Fundamental Research Corp.
Investment Analysis for Intelligent Investors

June 14, 2021

Banxa Holdings Inc.
(TSXV: BNXA, OTCQX: BNXAF, FSE: AC00)

Monthly Transactions up 1,000% YoY in April

BUY
Current Price: C$3.93
Fair Value: C$11.76
Risk*: 4

Sector/Industry: Cryptocurrency

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Highlights

- In Q3 (quarter ended March 2021), TTV (total transaction value) increased 93% YoY to $205M. Subsequent to Q3, TTV increased to $110M in April (up 1,000% YoY), and $127M in May (YoY data undisclosed).

- The company recently expanded its team by adding 40 new recruits, clearly signalling to the market that management is expecting continued growth in TTV. **Closed a $15M equity financing to fund expansion.**

- **Due to strong transaction growth, Q3 net revenue was up 686% YoY, and was well above our expectations.** Management expects Q4-2021 TTV to be approximately $300M (up 46% QoQ). We are raising our 2021 net revenue forecast from $4.4M to $15.51M. However, due to the company's aggressive expansion plan, we are raising our G&A expense forecasts, and lowering our EPS forecasts for FY2021 and FY2022.

- Bitcoin prices are down 37% in the past two months. **Volatility in crypto prices leads to increased transactions, implying more revenue for Banxa in the near term.** That said, Banxa's long-term prospects are highly dependent on the health of private cryptos. Central banks around the world are considering introducing digital currencies, which may limit the transactional use of mainstream cryptos, such as Bitcoin.

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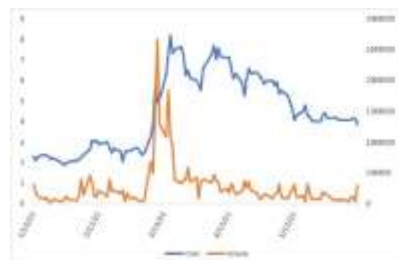
BNXA Price and Volume (YTD)



	YTD	12M
BNXA	N/A	N/A
TSXV	10%	75%

Company Data

52-Week Range	C$1.66 - C$7.00
Shares O/S	44.7M
Market Cap.	C$176M
Current Yield	N/A
P/E (forward)	N/A
P/B	9x

Key Financial Data (FYE - June 30) A$	2021E	2022E
Cash	$ 20,152,177	$ 25,630,545
Working Capital	$ 25,891,332	$ 30,139,425
Total Assets	$ 31,013,078	$ 37,047,462
Total Debt	$ -	$ -
Net Revenue	$ 15,507,373	$ 30,244,746
Net Income	$ (1,405,415)	$ 3,353,470
EPS (basic)	$ (0.03)	$ 0.08

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

Q3 net revenue grew 686% YoY due strong transaction volume (up 92% YoY), beating our expectations

Q3 EBITDA increased due to stronger net revenue; however, net loss was higher because of foreign exchange losses

Cash from operations and free cash flows also improved YoY

Completed a $15M financing subsequent to Q3; the company currently has $25M in cash

In-the-money options could raise up to C$4.86M

Financials

Financial Year End June 30, A$	Q3-FY2020	Q3-FY2021	YoY%	9M-FY2020	9M-FY2021	YoY%
Total Transaction Value	**$107,000,000**	**$205,000,000**	**92%**	**$25,259,587**	**$396,484,050**	**1470%**
Net Revenue	$769,514	$6,050,575	686%	$1,480,482	$8,206,541	454%
Net Revenue / Total Transaction Volume	**0.72%**	**2.95%**		**5.86%**	**2.07%**	

Source: Company Filings, FRC

FYE - June 30, A$	Q3-2020	Q3-2021	9M-2020	9M-2021
Net Revenue	**769,514**	**6,050,575**	**1,480,482**	**8,206,541**
EBITDA (Adjusted)*	**(422,691)**	**1,143,066**	**(1,648,062)**	**(182,529)**
Net Loss	**(635,039)**	**(1,371,497)**	**(2,521,360)**	**(2,279,542)**
EPS	(0.02)	(0.03)	(0.09)	(0.06)

*Adusted for Share Based Compensation

Margins Analysis	Q3-2020	Q3-2021	9M-2020	9M-2021
EBITDA	-55%	0%	-111%	-17%
EBIT	-75%	0%	-143%	-17%
Net	-83%	-23%	-170%	-28%

Summary of Cash Flows ($) YE June 30	9M-2020	9M-2021
Cash Flows from Operations (Adj.)	(1,666,976)	4,636,370
Cash Flows from Investing	(1,310,472)	(400,068)
Cash Flows from Financing	2,697,143	10,149,229
Net Change	(280,305)	14,385,531
FOREX		
Free Cash Flows (Adj.)	**(3,019,440)**	**1,433,407**

As at December 31, 2020, A$	FY2020	Q3-FY2021
Cash	$2,067,304	$9,789,631
Working Capital	$1,537,856	$6,773,680
L/T Debt	$446,599	$446,599
Total Assets	$4,053,002	$19,276,369

Source: Company Filings, FRC

Stock Options and Warrants

At the end of Q3-FY2021, the company had 3.89M options at a weighted average exercise price of C$1.04, and 0.69M warrants at an exercise price of C$1.16 outstanding. All the options and warrants are in-the-money. The company can raise up to C$4.86M if all in-the-money instruments are exercised.

FRC Projections

Raising transaction and revenue forecasts

Raising G&A expenses, and lowering EPS forecasts

	2021E (Old)	2021E (New)	2022E (Old)	2022E (New)
Net Revenue ($M)	$5.86	$15.51	$16.46	$30.24
EBITDA ($M)	-$1.98	-$0.40	$7.62	$3.64
Adj. Net Income ($M)	-$1.66	-$1.41	$7.40	$3.35
EPS ($)	-$0.04	-$0.03	$0.18	$0.08

Comparables median EV/R is down from 36x to 17x since our previous report in March 2021

Company	Ticker	Focus	EV/R
Galaxy Digital Holdings Ltd.	TSX: GLXY	Digital Assets	N/A
Netcents Technology Inc.	CSE: NC	Payment Gateway	N/A
Voyager Digital Canada	CSE: VYGR	Digital Assets	15.5x
HIVE Blockchain Technologies Ltd.	TSXV: HIVE	Digital Assets	17.8x
Blockchain Foundry Inc.	CSE: BCFN	Blockchain Solutions	25.6x
Banxa Holdings Inc*	**TSXV: BNXA**	**Payment Gateway**	**3.4x**

*2021 Estimate

Mean	15.6x
Median	16.7x

Due to lower EPS forecasts, and sector multiples, our fair value estimate dropped from C$13.30 to C$11.76 per share

DCF Model		2021E	2022E	2024E	2025E	Terminal
EBIT(1-tax)		997,181	3,599,579	60,153,884	131,711,551	
Non-Cash Expenses		414,640	944,622	2,958,138	5,333,593	
Change in Working Capital		(2,305,402)	1,230,276	(693,654)	(966,957)	
Cash from Operations		(893,581)	5,774,477	62,418,369	136,078,187	
CAPEX		(38,981)	(50,000)	(50,000)	(50,000)	
Free Cash Flow		(932,562)	5,724,477	62,368,369	136,028,187	
Present Value		(869,618)	4,641,828	38,240,357	72,525,149	331,897,763
Discount Rate	15.0%					
Terminal Growth	3%					
Present Value	462,709,967					
Cash - Debt	24,432,446					
Fair Value	487,142,413					
Shares O/S	48,058,253					
DCF Value per Share (C$)	**$9.53**					
Peer Group EV/R Multiple (median)	16.7x					
EV/R Implied Value per Share (C$)	**$20.71**					
AUD to CAD conversion rate used	*0.94*					
Fair Value Estimate (C$)	**$11.76**					

Source: FRC / S&P Capital IQ

We are reiterating our BUY rating, and lowering our fair value estimate from C$13.30 to C$11.76 per share. We are expecting record results in Q4-FY2021.

Risks

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

Risk rating of 4

- 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.
- Central banks around the world are considering introducing digital currencies, which may limit the transactional use of private cryptos.

We are maintaining a risk rating of 4.

Appendix

STATEMENTS OF OPERATIONS ($) YE June 30	2021E	2022E
Net Revenue	**15,507,373**	**30,244,746**
SG&A	14,278,081	25,700,545
Share-based compensation	1,624,668	907,342
EBITDA	**(395,376)**	**3,636,859**
D&A	33,891	37,280
EBIT	**(429,267)**	**3,599,579**
Net financing expense	492,217	246,109
EBT	**(921,484)**	**3,353,470**
Income tax expense	1,200,000	
Unusual/Non-recurring expense	(716,069)	
Net Income (Net Loss)	**(1,405,415)**	**3,353,470**
EPS	(0.03)	0.08

BALANCE SHEET ($) YE June 30	2021E	2022E
Assets		
Cash	20,152,177	25,630,545
Receivables	1,240,590	2,016,316
Inventories	524,629	524,629
Prepaids and other current assets	1,240,590	1,008,158
Deposits	7,293,022	7,293,022
Current Assets	**30,451,007**	**36,472,671**
PP&E and ROU assets	410,428	423,148
Intangible assets - goodwill	151,643	151,643
Total Assets	**31,013,078**	**37,047,462**
Liabilities & Shareholders' Equity		
Payables and accrued liabilities	3,040,010	4,813,581
Unissued units		
Income tax	1,312,924	1,312,924
Employee benefits	206,741	206,741
Deferred consideration		-
Current portion of borrowings		
Current Liabilities	**4,559,675**	**6,333,246**
Employee benefits	34,419	34,419
Borrowings		
Total Liabilities	**4,594,094**	**6,367,665**
Equity	33,121,502	34,028,844
Reserves, Deficit and AOCI	(6,702,518)	(3,349,048)
Total Liabilities and Shareholder's Equity	**31,013,078**	**37,047,462**

STATEMENTS OF CASH FLOWS ($) YE June 30	2021E	2022E
Operating Activities		
Net loss for the period	(1,405,415)	3,353,470
Items not involving cash		
D&A	33,891	37,280
Accrued interest		
Deferred tax		
Share-based finance charges		
TSX Listing Cost	2,690,513	
Share-based compensation	1,624,668	907,342
FFO	**2,943,657**	**4,298,092**
Trade debtors		
Prepaid expense	(1,236,959)	232,432
Income Tax Payable		
Other		
Receivables	(478,824)	(775,727)
Inventory	(491,570)	-
Deposits	(6,263,135)	-
Accounts payable and accrued liabilities	2,304,777	1,773,571
Changes in WC	(6,165,711)	1,230,276
Cash from (used in) Operations	**(3,222,054)**	**5,528,368**
Financing activities		
Equity	22,283,007	
Debt	(537,474)	
Related party loans		
Cash provided by Financing Activities	**21,745,533**	**-**
Investing activities		
Intanglible Assets		
PP&E	(38,981)	(50,000)
Payment of deferred consideration	(399,625)	
Payment for Intangible Assets		-
Net Advances to dlrector-related		
Acqusition related payments		
Cash used in Investing Activities	**(438,606)**	**(50,000)**
Increase (decrease) in Cash	**18,084,873**	**5,478,368**
FOREX		
Cash beginning of Period	**2,067,304**	**20,152,177**
Cash end of Period	**20,152,177**	**25,630,545**

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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