from under 10M in Q3-2016, to over 63M by Q4-2020, reflecting the sector's rapid growth.

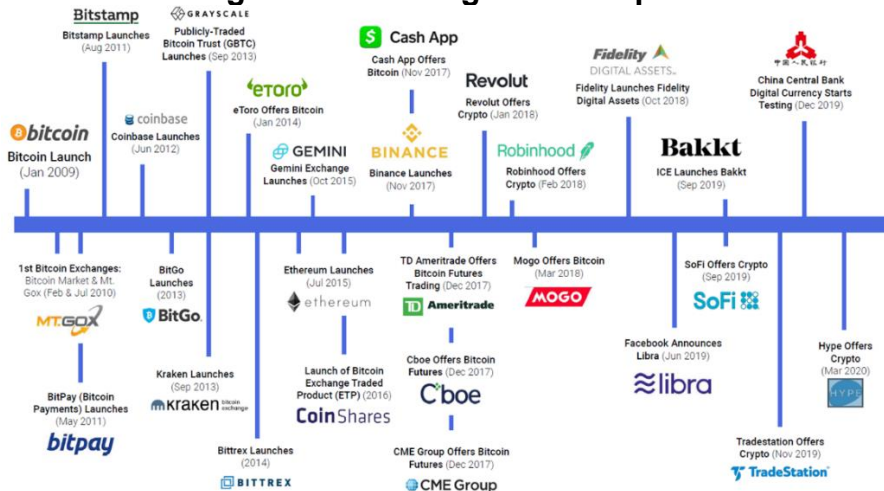
Number of Blockchain Wallet Users Worldwide (Q3-2016 to Q2-2020)



Source: Statista

Wallet users
growing

Big Names Moving into the Space

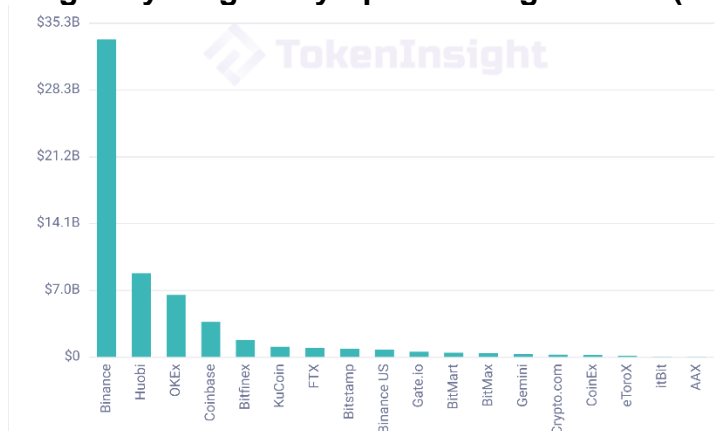


Source: Zebo.com

In 2021, Mastercard (NYSE: MA), Bank of New York Mellon (NYSE: BK), JPMorgan (NYSE: JPM) and Morgan Stanley (NYSE: MS) stated their intention to get into crypto offerings

We note that the top three exchanges, in terms of single-day spot trading volume, account for 81% of trading value (US\$49B), and all three are partners of Banxa: Binance (US\$33.6B, 55.4%), Huobi (US\$8.9B, 14.6%), and OKEx (US\$6.6B, 10.8%).

Crypto-Exchanges by Single Day Spot Trading Volume (March 15, 2021)



Source: TokenInsight

We believe the popularity of cryptocurrency stems from two key factors, the fast execution of international transactions, and ability to bypass certain fees associated with the conventional banking system. In addition, certain cryptos (such as bitcoin) have limited supply, and have the potential to be a hedge against inflation. This feature is prompting investors to move a percentage of their capital from gold (a traditional inflation hedge and safe haven asset) to bitcoin. We expect the above features to drive demand and crypto usage.

Management and Board

The company's board and management hold 21% of the outstanding shares.

| Name | Position(s) | # Shares Outstanding | % of Total |
|------------------------------|----------------|----------------------|---------------|
| Domenic Carosa | Chairman | 6,232,468 | 15.31% |
| Holger Arians | CEO | 869,000 | 2.13% |
| Doron Joseph Cohen | Director | 407,142 | 1.00% |
| Shyamal Rishikant Deo | Senior Officer | 14,400 | 0.04% |
| Konstantin Lichtenwald | Senior Officer | 733,328 | 1.80% |
| Matthew Lucas Cain | Director | - | 0.00% |
| Iain Forbes Clark | Senior Officer | - | 0.00% |
| Joshua Adam D'AMBROSIO | Senior Officer | - | 0.00% |
| Jan-Moritz Hartmann | Senior Officer | - | 0.00% |
| Joshua Landau | Director | - | 0.00% |
| Bill Kyriacou | Director | 290,246 | 0.71% |
| Wayne Scott Miller | Director | 21,428 | 0.05% |
| Daniel Kajouli | Director | 21,428 | 0.05% |
| Michael Jason Mire | Director | 21,428 | 0.05% |
| Noah Herscovici | Director | 21,428 | 0.05% |
| Total Insider Holding | | 8,632,296 | 21.20% |
| Total Shares Outstanding | | 40,710,704 | 100.00% |

Source: Company Filings

Banxa onboarded the biggest three exchanges that account for 81% of spot trading volume

Demand drivers of cryptos

Brief biographies of the senior management and board members, as provided by the company, follow:

Domenic Carosa – Founder , Chairman

Domenic is a tech pioneer, having founded or invested in over 50 technology companies over the last 25 years, both private and public. Domenic holds a Masters of Entrepreneurship & Innovation (MEI) from Swinburne University Australia.

Holger Arians – CEO

Holger has previously built and run several startups. Prior to BANXA, Holger oversaw and worked closely with a portfolio of 30 early stage technology companies as CEO of Dominet Venture Partners. Holger holds an Executive MBA from Mannheim and Essec Business Schools and is an Alumni of Harvard Business School.

John D'Ambrosio – General Manager

Josh is an experienced risk and compliance executive serving in Ernst & Young's IT Risk Advisory team for 5 years prior to joining BANXA in July 2017. Prior to these roles, Josh founded and scaled a social sports company to become the Australian market leader in its industry.

Iain Clark - CTO

Iain was previously the CTO of public listed company Crowd Media for 7 years. Before that he was a Vice President at Goldman Sachs in London. He is focused on technical excellence, platform security and executing the companies strategic vision.

Financials

| Financial Year End June 30, A\$ | Q1-FY2020 | Q1-FY2021 | YoY% | Q2-FY2020 | Q2-FY2021 | YoY% |
|---|-------------|--------------|------|--------------|---------------|------|
| Total Revenues per Financial Statements | \$1,937,057 | \$2,902,901 | 50% | \$1,371,529 | \$4,496,380 | 228% |
| Buy transactions | \$7,874,490 | \$79,765,327 | 913% | N/A | N/A | |
| Sell transactions | \$1,440,251 | \$1,236,037 | -14% | N/A | N/A | |
| Total Transaction Volume | \$9,314,741 | \$81,001,364 | 770% | \$14,200,000 | \$111,000,000 | 682% |
| Gross Profit | \$204,676 | \$611,038 | 199% | \$506,295 | \$869,799 | 72% |
| Gross Margin | 10.57% | 21.05% | | 36.91% | 19.34% | |
| Gross Profit / Total Transaction Volume | 2.20% | 0.75% | | N/A | 0.78% | |

Source: Company Filings, FRC

| FYE - June 30, A\$ | Q2-2020 | Q2-2021 | 6M-2020 | 6M-2021 |
|--------------------|-------------|-------------|-------------|-------------|
| Revenue | 1,371,529 | 4,496,380 | 3,308,586 | 7,399,281 |
| Direct Costs | 865,234 | 3,626,581 | 2,597,618 | 5,243,315 |
| EBITDA (Adjusted)* | (540,483) | (1,160,341) | (1,225,371) | (1,325,595) |
| Net Loss | (1,285,910) | (457,818) | (1,895,319) | (951,914) |
| EPS | (0.04) | (0.01) | (0.07) | (0.03) |

*Adjusted for Share Based Compensation

\$4.5M in revenue in Q2, up 228% YoY

Despite strong revenue, EBITDA declined because of higher SG&A

*Strong balance
sheet*

| As at December 31, 2020, A\$ | Q1-FY2021 | Q2-FY2021 |
|------------------------------|-------------|--------------|
| Cash | \$3,108,283 | \$3,302,948 |
| Working Capital | \$894,754 | \$7,234,122 |
| L/T Debt | \$446,599 | \$446,599 |
| Total Assets | \$6,458,739 | \$14,819,138 |

Source: Company Filings, FRC

Stock Options and Warrants

At the end of Q2-FY2021, the company had 3.75M options at a weighted average exercise price of \$0.98, and 0.61M warrants at an exercise price of \$1.00, outstanding. All the options and warrants are in-the-money. The company can raise up to C\$4.16M if all in-the-money instruments are exercised.

FRC Projections

Assumptions:

1. The crypto market is projected to grow by 32% p.a. from 2020 to 2025, per Verified Market Research.
2. We are estimating Banxa's share to reach 0.025% of total trading volume by 2025, up from the current 0.005%.
3. Flat fee structure of 2.50%.

The following table shows our projected revenue for Banxa:

| Banxa's Financial Year | 2021E | 2022E | 2023E | 2024E | 2025E |
|---------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total Trading Volume | \$20,410,380,000,000 | \$27,013,137,930,000 | \$35,751,888,050,355 | \$47,317,623,834,645 | \$62,624,875,145,153 |
| TTV of Banxa | \$937,709,623 | \$2,194,817,457 | \$4,167,140,638 | \$7,185,864,331 | \$15,656,218,786 |
| | | 134% | 90% | 72% | 118% |
| Assumed % of Total Volume | 0.0046% | 0.0081% | 0.0117% | 0.0152% | 0.0250% |
| Banxa Fee | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| Banxa Revenue | \$23,442,741 | \$54,870,436 | \$104,178,516 | \$179,646,608 | \$391,405,470 |
| Banxa COGS | \$17,582,055 | \$38,409,305 | \$67,716,035 | \$98,805,635 | \$195,702,735 |
| Banxa Gross Profit | \$5,860,685 | \$16,461,131 | \$36,462,481 | \$80,840,974 | \$195,702,735 |

Source: FRC

Valuation

Based on the above projections, we arrived at a fair value estimate of C\$15.58, based on our Discounted Cash Flow and comparables valuation models.

Fair value estimate
of C\$15.58

| DCF Model | 2021E | 2022E | 2024E | 2025E | Terminal |
|---|----------------|-------------|-------------|--------------|-------------|
| EBIT(1-tax) | (2,015,429) | 7,580,816 | 68,963,259 | 180,699,307 | |
| Non-Cash Expenses | 334,273 | 584,289 | 1,839,524 | 3,961,418 | |
| Change in Working Capital | 433,794 | (2,049,102) | (5,674,462) | (14,301,234) | |
| Cash from Operations | (1,247,361) | 6,116,004 | 65,128,321 | 170,359,491 | |
| CAPEX | (50,000) | (50,000) | (50,000) | (50,000) | |
| Free Cash Flow | (1,297,361) | 6,066,004 | 65,078,321 | 170,309,491 | |
| Present Value | (1,209,796) | 4,918,763 | 39,901,930 | 90,802,660 | 415,541,370 |
| Discount Rate | 15.0% | | | | |
| Terminal Growth | 3% | | | | |
| Present Value | 569,816,644 | | | | |
| Cash - Debt | 3,777,569 | | | | |
| Fair Value | 573,594,213 | | | | |
| Shares O/S | 44,343,069 | | | | |
| DCF Value per Share (C\$) | \$12.55 | | | | |
| Peer Group EV/R Multiple (median) | 36.1x | | | | |
| EV/R Implied Value per Share (C\$) | \$18.61 | | | | |
| AUD to CAD conversion rate used | 0.97 | | | | |
| Fair Value Estimate (C\$) | \$15.58 | | | | |

Source: FRC

The following table illustrates our model's sensitivity to key assumptions:

| | | Discount Rate | | | | |
|-------------------------|--------|---------------|---------|----------------|---------|---------|
| | | 30% | 25% | 15% | 12% | 10% |
| Market Share (2025E) | 0.005% | \$9.25 | \$9.30 | \$9.68 | \$10.06 | \$10.53 |
| | 0.020% | \$10.61 | \$11.13 | \$14.10 | \$16.69 | \$19.87 |
| | 0.025% | \$11.06 | \$11.74 | \$15.58 | \$18.91 | \$22.98 |
| | 0.050% | \$13.33 | \$14.78 | \$22.95 | \$29.97 | \$38.54 |
| | 0.075% | \$15.59 | \$17.82 | \$30.32 | \$41.03 | \$54.10 |

Source: FRC

The following table shows Enterprise Value to Revenue (EV/R) of a few Canadian listed crypto companies. We note that none of the companies are directly comparable to Banxa.

| Company | Ticker | Focus | Market Cap (C\$) | EV (C\$) | Revenue (C\$) | EV/R |
|-----------------------------------|-------------------|------------------------|------------------|------------------|-----------------|--------------|
| Galaxy Digital Holdings Ltd. | TSX: GLXY | Digital Assets | \$1,650M | \$1,180M | No Revenue | N/A |
| Netcents Technology Inc. | CSE: NC | Payment Gateway | \$76M | \$76M | NM | N/A |
| Voyager Digital Canada | CSE: VYGR | Digital Assets | \$2,730M | \$2,280M | \$4.38M | 520.5x |
| HIVE Blockchain Technologies Ltd. | TSXV: HIVE | Digital Assets | \$1,690M | \$1,840M | \$38.53M | 47.8x |
| Blockchain Foundry Inc. | CSE: BCFN | Blockchain Solutions | \$30.48M | \$31.36M | \$1.28M | 24.5x |
| Banxa Holdings Inc* | TSXV: BNXA | Payment Gateway | \$239.38M | \$239.16M | \$22.74M | 10.5x |

*2021 Estimate

| | | | | |
|--------|-------------|-----------|----------|--------|
| Mean | \$1,069.31M | \$941.09M | \$16.73M | 150.8x |
| Median | \$944.69M | \$709.58M | \$13.56M | 36.1x |

Source: Company Filings, Yahoo! Finance, FRC

We believe Banxa is well positioned to capture the rising popularity of crypto investments. Although the sector is highly competitive, Banxa's affiliation with the top crypto exchanges, and early mover advantage, will play a key role in its growth going forward. **We are initiating coverage with a BUY rating, and a fair value estimate to C\$15.58.**

Banxa's forward
EV/R is 10.5x vs the
comparables'
median of 36x

Risk rating of 4

Risks

We believe the company is exposed to the following risks (list is non-exhaustive):

- The cryptocurrency market is subject to governmental scrutiny and intervention.
- The company operates in a highly competitive landscape.
- Risk of technology failure.
- Cybersecurity risk.
- Prices of cryptos have been highly volatile.

We are assigning a risk rating of 4.

Appendix

| STATEMENTS OF OPERATIONS (\$) YE June 30 | H1-2021 | 2021E | 2022E |
|---|--------------------|--------------------|-------------------|
| Revenue | 7,399,281 | 23,442,741 | 54,870,436 |
| Total Revenues | 7,399,281 | 23,442,741 | 54,870,436 |
| COGS | 5,243,315 | 17,582,055 | 38,409,305 |
| Gross Profit | 2,155,966 | 5,860,685 | 16,461,131 |
| SG&A | 3,481,561 | 7,541,841 | 8,296,025 |
| Share-based compensation | 100,641 | 301,923 | 548,704 |
| EBITDA | (1,426,236) | (1,983,079) | 7,616,401 |
| D&A | 16,175 | 32,350 | 35,585 |
| EBIT | (1,442,411) | (2,015,429) | 7,580,816 |
| Net financing expense | 181,703 | 363,406 | 181,703 |
| EBT | (1,624,114) | (2,378,835) | 7,399,113 |
| Income tax expense | | | |
| Unusual/Non-recurring expense | (716,069) | (716,069) | |
| Net Income (Net Loss) | (908,045) | (1,662,766) | 7,399,113 |
| FX Translation | 43,869 | 43,869 | |
| Comprehensive Income (Comprehensive Loss) | (951,914) | (1,706,635) | 7,399,113 |
| EPS | (0.03) | (0.04) | 0.18 |
| Shares | 33,740,842 | 40,710,704 | 40,710,704 |

| BALANCE SHEET (\$) | | | |
|---|-------------------|-------------------|-------------------|
| YE June 30 | Q2-2020 | 2021E | 2022E |
| Assets | | | |
| Cash | 3,302,948 | 2,358,250 | 6,242,550 |
| Receivables | 4,063,296 | 4,688,548 | 10,974,087 |
| Inventories | 5,586,851 | 5,586,851 | 5,586,851 |
| Prepays and other current assets | 152,394 | 468,855 | 548,704 |
| Deposits | 1,558,157 | 1,558,157 | 1,558,157 |
| Current Assets | 14,663,646 | 14,660,660 | 24,910,350 |
| PP&E and ROU assets | 3,849 | 21,499 | 35,914 |
| Intangible assets - goodwill | 151,643 | 151,643 | 151,643 |
| Total Assets | 14,819,138 | 14,833,802 | 25,097,907 |
| Liabilities & Shareholders' Equity | | | |
| Payables and accrued liabilities | 3,649,272 | 5,024,779 | 9,341,066 |
| Income tax | 145,754 | 145,754 | 145,754 |
| Employee benefits | 156,093 | 156,093 | 156,093 |
| Deferred consideration | 399,625 | 399,625 | 399,625 |
| Current portion of borrowings | 3,078,780 | 3,078,780 | 1,078,780 |
| Current Liabilities | 7,429,524 | 8,805,031 | 11,121,318 |
| Employee benefits | 28,304 | 28,304 | 28,304 |
| Borrowings | 446,599 | 446,599 | 446,599 |
| Total Liabilities | 7,904,427 | 9,279,934 | 11,596,221 |
| Equity | 12,903,445 | 13,205,368 | 13,754,072 |
| Reserves, Deficit and AOCI | (5,988,734) | (7,651,500) | (252,386) |
| Total Liabilities and Shareholder's Equity | 14,819,138 | 14,833,802 | 25,097,907 |

| STATEMENTS OF CASH FLOWS (\$) | H1-2021 | 2021E | 2022E |
|--|--------------------|--------------------|--------------------|
| YE June 30 | | | |
| Operating Activities | | | |
| Net loss for the period | (908,045) | (1,662,766) | 7,399,113 |
| Items not involving cash | | | |
| D&A | | 32,350 | 35,585 |
| Accrued interest | | | |
| Share-based compensation | | 301,923 | 548,704 |
| FFO | (908,045) | (1,328,493) | 7,983,403 |
| Prepaid expense | | (316,461) | (79,850) |
| Receivables | | (625,252) | (6,285,539) |
| Inventory | | - | - |
| Deposits | | - | - |
| Accounts payable and accrued liabilities | | 1,375,507 | 4,316,287 |
| Changes in WC | - | 433,794 | (2,049,102) |
| Cash from (used in) Operations | (5,043,125) | (894,698) | 5,934,301 |
| Financing activities | | | |
| Equity | 3,769,452 | 3,769,452 | |
| Debt | 1,974,836 | 1,974,836 | (2,000,000) |
| Related party loans | 520,000 | 520,000 | |
| Cash provided by Financing Activities | 6,264,288 | 6,264,288 | (2,000,000) |
| Investing activities | | | |
| PP&E | (14,312) | (50,000) | (50,000) |
| Payment for Intangible Assets | | | - |
| Acquisition related payments | 28,793 | | |
| Cash used in Investing Activities | 14,481 | (50,000) | (50,000) |
| Increase (decrease) in Cash | 1,235,644 | 5,319,590 | 3,884,301 |
| FOREX | | | |
| Cash beginning of Period | 2,067,304 | 3,302,948 | 2,358,250 |
| Cash end of Period | 3,302,948 | 2,358,250 | 6,242,550 |

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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