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DMG Blockchain Solutions, Inc.

Blockchain Services

21 June 2018

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NO RATING PROVIDED*

Price (20-Jun)	C$0.30
Ticker	DMGI-TSXV

52-Week Range (C$):	0.12 - 1.98
Avg Daily Vol (000s) :	294.5
Market Cap (C$M):	28.0
Shares Out. (M) :	93.2
Net Cash [1](C$M):	20.2
Last Reported Quarter:	Q2/F18

[1]Net Cash includes digital assets.

Source: FactSet

Priced as of close of business 20 June 2018

DMG is a cryptocurrency mining and diversified blockchain technology company.

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Initiation of Coverage

A diversified approach to blockchain

We are initiating coverage of DMG Blockchain Solutions ("DMG") in a format that provides context and assessment but no recommendation or target price. We believe it is prudent to refrain from providing a rating until cryptoasset prices stabilize and the regulatory landscape is more closely defined. That said, we see DMG as a prominent Canadian blockchain company that could emerge as a leader in the space under the guidance of an experienced management team. The intent of this report is to highlight the company's proposed business model, the substantial opportunities and, ultimately, associated risks inherent in this nascent industry.

Mining as a Service. Dubbed MaaS, the company's near-term business plan is to operate as a Bitcoin miner and contract out the cryptoasset rewards. We believe this contract hosting opportunity presents the business with significant advantages over traditional wholly owned mining. While DMG must source demand for its hosting service and forfeits Bitcoin price upside, the benefits can include predictable cash flows, lower upfront investment and enhanced scaling capabilities. The company expects earnings from the MaaS model to sustain the company's growing operations and capex requirements without the need for additional financing.

Not your ordinary electrical job. The company is ramping up the scale of its mining operations in BC, with runway for >100MW of power enabled by an electrical substation and agreements with energy providers. This would power >50,000 servers, which remains the company's target for late 2018/early 2019, up from ~3,000 units currently.

The blue sky opportunity is in blockchain for enterprise. DMG is well situated because it has already generated revenue from several adjacent blockchain applications. With partnerships in supply chain management and a team of Certified Fraud Examiners (CFEs) to bolster its forensics offering, we expect the long-term opportunity for the company is in blockchain solutions for enterprise.

Leadership with unique international experience. While all blockchain companies list management teams and boards with a breadth of experience, DMG's team is notable in that several members came from Bitfury, a leading blockchain software and hardware company. COO Sheldon Bennett is drawing on his experience and vendor relationships gained while constructing a 58MW mining facility for Bitfury in Alberta. Co-founder Chris Filiatrault brings strong connections in the Japanese cryptocurrency market, which accounts for the bulk of global Bitcoin trading. Altogether, the company's insiders own ~11% of the basic shares outstanding.

Valuation will need to wait. We abstain from assigning a rating, given the unprecedented number of question marks and risks associated with this nascent industry. These unknown variables include cryptoasset prices, mining market dynamics, regulatory factors, network limitations and security risks, obsolescence of equipment, technological advancements, and risk of share dilution to equity holders – among others. We will consider publishing estimates and a recommendation as the following criteria are met: 1) execution on DMG's MaaS strategy; 2) completion of DMG's Castlegar mining operation; 3) stabilization in cryptoasset pricing; and 4) proven demand for DMG's ancillary services.

For important information, please see the Important Disclosures beginning on page 35 of this document.

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Executive summary

Mining to MaaS to enterprise

DMG's strategy is best described as diversified. The company's product suite features a gradual shift from commoditized mining services to specialized supply chain and forensics applications. As mining margins compress in the medium term, the company will look to build the stickier ancillary services to broaden its earnings base. DMG is in various stages of developing the following products and services, and management has indicated that it has already generated revenue from each of the following product lines.

Figure 1: Revenue has been generated from all product lines

Product Offering	Timeline	Revenue Model	Announced Partnerships
Crypto Mining	Live	BTC Rewards	N/A
MaaS	Live	Project, Recurring Contract	Bitmasters (Japan), Mogo
Supply Chain Enterprise Solution	Live	Subscription, Project	JawanaShop, Element Fleet Management, Emerald Health
Forensics and Analytics	Live	Subscription, Project	Blockseer, JCIS (Japan)

Source: Company Reports, Canaccord Genuity estimates

Cryptoasset mining is exposed to significant price risk. The price of the underlying cryptoasset, Bitcoin in DMG's case, has faltered in 2018 and the outlook remains volatile and uncertain. As well, there are strong opinions on either side of the Bitcoin debate and a lack of fundamental data to support a valuation. While DMG owns and operates a mining business, we believe the company's MaaS hosting services are somewhat insulated, at least in the short run, as their cash flow is protected by contract revenue. We do expect underlying cryptoasset pricing will have a positive or negative impact on demand dependent upon the level of interest in the market and the number of speculators. That said, we could see an influx in demand on dips and a calming of demand on peaks, which may be counter-intuitive.

Further, the unrelated enterprise and forensic offerings are largely unaffected by cryptoasset prices. The following provides a preview of the core focus and monetization strategies for each of the company's distinct segments.

1) **Wholly owned cryptoasset mining operations.** The company's traditional mining operations are comparable to that of any of its peers in this popular vertical. The company commenced mining operations in Edmonton, AB in 2016. DMG still owns and operates ~300 Bitmain ASIC servers at this initial location.

2) **MaaS.** DMG uses its facilities to host customer-owned equipment and distributes all mining rewards to those customers. In return, customers pay DMG to 1) order and install servers, and 2) cover all related hosting fees (staffing, rent, and utilities). This provides a predictable source of cash flows for DMG and allows for rapid low-cost scaling of the mining operations. The company most recently reported on March 21, 2018 that it had rented out 2,650 servers and continues to ramp up its capacity.

3) **Blockchain platform development.** DMG is developing a software platform built on a blockchain framework, ideally suited for supply chain management and other IoT applications. DMG has announced a number of partners in the space that are intrigued by the platform's ability to make operations more seamless and cost-efficient. Once the core platform is fully developed, DMG's

strategy is to commercialize the licensed solution across many industries – agriculture, pharmaceuticals, financial services and more.

4) **Forensics.** DMG plans to work with law enforcement officials as well as audit and legal firms to provide forensic services as they relate to Bitcoin, Ethereum, and other blockchain networks. The company recently acquired Blockseer, a California-based AI company that will enhance the company's forensic and analytics services.

Growth drivers

The three factors below identify key variables that we believe will accelerate or inhibit the growth of DMG. We see the first factor, cryptocurrency prices, as exogenous and a significant driver of medium-term revenue and profits. We expect the latter two drivers – scalability and alternate blockchain solutions – will depend on the execution and expertise of management and the company's team of software developers.

1) **Cryptocurrency prices.** The price of Bitcoin is a direct input for the revenue and profitability of owned mining operations. An increase in the price of Bitcoin would increase the value of BTC block rewards and the value of the digital assets on DMG's balance sheet. We see cryptocurrency prices as having an indirect influence on the business' MaaS segment. MaaS is based on contract revenue. The price and terms of the contract are determined ahead of time, which acts as a hedge for DMG. We do not expect that cryptocurrency prices will largely affect the enterprise or forensics services.

2) **Power costs, capacity, and scalability.** We believe operators with the most attractive overall energy costs will be the most profitable, all other factors the same. In addition, access to significant capacity, as commonly measured in MW, should provide economies of scale for miners as overhead costs required to maintain a location can be spread over a greater number of units. At DMG's third and largest facility, the company has stated that it will have access to 85MW of capacity, making it one of the largest sites in Canada. DMG has plans eventually to grow beyond this level, commensurate with demand.

3) **Development of alternative businesses.** DMG is diversifying into enterprise applications and forensics solutions to mitigate any risk to the mining and MaaS operations. We believe the final growth driver for DMG will be the time to market and success of these ancillary businesses, which is a function of management expertise and market demand. As well, this segment of the business helps frame the company as a technology company rather than a cryptoasset mining company.

Requirements for full initiation with estimates and rating

1) Execution on MaaS expansion
2) Meaningful progress on DMG's Castlegar mining operation
3) Stabilization/ rebound in price of Bitcoin
4) Proven demand in ancillary services

Investment risks

- Cryptocurrency price volatility
- Lack of financial visibility
- Regulatory developments
- A target for fraud and cyberattack
- Governance and appropriate remuneration
- Cryptocurrency industry, updates to technology or protocols

- Rising network hash rates
- Insufficient miner incentives
- Technological obsolescence and required capex
- Future capital needs and uncertainty of additional financing
- Cryptocurrency is not covered by deposit insurance
- Transition to Proof-of-Stake (POS) validation
- Electricity costs and continuity
- Green concerns
- Declining Bitcoin award value
- Mining pool fee price inelasticity

Company overview

Figure 2: Company logo

Source: Company website

Company profile

Based in Vancouver, DMG is a cryptocurrency mining and diversified blockchain technology company. The company's mining business is segmented into wholly owned operations and Mining as a Service (MaaS), described in more detail below. The company has diversified into enterprise applications and forensic services to provide a broader operating base and growth platform for its development. Partnerships and customer commitments are showing early positive signs from the ancillary revenue sources.

The company boasts an impressive management team, many of whom have worked previously with Bitfury. Based in Amsterdam, Bitfury is regarded as one of the world's largest cryptoasset mining equipment manufacturers. Through strategic relationships including with Japanese Bitcoin enthusiast networks, DMG has access to marketing and sales channels that should increase the size and scope of the core MaaS operation.

Going public transaction and recent funding

DMG was formed as a standalone entity in September 2016 and was listed on the TSXV under the ticker DMGI as a publicly traded company in February 2018. The listing was accomplished via an RTO of AIM Explorations Ltd, a capital pool company. The listing was completed concurrent with two private placements for subscription receipts and common shares that yielded gross C$28.8M at C$0.80 per share.

We believe the company is now adequately funded to expand its MaaS offering while investing in R&D for its ancillary product lines. Using the funds available from the transaction and concurrent private placements, DMG expects to complete the development and to bring into commercial use its smart contracts platform and forensics division. We highlight in the table below management's intended use of funds. It remains to be seen whether the company will return to the equity markets to fund additional phased expansions of blockchain projects or mining infrastructure expansion.

Figure 3: Bitmain s9

Source: Bitmain

In the event that DMG is unable to source sufficient demand for MaaS contracts to fill out its new Castlegar facility, it may choose to acquire its own mining equipment.

Assuming an incremental 50,000 mining rigs which are currently US$734 each, this may necessitate as much as C$50M in incremental equity funding. We also note that it is likely that DMG would choose to adopt the latest technology or partner with proprietary providers of ASIC technology, which might come at incremental cost.

Figure 4: Anticipated use of funds from recent financing (as at Feb 8, 2018)

Principal uses of available funds for following year	$C
Operating expenses, including power and staffing	10,500,000
Supply chain management software development	7,500,000
Acquisition of Blockseer and others	5,000,000
Purchase of third facility in BC	950,000
Other	1,350,000
Total uses	**25,300,000**
Unallocated working capital	*2,669,328*
Total funds	**27,969,328**

Source: Company Reports, Canaccord Genuity estimates

Management ownership and capital structure

We have outlined in the table below the management ownership structure immediately following the RTO transaction. Following the equity financings, management and current directors now own ~11% of basic shares outstanding. Upon completion of the RTO transaction, it is expected there were approximately 93.0M common shares issued and outstanding (93.2M as at May 28, 2018). We note that Figure 5 does not include dilutive instruments that have been awarded to directors, management, and agents privy to the transaction.

Figure 5: Insider common share ownership (as at Feb 9, 2018)

Name, Title	Anticipated direct and indirect share ownership	%
Daniel Reitzik, CEO and Director	3,000,000	3.22%
Chris Filiatrault, Chairman and Director	3,508,820	3.77%
Sheldon Bennett, CTO and Director	3,220,714	3.46%
Ryan Cheung, CFO	50,000	0.05%
Justin Rasekh, Director	50,000	0.05%
Simon Padgett, Director	10,000	0.01%
Total insider shares (February 9, 2018)	**9,839,534**	**10.57%**
Total outstanding shares (February 9, 2018)	**93,047,968**	**-**

Source: Company Reports, Canaccord Genuity estimates

Fully diluted ownership structure

The fully diluted share count of the corporation as at May 28, 2018 is 105.4M. At the company's stock price of C$0.30, most of the items below are not dilutive to current shareholders. Included in the 105.4M diluted units is 8.6M options and 3.5M warrants. The warrants noted below were issued in association with the company's financings and are convertible to common shares on a one-to-one basis. Complete details surrounding the warrants have not been disclosed.

Figure 6: Reconciliation to fully diluted share count – CG estimate (May 28, 2018)

Type of security	Units per offering	Average exercise price ($C)	Total number of units	Blended average price ($C)	% of total
Total common shares outstanding (above)			93,249,482	-	88.5%
Option structure breakdown (CG estimate)					
AIM Exploration Standalone	*652,000*	*0.10*			
DMG Blockchain Standalone	*4,485,000*	*0.35*			
Upon Closing of RTO	*3,500,000*	*0.80*			
Total estimated options outstanding			8,637,000	0.51	8.2%
Warrant structure breakdown					
Warrants	*3,461,987*	*n/a*			
Total estimated warrants outstanding			3,461,987	n/a	3.3%
Total estimated fully diluted shares			**105,348,469**		

Source: Company Reports, Canaccord Genuity estimates

Business model

Mining to MaaS to enterprise

The product suite features a gradual shift from commoditized mining services to specialized enterprise and forensics applications. As mining margins compress in the medium term, we expect the company will emphasize MaaS while building the niche ancillary services to diversify earnings. DMG is in various stages of setting up the following products.

Figure 7: Product suite

Product Offering	Timeline	Revenue Model	Announced Partnerships
Crypto Mining	Live	BTC Rewards	N/A
MaaS	Live	Project, Recurring Contract	Bitmasters (Japan), Mogo
Supply Chain Enterprise Solution	Live	Subscription, Project	JawanaShop, Element Fleet Management, Emerald Health
Forensics and Analytics	Live	Subscription, Project	Blockseer, JCIS (Japan)

Source: Company Reports, Canaccord Genuity estimates

A focus on Canada

DMG believes that Canada is an advantage in an ecosystem where cryptocurrency miners must compete globally. Canada has access to low, though not the lowest, power costs. In addition, Canada has access to many renewable sources of energy and also surplus energy in many cases. Canada has a colder climate, which reduces the need for active cooling. Further, Canada has an attractive regulatory framework relative to other jurisdictions and a mature financial system. DMG believes that it will have access to a globally competitive pool of engineering talent.

With a competitive edge in Japan

While DMG is able to reap the benefits of Canada's favourable operating environment, the company has broad penetration in the Japanese cryptocurrency market as well. DMG's corporate materials highlight Japan as the largest Bitcoin market in the world. This is supported by recent data from Japan's Financial Services Agency (FSA) which found in a study of 17 Japanese cryptocurrency exchanges that there are more than 3.5M individuals actively trading in the country. Japan regularly tops BTC trading statistics as can be seen in the chart below. Japan was also the first country to regulate Bitcoin as a currency. DMG co-founder and chairman Chris Filiatrault is a resident of Japan with strong relationships in that country's cryptocurrency ecosystem.

Figure 8: Japan dominates BTC trading

Bitcoin (BTC) Volume by Currency

Ƀ 415,391.47

#	Currency	Volume 24H	Volume 24H TO	Share
1	JPY	Ƀ 254,575.89	¥ 191,852,467,205.64	61.29%
2	USDT	Ƀ 67,074.32	USDT 450,301,632.19	16.15%
3	USD	Ƀ 61,129.87	$ 411,651,723.28	14.72%
4	KRW	Ƀ 11,257.67	₩ 83,918,333,401.70	2.71%
5	EUR	Ƀ 10,790.03	€ 62,718,961.71	2.60%

Source: cryptocompare.com/coins/btc/analysis/USD

As one of its first three customers for the MaaS business, DMG entered into an agreement with Japan-based Bitmaster Financial, who will help to further promote DMG's services in the country. DMG has also entered into an MaaS agreement with Japan-based Forside. The company also announced a partnership with Japan Credit Information Service Co (JCIS), a Japanese company engaged in fintech, to market and sell DMG's forensics tool. These relationships represent a competitive edge for DMG as the company's North American peers compete for local markets.

An operator, not a speculator

DMG plans on converting all digital assets to fiat currency as soon as reasonably practical and to hold fiat currency on the balance sheet. Management's intention is for the company to operate as a lean miner and develop an edge in the ancillary product lines. DMG does not plan on becoming a derivative instrument for the price of cryptocurrencies. Instead, investors can take active cryptoasset positions separate from their DMG holdings.

Product suite

1) Traditional cryptoasset mining

DMG has operated its wholly owned mining services since incorporation in fall 2016. The company has benefited from a full year of operations prior to Bitcoin's significant price rally in the latter half of 2017. We would assume that over this time DMG has pushed through some of the common pitfalls associated with setting up a cryptoasset mining facility, based on the expertise COO Shelden Bennet built developing and deploying a large 58MW mining operation in Alberta for Bitfury.

For the year ended September 2017, DMG reported mining revenue of C$850K and gross margin of C$268.5K (or 32%) after consideration of power, equipment and facilities costs. This revenue was generated from ~300 ASIC units located at the company's initial Edmonton, Alberta facility. The company has recently installed an additional 2,650 ASIC units in BC that are currently servicing DMG's MaaS business. As the company continues to scale up its mining capacity, management has indicated that it has a favourable sourcing arrangement with an international mining equipment manufacturer to ease capex requirements. In the medium term, we may see DMG secure strategic access to proprietary Bitcoin mining hardware, ASIC or software.

Figure 9: Unboxed servers (left) and functioning miners (right) with plenty of space to scale

Source: Canaccord Genuity Research

Based on discussions with management, the company wants to limit its traditional mining service growth and expand its MaaS operation, which provides a more predictable stream of cash flows for the corporation. Most importantly, it helps DMG avoid upfront investment in cryptoasset hardware as this burden is taken by the MaaS subscriber. We view this as positive given recent Bitcoin price pressures and intensifying competition in the mining space.

2) MaaS

Overview

The company is in the process of ramping up its Mining as a Service (MaaS) segment. Under the MaaS model, DMG provides end-to-end hosting and management services to subscribers seeking to invest in specialized mining equipment/technology and related mining operations. For a monthly fee, DMG provides highly specialized facilities and takes care of all operational efforts and costs but delivers Bitcoin outputs to customers directly. DMG has indicated that it prefers to pursue a B2B model rather than offer MaaS direct to consumers to simplify the business model.

DMG highlighted recent success in the segment with three hosting contracts secured under its MaaS model. DMG has signed MaaS contracts for 1100 Bitmain s9 miners to Bitmasters, a Japanese network marketing group that has been buying (and hoarding) Bitcoin for five years. In early January 2018, DMG had received orders in excess of C$3M from a Japanese company, Forside (2330:TYO; Not Covered). We estimate this is an annual contract for 1,000-2,000 incremental machines.

Outside of Japan, DMG has also entered into a partnership with Mogo (MOGO-TSX: C$3.73 | SPEC BUY), a Canadian fintech company that is exploring cryptocurrency opportunities. Mogo has agreed to lease 1,000 servers from DMG in a three-month contract, representing the first domestic MaaS customer for DMG. There is no indication whether the agreement is renewable.

DMG has stated that it has line of sight to incremental demand for its MaaS model from Japan, China and elsewhere.

Deal structure and cash flows

DMG has a preference for B2B relationships. The company indicates there is sufficient demand to focus its efforts on larger, wholesale MaaS agreements. For example, Forside and Bitmaster are ordering hash power in bulk and redistributing the cryptoasset rewards to a group of end users located in Japan. This could have three benefits, in our view: 1) deal sizes could be larger and more meaningful; 2) DMG could mitigate the regulatory risk of its services being categorized as an offering of securities, given the added level of operational sophistication; and 3) DMG could avoid end-consumer KYC responsibilities that will be handled at the distributor level.

In an ordinary MaaS agreement, the customer owns the equipment. As such, customers are required to pay a premium to compensate DMG for ordering and setting up the equipment. DMG intends on collecting payment from customers in advance of the contract term which will alleviate working capital pressures. Ongoing payments will have high collection rates as they can be collected from the mining proceeds if necessary. Where a customer is unable to pay in full, DMG is willing to negotiate or offer financing where practicable and secured by the equipment. Once contracts expire, DMG will return the equipment for a fee, dispose of it for a fee, or continue to operate the units if they are still economical. This will depend on the details outlined in the contract and customer preferences.

Price and progress

We learned from discussions with management that the pricing scheme can be more dynamic than a simple flat rate and can depend on related services and benefits that are provided by either party. For instance, Bitmaster has received a preferential rate as the Japanese partner is performing marketing and promotional services in Japan on behalf of DMG. Contracts will be 12 months on average, which would improve DMG's ability to model out its cash flows and requirements. We estimate that contracts would be C$100-200 monthly over the contract period.

The company announced on March 26, 2018 that 2,650 mining rigs had been sold as part of a MaaS agreement. DMG plans to set up its servers using pre-configurated containers that carry nearly 600 units. Each Bitmain S9, for example, consumes 1300W, about the same as a garden variety blowdryer. Considering distribution losses and actual versus specified performance, 600 units is roughly 1MW. DMG targets C$1.5M of revenue generated per MW annually with target gross margins expanding towards 40% with scale. Without considering cryptocurrency price volatility, operating constraints or other variables, we believe this could be a predictable and stable source of cash for the business.

3) Supply chain enterprise solutions

DMG is developing blockchain applications to enhance the efficiency and trustworthiness of supply chain management. DMG's initial product is expected to be a smart contract focused on a "farm to table" supply chain management application in the agricultural sector. Smart contracts will validate proof of payment and delivery and blockchain's immutable ledger will serve as a trustworthy storage of record for the origination of agricultural goods. We expect this to be a very large but also a very competitive space. IBM and Wal-Mart have announced plans to collaborate on a similar solution.

Figure 10: Walmart and IBM are collaborating on blockchain to enable food safety and supply chain solutions

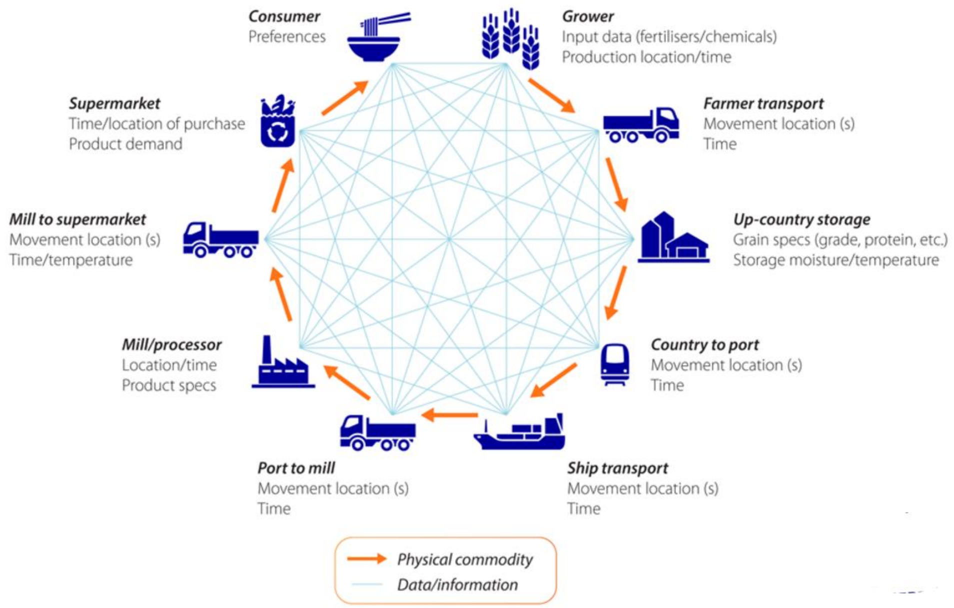
Source: Bloomberg

The company has announced partnerships in two separate verticals which support its growth in the supply chain space. DMG has partnered with two Vancouver-based cannabis focused companies, JawanaShop and Emerald Health, in a move that we view as not significantly different from the agricultural solution. We believe Blockchain technology is well suited for the cannabis industry, as ensuring consumer safety, tracking provenance of product, and regulatory reporting are all key requirements. As well, we suspect this application will be insulated from larger software vendors with global businesses who may be more concerned about broader brand impact. The supply chain management platform will enable detailed tracking of product from licensed producers to end patients and consumers nationwide. This platform can be customized for other governments and regions based on their requirements.

The second vertical is an IoT application in the vehicle fleet management business with a partner called Element Fleet Management Corp. The application of blockchain is expected to result in greater efficiencies and cost savings for Element's fleet customers and business partners and new product offerings. Per DMG's corporate materials, Element has made a strategic investment in DMG representing an ownership stake of approximately 10% of DMG at the time of investment in December 2017.

While a product roadmap has been laid out for both verticals, the timeline to commercial deployment remains uncertain. DMG will own the IP associated with the supply chain management solution and is anticipating a release to non-partners by early 2019. We expect the revenue model could be primarily subscription-based as DMG negotiates recurring fees for its service. The business segment is currently in the early stages, but with the addition of Blockseer and a maturing software development capability this strategy may eventually drive revenue. Moreover, we believe the focus on enterprise solutions could be beneficial, given the more volatile mining aspects of the company strategy. We expect mining (including MaaS) will face increasing competition and thinning margins which will need to be offset by efficiencies and diversified revenue lines.

Figure 11: Supply chain management on blockchain: Agriculture



Source: Rabobank

Figure 12: Blockseer Bitscore

Source: https://dmgblockchain.com/BitScore/

4) Forensics and analytics

DMG has diversified into the forensics sector by leveraging its blockchain expertise and industry experience. The practice will be led by Simon Padgett, a Certified Fraud Examiner (CFE) and Chartered Professional Accountant (CPA). DMG's team of CFEs and developers will work with law enforcement officials to prevent criminal activity, money laundering, and tax evasion. DMG's forensic services can also be used by audit firms and other private institutions to trace the source and destination of transactions in blockchain networks, whether for malicious activity or otherwise. We also expect that the software and service may be used by auditing firms to verify that equipment is being used as expected and that all generated rewards are harvested by the business. The technology could be used for mining malware, which has risen in 2018 as a key cyber threat. Cryptojacking is a virus which uses the CPU power of an infected device to mine currency, with the profits being directed back into the wallet of the attacker. DMG's forensics offering is already being used to generate real-time risk scoring (the Blockseer Bitscore) for compliance and anti-money laundering (AML) based on the history of transactions related to an individual.

In addition, the company may generate revenue from the forensics and analytics business through a combination of subscription fees and individual project engagements. The company is generally contracted on a project basis by clients to investigate a transaction or set of transactions for a predetermined fee. With key contacts throughout the industry, DMG's promotional efforts will focus on law enforcement entities and legal and accounting firms that require DMG's proprietary solution.

On March 7, 2018, DMG closed the acquisition of Blockseer for total consideration of C$13.0M through a combination of C$2.6M cash and the remainder in stock at C$10.4M. Blockseer is a private company based out of California and provides analytics tools and applications on the blockchain. Blockseer's intellectual property (IP) includes two US provisional patents: 1) Providing data provenance and access control; and 2) Off network identity tracking. This strategic acquisition could give DMG a competitive advantage in providing forensic services and real-time risk scoring for customers. Blockseer has a history working with several law enforcement and other agencies in the US including the FBI, US Secret Service and the IRS. We expect these valuable relationships could continue under DMG. In addition to the forensics offering, Blockseer's interest in AI technology complements DMG's foray into the space.

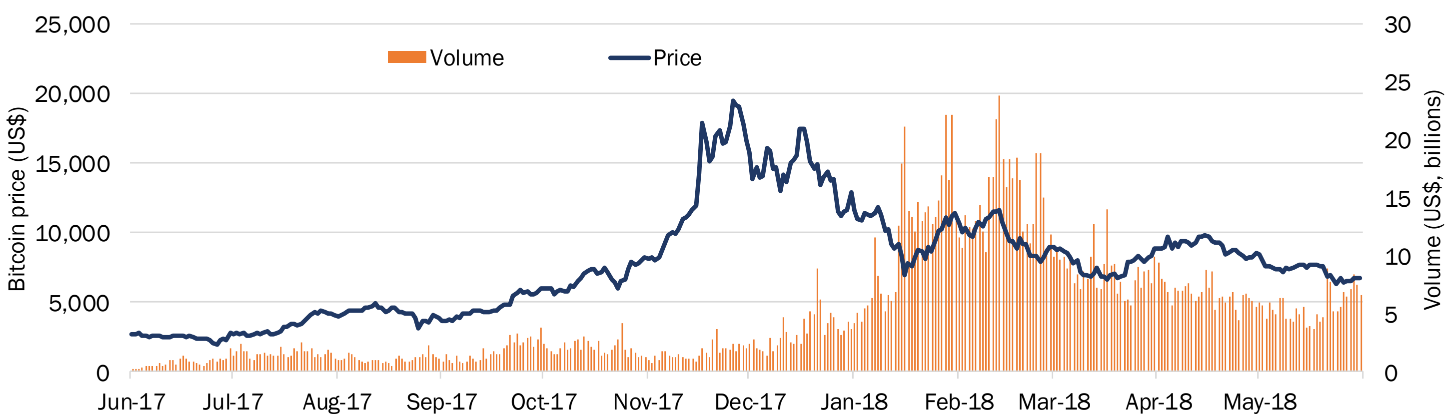
Growth drivers

The three factors below identify key variables that we expect can accelerate or inhibit the growth of DMG. We see the first factor, cryptocurrency prices, as exogenous and a significant driver of medium-term revenue and profits. The latter two drivers, scalability and alternate blockchain solutions, will depend on the execution and expertise of management and the company's team of software developers.

Cryptocurrency prices

The price of Bitcoin is a direct input for the revenue and profitability of DMG's wholly owned mining operations. An increase in the price of Bitcoin would increase the value of BTC block rewards and the value of the digital assets on DMG's balance sheet.

Figure 13: Bitcoin one-year price and volume chart



Source: Coinmarketcap.com, Canaccord Genuity Research

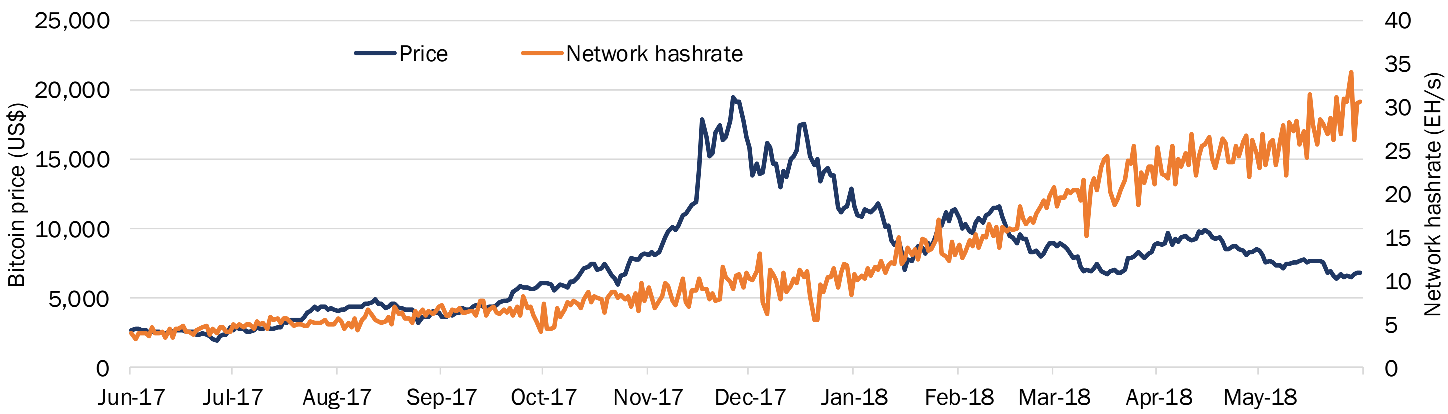
We see cryptocurrency prices as having an indirect influence on the business' MaaS segment. MaaS is based on contract revenue. The price and terms of the contract are determined ahead of time, which acts as a hedge for DMG. However, the value of the contracts to customers will depend on the value of the underlying cryptoasset. By extension, this will determine whether customers have a positive experience locking into term contracts. A decrease in the price of Bitcoin could dry up demand for MaaS services or reduce the market rate, while an increase in Bitcoin prices could cause contract prices to increase. We also note that Bitcoin mining equipment has historically seen pricing reflect the profitability of mining. We believe that overall crypto-asset price stability will help to promote wider adoption for customers seeking a steady long-term return.

We do not expect that cryptocurrency prices will drive growth for the enterprise or forensics services. Changes in the volume of transactions on the blockchain could increase or decrease demand for forensic activity, but this is not directly tied to the price of cryptocurrencies.

Power costs, capacity, and scalability

Following the runup in Bitcoin prices in fall 2017, cryptoasset miners flooded the market. Based on December price levels, miners could operate profitably with a wide range of recent generation equipment and under most combinations of power cost and overhead. While DMG has not provided guidance on its Bitcoin profit threshold, competitor Bitfury has suggested that it will continue to be profitable as long as the price of a token holds above US$3,000. As seen in the figure below, the price of Bitcoin has cooled off since December and the amount of computing power on the network, measured in hash rate, has inflected upward. It is natural that hash rate lags Bitcoin price movements, given the amount of time required to order the equipment (likely from China) and set up the infrastructure. The point is that the influx of supply and the subsequent increase in hashing power will, in our view, require mining businesses to maintain a leaner operating structure to maximize profitability. Power costs are therefore a driver of growth given they are the single largest variable cost associated with mining.

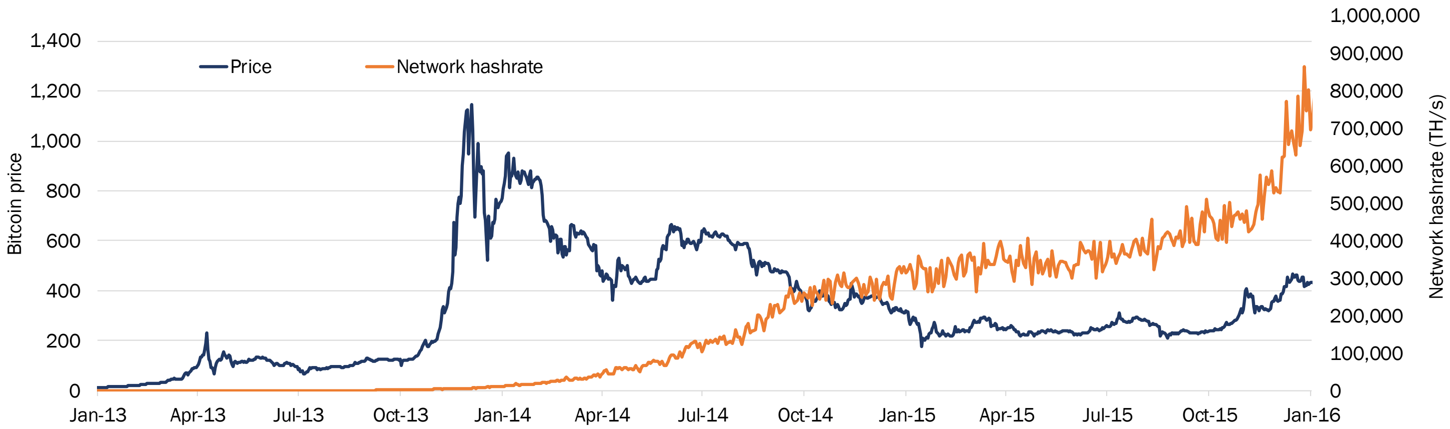
Figure 14: Bitcoin last twelve months price and network hash rate



Source: Coinmarketcap.com, Blockchain.info, Canaccord Genuity Research

The chart below includes the same variables over a different time frame. From January 2013 to January 2016, the price of Bitcoin saw a similar rapid jump, followed by a sell-off, then stabilization. The network hash rate never trended downward over this period, which is something that we are seeing again in 2018. As industry profits decline under a falling crypto-asset environment, it is logical to assume that rational participants would reduce their investment and even retire assets, particularly older assets. However, we have not seen this rational behavior in the past. There appears to be a long tail driven by miners without a profit motive and those which have very low cost of power. With respect to DMG, this would suggest to us that the network hash rate will continue to expand, which would decrease average BTC output per server, all other factors the same.

Figure 15: Bitcoin price and network hash rate for period between January 2013 and January 2016



Source: Coinmarketcap.com, Blockchain.info, Canaccord Genuity Research

We expect the cryptoasset mining industry eventually to consolidate as the service becomes ever more commoditized, similar to the way data center operations have. We expect the most efficient operators with scale and the most attractive energy costs will be the most profitable, all other factors the same. In addition, access to significant capacity, as measured in MW, will provide economies of scale for miners as overhead costs required to maintain a location can be spread over a greater number of units.

At DMG's flagship BC facility, the company has stated that it will have access to 85MW of capacity. To add some perspective, management indicated that 1MW can support approximately 600 machines. Compared to ~2,650 ASIC units currently (~5MW per management's ratio), this suggest that DMG has significant room to grow. A successful ramp of DMG's MaaS service could accelerate investment in new equipment and allow DMG to scale more rapidly.

Not trivial to set up an industrial miner

We view DMG as on the path toward being an Industrial miner, which is typically an operation with 10MW or greater of electric power consumption. As a rough guide, 1MW is sufficient to power 1,000 homes and so 10MW is sufficient to power a small city.

It is not trivial to set up a large mining facility, primarily due to the complexity of power distribution. As well, it is difficult to get power allocation of a meaningful scale from a power authority. Management experience and relationships are a critical factor.

Figure 16: Boundary Electric

Source: Rabobank Boundary Electric website

DMG's COO Sheldon Bennett previously set up a 58MW Bitcoin mining site in Alberta, Canada for Bitfury. We expect this experience and past relationships with vendors will be very important to DMG as it should help in avoiding common pitfalls, speeding up the rollout of power, and maximizing power efficiency.

Although low cost of power is important as it is a key input, there are other important cost variables associated with power distribution.

- The cost and timing of interconnection with the local power provider
- The availability of high voltage transmission on or near a chosen site
- Power infrastructure can be carried on odd voltages and frequency to optimize for a given transmission distance which can complicate the design, lead time and cost when ordering step down transformers
- Unfamiliar equipment related to cryptoasset mining may be new to a region and there may be a need for local standards testing. DMG indicates that it has been proactive seeking CSA approval on exotic equipment and components

As a guide, we expect the following are the various levels of capability as a miner progresses through stages toward industrial mining.

Stage 1 - 1MW

- Developed a production floor layout to hold ~500 mining assets
- Passive air flow management with minimal assistance from fans and HVAC
- Management of heat, noise and contaminants/dust
- IT system to manage mining asset operations and monitor faults in real time
- Dependence upon local wholesalers for parts and service
- An informal arrangement and certification with an electric utility and correct zonig for the mining operation

Stage 2 - Less than 10MW

- Proprietary airflow and racking designs
- Proprietary, heat, dust and noise management
- Proprietary software and switching and routing technology for 1,000+ miners
- Repairs and maintenance system in place for mining assets and power supply
- Direct purchasing and maintenance of inventory for parts and service

- Full time staff certified electricians or SLA with local electrical company
- A negotiated agreement and certification from an electric utility

Stage 3 - Greater than 10MW

- Proprietary software and switching and routing technology for 10,000+ miners
- Self-manufacturing or a JV with a producer of mining assets and power supplies
- Bulk ordering to access shorter lead time/lower cost on mining assets and parts
- Large agreements with manufacturers to provide inventory and in house repair
- Full time staff certified electricians and repair staff
- Political approval from regional government and inspection authorities
- Large commercial arrangements with power producers or utilities
- Specialized substation, mid and low-voltage transformer assets and interconnection and roadmap considering long lead times
- A negotiated agreement and certification from an electric utility with dedicated transmission to site

We have met with Boundary Electric, the supplier of high and mid voltage transforming equipment to Bitfury's Alberta mining operation and to DMG's activities in BC to confirm DMG's experience and to gain comfort on DMG's ability to build the necessary power distribution infrastructure to build an industrial scale mining operation and meet their Castlegar targets. Boundary confirmed work to supply a staged delivery of mid-voltage step down transformers in line with the company's MW rollout targets.

As well, we have visited the Castlegar site which had active Bitcoin mining underway and ~3MW of power distribution available. We confirmed the availability of high voltage power near the site and work underway in March in support of a sufficient substation. At the time, DMG was constructing a road and foundation with expectation of delivery of the substation by late summer. Figure 9 includes a picture of the building interior.

We were also able to inspect the manufacturing/customization of containerized mining equipment which DMG believes it will allow for a modular and repeatable manufacturing process. As well, this allows for reasonably efficient repositioning of assets if necessary.

Development of alternative businesses

The third growth driver for DMG will be the time to market and success of the ancillary businesses. As mentioned above, we believe that crypto-asset mining will commoditize. We expect margins will likely erode as new entrants enter the market, probably offset partly by improvements in technology. Therefore, DMG is diversifying into enterprise and forensics solutions to mitigate any risk to the mining and MaaS operations.

We expect that partnerships with supply chain companies will benefit DMG's product development timeline and the quality of the offering with a feedback loop. Once the supply chain solution is ready for market, DMG can begin to sell the products to a broader customer base. The forensic services will be dependent on company's relationships with government agencies and institutional customers in need of investigatory and analytic services.

Financial performance

The operating results presented below cover the six-month period from October 1, 2017 to March 31, 2018. Drawing from the product suite section above, we note that the Consulting revenue line item would include earnings from the enterprise and forensics lines of business.

Figure 17: Results from operating activities for the six-month period ended March 2018

DMG Blockchain Solutions Inc. (C$, except share information)		IFRS H1/F18
MaaS setup fees	2,887,347	
Transactional verification services (owned-mining)	607,177	
Hash revenue	293,704	
Consulting (enterprise and forensics)	108,981	
Hosting fee revenue	54,637	
Sales		3,951,846
MaaS direct asset costs	1,108,829	
Utilities	313,395	
Amortization	201,044	
Electronics expense	70,624	
Cost of Sales		1,693,892
Gross profit		2,257,954
Gross Margin (%)		*57.1%*
Operating expenses		
Stock-based compensation	2,940,000	
Marketing, investor and public relations	1,868,354	
Consulting	1,214,248	
General and administrative	1,007,754	
Wages	639,023	
Professional fees	389,513	
Regulatory filing	190,202	
Depreciation	961	
Total operating expenses		8,250,055
Operating income (loss)		(5,992,101)

Source: Company Reports, Canaccord Genuity Research

Revenue profile

MaaS setup fees and Hosting fee revenue

When DMG buys equipment on behalf of customers, DMG plans to charge customers a 20-30% markup on the cost of capital and initial setup (~20% margin described above). This is reported on a gross basis and recorded in the MaaS setup fee revenue line.

Hosting fee revenue includes the ongoing service portion of the contract from which DMG targets a 40-60% margin. We expect that MaaS contract revenue will be recognized on a percentage-of-completion basis. As MaaS contracts transpire and services are performed by DMG, the company will recognize a proportionate amount of revenue and maintain the unearned balance in deferred revenue. Based on discussions with management, contract lengths will extend for a year on average with cash upfront or financing secured by the equipment. This will help predictability of forecast estimates on a quarterly basis.

Transaction verification services (owned-mining)

DMG's owned and operated mining rigs generate Bitcoin rewards for the hashing power contributed to the network. Bitcoin revenue is recognized on the income statement at the price on the day that it was mined. Fluctuations in price after this date are recorded in a revaluation line item below Operating Income. During H1/18, DMG generated revenue of C$607K. We expect this revenue line item to be flat or decrease as the company shifts its focus to MaaS contract revenue.

Hash revenue

Hash revenue strictly relates to the company's financing arrangement with Mogo. Management describes this segment as being a one-off relationship with this customer as the company energizes miners for them. Management expects this revenue line to be nonmaterial or even discontinued as the business matures.

Consulting (enterprise and forensics)

See the Product Suite section above for further discussion on the developmental activity and monetization strategies for these segments. From early discussions with management, the company is expecting C$1M in ancillary revenue in 2018. We expect this revenue will be earned from a combination of the supply chain solution and forensic services. As a loose guide, management intends to grow these revenues to >C$5M in F2019.

Gross costs

MaaS direct asset costs

This represents the offset for the MaaS setup fees recorded above. We believe that the 50%+ margins implied above are likely not sustainable as the offering matures and as the mining opportunity is impacted by near-term crypto pricing weakness and recent investment in industrial mining operations. Management has stated that a margin of ~20% would be a more appropriate target for the segment in the long-term.

Utilities and Electronics expense

We expect the key gross cost to come from electricity used to power the company's mining equipment and associated infrastructure such as cooling. We estimate the company's average power cost to be at the lower end of a 6-10c/kWh range, consistent with prevailing rates in British Columbia. Broadly, we expect electronics expense to relate to the direct repairs and maintenance incurred to operate the equipment. While DMG has not provided detailed information due to competitive reasons DMG believes it has very competitive power cost. COO Sheldon Bennett has negotiated with Alberta and BC power providers in the past as a representative for Bitfury which likely provides an edge. As well, we expect that there is significant unreported power loss in power distribution which DMG is in a position to minimize due to its experience and experience of its sub-contractors.

Figure 18: Electricity costs by major city

Source: Rabobank Boundary Electric website

Amortization

Amortization is recorded as a cost of sales item since the servers are used to generate sales. If the company is successful in increasing its focus on its MaaS segment, we expect depreciation would steadily decrease as the company maintains off-balance sheet customer equipment (categorized as Assets-held-for-sale).

Operating expenses

Operating expense trends are expected to be independent of the company's revenue-generating activities. We consider several of these items to be non-recurring as the company recently ramped up for its RTO transaction. Below, we highlight some of the recurring cost items which will largely be grouped into the categories above.

- Salaries (included in Consulting, Stock-based compensation and Wages) – The company currently has approximately 30 employees and has previously paid salaries in the form of consulting fees, ordinary salaries, and share-based rewards. The company's CEO, CFO, and CTO are expected to make C$408K (combined) annually per the company's recent filing documents, prior to any bonuses or stock compensation. We would assume that the stock-based portion of the rewards should decrease as a percentage of revenue as the company's business matures and it becomes more economical to compensate employees with ordinary salaries. We believe the stock-based compensation reported in H1/F18 was inflated alongside the development of the consolidated entity and talent acquisition in these early stages.
- Rent and real estate (included in G&A) - Since the company's incorporation in fall 2016, DMG has operated cryptoasset mining servers at three different locations. The company's first facility is located in Edmonton, Alberta and incurs a monthly rent of ~C$4,000. The first facility hosts 300 ASIC units which serve the company's wholly owned mining operation. The company signed an agreement to operate a second facility in the interior of BC less than a month later. Most recently, in November 2017, DMG signed an agreement to rent a 27,000 square foot building and 34 acres of land just outside of Castlegar, BC for C$6,000 monthly (exclusive of GST, utilities, and property taxes). This agreement includes an option to purchase the building and land for C$950K, which we understand to be management's intent. The table below includes the information available for each of the three locations.

Figure 19: Details related to current operating locations

	Location	Start Date	Monthly Rent (C$)	Square Feet	Maximum Capacity (MW)	Purchase Option
First Facility	Edmonton, AB	Oct-16	3,937.50	3,600	3.0	N/A
Second Facility	Interior of BC	Aug-17	N/A	3,400	N/A	N/A
Third Facility	Interior of BC	Nov-17	6,000.00	27,000	85.0	$C 950,000

Source: Company Reports, Canaccord Genuity estimates

Balance sheet snapshot

Figure 20 below includes the company's balance sheet as at March 31, 2018. A portion of Accounts receivable and Unearned revenue are presumably related to Hosting fee contract revenues that are not yet recognizable. The digital currency line item represents the balance of Bitcoin at the end of March 2018, converted at the appropriate rate at the time. Mining equipment owned by customers is categorized as Assets-held-for-sale and is not amortized on the income statement. The company's property and equipment line item represents the value of the owned mining and power supply equipment, furniture, and motor vehicles net of depreciation. The company's policy as a standalone entity is to amortize the Bitcoin mining servers over a two-year period, although we believe the units have some utility beyond this timeline.

Figure 20: Consolidated balance sheet as at the end of March 31, 2018 (FQ2)

DMG Blockchain Solutions Inc. (C$, except share information)		IFRS 31-Mar-18
Assets		
Cash	19,713,182	
Accounts receivable	5,041,152	
Digital currency	519,000	
Assets-held-for-sale	5,337,748	
Prepaid expense and other current assets	3,835,197	
Due from related parties	250,432	
Total current assets		34,696,711
Goodwill	12,698,759	
Property and equipment	776,271	
Intangible assets	-	
Total long term assets		13,475,030
Total Assets		48,171,741
Liabilities		
Trade and other payables	2,380,238	
Loans payable	-	
Unearned revenue	6,511,815	
Total Liabilities		8,892,053
Shareholders' Equity		39,279,688
Total Liabilties & Shareholders ' Equity		48,171,741

Source: Company Reports, Canaccord Genuity estimates

Management's guided performance targets

DMG has stated a target of C$1.5M of revenue per MW per year from the MaaS operation. By working out a smoothed trajectory to DMG's target MW objectives, we have loosely calculated management's expected revenue per quarter. In addition, by applying management's targeted EBITDA margin of 40%, we have calculated a rough management forecast for EBITDA quarter over quarter. We believe that these figures are optimistic but they provide a method of thinking about financial performance.

Figure 21: Management targets for rented MW, MaaS revenue and EBITDA (C$)

Calendar	CQ2/18	CQ3/18E	CQ4/18E	CQ1/19E	CQ2/19E	CQ3/19E	CQ4/19E
Fiscal	Q3/18E	Q4/18E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	Q1/20E
Estimated average MW rented to customers	10.0	25.0	50.0	65.0	80.0	95.0	110.0
Stated target C$M/MW ($1.5M annually)	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Revenue per quarter from MaaS	3.8	9.4	18.8	24.4	30.0	35.6	41.3
Stated target EBITDA margins	40%	40%	40%	40%	40%	40%	40%
EBITDA per quarter from MaaS	1.5	3.8	7.5	9.8	12.0	14.3	16.5

Source: Canaccord Genuity estimates

Gross margin sensitivity analysis

DMG expects that the majority of its revenue for 2018 and 2019 will be derived from its MaaS offering. As such, key inputs such as the price of Bitcoin and computational difficulty are not expected to significantly impact the company's revenue or margin profile in the short run. Since the recurring MaaS revenue is based on fixed-term contracts, the most sensitive assumption is the contract price per machine per quarter. When considering the gross margin percentage profile of the company, we assume the most important variable cost is power. Holding all other factors constant, an increase in contract price or a decrease in the energy cost should increase profitability.

Figure 22: Gross margin dynamics for C2019 operations

C2019 GM on Mining %		Energy cost $/kwh				
		0.095	0.085	0.075	0.065	0.055
	C$200	-11%	-5%	0%	6%	12%
Contract price	C$300	5%	10%	15%	20%	25%
per machine	C$400	17%	21%	25%	30%	34%
per quarter	C$500	26%	30%	34%	38%	41%
	C$600	33%	37%	40%	44%	47%

Source: Company Reports, Canaccord Genuity estimates

The table above provides some sensitivity around these key inputs. For calendar 2019, the company may be positioned to achieve a 25% gross margin if its average quarterly contract rate is C$400 per server and if its average power cost is C$0.075/kWh. Key assumptions include a steadily increasing BTC price, steadily increasing difficulty, and no changes over time in the variables analyzed above. To arrive at this analysis, we ignore the impact of power leakage through distribution and assume Bitmain S9 product specs are accurate.

Requirements for full initiation

As the cryptocurrency landscape currently stands, it is difficult to assign a target price and rating to DMG given the number of unknowns associated with the nascent technology. We list below some of the key milestones that would enable us to publish a full list of estimates and recommendation on the stock.

1) **Execution on MaaS expansion.** The company is looking to add significant capacity to its MaaS segment and believes there is a strong demand environment for this service. The expansion of its current distribution agreements and announcement of additional MaaS customers would likely create a more stable and predictable source of earnings for the company.

2) **Meaningful progress on DMG's Castlegar mining operation.** Management has stated that it has the capacity to set up 50,000+ servers by the end of 2018, a lofty goal from the current count. We would be able to better model the company's growth once these servers are live and DMG demonstrates demand from MaaS contract customers.

3) **Stabilization/ rebound in price of Bitcoin.** The price of Bitcoin has continued to exhibit volatility in 2018. A recovery in the price through to the end of 2018 would provide confidence in the business' ability to rent out its servers. We do not see any fundamental way to predict Bitcoin pricing currently.

4) **Proven demand in ancillary services.** The company's enterprise and forensics services have generated revenue to date but are in the early stages. Management targets revenue in the multi-millions for C2019. We would want to see some proven demand and revenue growth in these segments, along with a more closely defined offering, before modelling these segments.

Market and competition

Transaction verification services – Cryptocurrency mining

Mining begun and proliferated quickly due to relatively low barriers to entry as enthusiasts and early adopters would use commonplace computing hardware to mine Bitcoin from home. Over time, those barriers to entry have evolved. We believe there are few technical barriers that would prevent new entrants from entering the market (as evidenced by the flurry of recent new financings for miners); however, the stakes have been raised. Effective and profitable mining operations through the cycle now require significant scale to reduce per unit operating costs and drive better unit economics.

Figure 23: Market sizing

Bitcoin mining market size	
Bitcoin mined every 10 minutes	12.5
Bitcoin mined in 2018	657,000
Current bitcoin price ($US/BTC)	7,000
Current mining market size ($US)	**4,599,000,000**

Source: Canaccord Genuity Research

At current Bitcoin prices, back of the envelope calculations suggest the market size for Bitcoin mining services exceeds US$4.6B in 2018. This includes the Bitcoin rewards from all blocks mined in the year using a 12.5BTC reward per block, average block time of 10 minutes, and a Bitcoin price of US$7,000 per BTC. Of note, this does not consider significant transaction fees that are earned by miners in addition to the block reward. This is because this transaction fee is often retained by agents who host mining pools.

Mining pools refer to groups of individual miners that aggregate their processing power to collectively earn Bitcoin's next block, as opposed to attempting the same thing independently. This "smooths out" the stream of block rewards because a mining pool with a large amount of processing power has a much higher chance of earning the next block reward than does any small independent miner. We don't see mining pools as direct competitors to DMG's business but acknowledge the pools' ability to amass and direct substantial amounts of hash power. DMG currently pools resources with SlushPool, one of the top 5 mining pools by contribution to total network hash power.

The table below stacks up DMG's MaaS contract price against that of competitors. We have provided estimates to bridge the gap between hosting fees based on kWh versus per machine (DMG's price is quoted per machine). After considering differences in currency, DMG's promotional price is on the higher end of the spectrum but we believe the company is offering customers more competitive rates based on order volume and related details.

Figure 24: Competing MaaS providers

Company	Hosting Fee (C$ per kWh per month)	Hosting Fee (C$ per machine per month)	Setup Fee (C$)
Miningcolocation	110	149	30
Asicspace	85	114	N/A
Oregonmines	96	130	N/A
Bitcoinasichosting	116	156	N/A
DMG Blockchain	**148**	**200**	**N/A**

Antminer S9's assumed to operate at 100% efficiency for simplicity at 1.35 kWh. Assumed USD/CAD of 1.30.

Source: Company Reports, Canaccord Genuity estimates

In DMG's wholly owned and MaaS business segments, the company will compete for market share against some of the world's largest cryptoasset server manufacturing and mining companies. In a market that is quickly becoming commoditized, competitors may have greater resources, longer histories, more intellectual property, greater hashing capacity, and lower cost operations. They may secure better terms from ASIC server suppliers, deploy ASIC servers faster than DMG, and devote more resources to technology infrastructure. Other companies may also enter business combinations or alliances that strengthen their competitive positions. We highlight some of the key competitors below.

- Bitmain: Beijing-based Bitmain has established itself as the leader in the Bitcoin mining chip manufacturing market, with an estimated 80-90% share of Bitcoin miners and ASIC chips. Antminer's S9i's use 16nm ASICs and operate at 14TH/s. They are currently being sold for US$752. Beyond its current suite of ASICs, it is widely expected that Bitmain will release its next generation Bitcoin mining chip later in 2018, as well as introduce ASICs for other popular mineable altcoins.
- Bitfury: Considered one of the largest competitors to Bitmain, Bitfury offers a more diverse product set for Bitcoin mining purposes, such as various software offerings as well as hardware solutions. While software products range from Digital Assets Platform-as-a-Service (PaaS) to Data Analytics, Bitfury's primary hardware products consist of its 16nm ASIC and the BlockBox, Bitfury's mobile Bitcoin mining unit. According to investor documents, Bitfury has 172MW of data centers around the world and 2017 annual revenue of US$350M. Meanwhile, Bitfury is also set to own a non-controlling stake in Hut 8 Mining (HUT-TSX | Not Rated), with plans to acquire 60MW of mining farms in Canada by the middle of 2018. Shelden Bennett (CTO and Director) and Steven Eliscu (Director) previously held roles at Bitfury.
- Hyperblock Technologies: Hyperblock (CPTO-TSX | Not Rated) represents an early consolidator in the cryptocurrency mining space having recently merged with CryptoGlobal in an all-stock transaction. Hyperblock has signed a definitive agreement to acquire its co-location partner "Project Northwest," currently one of the largest mining facilities in North America with nearly 20 MW of capacity and scalable to 60 MW. In addition to its own mining operations, Project Northwest's business includes hash rate sales, server hosting and server hardware sales, and is powered using hydro-electric energy that provides industry-leading power costs reported to be near C$0.04/kWh.
- HIVE Blockchain Technologies: As the first publicly listed cryptoasset mining company, HIVE (HIVE-TSX | Not Rated) has been one of the pioneers in the rapidly growing mining industry. HIVE's mining operations include GPU-based facilities in Iceland and Sweden, which mint cryptoassets such as Ether and other altcoins. Importantly, HIVE counts Genesis Mining, the world's leading cryptoasset mining hash power provider and owner of the world's largest ether mining facility, as its exclusive partner and investor in the company, via Genesis' C$7M equity investment in HIVE announced in October 2017. HIVE trades on the TSX Venture Exchange.

Figure 25: North American-listed public cryptoasset mining competitors

Company name	Ticker	Reporting currency	Location	Planned cryptocurrencies mined	Stock price	Non-dil s/o (M)	Mkt Cap (C$M)	MW (Current)	MW (Plan for Q4/C18)	Mkt Cap/MW (Current)	Mkt Cap/MW (Plan)
DMG Blockchain Solutions, Inc.	**DMGI-V**	**C$**	**Canada**	**BTC, LTC**	**C$0.30**	**93.2**	**28.0**	**5**	**50**	**5.59**	**0.56**
Hut 8 Mining Corp.	HUT-V	C$	Canada	BTC	C$3.25	82.8	269.1	18.7	66.7	14.39	4.03
HIVE Blockchain Technologies Ltd	HIVE-V	US$	Europe	BTC, BTH, ETH, ETC, ZEC	C$0.81	313.4	253.9	24.2	44.2	10.49	5.74
Riot Blockchain Inc	RIOT-Q	US$	US	BTC, LTC	US$7.35	13.3	127.3	6.0	12.0	21.22	10.61
HyperBlock	CPTO-V	C$	Canada, US	BTC, ETH, LTC, DASH	C$0.20	239.1	46.6	28.0	60.0	1.67	0.78
HashChain Technology, Inc.	KASH-V	C$	US	BTC, DASH	C$0.14	126.5	17.1	5.5	12.5	3.10	1.37
Competitor average							**58.9**	**16.5**	**39.1**	**10.17**	**4.51**

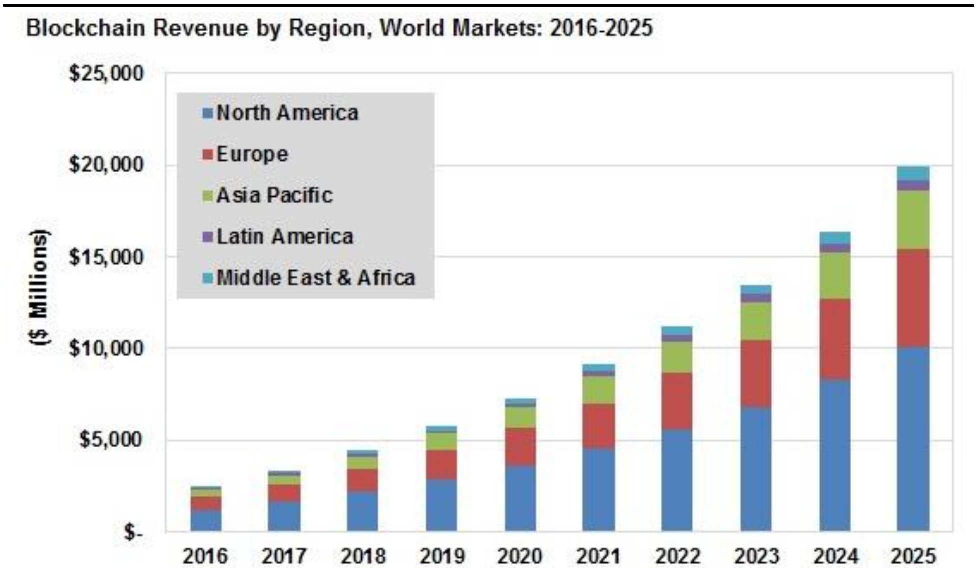
Figures from most recent corporate filings. Stocks priced as at market close 20 June 2018. Assumed USD/CAD of 1.30.

Source: Company Reports, Canaccord Genuity estimates

Blockchain for the enterprise

Technology-focused market intelligence firm Tractica expects the global blockchain enterprise applications market to grow from US$2.6B in 2016 to US$19.9B in 2025, representing a compound annual growth CAGR of 26.2%. This includes all blockchain applications that make operations more efficient, eliminate counterparty risk, or enhance the trustworthiness of transactions. In practice, applications include the ability to transfer money, log an event, sign a document, vote, and many others. A constant theme across these use cases is that blockchain for enterprise is currently positioned as a cost-cutting mechanism. The decentralized nature and immutable ledger will streamline processes that are traditionally costly to uphold and reliant on third parties or incremental resources.

Figure 26: Blockchain for enterprise market sizing ($US)



Source: Tractica

In the list below, we discuss the industry groups that we believe are most compatible with the current benefits of blockchain protocol. Examples are listed to help conceptualize the practical uses and monetization strategies. Across the market, the technology remains in its nascent stages as working prototypes are continuously being discovered and defined. These examples focus the scope of our discussion but exclude a broader set of supply chain and IoT opportunities that one day may be able to provide seamless connectivity between everything from appliances to automotives.

- **Finance.** Cryptocurrencies have long been touted as a solution to global, low-cost and instantaneous transfers of payment between consumers. Banks are aggressively exploring applications in trade and supply chain finance, including uses for capital market instruments.

- **Insurance.** Building a multinational policy using blockchain will help to aggregate vast arrays of data about all policyholders. Group benefits programs can be created on a vast and distributed ledger with creative new processes to pool risk.
- **Agriculture.** Food safety and traceability is the primary supply chain application in the agriculture space. Whether it is fish or farm-harvested crops, foods can be tracked on a unique ID basis from the source all the way through to the end consumer using blockchain technology. This will enhance confidence in the quality of the product and increase transparency in the origination of grocery market goods.
- **Real estate.** This includes immutable records of ownership and guarantees for property ownership and leasing. A self-maintained ledger, as approved by appropriate authorities, could reduce the need for real estate agent and legal support.
- **Healthcare.** Healthcare records can be securely recorded on the blockchain and allow for more reliable storage and improved methods for sharing information between hospitals and medical offices. Similar to other supply chain use cases, regulated medication can be uniquely identified from cradle to grave, building trust in an industry with little room for error. Applications also extend to clinical trial management, using smart contract technology to create outcome-based contracts depending on the results of trials and compliance with regulatory requirements.
- **Energy.** Carbon credit management across regulated production companies can be maintained on a single decentralized ledger. This could allow for increased flexibility among businesses for regions under common cap-and-trade programs.

The blockchain software development industry includes many competitors who may have greater resources, larger skilled developer and programmer teams, longer histories, and more intellectual property. We list a notable Canadian competitor below.

- **Nuco Inc:** Nuco is an enterprise grade blockchain platform that enables the development, deployment, and management of decentralized networks and smart contracts. The company's modular architecture drives a wide range of functionality and supports both private and public blockchain networks. In October 2017, the company raised US$23M through a token sale to build the Aion interoperable blockchain protocol. Aion will provide a secure channel to transfer and record data across global independent blockchains in real-time. This addresses the growing need for a public mechanism, like Aion, to link the private blockchains that are in development by many large organizations. In the short period of time since its development, Nuco has onboarded Moog, a Fortune 1000 aerospace and defense company, to the Aion network to be able to share data with other industry blockchains such as banking, audit, or insurance.

Forensics on the blockchain

For public and private bodies involved in forensic services, focused techniques on the blockchain could allow investigators to expedite the process with increased accuracy and reliability. The blockchain 'audit trail' (decentralized ledger) is visible to all participants, though the individuated transactions may be encrypted. Since the record is immutable, this consensus-based proof of record validates the occurrence of all transactions on the ledger. With the appropriate analysis, the origination of any transaction can be traced back to the corresponding participants.

Knowledge Based Value (KBV) Research estimates the size of the global forensic technology market, which serves as a proxy for the demand for blockchain-focused forensic services. The forensic technology market was valued at US$8B in 2016 and is estimated to grow to US$21B by 2023 (CAGR of 14%). KBV Research estimates that the North American market will grow at a CAGR of 4.7% over the same period. Bridging the gap to blockchain, a report from January 2018 titled "Sex, Drugs, and Blockchain: How much illegal activity is financed through cryptocurrencies?" estimates US$72B of illegal activity per year involves Bitcoin. Further, the report finds that nearly half of all transactions (44%) are associated with illegal activity. These estimates underscore the need for forensic services in the space.

Similar to the general enterprise application market, forensic blockchain solutions should generate value by reducing the costs and increasing the effectiveness of forensic services. We believe that the services will be monetized through unique project engagements or continuous monitoring of transactions on a blockchain. Two examples of forensic blockchain applications include the investigation of 1) lost or stolen cryptocurrencies and 2) the discovery of hidden cash, assets, or transactions. These services will assist in the capture of criminals or tracking of fund flows for any variety of reasons.

The blockchain forensic market is in its early stages, but several players have an established presence in the space as governments and institutions become increasingly engaged with the technology. We highlight some of the competitors below.

- **Blockchain Intelligence Group (BIGG-CSE | Not Rated):** Headquartered in Vancouver, Blockchain Intelligence Group (BIG) is a diversified blockchain company that has developed a blockchain search engine with data processing and big data analytics. BIG has created a suite of tools for the financial services industry, regulators and the law enforcement community to help meet the demands of a blockchain-based future, providing trust and real-time risk evaluation. Dubbed "QLUE", the tool will allow users to drill down to relevant information contained in a blockchain, assisting in management of the Big Data burden across multiple sources. QLUE uses advanced search algorithms that detect suspicious activity within Bitcoin and other cryptocurrency transactions. The complementary BitRank service provides a simplified "risk score" for cryptocurrencies. This uses QLUE to perform real-time risk assessment to determine the safety level of an anticipated Bitcoin transaction. We note that at the current price and assuming 104.7M shares outstanding, the market capitalization is ~C$23M. We believe that DMG's forensics business compares well with this.
- **Chainalysis:** Located in NY, US and Copenhagen, DK, Chainalysis provides cryptocurrency AML, fraud, and compliance violation services. Chainalysis' technology is credited with assisting in the arrest of Alexander Vinnik, a Russian man who was linked to laundering the stolen Bitcoin from the Mt Gox hack several years back. Chainalysis' "Reactor" tool has compiled a massive database cross-referencing identified people and organizations with known Bitcoin addresses and offers analysis of webs of linked transactions. The Know Your Transaction (KYT) compliance tool monitors real-time transactions and alerts users in the case of any suspicious activity.

  The company has laid out three target markets for its technology. Financial Institutions will benefit from regular reporting from the KYT tool and the real-time detective alerts. Second, cryptocurrency exchanges will benefit from AML compliance reporting and real-time risk monitoring for customers. Lastly, government bodies will employ the technology primarily for suspect identification and monitoring of criminal activity. To date, Chainalysis has raised US$17.6M in funding from a variety of VC's.

Investment risks

Cryptocurrency price volatility – Volatile cryptocurrency spot prices are likely to persist which we expect will drive volatility in the valuation of DMG shares. This is a direct result of the value of the company's revenues which are driven by the rewards paid in cryptocurrency in exchange for providing transaction infrastructure as well as the value of the company's cryptocurrency inventory. We note that DMG aims to generate the bulk of its mining revenue from hosting contracts which are insulated from direct impact.

Lack of financial visibility – DMG has a short operating history which limits the usefulness of historical financials. This increases forecast risk and also makes interpretation more difficult given the loosely defined accounting guidelines associated with some of the blockchain solutions.

Regulatory developments – We fully expect additional volatility in cryptocurrency regulations driven by unknown future events. Given the importance of currency to governments for the purposes of economic policy and the current limits on currencies' ability to cross borders or be used for certain activities, we not would be surprised if mainstream cryptocurrencies such as Bitcoin are limited in some way. Governments may in the future take regulatory actions that prohibit or severely restrict the right to acquire, own, hold, sell, use or trade cryptocurrencies or to exchange cryptocurrencies for fiat currency. DMG may be forced to liquidate its cryptocurrency inventory at unfavourable prices. Further, DMG may require licenses and permits from various governmental authorities in the future which may be dependent upon a licensing process. As well, we may see DMG, which is domiciled in Canada, impacted by regulations more heavily than competitors who operate from other jurisdictions.

A target for fraud and cyberattack – There have been numerous examples of cyberattacks on the various providers of functionality in the blockchain ecosystem. While the system as a whole has been resilient, there have been high profile events which have led to large losses of cryptocurrency assets.

- In the event that DMG third-party providers, partners or suppliers of trading, cold storage, custody, digital wallet, etc. are impacted by a cyber threat, this may in turn impact DMG.
- The company's cryptocurrency inventory may be exposed to cybersecurity threats and hacks.
- A "51% attack" where a malicious actor obtains a majority of the processing power dedicated to mining of given cryptocurrency may allow an alteration in the blockchain on which cryptocurrency transactions rely. This could lead to losses for DMG either through a loss in confidence in the overall system or through a reallocation of funds from DMG to another entity.

Governance and appropriate remuneration – Related to the lack of financial visibility, there remains uncertainty over appropriate compensation levels and methods in the nascent blockchain space. The financial statements point to consulting fees, non-interest-bearing loans, and other equity rewards payable to management and Directors where there is not yet a proven benchmark across the industry.

Cryptocurrency industry – The further development and acceptance of the cryptocurrency industry is subject to a variety of factors that can accelerate or inhibit DMG's growth. Factors that will most directly affect DMG's operations include:

- Amendments to the protocols and software of the networks of cryptocurrencies could adversely affect the company.

- The loss or destruction of a physical private key required to access the company's digital wallets may be irreversible.
- Cryptocurrency exchanges and other trading venues are relatively new and, in most cases, largely unregulated and may therefore be more exposed to significant business change.
- Banks may not provide banking services, or may cut off banking services, to businesses that provide cryptocurrency-related services or that accept cryptocurrencies as payment.
- Incorrect or fraudulent coin transactions, and as a result, any incorrectly executed or fraudulent coin transactions could adversely affect the company's investments.

Rising network hash rates - Network hash rates have risen rapidly and unpredictably, putting pressure on margins and requiring increases in sustaining capex to maintain market shares. We expect these trends are likely to continue to put pressure on margins, and over time eliminate subscale miners. We believe industrial scale miners like DMG will likely be best positioned to offset margin pressure.

Is this just a niche data center play? While we believe there are several reasons why investors would see DMG as a provider of specialized services, there are significant similarities to companies which provide data center services and infrastructure. This isn't an entirely terrible outcome as DMG provides specialized data center services which may eventually be relevant to artificial intelligence and machine learning. which use a similar parallel computing structure to mining. As well, we note that Industrial REITS which have data center exposure trade at strong multiples, currently 15-17x EV/EBITDA.

Insufficient miner incentives - If the award of new cryptocurrencies for solving transaction blocks declines, cryptocurrency miners may not have an adequate incentive to continue mining and may cease their mining operations. Cryptocurrency miners ceasing operations would reduce the collective processing power on the cryptocurrency network, which would adversely affect the confirmation process for transactions by decreasing the speed at which transaction blocks are added to the blockchain until the next scheduled adjustment in difficulty for transaction block solutions. Any reduction in confidence in the confirmation process or processing power of the cryptocurrency network may adversely impact the business and affairs of DMG.

Technological obsolescence and required capex - To remain competitive, the company will continue to invest in hardware and equipment required for maintaining DMG's activities. We believe it is highly likely that competitors will introduce new and proprietary services/software and ASIC technology. DMG recognizes its hardware and equipment and its underlying technology may become obsolete and require substantial capital to replace such equipment. The increase in interest and demand for cryptocurrencies may lead to a shortage of capable hardware as individuals and businesses purchase equipment for mining and other cryptocurrency related uses. Equipment will also require replacement from time to time and any shortages of ASIC machines or graphics processing units may lead to unnecessary downtime as DMG searches for replacement equipment. There can be no guarantee that DMG will be able to source mining machines required to scale DMG's business plan at prices that are favorable to DMG or at all.

Future capital needs and uncertainty of additional financing - There is no assurance that DMG will be successful in obtaining the required financing for hardware, equipment, and general working capital investments. There can be no assurance that such additional funding, if needed, will be available on terms attractive to DMG or at all. Furthermore, any additional equity financing may be dilutive to shareholders and debt financing, if available, may involve restrictive covenants, and DMG may be forced to liquidate mined output (coins or tokens) for such funds. As well, we expect DMG will focus on the sale of hosting contracts where the customer funds the purchase of mining equipment. If this is not successful, DMG may choose to buy and operate its own equipment which would require new funding.

Cryptocurrency is not covered by deposit insurance - Transactions using cryptocurrency are not covered by deposit insurance, unlike banks and credit unions that provide guarantees or safeguards. We expect that new ways to insure holdings may develop as the industry matures.

Transition to Proof of Stake validation - Proof of Stake is an alternative method in validating cryptocurrency transactions. Should the Bitcoin algorithm shift from a Proof-of-Work validation method to a Proof-of-Stake method, mining would likely require less energy and may render DMG less competitive as other miners are able to mine Bitcoin with lower energy requirements. Currently, DMG is focused on Bitcoin and we view the transition of Bitcoin to Proof-of-Stake as highly unlikely.

Electricity costs and continuity - If DMG is unable to negotiate favourable electricity rates in connection with the operation of its business, or should electricity rates in Canada or other jurisdictions where the company may conduct operations in future, increase by a substantial amount, the operating costs of DMG would likely increase which could adversely affect its profitability and deployment of capital. In addition, any interruption of power would have direct implications on DMG's capacity to generate revenue and could cause damage to equipment.

Green concerns – Cryptocurrency mining is very energy intensive. The Proof of Work algorithm which supports several blockchains including Bitcoin encourages a maximum number of participants to confirm transactions in parallel. Only one participant successfully solves any given block and only one is paid. As such, there is much wasted effort which consumes significant amounts of electricity. There are estimates that mining of Bitcoin in aggregate consumes more economic value in electricity than it provides in newly minted Bitcoin. We expect that this will attract an increasingly negative public impression, particularly for those using electricity which comes from non-renewable or polluting sources and also for helping to increase prices in dynamically priced jurisdictions.

Declining Bitcoin award value – The Bitcoin blockchain has discrete events where the award for solving a new block are programmatically halved. The last such event was in July 2016 when the Bitcoin reward went from 25 BTC to 12.50 BTC. The number of Bitcoins generated per block is sees a 50% reduction every 210,000 blocks, or approximately four years.

Power in the pools – A mining pool is created when cryptocurrency miners pool their processing power over a network and mine transactions together. Rewards are then distributed proportionately to each miner based on the work or the hash power contributed. The organizer of the pool typically takes 1-2% of payout and/or takes a cut of transaction fees. That said, the organization controlling the pool does have the power to shift the pool's focus and to adjust its fees. We fully expect that DMG will pursue the creation of its own pool as it reaches scale.

Management & Board of Directors

Overview

DMG's management team includes seasoned Bitcoin mining experts, forensic & financial professionals, and blockchain developers with deep relationships throughout North America and Japan, with previous experience working at Bitfury, PwC, EY, Cisco and UBS. The management team includes several former executives from Bitfury, one of the world's leading blockchain software and hardware companies. We highlight key members of management and directors of the board below.

Figure 27: Management brings a wide array of relevant experience

Source: Company Presentation

Daniel Reitzik – Co-founder, CEO and Director

Dan Reitzik is an entrepreneur with several ventures in the past. These include Digital Youth Network, a teen-focused wireless community, which was a joint venture between Rogers Wireless, Canada's largest mobile phone network and Universal Music, the world's largest record label. Mr. Reitzik also founded WindowActive Systems Inc., a touchscreen technology company with clients that included Walmart, RE/MAX and Glentel

Sheldon Bennett – COO

Based in Castlegar B.C., Sheldon Bennett has over 20 years of management experience at leading international companies including PwC, Ernst & Young, Baker & McKenzie, Cisco Systems and Fonterra CIS. For the past three years Mr. Bennett led Bitfury's Canadian mining operations, where he was responsible for the setup and development of industrial Bitcoin mining operations, including government relations, power optimization with Canadian utilities. Prior to this, Mr. Bennett was a senior leader of Cisco's Russian operations during a turbulent period.

Steven Eliscu – EVP Corporate Development

Based in California, Steven Eliscu heads up Corporate Development for DMG Blockchain Solutions. He was most recently Senior Director of Finance at Bitfury. Prior to Bitfury, Mr. Eliscu had his own consulting business, during which he was part of a corporate development team that executed a half-billion-dollar acquisition. Prior to that Mr. Eliscu was an equity research analyst at UBS for 9 years, during which he covered semiconductor companies with an aggregate market cap in excess of US$200B. He has also worked in executive marketing and business development roles in the semiconductor and network equipment sectors. We expect that Mr. Eliscu will provide important industry contacts as DMG pursues proprietary ASIC technology. As well, we believe his track record suggests a strong understanding of the drivers of capital markets securities valuation.

Danny Yang – CTO

Danny Yang has previous experience starting several companies in the blockchain and AI space. Mr. Yang is the CEO of Blockseer and became CTO of DMG upon completion of the acquisition of Blockseer in 2018. Mr. Yang has a BA in Chemistry and Physics from Harvard, and a PhD in Computer Science from Stanford.

Simon Padgett – Director, Forensic Services

Simon Padgett is a British ACCA Accountant with a Canadian CPA and an MBA from Oxford. He is also a CFE with over 25 years of experience as Head of Internal Audit, Risk Management and Corporate Governance, with a focus on and specialization in Forensic Accounting and Fraud and Corruption Investigations, Anti-Fraud Programs and Anti-Money Laundering. He has worked for the Big 4 Accountancy firms including six years at Ernst & Young in South Africa and KPMG in the Caribbean Region.

Chris Filiatrault – Co-Founder and Chairman of the Board

For over 30 years, Chris Filiatrault has been developing Internet technology and software for the Japanese business market. In May of 2012, Mr. Filiatrault brought Bitcoin to the Japanese market and since then has become a respected international authority on Bitcoin, opening the first Bitcoin ATM in Tokyo in 2014, and authoring his first book about Bitcoin in Japanese.

Ryan Cheung – CFO

Ryan Cheung is the founder and managing partner of MCPA Services Inc., Chartered Professional Accountants, in Vancouver, B.C. Mr. Cheung serves as a director, officer, or consultant for public and private companies, providing financial reporting, taxation and strategic guidance.

Charlie Lee – Special Advisor to the Board

Charlie Lee is a prominent figure in the cryptocurrency universe, having created Litecoin, one of the world's largest cryptocurrencies by market capitalization. Mr. Lee also served as a former director of engineering at Coinbase, one of the most popular cryptocurrency exchanges. Mr. Lee Graduated from MIT with a computer science degree and developed Litecoin while working at Google as a software engineer. In 2017, Mr. Lee stepped down from his position at Coinbase to work full time on Litecoin as managing director of the Litecoin Foundation.

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Investment Recommendation

Date and time of first dissemination: June 21, 2018, 16:26 ET

Date and time of production: June 21, 2018, 16:26 ET

Risks to achieving Target Price / Valuation:

DMG Blockchain Solutions, Inc. - DMGI

Investment risks include 1) Cryptocurrency price volatility; 2) Lack of financial visibility; 3) Regulatory developments; 4) A target for fraud and cyberattack; 5) Governance and appropriate remuneration; 6) Cryptocurrency industry, updates to technology or protocols; 7) Rising network hash rates; 8) Insufficient miner incentives; 9) Technological obsolescence and required capex; 10) Future capital needs and uncertainty of additional financing; 11) Cryptocurrency is not covered by deposit insurance; 12) Transition to POS validation; 13) Electricity costs and continuity; 14) Green concerns; 15) Declining Bitcoin award value; and 16) Mining pool fee price inelasticity.

Distribution of Ratings:

Global Stock Ratings (as of 06/21/18)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	569	61.98%	42.71%
Hold	224	24.40%	26.34%
Sell	22	2.40%	18.18%
Speculative Buy	103	11.22%	65.05%
	918*	100.0%	

*Total includes stocks that are Under Review

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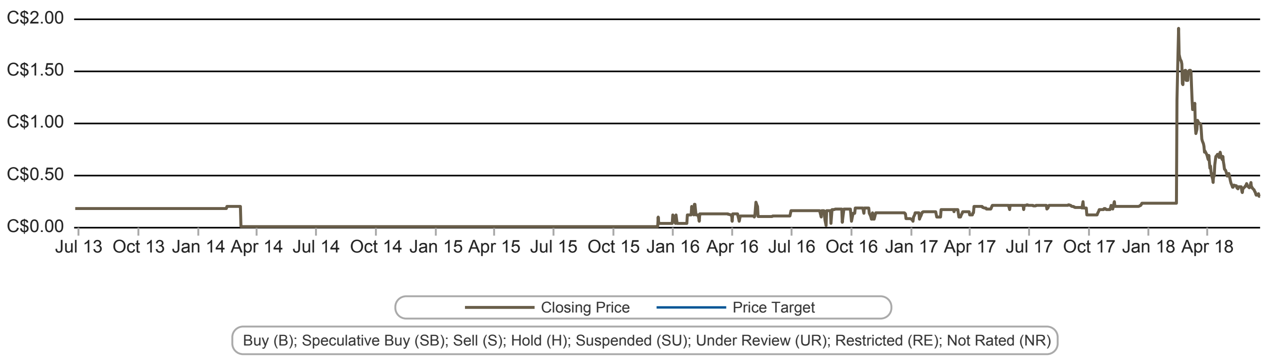
DMG Blockchain Solutions, Inc. Rating History as of 06/20/2018



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