

**Neptune Digital Assets Corp. (NDA.V)**  
**Rating: Buy**

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**Early Results Show Proof of Concept; Reiterating Buy Rating**

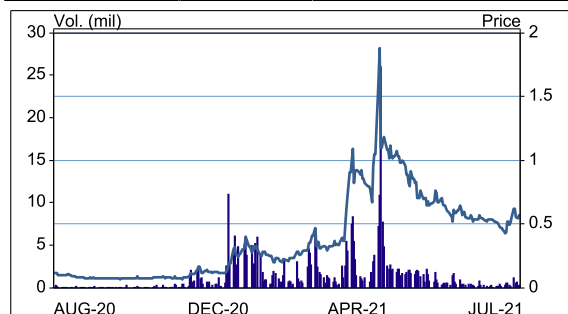
Stock Data	08/02/2021
Price	C\$0.57
Exchange	TSXV
Price Target	C\$1.00
52-Week High	C\$2.22
52-Week Low	C\$0.07
Enterprise Value (M)	C\$53
Market Cap (M)	C\$53
Shares Outstanding (M)	108.8
3 Month Avg Volume	776
Short Interest (M)	0.13

Balance Sheet Metrics	
Cash (M)	C\$0.10
Total Debt (M)	C\$0.00
Total Cash/Share	C\$0.00

General: EPS might not add on account of stock issuance and rounding.

EPS (C\$) Diluted			
Full Year - Aug	2020A	2021E	2022E
1Q	0.00	0.00A	--
2Q	0.01	0.03A	--
3Q	0.00	(0.06)A	--
4Q	0.01	0.01	--
FY	0.01	(0.01)	0.05

Revenue (C\$M)			
Full Year - Aug	2020A	2021E	2022E
1Q	C\$0.0	C\$0.0A	--
2Q	C\$0.0	C\$0.0A	--
3Q	C\$0.0	C\$0.0A	--
4Q	C\$0.1	C\$0.4	--
FY	C\$0.1	C\$0.5	C\$7.4



**Grabbing the bull by the horns.** Neptune Digital announced 3Q21 (May) financial results late last week, losing C\$0.07 per share, down from a C\$0.03 gain in the previous quarter (Feb.). The main driver for the quarterly loss was a sharp decline in the broad cryptocurrency market, in part on account of the Chinese government's crackdown on crypto mining and concerns over the amount of energy crypto mining uses, for example: (1) bitcoin, which accounts for 16.8% of Neptune's crypto portfolio at May quarter's end, reached C\$79,437 on April 15, before tumbling to C\$45,027 on May 31; (2) Cosmos, at 33.8% of the portfolio, hit an all-time high of C\$35.97 on May 7, before closing out the month at C\$16.66; and (3) Ethereum, at 12.3% of the portfolio, hit C\$5,044.53 on May 10 before ending the month at C\$3,183.95. Other cryptocurrencies held by the company experienced similar price declines in April and May, which caused Neptune to record a C\$3.5M unrealized loss on investments and short-term loans. More important to focus on, in our opinion, is Neptune's unfortunately masked bull horn grab in the proof-of-concept display of C\$1.6M in interest and staking income. The stake—able tokens within the C\$7.1M digital currency portfolio as of May 31 are locked up for a predetermined period, while also earning interest—collectively earned C\$633,740 reported on the other income line for 3Q21, and up sequentially from C\$94,911 earned in 2Q21. We see an opportunity for investors to participate in broad crypto appreciation and associated income as the company manages a portfolio of diverse cryptocurrencies, as thoroughly discussed in our June 25 note, *Early Stage Crypto Mining and Staking Conglomerate Shows Promise; Initial Coverage Buy, Though Risky*.

**Reiterating bottom-line estimate as our confidence grows in reported and suggested earnings.** Apropos of the July 28 press release detailing operation practicality and subsequent increase in confidence regarding management's ability to execute its planned strategy, we are raising our FY22 staking income to C\$3.8M from C\$1.0M, shown in the other income line, as Neptune has repeatedly hit the C\$300,000–400,000 mark in monthly staking revenue and such gains are expected to continue. We see significant potential in the staking space, exemplified by the company's efforts to maintain a low cash balance, at a mere C\$103,000 May 31, as Neptune earns a fraction of 1% in interest, compared to the digital currency portfolio of C\$7.1M, which when staked, earns a blended rate upwards of 5–10%, dependent on the staked coin and period. Additionally, we are raising our bitcoin mining revenue estimate to C\$7.4M from C\$6.3M, driven by: (1) the recent July 7 order for 200 Antminer S19 Pro's producing 22 PH/s that pushes the current hash rate to 37 PH/s, nearly halfway, to the guidance of 75 PH/s by the end of CY21; (2) a depressed network bitcoin hash rate, which is currently at 108.1 EH/s, down from a recent high of 180.6 EH/s on May 13; and (3) a moderate increase to our average bitcoin price forecast. While the company strives to maintain lean operations, we have increased our site operation costs, in an effort to remain conservative, and account for an increase in hash rate and overall power costs. Further and importantly, in our opinion, the May quarter presented proof-of-concept relating to the company's business model, engendering an increase in our confidence in both the business model and management team.



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**Reiterating Buy rating and C\$1.00 price target.** We reiterate our Buy rating, based on three specific views to valuation and our forecast: (1) historical trading range supports a higher stock price, especially based on the increase in bitcoin mining hash rate complemented by Neptune's portfolio of cryptocurrencies now valued at C\$7.1 million, up from C\$5.5 million in 2Q21; (2) our take on the earnings generated by Neptune's staked crypto is in line with the C\$300,000-400,000 monthly earnings Neptune says it saw during the past few months; and (3) a P/E multiple of 20x our FY22 (ends August) C\$0.05 EPS estimate that could prove conservative in light of Neptune's staking returns while yielding a C\$1.00 target. From a diversification perspective, Neptune's shares provide some risk mitigation as viewed against a pure bitcoin mining company, where we actively follow many names; however, its limited operating history is subject to several risks, including insufficient cash accumulation, undercapitalization, inability to generate earnings, and on-availability of financial resources. While running lean operations, the company's financial resources may continue to be deployed for the development of its business and related activities, which, as normal, is expected to be covered by earnings and cash generation going forward. Further, there is no assurance that, in the absence of adequate earnings and cash inflows, Neptune may be able to raise the required funds for its future expansion.

Quarterly Earnings Model  
(C\$ thousands, except per share data)

8/3/2021 FY Ending 08/31: NDA-TSE	8/31/2020A					8/31/2021E					Estimate	Estimate
	Q1A 11/30	Q2A 2/29	Q3A 5/31	Q4A 8/31	YEAR 8/31/2020	Q1A 11/30	Q2A 2/28	Q3A 5/31	Q4E 8/31	YEAR 8/31/2021	YEAR 8/31/2022	
Revenues	C\$39.4	C\$0.0	C\$0.0	C\$109.7	C\$149.1	C\$29.6	C\$0.0	C\$0.0	C\$442.5	C\$472.1	C\$7,440.4	
Site op. costs	2.9	0.0		3.2	6.16	0.38	0.0	0.0	117.7	118.12	2,241.4	
Mining profit	36.5	0.0	0.0	106.4	142.91	29.24	0.0	0.0	324.8	354.00	5,199.0	
Depreciation	0.0	0.0	0.0	0.0	0.00	0.00	0.0	52.8	398.2	450.97	1,592.8	
Gross profit	36.5	0.0	0.0	106.4	142.91	29.24	0.0	(52.8)	(73.4)	(97.0)	3,606.1	
Operating Costs												
Expenses	107.2	145.9	113.8	171.1	537.99	105.01	191.4	195.6	190.0	681.98	1,000.0	
Share-based comp.	53.8	(147.1)	10.4	10.4	(72.4)	10.42	1,290.3	4,289.3	0.0	5,589.96	0.0	
Operating Inc.	(124.5)	1.2	(124.3)	(75.0)	(322.6)	(86.2)	(1,481.6)	(4,537.6)	(263.4)	(6,368.9)	2,606.1	
Other inc.	1.9	40.9	(75.7)	(44.5)	(77.4)	15.63	108.651	633.7	960.7	1,718.68	3,842.7	
Unreal. gain-loss	0.0	0.0	0.0	0.0	0.00	370.54	4,376.3	(3,554.1)	0.0	1,192.77	0.0	
Dig. curr. chng.	(227.8)	580.7	(202.9)	413.0	562.99	-7.75	283.6	(519.6)	0.0	(243.8)	0.0	
Real. gain-loss	0.0	0.0	0.0	0.0	0.00	0.00	0.0	962.4	0.0	962.42	0.0	
Total other	(225.9)	621.60	(278.6)	368.53	485.58	378.41	4,768.5	(2,477.5)	960.7	3,630.07	3,842.7	
Pretax Income	(350.4)	622.8	(402.9)	293.5	162.95	292.22	3,286.9	(7,015.2)	697.2	(2,738.8)	6,448.8	
Tax	0.0	0.0	0.0	0.0	0.00	0.00	0.0	0.0	0.0	0.00	0.0	
Net Income	(350.4)	622.8	(402.9)	293.5	162.95	292.22	3,286.9	(7,015.2)	697.2	(2,738.8)	6,448.8	
Reval. of dig. Curr.	0.0	0.0	0.0	494.3	494.30	(0.0)	2,782.0	(827.9)	0.0	1,954.07	0.0	
Comp. inc	(350.4)	622.8	(402.9)	787.8	657.25	292.18	6,068.9	(7,843.1)	697.2	(784.8)	6,448.8	
<b>IFRS EPS (C\$)</b>	<b>(C\$0.00)</b>	<b>C\$0.01</b>	<b>(C\$0.00)</b>	<b>C\$0.01</b>	<b>C\$0.01</b>	<b>C\$0.00</b>	<b>C\$0.03</b>	<b>(C\$0.06)</b>	<b>C\$0.01</b>	<b>(C\$0.01)</b>	<b>C\$0.05</b>	
FD Shares out (K)	80,710.0	80,943.0	83,896.7	85,913.6	82,865.8	85,869.2	94,356.3	108,814.5	123,814.5	103,213.6	130,314.5	
<b>MARGIN ANALYSIS</b>												
Gross mining margin	92.5%	n.a.	n.a.	97.1%	95.9%	98.7%	n.a.	n.a.	73.4%	75.0%	69.9%	
Gross margin	92.5%	n.a.	n.a.	97.1%	95.9%	98.7%	n.a.	n.a.	-16.6%	-20.5%	48.5%	
Op. Exp. % sales	408.3%	n.a.	n.a.	165.5%	312.3%	389.7%	n.a.	n.a.	42.9%	1328.5%	13.4%	
Operating margin	-315.8%	n.a.	n.a.	-68.4%	-216.4%	-291.0%	n.a.	n.a.	-59.5%	-1349.0%	35.0%	
Pretax margin	-889.0%	n.a.	n.a.	267.7%	109.3%	986.7%	n.a.	n.a.	157.6%	-580.1%	86.7%	
Tax rate	0.0%	n.a.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Net margin	-889.0%	n.a.	n.a.	267.7%	109.3%	986.7%	n.a.	n.a.	157.6%	-580.1%	86.7%	
<b>PERCENT CHANGE</b>												
Total revenue	-43.0%	-100.0%	-100.0%	108.5%	-26.3%	-24.9%	n.a.	n.a.	303.6%	216.7%	1475.9%	
Cost of site ops	n.a.	-100.0%	-100.0%	47.3%	-39.7%	-87.1%	n.a.	n.a.	3566.7%	1818.5%	1797.6%	
Mining profit	-47.3%	-100.0%	-100.0%	111.1%	-25.6%	-19.8%	n.a.	n.a.	205.1%	147.7%	1368.6%	
Gross profit	-47.3%	-100.0%	-100.0%	111.1%	-25.6%	-19.8%	n.a.	n.a.	-169.0%	-167.8%	-3818.9%	
Operating profit	-48.7%	-100.4%	-37.1%	-41.2%	-60.9%	-30.8%	n.a.	3551.7%	251.1%	1874.0%	-140.9%	
Net Income	-89.9%	-211.3%	-118.7%	-111.9%	-103.7%	-183.4%	427.8%	1641.3%	137.6%	-1780.8%	-335.5%	
Share Count	0.6%	0.7%	3.9%	6.4%	2.9%	6.4%	16.6%	29.7%	44.1%	24.6%	26.3%	
EPS	-90.0%	-210.6%	-118.0%	-129.9%	-114.7%	-178.4%	352.8%	1242.5%	-38.6%	-195.9%	-750.9%	
Sequential Sales Growth	-25.0%	-100.0%	n.a.	n.a.	36.0%	-73.0%	-100.0%	n.a.	n.a.			

Source: Co. reports and H.C.W. estimates.

Balance Sheet (C\$'s Thousands)	8/31/2020A				8/31/2021E		
	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3A
	<u>11/30</u>	<u>2/29</u>	<u>5/31</u>	<u>8/31</u>	<u>11/30</u>	<u>2/28</u>	<u>5/31</u>
<b>Current Assets</b>							
Cash	403.0	346.9	291.8	117.6	43.5	129.9	103.0
Accounts rec. and prepaid exp.	57.2	64.0	69.0	77.9	108.0	88.8	172.5
Digital currencies	173.3	290.9	392.3	121.8	0.0	0.0	0.0
Loan rec.	0.0	0.0	0.0	765.6	1,281.8	4,029.7	36,708.7
Short-term investments	0.0	0.0	0.0	392.1	248.2	2,375.4	1,828.1
<b>Total Current Assets</b>	<b>633.5</b>	<b>701.8</b>	<b>753.1</b>	<b>1,475.0</b>	<b>1,681.5</b>	<b>6,623.8</b>	<b>38,812.3</b>
Property, plant and equip.	0.0	0.0	0.0	0.0	0.0	0.0	1,213.5
Digital currencies	1,841.3	2,344.2	2,123.2	2,324.0	2,435.4	5,485.6	7,110.7
<b>Total Assets</b>	<b>C\$2,474.7</b>	<b>C\$3,045.9</b>	<b>C\$2,876.2</b>	<b>C\$3,799.0</b>	<b>C\$4,116.9</b>	<b>C\$12,109.4</b>	<b>C\$47,136.5</b>
Accounts payable	135.7	231.3	153.4	233.8	294.6	300.5	67.3
Loans payable	100.0	100.0	0.0	0.0	0.0	0.0	905.4
Accrued liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LT debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>235.7</b>	<b>331.3</b>	<b>153.4</b>	<b>233.8</b>	<b>294.6</b>	<b>300.5</b>	<b>972.7</b>
Total equity	2,239.0	2,714.7	2,722.8	3,565.1	3,822.4	11,808.9	46,163.9
<b>Total Liab. &amp; Equity</b>	<b>C\$2,474.7</b>	<b>C\$3,045.9</b>	<b>C\$2,876.2</b>	<b>C\$3,799.0</b>	<b>C\$4,116.9</b>	<b>C\$12,109.4</b>	<b>C\$47,136.5</b>
Cash & marketable securities	C\$403.0	C\$346.9	C\$291.8	C\$117.6	C\$43.5	C\$129.9	C\$103.0
Change in cash (QoQ):	(107.0)	(56.2)	(55.1)	(174.2)	(74.1)	\$86.5	(27.0)
Cash per share	C\$0.0	C\$0.0	C\$0.0	C\$0.0	C\$0.0	C\$0.0	C\$0.0
Tot digital asset	C\$2,014.5	C\$2,635.1	C\$2,515.5	C\$2,445.7	C\$2,435.4	C\$5,485.6	C\$7,110.7
Change in digital asset (QoQ):		620.6	(119.6)	(69.7)	(10.3)	3,050.1	1,625.2
Debt	100.0	100.0	0.0	0.0	0.0	0.0	905.4

Source: Company reports.

## 3Q21 Income Statement Comparison

8/3/2021 FY Ending 08/31: NDA-TSE	Actual Q3A 5/31	H.C.W. Estimate Q3E 5/31	Prior Quarter Q2A 2/28	Prior Year Q3A 5/31
Revenues	\$0.0	\$128.6	\$0.0	\$0.0
Site op. costs	0.0	18.7	0.0	
Mining profit	0.0	109.9	0.0	0.0
Depreciation	52.8	0.3	0.0	0.0
Gross profit	(52.8)	109.6	0.0	0.0
Operating Costs				
Expenses	195.6	190.0	191.4	113.8
Share-based comp.	4,289.3	0.0	1,290.3	10.4
Operating Inc.	(4,537.6)	(80.4)	(1,481.6)	(124.3)
Other inc.	633.7	167.4	108.7	(75.7)
Unreal. gain-loss	(3,554.1)	0.0	4,376.3	0.0
Dig. curr. chng.	(519.6)	0.0	283.6	(202.9)
Real. gain-loss	962.4			
Total other	(2,477.5)	167.4	4,768.5	(278.6)
Pretax Income	(7,015.2)	87.0	3,286.9	(402.9)
Tax	0.0	0.0	0.0	0.0
Net Income	(7,015.2)	87.0	3,286.9	(402.9)
Reval. of dig. Curr.	(827.9)	0.0	2,782.0	0.0
Comp. inc	(7,843.1)	87.0	6,068.9	(402.9)
<b>IFRS EPS (C\$)</b>	<b>(\$0.07)</b>	<b>\$0.00</b>	<b>\$0.03</b>	<b>(\$0.00)</b>
FD Shares out (K)	108,814.5	97,048.9	94,356.3	83,896.7
<b>MARGIN ANALYSIS</b>				
Gross mining margin	n.a.	85.5%	n.a.	n.a.
Gross margin	n.a.	85.2%	n.a.	n.a.
Op. Exp. % sales	n.a.	147.8%	n.a.	n.a.
Operating margin	n.a.	-62.5%	n.a.	n.a.
Pretax margin	n.a.	67.7%	n.a.	n.a.
Tax rate	0.0%	0.0%	n.a.	0.0%
Net margin	n.a.	67.7%	n.a.	n.a.
<b>PERCENT CHANGE</b>				
Total revenue	n.a.	262.8%	n.a.	-100.0%
Cost of site ops	n.a.	n.a.	n.a.	-100.0%
Mining profit	n.a.	210.1%	n.a.	-100.0%
Gross profit	n.a.	209.2%	n.a.	-100.0%
Operating profit	3551.7%	2.6%	n.a.	-37.1%
Net Income	1641.3%	-146.0%	427.8%	-118.7%
Share Count	29.7%	15.7%	16.6%	3.9%
EPS	1401.0%	-139.8%	352.8%	-118.0%
Sequential Sales Growth	n.a.	n.a.	-100.0%	n.a.

Source: Co. reports and H.C.W. estimates.

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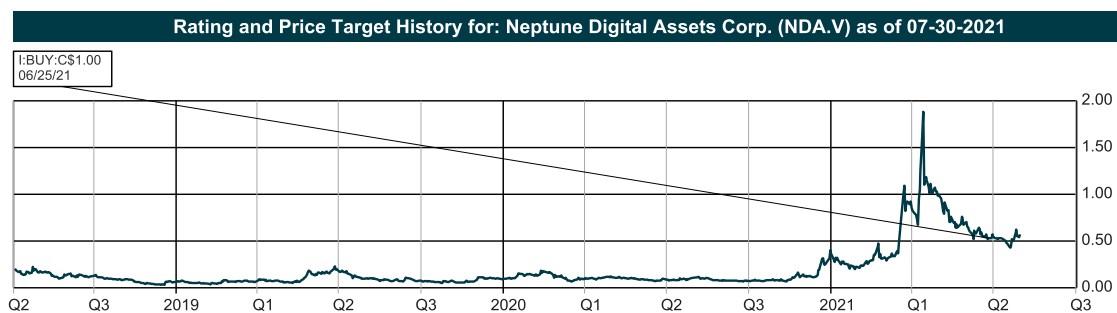
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## RETURN ASSESSMENT

**Market Outperform (Buy):** The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

**Market Perform (Neutral):** The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector.

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Distribution of Ratings Table as of August 2, 2021				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	508	90.07%	193	37.99%
Neutral	51	9.04%	15	29.41%
Sell	1	0.18%	0	0.00%
Under Review	4	0.71%	1	25.00%

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The Firm does not make a market in Neptune Digital Assets Corp. as of the date of this research report.

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