

CoinShares (Jersey) Limited

Unaudited financial statements for the period ended 30 June 2020

CoinShares (Jersey) Limited

Unaudited financial statements

For the financial period ended 30 June 2020

Contents

| | Page |
|---|-------------|
| Company Information | 3 |
| Directors' Report | 4-6 |
| Statement of Comprehensive Income | 7 |
| Statement of Financial Position | 8 |
| Statement of Changes in Equity | 9 |
| Statement of Cash Flows | 10 |
| Notes to the Financial Statements | 11-21 |
| Appendix 1: Detailed administration expenses | 22 |

CoinShares (Jersey) Limited

Company Information

For the financial period ended 30 June 2020

| | |
|--------------------------|--|
| The Company | CoinShares (Jersey) Limited |
| Registered number | 102184 |
| Registered Office | 2nd Floor 2 Hill Street St Helier Jersey JE2 4UA |
| Directors | Benjamin Charles Gilbert (appointed 5 May 2020) Carsten Koppen (non-executive) Jean-Marie Mognetti Luc Gulliou (appointed 15 June 2020) Russell Newton (resigned 6 May 2020) |
| Company Secretary | CoinShares Corporate Services (Jersey) Limited (appointed 30 June 2020) Jeri-Lea Brown (resigned 30 June 2020) |

CoinShares (Jersey) Limited

Directors' Report

For the financial period ended 30 June 2020

The directors present their report and the financial statements of CoinShares (Jersey) Limited (the 'Company') for the period ended 30 June 2020.

Incorporation

The Company is incorporated and domiciled in Jersey, Channel Islands.

Principal activity

The principal activity of the Company is the provision of investment management and advisory services. The Company is regulated by the Jersey Financial Services Commission under the Financial Services (Jersey) Law 1998 in the conduct of its fund service business and investment business activities.

Results and dividends

The profit for the period, after taxation, amounted to £505,628 (2019: £2,338,308).

The directors paid a dividend of £2,200,000 during the period (2019: £3,200,000).

Statement of Directors' responsibilities

The directors are responsible for preparing the Directors' Report and financial statements in accordance with applicable laws and regulations.

The Companies (Jersey) Law 1991 requires the directors to prepare financial statements for each financial period. Under that law, the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company as at the end of that period, and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991 and the Financial Services (Jersey) Law 1998. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors confirm the statements comply with these requirements.

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps he or she ought to have as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

CoinShares (Jersey) Limited

Directors' Report (continued)

For the financial period ended 30 June 2020

Directors and Company Secretary

The directors and company secretary who served during the period and up to the date of this report are listed on page 3.

Directors' interest in shares

The directors holding office at the end of the reporting period had no direct interests in the share capital of the Company at the beginning and at the end of the reporting period.

Going concern

In preparing the financial statements the directors made an assessment of the Company's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate the directors considered all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue.

When making the assessment the directors considered and disclosed all material uncertainties related to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern.

A significant point for consideration is the financial guarantee the Company has provided in respect of certificates issued by XBT Provider AB (publ) ('XBTP'), a subsidiary of the Company's immediate parent CoinShares (Holdings) Limited ('CSHL'). The obligations arising from the XBTP certificates are managed by CoinShares Capital Markets (Jersey) Limited ('CSCMJL', formerly GABI Trading Limited), also a fellow subsidiary of the Company's parent CSHL, which hedges the exposure of these liabilities.

The guarantee could be called upon in the case of extreme events, such as an operational error, hacking or fraud, impacting the hedging provided by CSCMJL which results in CSCMJL's net equity being insufficient to settle XBTP's obligations. In the opinion of the directors, there are sufficient controls and processes in place to mitigate such a risk by;

- holding a float of digital assets at exchanges, which is monitored by the trading team, to ensure there is a sufficient balance to deal with any redemption requests;
- using controls designed to monitor unusual transactions to mitigate factors for human error;
- CSCMJL's automatic trading system which is designed such that exposure to changes in prices of digital assets are matched by changes in the value of the obligations towards XBTP;
- limiting exposure to foreign currency risk by using US\$ as the functional currency and hedging foreign currency exposures by regularly monitoring all foreign currency denominated assets and liabilities;
- storing the majority of digital assets offline with an institutional custody service; and
- using a secure algorithmic trading platform hosted on the cloud. Certain aspects of the cybersecurity of CSCMJL were reviewed by Baker Tilly Channel Islands Limited as they were pertinent to the ongoing audit of CSCMJL.

Consequently the Company has not accrued a provision in respect of the guarantee as it is not deemed a probable liability.

CoinShares (Jersey) Limited

Directors' Report (continued)

For the financial period ended 30 June 2020

Going concern (continued)

The Company has net assets of £1,259,872 (2019: £2,954,244), at the end of the reporting period. The decrease in net assets is due to the payment of a dividend of £2,200,000 (2019: £3,200,000) by the Company during the period. The Company remains profitable, generating a profit for the period of £505,628 (2019: £2,338,308) and continues to receive significant fee income from its service agreement with CSCMJL connected to XBTP.

Additional management fees have been generated by the Company from 1 September 2019, arising from investment management services provided to GABI Ventures Limited ('GVL'), a subsidiary of CoinShares International Limited ('CSIL', formerly Global Advisors (Holdings) Limited), the Company's ultimate parent.

The report was approved by the board on 10 July 2020 and signed on its behalf by:



.....
CoinShares Corporate Services (Jersey) Limited
Company Secretary

CoinShares (Jersey) Limited

Statement of Comprehensive Income

For the financial period ended 30 June 2020

| | | 1 January 2020 to 30 June 2020 | 1 January 2019 to 30 June 2019 | 1 January 2019 to 31 December 2019 |
|---|------|-----------------------------------|-----------------------------------|---------------------------------------|
| | Note | £ | £ | £ |
| Revenue | 3 | 1,377,121 | 4,060,889 | 5,508,420 |
| Gross profit | | 1,377,121 | 4,060,889 | 5,508,420 |
| Amounts settled on behalf of GABI Limited | 14 | - | (316) | (316) |
| Administration expenses | 4 | (816,966) | (2,443,321) | (2,913,454) |
| Operating profit | | 560,155 | 1,617,252 | 2,594,650 |
| Finance income | | 1,654 | 1,415 | 3,644 |
| Profit before taxation | | 561,809 | 1,618,667 | 2,598,294 |
| Taxation on profit | 6 | (56,181) | (161,898) | (259,986) |
| Profit for the financial period/year | | 505,628 | 1,456,769 | 2,338,308 |
| Other comprehensive income for the period/year | | - | - | - |
| Total comprehensive income for the period/year | | 505,628 | 1,456,769 | 2,338,308 |

All items dealt with in arriving at profit for 2020 and 2019 relate to continuing operations.

The above should be read in conjunction with the accompanying notes on pages 11 to 21 which form an integral part of these financial statements.

CoinShares (Jersey) Limited

Statement of Financial Position

As at 30 June 2020

| | | As at 30 June 2020 | As at 31 December 2019 |
|-------------------------------|------|-----------------------|---------------------------|
| | Note | £ | £ |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 7 | 8,122 | 16,660 |
| | | 8,122 | 16,660 |
| Current assets | | | |
| Trade and other receivables | 9 | 449,007 | 1,644,753 |
| Cash and cash equivalents | 10 | 1,008,896 | 1,579,134 |
| | | 1,457,903 | 3,223,887 |
| Total assets | | 1,466,025 | 3,240,547 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 11 | 206,153 | 286,303 |
| Total liabilities | | 206,153 | 286,303 |
| NET ASSETS | | 1,259,872 | 2,954,244 |
| EQUITY | | | |
| Share capital | 12 | 500,000 | 500,000 |
| Share premium | 13 | 96,863 | 96,863 |
| Retained earnings | 16 | 663,009 | 2,357,381 |
| Total equity | | 1,259,872 | 2,954,244 |

The financial statements were approved and authorised for issue by the Board of Directors of the Company and signed on its behalf by:



Carsten Koppen

Director

Date: 10 / 07 / 2020

The above should be read in conjunction with the accompanying notes on pages 11 to 21 which form an integral part of these financial statements.

CoinShares (Jersey) Limited

Statement of Cash Flows

For the financial period ended 30 June 2020

| | | 1 January 2020 to 30 June 2020 | 1 January 2019 to 31 December 2019 |
|---|------|-----------------------------------|---------------------------------------|
| | Note | £ | £ |
| Cash flows from operating activities | | | |
| Profit for the financial period/year | | 505,628 | 2,338,308 |
| Adjustments for: | | | |
| - Income tax expense | 6 | 56,181 | 259,986 |
| - Depreciation | 4 | 8,538 | 17,076 |
| - Interest expense | | 698 | 48,814 |
| - Finance income | | (1,654) | (3,644) |
| - Revaluation gain on foreign exchange | | (105,955) | (282,231) |
| | | 463,436 | 2,378,309 |
| Change in working capital: | | | |
| - Trade and other receivables | | 1,223,619 | 1,706,182 |
| - Trade and other payables | | (5,544) | (584,013) |
| Cash generated from operations | | 1,681,511 | 3,500,478 |
| Interest paid | | (1,185) | (59,094) |
| Taxation paid | | (130,300) | (225,188) |
| Net cash flow provided by operating activities | | 1,550,026 | 3,216,196 |
| Cash flows from investing activities | | | |
| Interest received | | 1,766 | 4,636 |
| Net cash provided by investing activities | | 1,766 | 4,636 |
| Cash flows from financing activities | | | |
| Redemption of redeemable shares | 12 | - | (1,608,526) |
| Dividends paid | 12 | (2,200,000) | (3,200,000) |
| Net cash used in financing activities | | (2,200,000) | (4,808,526) |
| Net decrease in cash and cash equivalents | | (648,208) | (1,587,694) |
| At the beginning of the financial period/year | | 1,579,134 | 3,009,930 |
| Effects of currency translation | | 77,970 | 156,898 |
| At the end of the financial period/year | 10 | 1,008,896 | 1,579,134 |

The above should be read in conjunction with the accompanying notes on pages 11 to 21 which form an integral part of these financial statements.

CoinShares (Jersey) Limited

Statement of Changes in Equity

For the financial period ended 30 June 2020

| | Note | Ordinary Shares £ | Redeemable Shares £ | Share Premium £ | Retained Earnings £ | Total equity £ |
|-----------------------------------|------|-------------------------|---------------------------|-----------------------|---------------------------|-------------------|
| At 1 January 2019 | | 1 | 2,108,525 | 96,863 | 3,219,073 | 5,424,462 |
| Profit for the financial year | | - | - | - | 2,338,308 | 2,338,308 |
| Total comprehensive income | | - | - | - | 2,338,308 | 2,338,308 |
| Shares redeemed during the year | 12 | - | (1,608,526) | - | - | (1,608,526) |
| Dividends paid | 12 | - | - | - | (3,200,000) | (3,200,000) |
| At 31 December 2019 | | 1 | 499,999 | 96,863 | 2,357,381 | 2,954,244 |
| At 1 January 2020 | | 1 | 499,999 | 96,863 | 2,357,381 | 2,954,244 |
| Profit for the financial period | | - | - | - | 505,628 | 505,628 |
| Total comprehensive income | | - | - | - | 505,628 | 505,628 |
| Dividends paid | 12 | - | - | - | (2,200,000) | (2,200,000) |
| At 30 June 2020 | | 1 | 499,999 | 96,863 | 663,009 | 1,259,872 |

The above should be read in conjunction with the accompanying notes on pages 11 to 21 which form an integral part of these financial statements.

CoinShares (Jersey) Limited

Notes to the Financial Statements

For the financial period ended 30 June 2020

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 General information

The Company operates in Jersey, Channel Islands. The principal activity of the Company is the provision of investment management and advisory services to fellow Group companies (see note 17). The main source of income will continue to arise through net management fee income from certificates issued by XBTP.

The Company is a private company limited by shares and is incorporated and domiciled in Jersey. The address of its registered office is 2nd Floor, 2 Hill Street, St Helier, Jersey JE2 4UA and its company registration number is 102184.

2 Significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ('FRS 102') and the Companies (Jersey) Law 1991, as well as the Financial Services (Trust Company and Investment Business (Accounts, Audits and Reports)) (Jersey) Order 2007 and the Financial Services (Funds Services Business (Accounts, Audits and Reports)) (Jersey) Order 2007.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 2.5).

The following principal accounting policies have been applied:

2.2 Going concern basis

The directors have prepared these financial statements on a going concern basis on the understanding that the Company will continue to meet its obligations as they fall due for at least, but not limited to, 12 months from the date of the signing of these financial statements. The Company's main source of income will continue to arise through net management fee income received from certificates issued by XBTP. The Company was replaced as the principal party for the certificate program by CSCMJL as of 30 June 2019 but continues to provide a guarantee to XBTP through a new agreement with CSCMJL, and so continues to receive a portion of the management fee.

As discussed in note 15, CSCMJL has sufficient controls in place to mitigate the risks associated with the guarantee being called upon and so the Company has not accrued a provision in respect of the guarantee.

Additional management fees have been generated by the Company from 1 September 2019, arising from investment management services provided to GVL, a subsidiary of CSIL.

2.3 Changes in accounting policies

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous financial year.

2.4 Foreign currency translation

Functional and presentation currency

The Company's financial statements are presented in Pound Sterling, which is the functional currency. All values are rounded to the nearest pound, except when otherwise indicated.

CoinShares (Jersey) Limited

Notes to the Financial Statements (continued)

For the financial period ended 30 June 2020

2 Significant accounting policies (continued)

2.4 Foreign currency translation (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the reporting date.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income.

2.5 Judgements and sources of estimation uncertainty

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions in applying the Company's accounting policies to determine the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The following are considered to be sources of judgement and estimate:-

(i) Useful economic life of tangible fixed assets: the annual depreciation charges of tangible fixed assets are sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are reassessed annually. They are amended when necessary to reflect current estimates.

(ii) Impairment of receivables: the Company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, the directors consider factors including the current credit rating of the counterparty, the ageing profile and historical experience.

(iii) Classification of redeemable shares: redeemable shares are considered to be equity by the directors, as redemption rights are strictly at the discretion of the Company.

(iv) Recognition of revenue: revenue is accrued daily on tracker certificates in order to match the provision of services.

(v) Allocation of Group expenditure: The rates applied to the Company in determining the allocation of these recharges vary between categories of expenditure and those applied during the period are based on the directors' estimate of where time or resource was considered to be spent. The Company and Group entities have common directorships, and the recharge rates were determined by the directors based upon their judgement of the resource usage for the period.

2.6 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for services rendered, net of discounts and value added taxes.

The Company recognises revenue when (a) the amount of revenue can be measured reliably; (b) it is probable that the Company will receive the consideration due under the contract; (c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and (d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

CoinShares (Jersey) Limited

Notes to the Financial Statements (continued)

For the financial period ended 30 June 2020

2 Significant accounting policies (continued)

2.6 Revenue (continued)

Sale of services

The Company sells investment management and advisory services. Revenue is recognised in the accounting period in which the services are performed, based on the terms of the contract.

2.7 Expenses

All expenses of the Company are recognised on an accruals basis and are net of amounts recharged between the Company and its related entities: CSHL, CoinShares Capital Markets (UK) Limited ('CSCMUKL', formerly GABI Systems Limited) and CSIL.

2.8 Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

The Company had no employees at 30 June 2020 (2019: nil). Employee compensation is recharged to the Company by the Group in accordance with the terms agreed by them, this creates a constructive obligation to pay the Group for employee entitlements and compensation in proportion to the amounts recharged.

The Group may compensate employees' absences for various reasons including vacation, sickness, maternity and paternity. There is non-accumulating compensation of absence for all types of leave apart from vacation, for which there is a limited ability to carry unused leave into the next period, and this does not carry forward; it will lapse if the current period's entitlement is not used in full, therefore the Group does not recognise a liability or expense until the time of absence.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision of £nil (2019: £1,823) has been made for the estimated liability for leave as a result of services rendered by employees up to the reporting date.

2.9 Property, plant and equipment

Property, plant and equipment is recognised at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in the Statement of Comprehensive Income as incurred.

Depreciation is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

| | |
|------------------------|---------|
| Furniture and fittings | 3 years |
| Office equipment | 3 years |

CoinShares (Jersey) Limited

Notes to the Financial Statements (continued)

For the financial period ended 30 June 2020

2 Significant accounting policies (continued)

2.9 Property, plant and equipment (continued)

The residual values, estimated useful lives and depreciation method of fixed assets are reviewed, and adjusted as appropriate, at each reporting date. The effects of any revision are recognised in the Statement of Comprehensive Income when the changes arise.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income in the period of disposal.

2.10 Impairment of non-financial assets

Property, plant and equipment is tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

If such an indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of value in use and fair value less costs of disposal. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately as a credit to the income statement.

2.11 Investments

Investments in associates are held at cost plus post-acquisition changes less any impairment in value.

2.12 Cash and cash equivalents

In the Statement of Cash Flows, cash and cash equivalents consists of balances with banks and amounts due from/to brokers. Both are classified as basic financial assets with a maturity of three months or less.

Amounts due from/to broker represent cash receivable from/payable to 3rd party brokers.

Cash deposits with financial institutions are repayable without penalty on notice of not more than 24 hours.

2.13 Trade and other receivables

Trade receivables are non interest-bearing and are recognised initially at fair value (transaction price), and subsequently amortised at cost using the effective interest rate method, less provision for impairment.

All trade and other receivables are currently repayable on demand and held at transaction price.

CoinShares (Jersey) Limited

Notes to the Financial Statements (continued)

For the financial period ended 30 June 2020

2 Significant accounting policies (continued)

2.14 Loans and receivables

Loans to related entities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method, less accumulated impairment losses.

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of financial period which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). Otherwise, they are presented as non-current liabilities.

Trade payables are non interest-bearing and are recognised initially at fair value (transaction price) and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are presented as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the reporting date, in which case they are presented as non-current liabilities.

Borrowings are initially recognised at their fair values (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

2.16 Operating leases: the Company as a lessee

Management exercises judgements in determining the classification of leases as finance or operating leases at inception of the lease. Management considers the likelihood of exercising break clauses or extension options in determining the lease term. Where the lease term constitutes substantially all of the economic life of the asset, or where the present value of minimum lease payments amount to substantially all of the fair value of the property, the lease is classified as a finance lease. All other leases are classified as operating leases.

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Operating lease payments (net of any incentives received by the lessor) are recognised in the Statement of Comprehensive Income as an expense on a straight-line basis over the period of the lease. Associated costs such as maintenance and insurance are expensed as incurred.

The rental expense for the period totals £57,545 (2019: £139,446) including amounts recharged from CSIL. Future minimum payments on the current leases total £nil (2019: £nil).

2.17 Taxation

Current tax is recognised as the amount expected to be paid to or recovered from the tax authorities, using tax rates enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Current tax is recognised as income or expense in the Statement of Comprehensive Income, except to the extent that the tax arises from a transaction which is recognised directly in equity.

The taxation charge is based on the profit for the year as adjusted for tax purposes. The standard income tax rate in Jersey for financial services is 10% (2019: 10%).

2.18 Finance income

Finance income is recognised in the Statement of Comprehensive Income in the period to which it relates to using the effective interest rate method.

CoinShares (Jersey) Limited

Notes to the Financial Statements (continued)

For the financial period ended 30 June 2020

2 Significant accounting policies (continued)

2.19 Share capital

Ordinary and redeemable shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3 Revenue

| | 30 June 2020 £ | 30 June 2019 £ | 31 December 2019 £ |
|-----------------|----------------------|----------------------|--------------------------|
| Management fees | 1,377,121 | 4,060,889 | 5,508,420 |
| | 1,377,121 | 4,060,889 | 5,508,420 |

The Company generated income from net management fees accrued daily in proportion to the value of tracker certificates issued by XBTP, payable by CSCMJL, from 1 July 2017. Management fees from the tracker certificates amounted to £1,349,136 (2019: £5,490,565).

During the prior financial year the Company entered into a discretionary investment management agreement with GVL, a subsidiary of CSIL. The Company generated additional management fees of £27,985 (2019: £17,855) for the provision of investment management services to GVL, calculated as 1% of AUM payable in arrears on a quarterly basis.

4 Administration expenses by nature

Included within administration expenses of £816,966 (see page 22) are the following amounts:

| | 30 June 2020 £ | 30 June 2019 £ | 31 December 2019 £ |
|---|----------------------|----------------------|--------------------------|
| Depreciation of tangible fixed assets | 8,538 | 8,538 | 17,076 |
| Fees payable for the audit of the Company's annual accounts | 7,500 | 9,000 | 15,000 |
| Loss/(gain) on foreign exchange | 844 | (2,105) | 5,429 |
| Interest expense | 698 | 29,708 | 48,814 |
| Marketing and branding services (i) | - | 1,725,734 | 1,725,734 |
| Rent (ii) | 57,545 | - | 139,446 |
| Revaluation gain on foreign exchange | (105,955) | (66,999) | (282,231) |
| Salaries (iii) | 633,899 | 506,760 | 879,679 |

(i) Marketing and branding services of £nil (2019: £1,725,734) were payable to CSHL until 30 June 2019, based on 42.5% of the net management fee accrued by the Company in respect of tracker certificates (see note 3). This fee was payable to CSHL based on the service level agreement for marketing and branding services performed by CSHL. From 1 July 2019 CSCMJL directly contracts with CSHL for the provision of services, as described in the paragraph below.

The Group restructured how it operates the tracker certificates during the prior financial year and a new agreement was put into effect from 1 July 2019. CSCMJL replaced the Company as the principal party for all related service agreements and now contracts directly with CSHL and the other related Group entities for the services required.

(iii) The Company is part of a Group which shares certain central resources (including staffing and premises). The Group introduced a cost sharing arrangement, whereby from January 2018 central costs incurred by Group entities are recharged. The amount recharged was subject to annual agreement between the Company and Group entities.

For the period ended 30 June 2020 a total of £742,543 (2019: £1,216,893) was recharged to the Company from the Group and a total of £nil (2019: £nil) was recharged to the Group from the Company.

CoinShares (Jersey) Limited

Notes to the Financial Statements (continued)

For the financial period ended 30 June 2020

5 Directors' remuneration

| | 2020 £ | 2019 £ |
|----------------------|----------------|----------------|
| Directors emoluments | 304,987 | 280,150 |
| | 304,987 | 280,150 |

Directors' emoluments do not include benefits-in-kind received by the directors of £8,770 (2019: £8,209).

Directors' remuneration includes £nil (2019: £263,516) recharged to the Company by CSIL and £nil (2019: £7,343) recharged to the Company by CSCMUKL for directors' services. A further £298,737 (2019: £nil) was recharged to the Company by CSHL.

6 Taxation

| | 30 June 2020 £ | 30 June 2019 £ | 31 December 2019 £ |
|---|----------------------|----------------------|--------------------------|
| Corporation tax | | | |
| Current tax on profits for the period/year | 56,181 | 161,898 | 259,986 |
| | 56,181 | 161,898 | 259,986 |
| Deferred tax | - | - | - |
| Taxation on profit on ordinary activities | 56,181 | 161,898 | 259,986 |
| | 30 June 2020 £ | 30 June 2019 £ | 31 December 2019 £ |
| Profit before taxation | 561,809 | 1,618,667 | 2,598,294 |
| Tax is | 56,181 | 161,867 | 259,829 |
| Effects of: | | | |
| Non-qualifying depreciation | 854 | 854 | 1,708 |
| Receipt of GABI Limited settled expenditure | - | 31 | 32 |
| Capital allowances for year in excess of depreciation | (854) | (854) | (1,708) |
| Non-qualifying legal expenses | - | - | - |
| Prior period adjustment | - | - | 125 |
| Total tax charge for the period/year | 56,181 | 161,898 | 259,986 |

CoinShares (Jersey) Limited

Notes to the Financial Statements (continued)

For the financial period ended 30 June 2020

7 Property, plant and equipment

| | Furniture & Fittings £ | Office Equipment £ | Total £ |
|---------------------------------|------------------------------|--------------------------|--------------|
| Cost | | | |
| At 1 January 2020 | 55,579 | 55,387 | 110,966 |
| At 30 June 2020 | 55,579 | 55,387 | 110,966 |
| Accumulated depreciation | | | |
| Beginning of financial period | 42,777 | 51,529 | 94,306 |
| Charge for the period | 6,399 | 2,139 | 8,538 |
| At 30 June 2020 | 49,176 | 53,668 | 102,844 |
| Net book value | | | |
| At 30 June 2020 | 6,403 | 1,719 | 8,122 |
| At 31 December 2019 | 12,802 | 3,858 | 16,660 |

8 Commitments

Operating leasing commitments - where the Company is a lessee

The Company ceased to lease office spaces under non-cancellable operating lease agreements. CSIL bears rent expenses which, from March 2018, are recharged from time to time to the Company in proportion to utility of the premises.

9 Trade and other receivables

| | 2020 £ | 2019 £ |
|------------------------------------|----------------|-----------|
| Amounts owed by Group undertakings | 45,840 | 17,855 |
| Amounts owed by parent company | 309,093 | 1,471,207 |
| Prepayments and sundry debtors | 94,074 | 155,691 |
| | 449,007 | 1,644,753 |

Included in amounts owed by Group undertakings is £45,840 (2019: £17,855) of management fee income due from GVL for the provision of investment management services for the period from 1 September 2019, calculated as 1% of AUM payable in arrears on a quarterly basis (see note 3).

Amounts owed by the parent company, CSHL, of £309,093 (2019: £1,471,207) are made up of transfers and expenses settled by the Company on behalf of CSHL and other Group entities. These amounts are repayable on demand, bear interest at 0% and are unsecured. In the opinion of the directors all trade and other receivables are recoverable in full.

CoinShares (Jersey) Limited

Notes to the Financial Statements (continued)

For the financial period ended 30 June 2020

10 Cash and cash equivalents

| | 2020 £ | 2019 £ |
|---------------------------|------------------|------------------|
| Cash at bank | 337,107 | 6,253 |
| Amounts due from broker | 671,789 | 1,572,881 |
| | 1,008,896 | 1,579,134 |
| Amounts due to broker | - | - |
| Cash and cash equivalents | 1,008,896 | 1,579,134 |

Amounts due from/to broker represent cash held by/payable to Interactive Brokers and are classified as basic financial assets/liabilities.

11 Trade and other payables

| | 2020 £ | 2019 £ |
|-----------------------------------|----------------|----------------|
| Trade payables | 685 | 10,046 |
| Amounts payable to parent company | - | - |
| Accrued liabilities | 19,726 | 16,396 |
| Current tax liabilities | 185,742 | 259,861 |
| | 206,153 | 286,303 |

12 Share capital

Shares classified as equity

| | Allotted, called-up and fully paid | | | |
|------------------------------|------------------------------------|----------------|----------------|----------------|
| | 2020 Number | 2020 £ | 2019 Number | 2019 £ |
| Ordinary shares of £1 each | 1 | 1 | 1 | 1 |
| Redeemable shares of £1 each | 499,999 | 499,999 | 499,999 | 499,999 |
| | 500,000 | 500,000 | 500,000 | 500,000 |

The Company is authorised to issue 1 ordinary share of £1 each, it confers on the holder the right to receive dividends at the Company's discretion. If, at the Company's discretion, there is a return of assets, ordinary shares confer on the holders thereof the rights in respect of the assets of the Company available for distribution among the Shareholders. Ordinary shares issued and allotted are accounted for as equity.

The Company is authorised to issue 100,000,000 redeemable shares of £1, they confer on the holders the right to receive dividends at the Company's discretion. At the Company's discretion there may be a return of amounts paid up on such shares, but no further payment. On redemption, the Company returns the subscription amount. Redeemable shares issued and allotted are accounted for as equity.

CoinShares (Jersey) Limited

Notes to the Financial Statements (continued)

For the financial period ended 30 June 2020

12 Share capital (continued)

On 30 September 2019 the Company elected to redeem 1,608,526 redeemable shares held by CSHL and distribute a dividend of £3,200,000. CSIL owns 90% of CSHL and remains the ultimate controlling party.

| | 2020 Number | 2020 £ | 2019 Number | 2019 £ |
|------------------------------------|----------------|----------------|----------------|-------------|
| Opening balance | 499,999 | 499,999 | 2,108,525 | 2,108,525 |
| Shares redeemed at £1.00 per share | - | - | (1,608,526) | (1,608,526) |
| Closing balance | 499,999 | 499,999 | 499,999 | 499,999 |

13 Share premium

On 15 April 2010, 2,500 ordinary shares were issued at approximately £8.33 per share and 7,500 ordinary shares at approximately £11.11 resulting in a share premium of £96,863.

14 Contingent assets and liabilities

The Company historically settled expenditure on behalf of GABI Limited, a Jersey company managed by the Company during the previous financial year.

The Company is entitled to reimbursement of the expenditure made on behalf of GABI Limited. However, due to closing GABI Limited on 9 March 2018, payments of £181,566 were made at the beginning of the previous financial year to reimburse the Company for previously settled expenditure and to provide for a portion of the wind down costs expected to be incurred.

Following the decision to close GABI Limited in March 2018, the Company agreed to indemnify GABI Limited in respect of all liabilities it incurred from 9 March 2018 in excess of amounts transferred at the beginning of 2018. Total costs related to GABI Limited settled expenditure for the period amount to £nil (2019: £316).

15 Guarantee

The Company has issued a guarantee in respect of tracker certificates issued by XBTP, a subsidiary of CSHL.

The obligations arising on XBTP from the certificates are managed by CSCMJL, which hedges the exposure of these liabilities. CSCMJL is a subsidiary of CSHL. CSCMJL has procured a hedge to cover the obligations of XBTP to the certificate holders by having an identical exposure in digital assets. The digital assets held by CSCMJL are pledged as collateral under the collateral management agreement for the benefit of the Company. At 31 December 2019, CSCMJL recorded a net equity position of £35.0 million (US\$46.4 million) (2018: £34.7 million (US\$44.2 million)).

The guarantee could be called in the case of extreme events, such as an operational error, hacking or fraud impacting the hedging provided by CSCMJL which results in CSCMJL's net equity being insufficient to settle XBTP's obligations. In the opinion of the directors, there are sufficient controls and processes in place to mitigate such a risk by: (i) holding a float of digital assets at the exchanges which is monitored by the trading team to ensure there is a sufficient balance to deal with any redemption requests, (ii) using controls designed to monitor unusual transactions to mitigate factors for human error, (iii) CSCMJL's automatic trading system is designed so that exposure to changes in prices of digital assets are matched by changes in value of the obligations towards XBTP, (iv) limiting exposure to currency risk by using US\$ as the functional currency and hedging foreign currency exposures by regularly monitoring all foreign currency denominated assets and liabilities, (v) storing the majority of digital assets offline with an institutional custody service and (vi) using a secure algorithmic trading platform hosted on the cloud. Certain aspects of the cybersecurity of CSCMJL were reviewed by Baker Tilly Channel Islands Limited as they were pertinent to the ongoing audit of CSCMJL.

CoinShares (Jersey) Limited

Notes to the Financial Statements (continued)

For the financial period ended 30 June 2020

15 Guarantee (continued)

During March 2020, markets around the world suffered a significant reduction in value, primarily due to the outbreak of COVID-19. This may have contributed to the increased volatility seen in the price of digital assets, such as Bitcoin. The year end price of US\$7,212 for Bitcoin had fallen to a low of US\$3,800 as at 13 March 2020 and has since risen to above the year end price, a reduction of 47% which was then reversed.

Although there has been a fall in the price, the Directors do not consider this to impact the guarantee provided by the Company. As the market fluctuates, the CSCMJL continues to hedge certificates effectively during this time and there have been no market disruptions in the trading of the notes managed by CSCMJL. CSCMJL also has adequate business continuity arrangements in place to enable trading to continue as normal, including use of secure cloud-based technology to limit disruption.

As a result of the controls and processes in place, the directors consider that the risk of being liable as guarantor is very remote, and can not be reliably measured, thus, no provision has been recorded within these financial statements.

16 Reserves

Share premium is the amount subscribed for share capital in excess of nominal value.

The retained earnings reserve shows the cumulative net gain and losses recognised in the Statement of Comprehensive Income.

17 Controlling party

The Company's immediate parent company is CSHL a company incorporated in Jersey, Channel Islands at 2 Hill Street, St Helier, Jersey, JE2 4UA. In the opinion of the directors, CSIL remains the ultimate controlling party as the parent of CSHL.

CoinShares (Jersey) Limited

Appendix 1: Detailed administration expenses for the period ended 30 June 2020

| | 30 June 2020 £ | 30 June 2019 £ | 31 December 2019 £ |
|---|----------------------|----------------------|--------------------------|
| Administration expenses | | | |
| Audit and accountancy fees | 16,677 | 25,787 | 34,929 |
| Consultants and contractors | 151,372 | 48,148 | 161,867 |
| CoinShares (Holdings) Limited: 42.5% of NMF | - | 1,725,734 | 1,725,734 |
| Depreciation | 8,538 | 8,538 | 17,076 |
| Directors salaries and national insurance | 328,344 | 165,375 | 328,743 |
| Entertainment | 77 | - | - |
| General expenses | 45,055 | 52,899 | 90,789 |
| HR related | - | 3,890 | 5,404 |
| Interest expense | 698 | 29,708 | 48,814 |
| Legal fees | - | 400 | 11,439 |
| Marketing | - | - | 6,256 |
| Office expenses | 1,360 | 19,851 | 67,798 |
| Professional fees | 5,168 | 2,695 | 45 |
| Loss/(gain) on foreign exchange | 844 | (2,105) | 5,429 |
| Rent | 57,545 | 87,448 | 139,446 |
| Staff salaries | 305,555 | 341,385 | 550,936 |
| Travel and hotel accommodation | 1,688 | 567 | 980 |
| Revaluation gain on foreign exchange | (105,955) | (66,999) | (282,231) |
| | 816,966 | 2,443,321 | 2,913,454 |