

BitGold Inc.

(XAU-V: N/A)

May 13, 2015

BUY, Venture Risk

Dundee target: N/A

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For More Than Just Gold Bugs - BitGold Platform Makes Debut

BitGold Inc.	XAU-V
Rating	Buy
Risk	Venture
Target	N/A
Shares Outstanding	35.98 MM
Fully Diluted S/O	40.36 MM
Cash (est.)	\$9.2 MM
Monthly Corporate Burn	\$170k
Debt	nil
DCM Estimates:	
2015E Users	50-100,000
2016E Users	250-500,000
Customer Acquisition Cost (CA)	\$50-\$100
Average Deposit Size	\$1,000-\$2,000

 Source: Company Reports, DCM
 All in CAD\$ unless otherwise stated


Company Description

BitGold offers unprecedented simplicity in acquiring, storing, and transacting with gold. Its proprietary AURUM technology allows for the quick settlement of physical gold trades so that a users' gold is easily acquired and accessible. Gold is stored in vaults administered by BRINKS, and insured by Lloyds of London. The service is available in 20 languages and 106 global currencies (not available in US).

Listing on the TSX-V today, BitGold (XAU) provides an unprecedented platform allowing users to acquire, store, and transact with a fully reserved, internationally neutral commodity - gold. In the encompassing report we provide a full review of the service, target markets, and potential valuation models. All assumptions and analysis are based on existing public disclosure ([filing statement](#)) and time spent with management. **We rate the company as a BUY, Venture Risk, with no Target Price at this time.**

A new Gold standard: It has become clear that sovereign and geopolitical risk has made for volatile currency markets. Look at the Ruble or Argentine Peso as evidence. But not since the late 1970's has gold been used as a currency. Why? Commodity money is inconvenient to store and transport in large quantities. BitGold aims to overcome this shortcoming and allow users to benefit from gold's historical track record as an inflation-protected store of value. The platform is available in 20 languages and 106 global reference currencies (not in the US).

The BIG picture: Investment demand for gold is substantial - over US\$70B is invested in the gold ETF market and US\$45B of physical gold was purchased for investment last year alone. The market for global payment and money transfer is even larger and growing - PayPal moved some US\$180B around 193 nations in 26 currencies last year. BitGold should be able to capitalize on both growth markets by **offering a cheaper and higher utility platform than its peers.**

	BitGold	BullionVault	GoldMoney	SPDR GOLD SHARES	PayPal
Transaction Fee	1%	0.05-0.5%	1.89%-2.74%	\$25-\$50 ²	1.9-2.9% + \$0.30
MER	0%	0%	0%	0.40%	0%
Storage + Insurance	0%	0.12%	0.12%-0.18%	0%	0%
Minimum Purchase	0.001 gram	1 gram	1 gram	1 share	\$0.03
Withdrawal Fee	1%	1%-5%	na ¹	\$25-\$50	\$0

¹ Information only on request; ² Based on average broker cost

Key Catalysts to watch for in 2015:

- **May 4th** - Public launch of BitGold following two private betas.
- **Monthly** - KPI's (user, transaction and gold holdings data).
- **Summer 2015** - Mobile app in development could unlock user growth; and invoicing system for merchants (major transaction velocity).

Valuation: We used two methods - EV/User and EV/Sales. Both provided wide goalposts of \$20-\$75 MM and \$30-\$120 MM respectively. We would be inclined to the higher end given positive early subscription data.

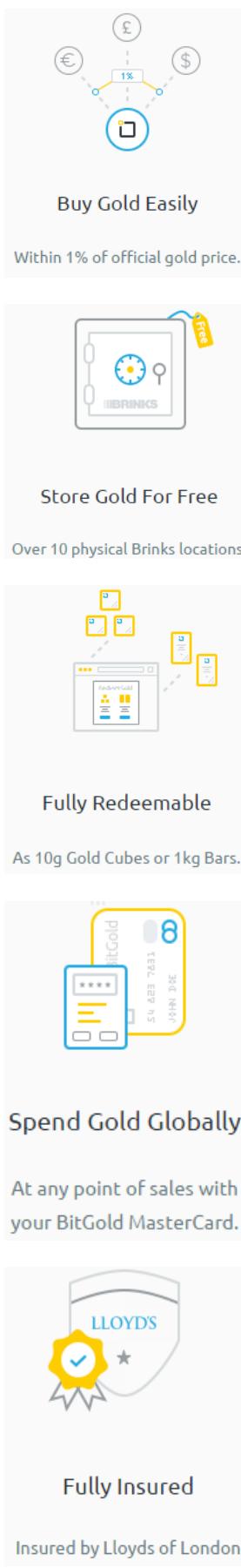
Risks: We highlight several risks on Page 14, including: lack of operating history, unproven market, regulatory risk, dependency on AURUM and network security.

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For More Than Just Gold Bugs - BitGold Platform Makes Debut

- Unprecedented simplicity in acquiring, storing, and transacting with a fully reserved, internationally neutral commodity – gold;
- Platform allows for the quick settlement of physical gold trades so that a users' gold is easily acquired and accessible;
- Provides transaction capability through gold to gold payments, debit card spending, merchant invoicing and physical redemption services;
- Gold acquired by customers is stored in vaults administered by BRINKS, and insured by Lloyds of London;
- All gold is “allocated”, meaning that it is acquired as specific, uniquely numbered, physical pieces of gold, which are owned by the customer;
- Available in 20 languages and 106 global reference currencies (not available in US).

Key Catalysts

- **May 4th** - Public launch of BitGold following two private betas.
- **May 13th** - Public listing on TSX-V under ticker XAU.
- **Monthly** - Key performance indicators (user, transaction and gold holdings data).
- **Summer 2015** - Mobile app in development could unlock user growth; and invoicing system for merchants (major transaction velocity).

How It Works - From a User POV

See Appendix 1 for a breakdown of the sign-up process for BitGold and other interface related screenshots. Overall the on-boarding is fairly straightforward and seamless with several layers of identification verification including e-mail, phone, and a valid government-issued ID. The process to some degree mimics a standard KYC (know your client) form that would be used in a retail wealth management/bank setting.

Deposit/Redeeming Funds: Users have the option to deposit funds to six different global vaults administered by BRINKS - Toronto, London, Zurich, Dubai, Hong Kong and Singapore. After choosing the vault location users have five deposit/redemption methods available through 106 global reference currencies: 1) Direct Bank Deposit - INTERAC, SEPA; 2) Bank Transfer - SWIFT, Wire; 3) Credit/Debit Cards - VISA, MasterCard, China UnionPay; 4) Virtual Currencies - Bitcoin (Ripple coming soon); 5) Cash via BitGold ATM Machine. Once funds are deposited, gold is acquired within 1% of the official spot rate and “allocated” to that particular customer through the company's patent pending AURUM system. We believe most customers are likely to wire cash direct from a bank account. Using debit or credit cards to deposit cash becomes an acquisition cost for the company as merchant fees would be greater than the 1% deposit fee charged.

- **BitGold is NOT a deposit taking institution** - BitGold does not take deposits or hold user funds in any way - the company simply offers a platform to acquire, store and transact with gold. Therefore it has no liability or indebtedness to a customer.

Storing Gold: Gold is fully insured (by Lloyds of London) and stored for free at any six global vaults (costs BitGold 0.12% pa). The gold is vaulted under the customer's names and allocated storage within a separate legal entity. There is little counterparty risk as AURUM only buys/sells gold through The London Bullion Market (LBMA) and/or COMEX meaning each gold bar has a verifiable chain of custody, beginning with the refiner and assayer. There is no maximum amount of gold that can be purchased and the minimum amount is 0.001g or about \$0.05.

The platform can be used in a multitude of ways - from debit spending to gold-gold payments

Transacting: *There are several different types of transactions and uses of the platform:*

- **Spend gold at POS with BitGold Debit Cards** - This would function as any debit card, with gold in users accounts instantly converted to cash at POS.
- **Gold-Gold Payment:** Users can send or receive gold payments to any other user.
- **E-transfer gold:** Similar to sending cash, gold can be sent via email or mobile phone.
- **Convert digital currency to gold:** BitCoin or other cryptocurrencies.
- **BitGold ATM:** Converts up to 100 different currencies into gold, credited instantly to the customer's account; can also make and receive payments (will act similar to the site).
- **For sellers and merchants:** Can earn gold by invoicing time, labour, goods or services; merchants can send an invoice and collect payments from users.

Physical gold redemption: Users can redeem physical gold from designated vaults in the form of kg bars or order gold for insured delivery in 10g cubes (\$25 plus shipping and insurance). The cubes are minted and now being leased by BitGold. The company has ~600 cubes currently or 6kg (leased at 20 bps). By leasing the gold the company is able to avoid the upfront cost of acquisition as well as price risk in holding it as a financial asset.

How It Works - From BitGold's POV

How does BitGold make money? The model is driven by internet-scalable transaction velocity. The company makes a 1% fee on every purchase/redemption. Merchant invoicing through credit, debit and Bitcoin users are charged a 2% fee. Any direct gold-gold payments are free for users. We see two key revenue drivers right now in the model:

- 1) **Initial deposit revenue** - BitGold charges 1% for every dollar deposited; although, if users deposit through VISA or MasterCard, BitGold would face a ~1.5% merchant fee.
- 2) **Transaction velocity (ARPU)** - This is the key to BitGold's business model and valuation but probably the hardest metric to forecast at this stage. We have no operating history and with the platform only being live for essentially a week that data may not be relevant or available for some time. An ARPU assumption comparable to other transaction based services would have to be assumed at this point (see more in valuation on Page 13).

AURUM - proprietary system is the heart of the entire platform - AURUM functions as a consolidated order-book and trade engine obtaining pricing feeds from precious metals dealers, bullion banks, and refiners that quote bid/ask spread in various vaults around the world. The feed results in a best bid or best offer (BBO) which is then distributed to the platform for all transaction events. The company filed a patent on 29-Oct-14, and is hoping to have it published late this year (further patents are also being filed).

Strong compliance - AURUM is designed to meet all regulatory compliance obligations associated with buying and selling gold including AML legislation, tax reporting and bank/record keeping requirements. All of this could be considered bank grade. See 'Checking the Boxes' section below for more details.

Checking the Boxes

Investors will most certainly be trying to find holes in this story given its novelty. Below we highlight key concerns with the platform and how BitGold has aimed to mitigate them:

Table 1: Key platform concerns have largely been mitigated.

✓ Anti-Money-Laundering (AML)	Maintain financial institution-grade KYC and AML policies and procedures. Every account holder required to upload government-issued ID. This is examined through a personal verification process that includes a background check against government databases for sanctions, terrorism, and other potential risks. Ongoing compliance and suspicious activity or "SAR" reports are filed with relevant regulatory agencies if they are identified. Enforced by PCMLTFA and FINTRAC.
✓ Know-your-Customer (KYC)	
✓ Trading Platform	Little counterparty risk as AURUM only buys/sells gold through The London Bullion Market (LBMA) and/or COMEX meaning each gold bar has a verifiable chain of custody, including refiner and assayer.
✓ Storage	Users have the option to deposit funds to six different global vaults administered by BRINKS. All gold has been assayed and stamped 99.95% or better bullion-grade. Vaults are audited daily by BitGold.
✓ Insurance	BitGold Vault by-laws require adequate insurance to be maintained on all vaulted gold for the benefit of BitGold's users. Insurance is provided by Lloyds of London in conjunction with BRINKS.
✓ Security Threat	BitGold platform uses military grade encryption (RSA 4096 and AES 256) to secure accounts and personal information.
✓ Customer Protection	Every account at BitGold is verified using multi-factor authentication. Gold is legally separated from BitGold and held by customers. Although the company warns there is no assurance a third party couldn't claim gold in legal proceedings.
✓ Technology	AURUM functions as a consolidated order-book and trade engine obtaining pricing feeds from precious metals dealers, bullion banks, and refiners in various vaults around the world. Feed results in a best bid or best offer (BBO) which is then distributed to the platform for all transaction events.
✓ Patents	First to file patents; The company filed a patent on 29-Oct-14, and is hoping to have it published late this year (further patents are also being filed).

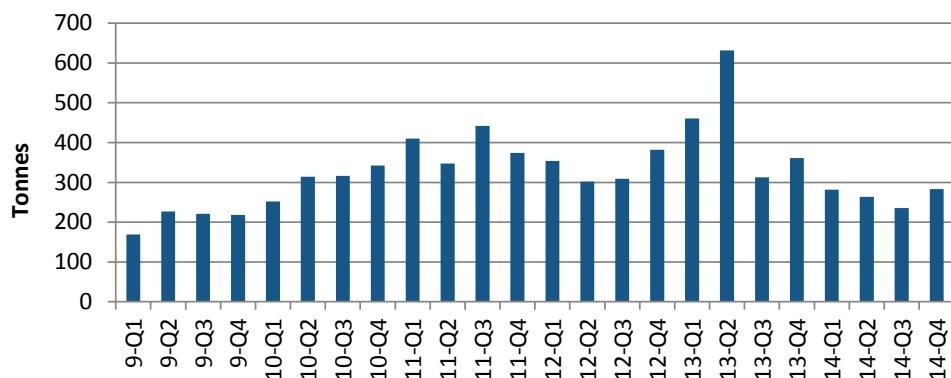
Source: Company Reports, Dundee Capital Markets

Target Markets - Customer Composition Will Evolve Over Time

BitGold has developed a customer acquisition strategy through both online and offline channels, targeting five particular groups:

1) Traditional bullion buyers - According to the World Gold Council total bar and coin investment demand last year was 1,063 tonnes or US\$45B at current spot price of ~US\$1,200/oz (see [here](#)). Gold bars and coins are the most traditional ways to invest in the commodity. Several countries allow the purchase of gold directly from major banks - like Canada, Austria, and Switzerland. Alternatively there are bullion dealers as well.

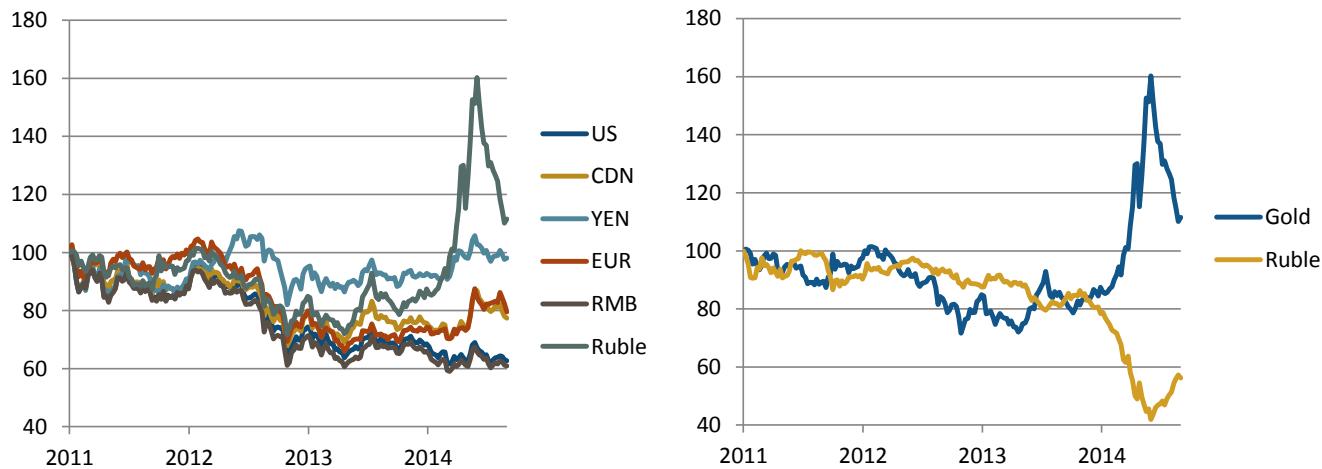
Figure 1: Total gold bar and coin demand by quarter (World Gold Council).



Source: Dundee Economics, World Gold Council, Dundee Capital Markets

2) Consumers with exposure to volatile fiat and digital currency - Assuming users purchase gold in their domestic currency, local currency return is eliminated and the key risk is the gold price. As you can see below, if a Russian user held gold (in Rubles) instead of cash in Rubles over the 2011-2015 period, their investment would have appreciated 12% vs. the currency which depreciated 44% against the USD.

Figure 2: Left: Indexed gold performance in various currencies; Right: Indexed gold in Rubles:USD.



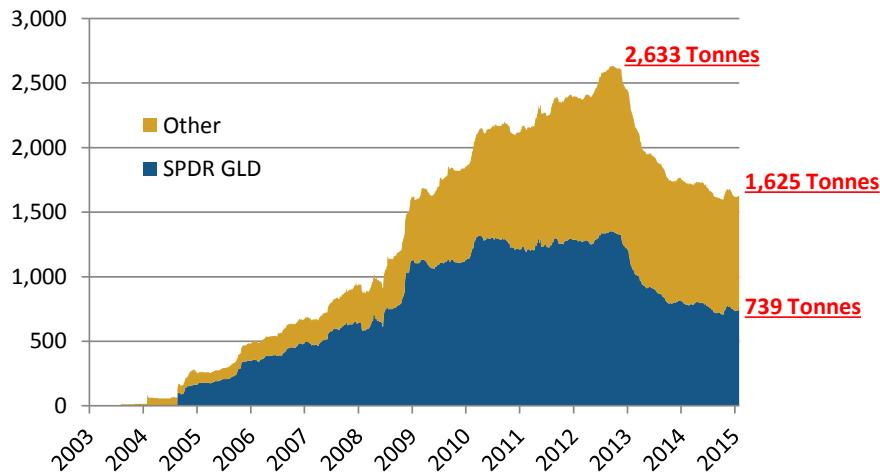
Source: Dundee Economics, Dundee Capital Markets

3) Investors in gold stocks or ETF's - According to Dundee Economics (data from Bloomberg), global gold ETF's hold ~1,625 tonnes of gold or US\$69B at current spot price of ~US\$1,200/oz. There has been a notable net outflow of gold over the past several years from ETF's adding to downward pressure on the gold price (Figure 3). Dundee Economics notes the continued liquidation of ETF gold holdings as a bearish factor over the next two years (see Page 7 for full Bull and Bear arguments).

Investors in gold stocks or ETF's may want to consider BitGold as a lower cost and higher utility alternative to investing in the commodity

Cost and utility advantage goes to BitGold. Taking SPDR GLD as a benchmark (this composes about half of all gold ETF holdings) - MER is 0.4% and an average retail investor could be charged \$25-\$50 for the trade. Assuming \$1,500 - average expected BitGold deposit - that would represent 1.6-3.2% cost to buy/sell plus the 0.4% MER. This surpasses the 1% BitGold fee. In terms of utility an ETF is good for one thing only - straight gold exposure. While BitGold offers full transaction ability, physical gold redemption, etc.

Figure 3: Global ETF holdings since 2003 (Dundee Economics).



Source: Dundee Economics, World Gold Council, Dundee Capital Markets

Payment processing with merchants, contractors, and corporates is a key revenue driver

- 4) Internet based service contractors providing remote services in volatile currency jurisdictions.
- 5) Corporate users exposed to multiple currency payments, cross-border trade and counterparty risk.

Payment processing would be a key revenue driver. Management was candid in saying that just clipping a deposit fee is not enough to make this business model work. If few users take advantage of the transaction capabilities it becomes nothing more than a glorified ETF. Frequent and high transaction volumes are necessary, and both target markets above will be the most profitable and likely high volume users. PayPal is probably the most commonly used online payment system, moving some US\$180B+ around 193 nations in 26 currencies in 2013 alone. BitGold will aim to steal some of this market share.

Different Competitors for Each Offering

BitGold is unique and has no true competitors. In saying that, at a fundamental level the service can be separated into three different categories: 1) Gold as a store of value (against currency swings, inflation, etc.); 2) Gold as an investment opportunity; 3) Transaction/merchant platform. Below we highlight some competitors/peers in those groups and what the cost of those services are compared to BitGold:

	BitGold	BullionVault	GoldMoney	SPDR GOLD SHARES	PayPal
Transaction Fee	1%	0.05-0.5%	1.89%-2.74%	\$25-\$50 ²	1.9-2.9% + \$0.30
MER	0%	0%	0%	0.40%	0%
Storage + Insurance	0%	0.12%	0.12%-0.18%	0%	0%
Minimum Purchase	0.001 gram	1 gram	1 gram	1 share	\$0.03
Withdrawal Fee	1%	1%-5%	na ¹	\$25-\$50	\$0

¹ Information only on request; ² Based on average broker cost

BitGold has no true competitor, but manages to outshine incumbents in several different categories

- **BullionVault** claims to have 55,000 customers with US\$2B invested in the market. The service offered is a standard buy-sell allocated gold within designated vaults around the world (similar to BitGold). It's partly owned by the World Gold Council.
- **GoldMoney** claims to have 22,000 customers with US\$1B invested in the market. Again this is a standard buy/sell exchange for both gold and silver.
- **SPDR Gold Shares** is the world's largest gold ETF with currently 739 tonnes or half of the world's gold ETF holdings. The ETF pays an annual expense charge of 0.40% per annum.
- **PayPal** is the world's most commonly used online payment system for sending money, paying online or setting up merchant invoicing. Further details mentioned above.

Customer Acquisition Methods

The company has outlined a fairly broad marketing strategy underpinned by both online and offline touch points - physical ATM locations, social media advertising, direct mail, event marketing, etc. Management will learn over time how to better acquire customers and from which markets (currently Canada, Mexico, UK are most popular regions). Spend will also be a function of ARPU and churn as the company must make margin over the course of a customer's lifespan with the platform after accounting for acquisition costs (customer lifetime value > acquisition cost).

Customer Acquisition Cost: The company is assuming somewhere in the neighbourhood \$50-\$100 depending on the avenue it takes.

- **Affiliate program** - As advertised it offers up to \$40/account sign up to 'affiliates' who advertise the service on their website (for example, Mining.com will have a banner).

- **Golden Heart** - The program offers users 0.25g of gold (~\$10) if they refer a friend who also receives 0.25g through the campaign for a total cost of ~\$20. Users will be able to link BitGold's sign up through Twitter, Facebook and other platforms and even direct e-mail (essentially outsourcing mass marketing).

Gold Macro Argument

Below we highlight Dundee Economics bearish and bullish arguments for gold over the next two years:

Bullish Factors for 2015-2016

- 1) Asian physical demand will continue to expand; Oil savings to India/China >\$100 billion.
- 2) Central banks will continue to buy gold.
- 3) The global debt crisis will worsen; Debt will expand faster than nominal GDP; Monetary policy will remain “loose” - even Fed policy.
- 4) The US dollar is fundamentally overvalued; It must come down or global imbalances will worsen.
- 5) The commodity cycle will run many more years; India, China, etc., need “stuff” for years to come.
- 6) Geopolitical/financial crises will multiply; Greece, Russia/Ukraine, ISIS, Saudi/Yemen etc.

Bearish Factors for 2015-2016

- 1) US dollar will remain firm in 2015-16; The US is losing the currency war.
- 2) The Fed must eventually tighten policy; The Fed has ended QE and will likely raise rates in 2015-16.
- 3) The world economy will remain sluggish; The oil price will be depressed - meaning inflation will remain low; Russia/Venezuela need “liquidity of last resort”?
- 4) The S&P500 will continue to compete with gold; Financial assets are in demand (equities/debt); ETF tonnage still substantial - more to be liquidated?

How BitGold Could Evolve

Service appeals to more than just gold bugs; strong user growth and low churn from higher value customers will be the key to driving strong ARPU

One of the key investment risks to this name is the lack of visibility on user growth, ARPU and churn. All three metrics to some degree will depend on the user group. Below we outline the main user groups in rank of highest value to lowest. In our view the highest values users also face the steepest learning curve. At the outset we see primarily lower value gold bugs and currency hedgers joining the platform, with higher value merchants and contractors signing up later.



Source: Dundee Capital Markets

BitGold is no one trick pony - management has grander plans that could unlock a whole new avenue of growth

BitGold could be the gateway to much more. Just like large domestic banks have evolved from simply deposit taking institutions into multinational full service brokers, dealers, advisors - and everything else along the financial value chain - BitGold may too evolve beyond its beginnings as a gold transaction based platform. AURUM's utility could go beyond its current use and evolve into a stock trading platform (like Interactive Brokers, iTrade, Questrade, etc.), financial planning software, and much more. Once users trust the platform ancillary services at higher premiums could be offered.

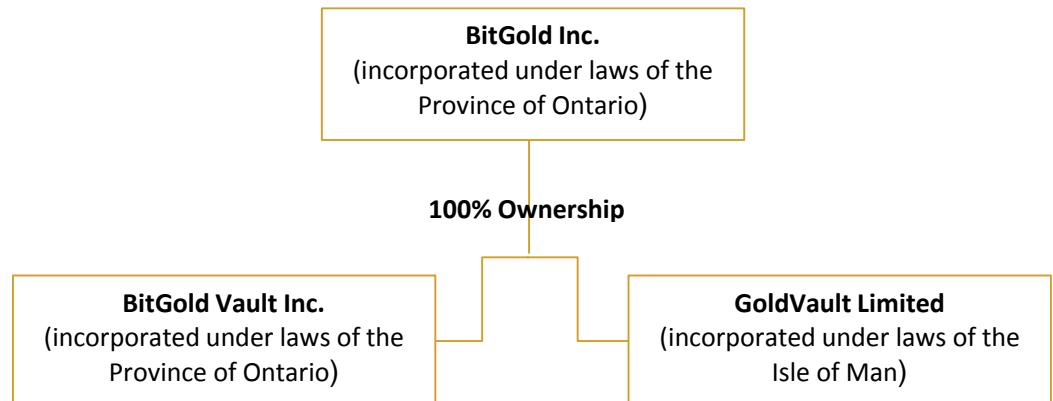
Aligning with financial service institutions. BitGold has seen some interest from large Canadian financial institutions and already has an MOU with Sprott - a well-known precious metal focused investment manager. The idea would be to offer clients a gold investment account powered through AURUM (sponsored by BitGold).

Management Brings Passion to the Table

Sitting with co-founder and CEO Roy Sebag it's hard to keep pace with his near-frantic excitement for the platform, what it offers, where it's going, and how frankly it could change the world (in his view). The team includes experienced financial services, investment management, software engineering, UX/UI design, cryptography, digital security, financial service compliance, consumer marketing, commodity market trading and macroeconomics professionals. While no one has necessarily built a business of this nature before given its novelty, the combined skill sets appear complimentary enough to execute on the proposed business plan.

Based in Milan, CTO Alessandro Premoli was CTO of Andxor S.R.L., a company specializing in image, data, and application security, and as a developer at C&A S.R.L., a company specializing in cryptography, and as an independent security consultant to OpenCoin Inc. the developer of the Ripple Protocol. Ripple is a payment system, currency exchange and remittance that supports tokens representing fiat currency, cryptocurrency, commodity or other unit of value - a perfect fit for the platform he largely designed in BitGold.

Figure 4: BitGold corporate structure; the company has two subsidiaries: 1) BitGold Vault - this 'third party' company has the sole purpose of bailment of customer gold; GoldVault Ltd. - this will process international payments through its debit card offering.



Source: Company Reports

Key insiders own ~57% of shares, almost all of that being held by co-founder and CEO Roy Sebag. Other co-founder and CSO Josh Crumb is the next largest insider at 4.6%. All insider stock will be held in escrow with 10% released upon listing, with a further 15% released every six months thereafter.

Table 2: Key insider ownership of Amalco.

	BitGold Shares		Loma Vista		Amalco	
	#	%	#	%	#	%
Roy Sebag (CEO)	17,250,000	72.30%	2,483,750	27.10%	18,408,662	51.20%
Josh Crumb (CSO)	1,500,000	5.40%	2,354,750	25.70%	1,642,837	4.60%
James Eaton (Director)	nil	nil	nil	nil	411,200	1.10%
Daniel Crandall (CFO)	nil	nil	nil	nil	10,000	0.03%

Source: Company Reports

Even without warrant exercise, the company should be cashed for this year's budget

Most recent financing at ~\$40 MM valuation: In connection with the amalgamation BitGold completed a brokered private placement issuing 7.77 MM sub receipts at \$0.90/receipt for \$7 MM in Feb/15 (includes one half warrant at \$1.35, expiring Oct/16). CEO Roy Sebag purchased ~\$0.9 MM of the deal. All of this stock will come free trading upon listing. Regardless, given the minimal float we would expect some degree of volatility for the first few days (potentially weeks).

Warrants as a source of cash: The Company does have a forced conversion on the sub-receipt warrants - if the stock is trading at or greater than \$2/sh for 20 consecutive days it can accelerate the conversion to 30 days following a press release. The warrants could bring in ~\$5 MM in additional cash.

Table 3: Capital structure of BitGold (Amalco).

	MM	\$/sh	Expiry
Shares Outstanding	35.98		
Amalco Warrants	3.89	\$1.35	Oct/16
Agent Warrants	0.46	\$0.90	Apr/17
Total Warrants	4.35	\$1.30	
Amalco Options	0.04	\$2.47	20-Feb-18
Diluted Shares Outstanding	40.36		
Cash	\$9.2 MM		
2015E Marketing Budget	\$5.0 MM		
Monthly Corporate Burn	\$170k		
Debt	nil		

Source: Company Reports, Dundee Capital Markets

Valuation is certainly a challenge at this stage; we suggest investors stay focused on user growth

Valuation Scenarios - EV/User and EV/Revenue

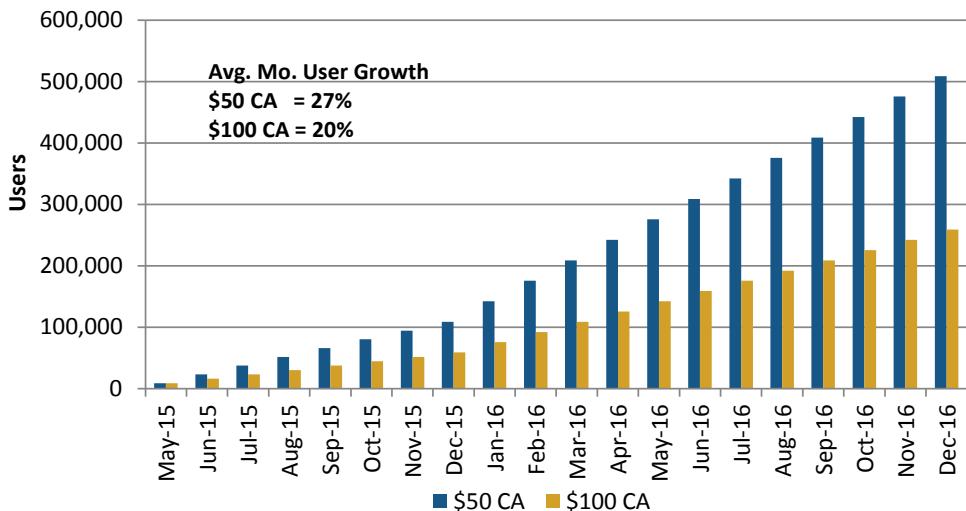
We considered several valuation approaches but few make sense at this stage. Investors should be looking at BitGold like any tech-focused start-up - user growth first and monetization later. At this point we don't know what the business will look like in one year or even six months. The majority of users could use the service as a debit account; or maybe an investment vehicle; or ideally a merchant transaction based platform. Profits and cash flow will come with time but for now we highlight two potential approaches to valuation: EV/User ('eyeballs') and EV/Revenue (similar to SaaS companies).

Key assumptions for both include:

- **2015E users** - 50,000-100,000; this is management's estimate assuming \$5 MM+ in marketing spend; current sign-up run-rate suggests this is likely conservative.
- **2016E users** - 250,000-500,000; based on \$20 MM in assumed marketing spend (management agreed this is reasonable).

- **Customer acquisition cost (CA)** - \$50-\$100; again this is partly based on management estimates and typical tech industry CA; Golden Heart which appears to be a clear avenue for user growth costs BitGold \$20/user.
- **Average deposit size** - \$1,000-\$2,000; similar to management estimate and current users have averaged ~\$1,000.

Figure 5: Hypothetical user growth through Dec/16 (assumptions above).



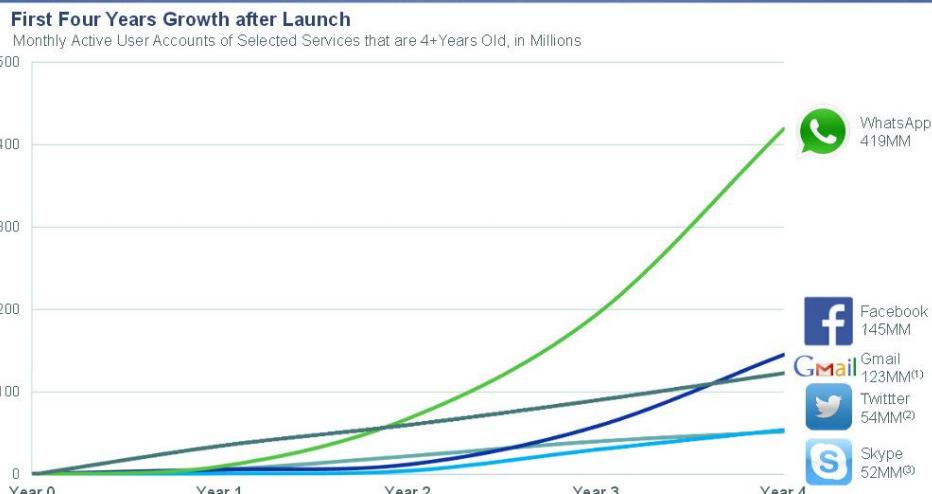
Source: Dundee Capital Markets

History has shown the market pays for user growth

All about user growth! Facebook's \$19B WhatsApp acquisition was much talked about given its sheer size especially considering the company hadn't fully monetized its user base yet (only \$1 ARPU after users are with the service for over a year). But the rationale behind the transaction was simple - user growth. More than 450 MM people were using the app at the time of acquisition and 70% active on any given day. Furthermore, messaging volume was approaching that of the entire world's SMS volume for mobile carriers. Now not to say BitGold transaction volume will start matching PayPal or gold holdings that of SPDR, but this is the sort of vision the company has and why user growth at this point should be the focus.

Figure 6: WhatsApp user growth (at time of takeout) compared to peer online services.

WhatsApp Extraordinary Growth in Users



Source: Forbes

BitGold is revenue generating from the start - this should garner a more premium multiple

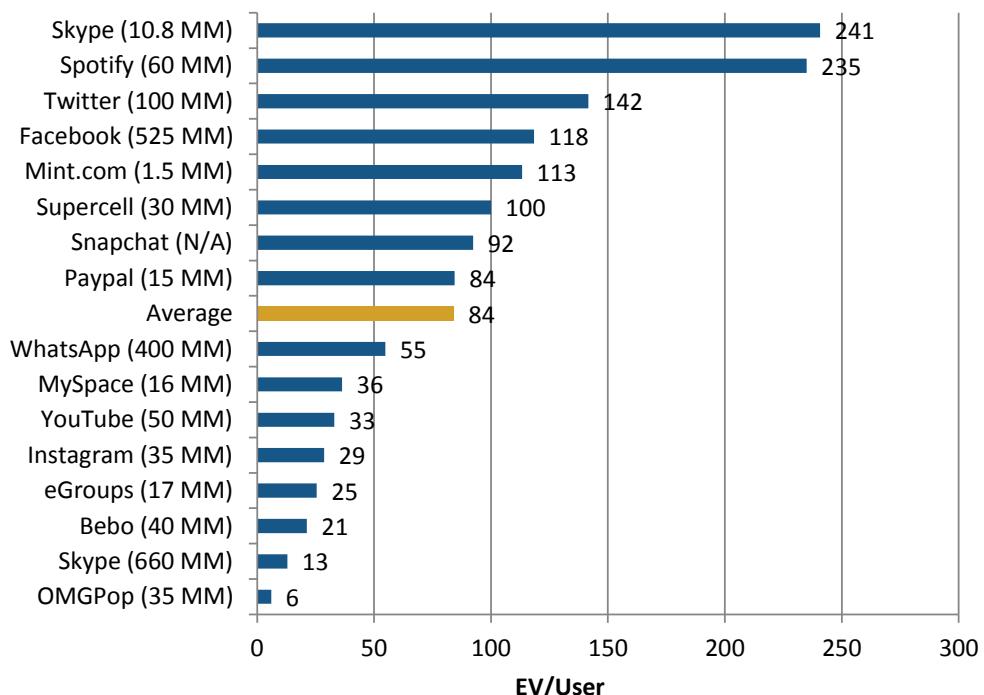
EV to 'Eyeballs'

Why it makes sense - The 'eyeballs' metric for early stage tech companies isn't exactly a scientific one but we believe is the most useful valuation tool at this point. Some of the challenges faced trying to value BitGold would be similar to valuing companies like Instagram and Snapchat at an early stage.

Why it doesn't make sense - The metric is used primarily for pre-revenue business models, but BitGold is revenue generating out of the gate (not cash flow) - the concern with the company is how recurring those revenues are and what ARPU could become.

Valuation metric - EV/User - Below we highlight precedent transactions in the space for high user growth and often pre-monetized businesses. The goal posts are wide at \$6/user (OMGPop) up to \$241 (Skype) with an average of \$84.

Figure 7: EV/User precedents for the tech space (# of users in brackets).



Source: Company Reports, FactSet, Dundee Capital Markets

Implied valuation of \$20-\$75 MM: Given BitGold is revenue generating out of the gate we believe a \$75-\$150 value per user is reasonable at this point (Twitter as the high end). This implies a valuation of \$20-\$75 MM depending on user growth. It's too early to say but data from the first week suggests that a user base of 0.5 MM by Y/E 2016 could be far too conservative which is why we are inclined towards the higher end of this range.

Table 4: EV/User valuation sensitivity table (MM\$).

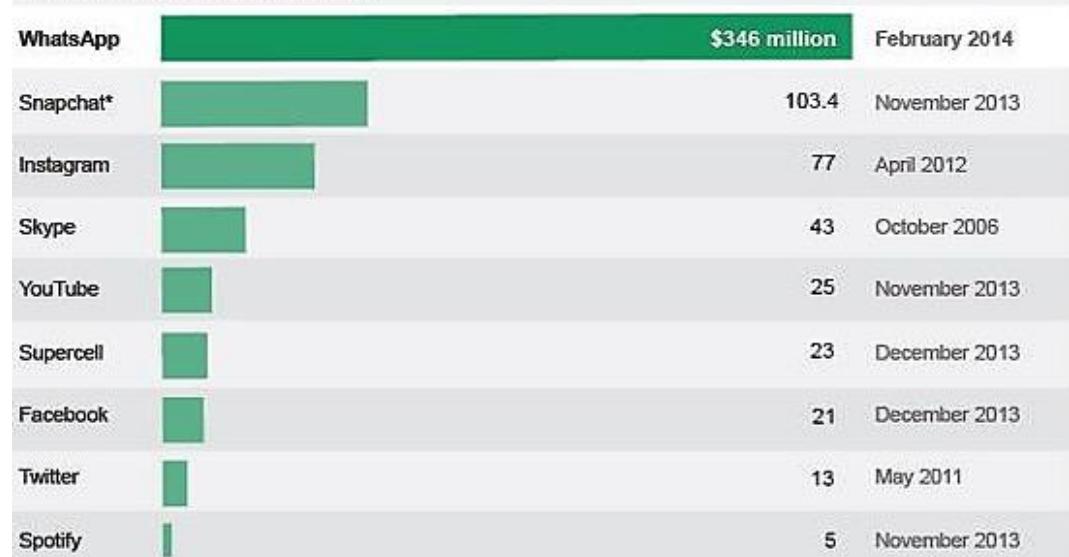
# of Users	YoY%	EV/User							
		25	50	75	100	125	150	175	200
100,000	100%	2.5	5.0	7.5	10.0	12.5	15.0	17.5	20.0
200,000	200%	5.0	10.0	15.0	20.0	25.0	30.0	35.0	40.0
350,000	300%	8.8	17.5	26.3	35.0	43.8	52.5	61.3	70.0
500,000	400%	12.5	25.0	37.5	50.0	62.5	75.0	87.5	100.0
750,000	500%	18.8	37.5	56.3	75.0	93.8	112.5	131.3	150.0
1,000,000	600%	25.0	50.0	75.0	100.0	125.0	150.0	175.0	200.0
2,000,000	700%	50.0	100.0	150.0	200.0	250.0	300.0	350.0	400.0
4,000,000	800%	100.0	200.0	300.0	400.0	500.0	600.0	700.0	800.0

Source: Company Reports, FactSet, Dundee Capital Markets

Figure 8: WSJ data of takeover price to employee. The chart shows the operating leverage of a tech company operating a low maintenance platform.

Human Capital

Overall Value of Deal to Employees



Source: WSJ

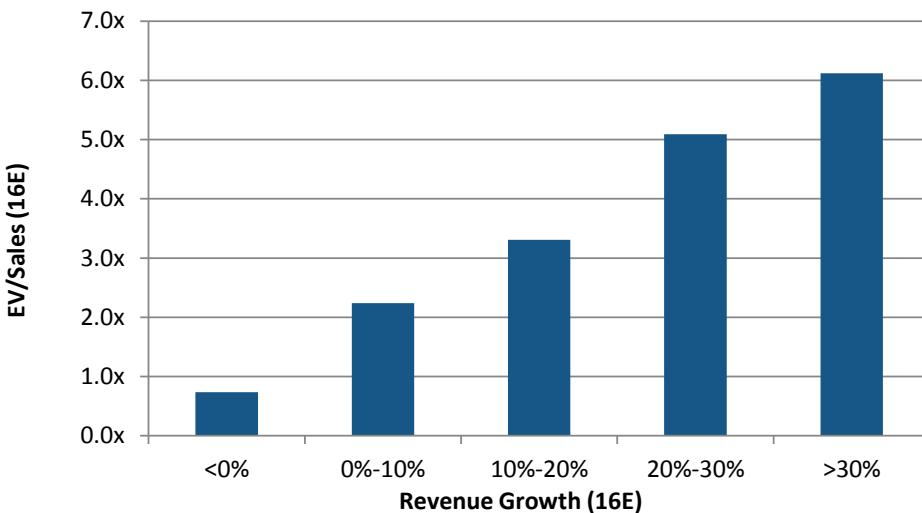
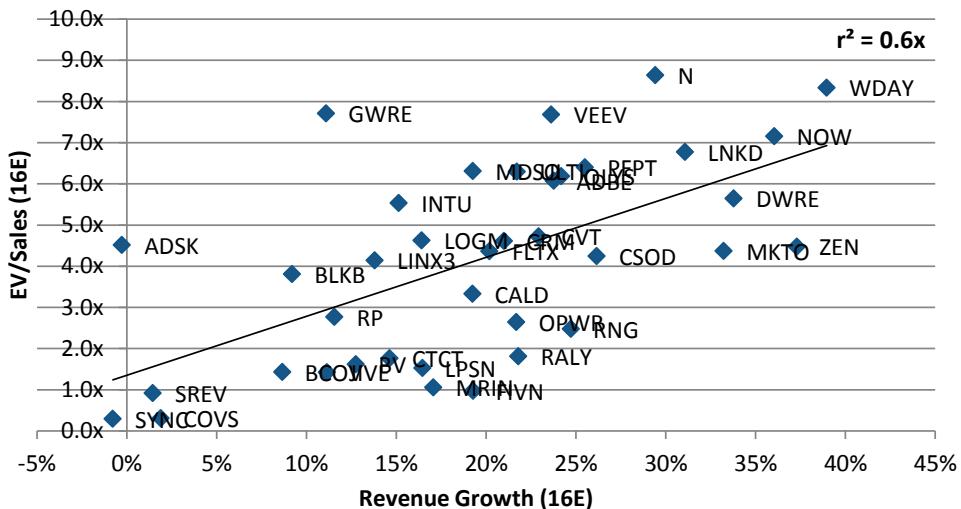
Software as a Service (SaaS)

Growing and recurring revenues will be the key to obtaining rich SaaS style valuations

Why it makes sense - SaaS is a software licensing and delivery model defined by recurring revenues, high growth rates, high margins, and strong customer retention (low churn). While BitGold doesn't require a monthly subscription fee, its transaction based revenue model could generate high ARPU on a recurring basis with loyal users.

Why it doesn't make sense - Use is not subscription based and given the multi-utility function of the platform customer composition is unknown along with revenue visibility. In the end users may transact very little, and churn could be high.

Valuation methodology - EV/Sales - SaaS companies are typically valued on EV/Sales multiples with higher growth companies garnering higher multiples (see Figure 9 below). Of course other factors like margins, customer acquisition costs, addressable market size, and customer retention all must be considered in valuation.

Figure 9: Forward 2016E revenue growth vs. 2016E EV/Sales multiple.

Source: Company Reports, FactSet, Dundee Capital Markets

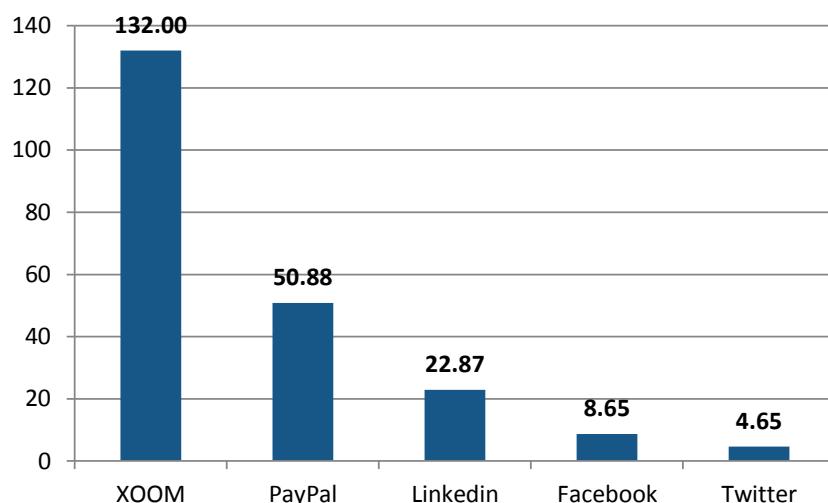
Deriving Sales - We applied a forward multiple based on hypothetical 2016E exit rate users at various ARPU's. Taking a small sample we see ARPU's as low as \$5 for Twitter, which generates all of its revenue through advertising; and up to \$132 for XOOM which is an online digital money transfer company (Figure 10). BitGold will generate at least \$10-\$20 from new users at \$1,000-\$2,000 deposit sizes. Velocity of funds will differ per user but it must be assumed the average user transacts 2-3 times a year in order for this business model to make sense (cover CA of \$50-\$100 over the course of 1-2 years). That suggests an ARPU closer to the \$20-\$40 range.

Implied valuation of \$30-\$120 MM - We use a 6x multiple as BitGold will most certainly fall into the highest growth bucket (see above), and highlight ARPU's of \$20-\$40.

Table 5: EV/Sales valuation sensitivity table (MM\$).

# of Users	YoY%	2016E ARPU (\$/Year)							
		5	10	20	30	40	50	60	70
100,000	100%	3.0	6.0	12.0	18.0	24.0	30.0	36.0	42.0
200,000	200%	6.0	12.0	24.0	36.0	48.0	60.0	72.0	84.0
350,000	300%	10.5	21.0	42.0	63.0	84.0	105.0	126.0	147.0
500,000	400%	15.0	30.0	60.0	90.0	120.0	150.0	180.0	210.0
750,000	500%	22.5	45.0	90.0	135.0	180.0	225.0	270.0	315.0
1,000,000	600%	30.0	60.0	120.0	180.0	240.0	300.0	360.0	420.0
2,000,000	700%	60.0	120.0	240.0	360.0	480.0	600.0	720.0	840.0
4,000,000	800%	120.0	240.0	480.0	720.0	960.0	1,200.0	1,440.0	1,680.0

Source: Company Reports, FactSet, Dundee Capital Markets

Figure 10: ARPU data for existing user growth dominated businesses.

Source: Company Reports, FactSet, Dundee Capital Markets

Investment Risks

BitGold at this point should be considered a highly speculative investment. Path to profitability, revenue run rate, customer growth and retention are all unknown variables. In fact, there isn't even clarity on how this platform will be utilized by users. With the service only launching on May 4th there isn't enough historical data to provide visibility on any of the above factors. As such the company faces several investment risks.

Lack of operating history - Despite running two private betas the company has no history of running this platform commercially. This means ARPU, retention rate, and other key metrics needed to properly value the company are not yet available and visibility on those metrics is very weak. We also see potential for platform stability issues as more users start joining.

Unproven market - The ability to use gold in the way BitGold offers is completely unique. While giving it a competitive advantage there is still no clear idea on whether the market to utilize this platform is out there and if so what the potential size is.

Regulatory risk - While the company has taken extensive measures to ensure full compliance with provincial, federal and foreign regulators, there is no guarantee that as the service grows it faces increasing scrutiny from such groups. As such there is risk of customer protection and BitGold notes there can be no assurance that a third party will not claim

interest in gold bullion in claims against the company (despite it being held by a third party - BitGold Vault).

Dependence on AURUM - While the patent pending software is BitGold's most important asset, it also means any errors or problems with the system could dramatically impact the business and its customers.

Network security risk - While the company has 'military grade' encryption and security measures to protect user data, the risk of hacks or other network threats remain a concern.

Competition risks - As highlighted in the competitor analysis section, many alternatives to the platform exist for gold investing and general cross-border web based transactions. Even though we believe the company has several advantages to its peers, it may not be able to compete effectively because of the significantly greater financial, technical, marketing and other resources available to some of its competitors.

Gold price risk - Assuming we are in a rising gold price environment risk is arguably asymmetric. But if gold prices collapse the company could see a slew of redemptions at lower transaction value than initial deposits. Gold price volatility could impact user retention for those not used to the risk profile.

Appendix 1 - User Interface (UI) Screenshots

Verify Your Mobile Phone



Verify Email



Verify Mobile



Basic Info



Verify ID

Why do we need your number?

The reason we required you to enter your mobile number is because we need a sure way to verify your identity. This is also used for security reasons. Don't worry we will not spam you or give out your number to anyone.

Your Mobile Number


Canada (+1)

Send Code

Revolutionary On-Boarding, KYC/AML technology

Verify your Identification



Verify Email



Verify Mobile



Basic Info



Verify ID

Why do we need to verify your identity?

This block of text here is to explain to the user why we need them to verify their ID. Users don't usually like doing this sort of thing so we have to make it as clear as possible and as easy as possible. This block will be replaced.

Option 1 - Upload Document Directly

Upload Document

 Drag & Drop Into this box or [Browse](#)

Option 2 - Use webcam

 [Use Webcam](#)

Option 3 - Send by Email

 [Send By Email](#)

[Skip For Now](#)

Government ID Verification in Seconds (160 Countries): screens for Sanctions, Black List

The image shows a mobile application interface for depositing funds to a vault. At the top, the title 'Deposit Funds to Vault' is displayed. In the top right corner, there is a small 'X' icon. Below the title, a section titled 'Choose Funding Option' is shown. This section contains six items, each with an icon and a status indicator: 'Bank Wire' (blue icon, available), 'Bitcoin' (blue icon with a white 'B', available), 'Interac' (blue icon with a white 'I', available), 'Credit Card' (blue icon with a white credit card, available), and 'China UnionPay' (blue icon with a white card, available). The 'Bank Wire', 'Credit Card', and 'China UnionPay' items have a small 'Coming Soon' label with an arrow pointing to the right below them. At the bottom left, there is a 'Back' button with a left arrow icon. At the bottom right, there is a yellow 'Next' button with a right arrow icon.

6 Instant Deposit Methods to Physical Gold via Patent-Pending Aurum Technology

Deposit Funds to Vault

③ Select Amount and Enter Billing Information Secure

Amount Currency

\$ 50 CAD

 **VISA**

ENTER CARD NUMBER...

EXPIRY CVV

MM / YY CVV

JOSH CRUMB

← Back Process

Credit Card Deposit Screenshot

Chinese deposit processing



BitGold

Live Values in  **RUB** 

Gold Gram **py62,672.61**

 **Summary** 

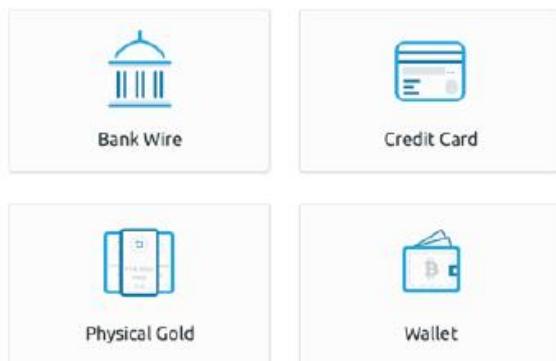
 **Type to Search...**

Top Values 

	Gold Gram	GAU
	United States	USD
	European Union	EUR
	United Kingdom	GBP
	Japan	JPY

Over 100 Live Reference Currencies

1 Choose Redemption Type



Next →

Redeem Gold

2 Select Vault Location

Brinks Toronto, Canada

Vault Balance: \$24,876.81

Gold Amount: 636.09 Grams

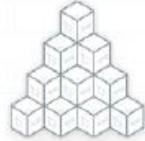
Redeem Amount: \$ 2,000.00

Currency: CAD

← Back Next →

Redeem Gold – Vault Balance View

Redeem Gold



BitGold 10g Cubes®

Ship BitGold 10g Cubes to your door.

Choose



1 KG .995 Bullion Bars

Pick up your 1kg bullion bars.

Choose

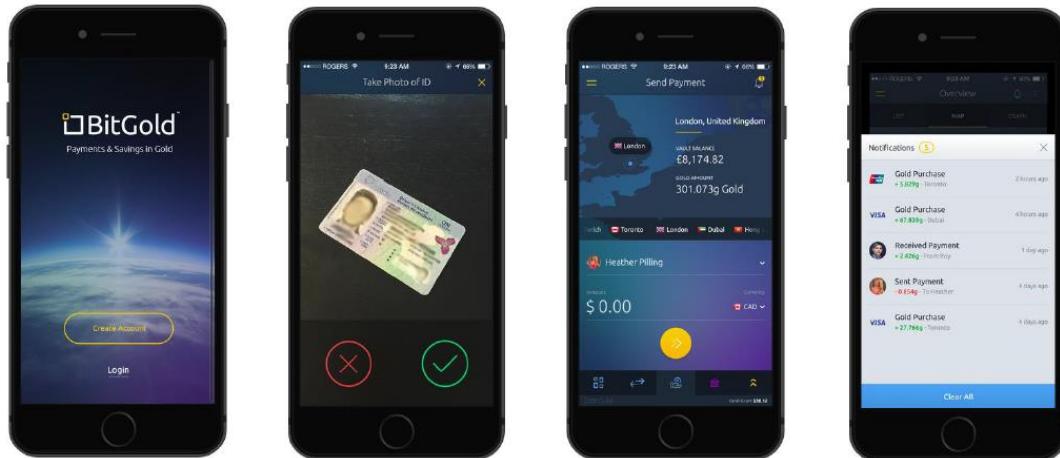


Redeem Gold – Cubes or Bars Selection

Redeem Gold – BitGold 10g Cubes

Mobile App in Development – Summer 2015

- Mobile onboarding, tap and pay, social/contacts integration, push notifications and more



Source: Company Reports

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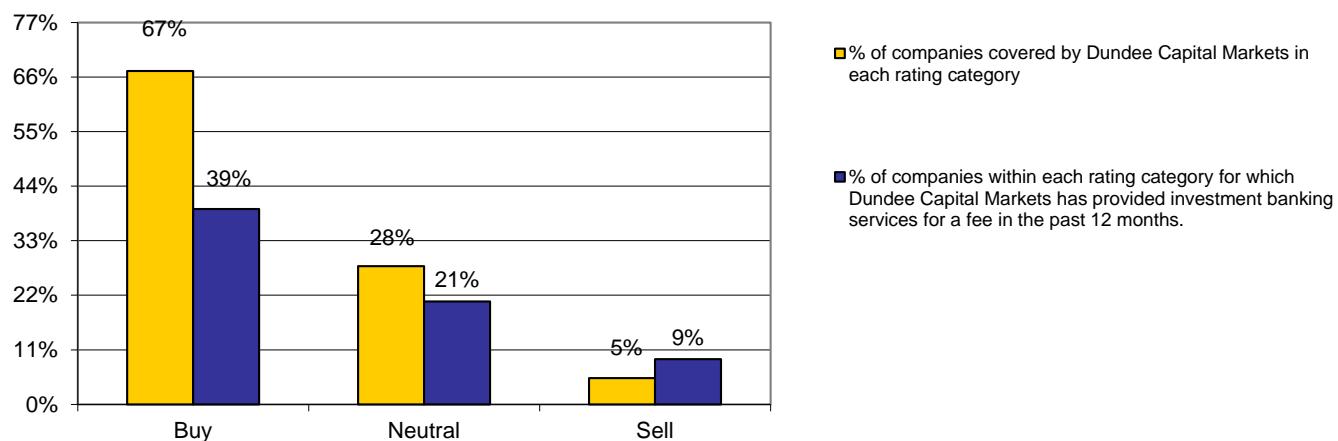
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