

Valour Inc. – Debut of Bitcoin Carbon Neutral ETP and Change in Senior Leadership Team

Valour Inc. (NEO: DEFLNE)

Share Price: C\$0.17

Valuation: C\$3.53

V A L O U R

Key Statistics

52 Week Range	C\$0.16-C\$4.40
Avg. Volume (3 months)	280.46K
Shares Outstanding	208.9M
Market Capitalization	C\$34.85M
EV/Revenue	8.4x
Cash Balance*	C\$5.59M
Analyst Coverage	3

*Cash balance as of June 2022

Revenue (in C\$m)

Dec - FY	2021A	2022E	2023E
1Q	3.3	1.8	4.4
2Q	(1.9)	(5.2)	5.5
3Q	8.6	5.3	6.7
4Q	5.1	9.5	7.2
FY	15.1	11.4	23.8

EPS (in C\$)

Dec - FY	2021A	2022E	2023E
1Q	(0.04)	(0.06)	(0.03)
2Q	(0.06)	(0.09)	(0.02)
3Q	(0.01)	(0.00)	(0.01)
4Q	(0.25)	(0.00)	0.00
FY	(0.37)	(0.15)	(0.07)

Stock Price Chart (in C\$)



Hunter Diamond, CFA
research@diamondequityresearch.com

Investment Highlights

- Accelerating Growth Trajectory with Newly Appointed CEO** - Valour Inc. recently announced the appointment of Olivier Roussy Newton as the company's Chief Executive Officer (CEO). The former CEO, Russell Starr, will re-assume the role of Head of Capital Markets and maintain his role as Executive Chairman. Mr. Roussy Newton previously founded and served as the President of HIVE Blockchain Technologies (NASDAQ: HIVE), the first publicly traded crypto miner. Additionally, he also serves on the board of SEBA Bank AG. Mr. Roussy's broad expertise in blockchain technology and Web 3.0, along with his efficient execution capabilities, will potentially allow Valour to increase its global reach, build new partnerships and align corporate governance initiatives of the company globally.
- Non-brokered Private Placement** - Valour announced a non-brokered private placement financing of up to 25,000,000 units at a price of \$0.20 per unit for gross proceeds of up to \$5 million. Each Unit will consist of one common share of the company and one half of a common share purchase warrant, entitling the holder of a Warrant to acquire one additional common share of Valour at an exercise price of \$0.30 for a period of 24 months from issuance.
- Valour Partners with Swedish Index Provider Vinter**: Valour has partnered with Swedish index provider Vinter to launch Valour's first multi-asset crypto ETP, the Valour Digital Asset Basket 10 Index (VDAB10). The Valour Digital Asset Basket 10 ETP tracks the 10 largest digital assets weighted by their current market capitalization, with a maximum portfolio allocation of 30% per asset. The index, provided by Vinter, is rebalanced quarterly and weighted to enable investors to gain broad and trusted exposure to the largest disruptive digital assets, offering a diversified entry without the need to set up a dedicated trading account.
- Debut of Bitcoin Carbon Neutral Exchange Traded Product (ETP)** - The company announced the debut of Bitcoin Carbon Neutral Exchange Traded Product (ETP) on Börse Frankfurt. The ESG-focused ETP will offer investors sustainable and climate-friendly exposure to Bitcoin with a trusted investment method that benefits the environment by funding certified carbon removal to neutralize the associated Bitcoin carbon footprint. Valour has partnered with Patch, a leading climate action infrastructure provider, in structuring the ETP. Patch's API-based solutions are leveraged to estimate the amount of carbon emission the Valour portfolio has and select high-integrity projects to offset the emissions. Promoting sustainable practices, the company has launched the Bitcoin Carbon Neutral ETP (ISIN: CH1149139706) with a low management fee of 1.49%.
- Ethereum's Assets from "Merge" to be Integrated into the Product's NAV** - With the successful completion of the first phase of the Ethereum upgrade, Valour's Ethereum Zero products (Valour Ethereum Zero SEK, ISIN: CH1104954362 and Valour Ethereum Zero EUR, ISIN: CH0585378752) continues to track the underlying asset (ETH) of the upgraded Proof-of-Stake blockchain, known as the Beacon Chain. In line with Valour's commitment to maximizing shareholder value, assets received from airdrops and forked versions of the Ethereum protocol will be reinvested into the certificate program's underlying asset and integrated into the product's NAV (Net Asset Value).

Company Description

Valour Inc. (previously Defi Technologies) is a technology company bridging the gap between traditional capital markets and decentralized finance. The company generates revenue through three core pillars by catering to individuals, institutions, and running DeFi protocols

Company Overview

Valour Inc. (previously DeFi Technologies) (NEO: DEFI.NE) (OTCMKTS: DEFTF) (FRA: RMJ) is a Toronto-based technology company working to overcome the limitations of traditional capital markets and offer the benefits of decentralized finance. The company is listed on NEO exchange in Canada (NEO: DEFI.NE), OTC Markets (OTCMKTS: DEFTF) in the United States, and Frankfurt Stock Exchange in Germany (FRA: RMJ). While traditional financial transactions are controlled by middlemen, decentralized finance in contrast eliminates the need for middlemen and frees the system from these institutional constraints. The traditional system has lots of protocols, approaches, and players, which makes it difficult for investors to participate in the space without any prior technical expertise and knowledge. Valour Inc. (previously DeFi Technologies) brought together thought leaders and veterans from finance, technology, education, and cryptocurrency to educate investors on decentralized finance and create simplified ways to gain exposure to this area of the market.

Valour Inc. (previously DeFi Technologies) is bridging the gap between traditional capital markets and

The company generates revenue through **three core pillars** by catering to individuals, institutions, and running DeFi (Decentralized Finance) protocols. DeFi Asset Management and DeFi Ventures utilize the company’s expertise by identifying and investing in widely used revolutionary DeFi protocols that have the potential to expand rapidly. This empowers everyday investors to create positions without opening a crypto account and/or creating a wallet. Furthermore, DeFi Governance is another revenue-generating pillar of the company, which is developing governance and infrastructure products and services within the DeFi ecosystem; providing independent governance for decentralized networks to run independent nodes that validate transactions. As more Decentralized Finance applications seek to improve the way their projects are governed by their respective token holders, a need has emerged for independent governance.¹ The total value locked in the DeFi (Decentralized Finance) projects reached a record level in 2021, demonstrating the scale at which this nascent technology is growing.

Blockchain, NFTs and Tokenization are changing the financial services and asset management industries

Digital Assets – Transforming Financial Services

Digital Assets are transforming the global financial and investment landscape, as financial institutions across the globe work towards expanding their offering related to digital assets. With vast use cases of digital assets including blockchain technology and tokenization, it is moving towards mainstream adoption. In August 2021, the global market capitalization of cryptocurrencies was more than \$2 trillion, more than double what it had been at the end of 2020. In other words, after just a decade in existence, the global market cap of cryptocurrencies reached approximately 20 percent of the global market cap of gold - the reserve asset for the world’s currencies throughout most of modern history.² Millennials globally and those in the Middle East and Africa are especially engaged in the cryptocurrency conversation, with more than half (67%) agreeing they are more open to using cryptocurrency.³ While the potential in the digital asset space is huge, the lack of proper infrastructure and regulatory environment are major hurdles for its

¹ Company Website, <https://defi.tech/defi-infrastructure/>

² Digital Assets: From Fringe to Future, <https://www.bnymellon.com/apac/en/insights/all-insights/digital-assets-from-fringe-to-future.html>

³ Mastercard New Payments Index: Consumer appetite for digital payments takes off, <https://www.mastercard.com/news/press/2021/april/mastercard-new-payments-index-consumer-appetite-for-digital-payments-takes-off/>

growth. Investors require infrastructure that is comparable to that which exists for traditional assets. While the regulatory environment needs to be stable and without any major impediments, to support investor confidence.

Parabolic Move in the Digital Asset Management Market

The world of investing has changed dramatically in the last decade and since the 2008 financial crisis, Exchange Traded Products (ETPs) came under investors' radar that carries specific benefits along with it. All the financial booms and bursts in the past have occurred generally due to the irrational and exuberant investor behaviour with respect to a certain asset class, be it Tulips or internet stocks. However, the 2008 crisis was not a product of the irrational behaviour of investors; rather it occurred due to non-transparency in the investments. This led to the growth and popularity of ETPs which offer benefits including transparency, liquidity, exchange listing, and product standardization. Some view cryptos as a high-risk asset, however with gaining popularity amongst retail and institutional investors, this asset class offers a significant diversification benefit. Instead of investing individually in a specific token or cryptocurrency, the Crypto ETPs would track a basket of tokens and cryptocurrencies that would provide diversification benefits at minimal risk along with exposure to this young asset class.

Entry of traditional and well-established asset management companies are likely to boost confidence of the overall market given their long-standing goodwill in the capital

The increased adoption of digital solutions by new-age organizations to upgrade their operational efficiency has taken the front seat and their traditional counterparts are struggling to compete at the same pace. This has been the problem faced by traditional financial services firms from banking, insurance, consulting firms to asset management companies. Well-established asset management firms like UBS and BlackRock are also looking to enter the crypto fund space.⁴ Validation from big fund houses and asset management companies is expected to boost confidence within the crypto space, making it one of the mainstream alternative asset classes. Fidelity International which has nearly \$812.8 billion in assets under management has decided to launch a physical bitcoin exchange-traded product designed on the Deutsche Börse in Frankfurt and SIX Swiss Exchange in Zurich.⁵

Creating synergies by leveraging capabilities

SEBA Bank AG - A Swiss licensed crypto bank

Earlier this year, Valour Inc. (previously Defi Technologies) entered into a commercial agreement with SEBA Bank AG to establish a preferred partnership relationship. SEBA is a fully integrated, FINMA licensed, digital assets banking platform that provides a seamless, secure, and easy-to-use bridge between digital and traditional assets. With this industry-leading agreement between both the companies, it will enhance the competitive edge of Valour Inc. (previously Defi Technologies) and its wholly-owned subsidiary Valour at a very nascent stage.

The company has engaged in multiple agreements, where SEBA Bank AG and Valour Inc. (previously Defi Technologies) will launch a joint initiative to offer investment solutions in crypto

⁴ Popularity of crypto funds sparks growing interest from managers, <https://www.ft.com/content/6b8fe379-e96f-483a-9842-5ed9a09b6903>

⁵ Fidelity International Debuts Bitcoin ETP in Europe, <https://www.coindesk.com/business/2022/02/15/fidelity-international-debuts-bitcoin-etp-in-europe/>

assets. The first product to be launched will be an asset-backed product for the European market. Aside from this Valour Inc. (previously Defi Technologies) is set to become a preferred provider of staking services, client referrals, market-making, and liquidity to SEBA, and the latter to become a preferred provider of custody services to Valour Inc. (previously DeFi Technologies). We believe that this partnership will create synergies between both parties in various areas and eventually enhance the shareholder value by providing greater institutional access to regulated investment opportunities in this growing Web 3.0 and DeFi space. Apart from enhancing shareholder value, this agreement is a unique stand-out one-of-its-kind setup in the listed and regulated crypto space that sets apart Valour Inc. (previously Defi Technologies) from its counterparts in the industry.

RockX - Gateway to crypto finance and blockchain

Valour Inc. (previously Defi Technologies) has announced another strategic partnership with RockX to provide staking yield through financial products. RockX is a Singapore-based institutional gateway to crypto finance and blockchains that has more than \$400 million in assets staked and provides \$40 million in annual yield to the validators.

Under this partnership, both the parties will work towards enhancing the staking components of the companies' current respective ETP infrastructure, co-develop ETP products, provide institutional staking services, custodian services, and real-time data yield oracle.⁶ This partnership with RockX adds competitive strength to Valour Inc.'s (previously DeFi Technologies) business and offers investors another way to get exposure to Web 3.0.

HIVE Blockchain Technologies - First publicly traded crypto miner

Earlier in 2021, Valour Inc. (previously Defi Technologies) entered into a strategic partnership with HIVE Blockchain Technologies Ltd. (TSXV: HIVE) (OTCQX: HVBTF) (FSE: HBF) and a share swap agreement between both parties. Under this agreement, Valour Inc. (previously Defi Technologies) diluted its 6.5% equity in exchange for a 1.1% equity share in HIVE Blockchain Technologies. This partnership strategically revolves around a broader decentralized finance ecosystem with a specific focus around Ethereum-based Miner Extractable Value (EMV) and developments surrounding it. We believe that this partnership with HIVE Blockchain Technology, which is one of the largest miners of Ethereum on an industrial scale will provide Valour Inc. (previously Defi Technologies) the much-needed support to grow its infrastructure and governance division by leveraging the company's mining capabilities

⁶ Company's Press Release, <https://www.prnewswire.com/news-releases/defi-technologies-announces-strategic-partnership-with-rockx-to-provide-staking-yield-through-financial-products-301484805.html>

Appendix

Income Statement	FY2019 A	FY2020 A	FY2021 A	FY2022 E	FY2023 E	FY2024 E	FY2025 E	FY2026 E	FY2027 E
Net sales	(831,560.0)	(46,776.0)	15,081,078.0	18,202,267.5	23,798,295.9	33,008,307.6	45,466,528.9	63,921,282.9	88,390,255.4
Operating expenses									
Operating, general & administration	(794,647.0)	(716,210.0)	(56,989,351.0)	(28,213,514.6)	(29,747,869.9)	(29,707,476.9)	(38,646,549.5)	(52,735,058.4)	(70,712,204.3)
Transaction cost	(3,739.0)	(1,592.0)	(1,315,775.0)	(1,588,088.6)	(2,076,323.9)	(2,640,664.6)	(3,637,322.3)	(3,835,277.0)	(5,303,415.3)
Finance cost	-	-	(1,186,408.0)	(3,698,816.0)	(3,698,816.0)	(3,698,816.0)	(3,698,816.0)	(3,698,816.0)	(3,698,816.0)
Foreign exchange loss (gain)	4,125.0	(17,816.0)	(15,481.0)	-	-	-	-	-	-
Total Operating Expenses	(794,261.0)	(735,618.0)	(59,507,015.0)	(33,500,419.2)	(35,523,009.8)	(36,046,957.5)	(45,982,687.9)	(60,269,151.3)	(79,714,435.6)
Depreciation and amortization expenses	-	-	(3,640,198.0)	(3,471,340.6)	(3,569,744.5)	(3,690,189.7)	(3,827,969.6)	(4,048,861.8)	(4,399,178.3)
Total Expenditure	(794,261.0)	(735,618.0)	(63,147,213.0)	(36,971,759.8)	(39,092,754.3)	(39,737,147.2)	(49,810,657.5)	(64,318,013.1)	(84,113,614.0)
Gain on Settlement of Payable	118,483.0	-	-	-	-	-	-	-	-
Gain on Sale of Payable	-	2,998,002.0	-	-	-	-	-	-	-
Excess purchase price over fair value of assets assumed (expensed)	-	(142,075.0)	-	-	-	-	-	-	-
Impairment Loss	-	-	(17,483,284.0)	-	-	-	-	-	-
Profit before tax from continuing operations	(1,507,338.0)	2,073,533.0	(65,549,419.0)	(18,769,492.4)	(15,294,458.3)	(6,728,839.6)	(4,344,128.6)	(396,730.3)	4,276,641.4
Loss on deemed disposal of an associate	-	-	(5,945,800.0)	-	-	-	-	-	-
Net (Loss) income for the year	(1,507,338.0)	2,073,533.0	(71,495,219.0)	(18,769,492.4)	(15,294,458.3)	(6,728,839.6)	(4,344,128.6)	(396,730.3)	4,276,641.4
Income tax (expense) benefit	-	-	-	-	-	-	-	-	(1,197,459.6)
Net earnings including noncontrolling interests	(3,014,676.0)	2,073,533.0	(71,495,219.0)	(18,769,492.4)	(15,294,458.3)	(6,728,839.6)	(4,344,128.6)	(396,730.3)	3,079,181.8

Table 1: Income Statement

Risk Profile

Digital Asset Prices: It is difficult to predict moves in the prices of digital assets or even defining a target and it still remains a highly volatile asset class. The value of the company's stock is directly linked with movement in digital asset price and thus the AUM. With increased volatility and erratic movements in digital asset prices, the market value of the company is likely to have high volatility.

Competitive Pressure: Valour Inc. (previously Defi Technologies) might face competitive pressure from the new entrants and well-established leaders like CoinShares and 21Share in the industry. The entry of traditional financial firms like UBS, Fidelity with established brands within the financial industry can be detrimental to less capitalized smaller companies.

Dilution Risk: The company currently operates at an annual deficit, which is expected to decline in the coming years. But given the current cash position, we expect the company will need to raise funds which might lead to further dilution of equity.

Regulatory risks: The digital asset industry is still in its early stage and is yet to be fully regulated. Further regulatory changes including government policies pose a high risk for the adoption or even use of these digital products. Recently Hungary's central bank governor called for an EU-wide [ban](#) on trading and mining cryptocurrencies. In other legislation, the UK's Financial Conduct Authority (FCA) has [banned](#) the sale of crypto-derivatives to retail consumers. Various new policies thus could adversely impact Valour Inc. (previously DeFi Technologies).

Hurdles in Market Adoption: Cryptocurrencies and other digital assets have recently gained traction as a means of investment vehicles. It seems highly unlikely that the growing interest in these emerging asset classes seems temporary. While the mass adoption of digital assets is difficult to predict might face hurdles that might affect the growth of the overall industry and thus the company, leading to a negative impact on valuations.

These risk factors are not comprehensive. For a full list of risk factors, please read Valour Inc.'s (previously DeFi Technologies) latest prospectus and/or annual filings

Disclosures

Diamond Equity Research, LLC has created and distributed this report. This report is based on information we consider reliable, including the subject of the report. This report does not explicitly or implicitly affirm that the information contained within this document is accurate and/or comprehensive, and as such should not be relied on in such a capacity. All information contained within this report is subject to change without any formal or other notice provided. Diamond Equity Research, LLC is not a FINRA registered broker/dealer or investment adviser and does not provide investment banking services and follows customary internal trading procedures pending the release of the report found on [disclosure page](#).

This document is not produced in conjunction with a security offering and is not an offering to purchase securities. This report does not consider individual circumstances and does not take into consideration individual investor preferences. Recipients of this report should consult professionals around their personal situation, including taxation. Statements within this report may constitute forward-looking statements, these statements involve many risk factors and general uncertainties around the business, industry, and macroeconomic environment. Investors need to be aware of the high degree of risk in micro capitalization equities.

Diamond Equity Research LLC is being compensated by Valour Inc. for producing research materials regarding Valour Inc., and its securities, which is meant to subsidize the high cost of creating the report and monitoring the security, however, the views in the report reflect that of Diamond Equity Research. All payments are received upfront and are billed for an annual or semi-annual research engagement. As of 10/17/2022, the issuer had paid us \$35,000 for our services, which commenced 02/17/2022 and is billed annually. Diamond Equity Research LLC may be compensated for non-research related services, including presenting at Diamond Equity Research investment conferences, press releases and other additional services. The non-research related service cost is dependent on the company, but usually do not exceed \$5,000. The issuer has not paid us for non-research related services as of 10/17/2022. Issuers are not required to engage us for these additional services. Additional fees may have accrued since then.

Diamond Equity Research, LLC is not a registered broker dealer and does not conduct investment banking or receive commission sharing revenue arrangements related to the subject company of the report. The price per share and trading volume of subject company and companies referenced in this report may fluctuate and Diamond Equity Research, LLC is not liable for these inherent market fluctuations. The past performance of this investment is not indicative of the future performance, no returns are guaranteed, and a loss of capital may occur. Certain transactions, such as those involving futures, options, and other derivatives, can result in substantial risk and are not suitable for all investors.

Photocopying, duplicating, or otherwise altering or distributing Diamond Equity Research, LLC reports is prohibited without explicit written permission. This report is disseminated primarily electronically and is made available to all recipients. Additional information is available upon request. For further questions, please contact research@diamondequityresearch.com