

# AGREED-UPON PROCEDURES REPORT

Produced for:



August 21, 2020 21:25 UTC



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## Executive Summary

Armanino LLP has been engaged by CoinShares (Holdings) Limited (“CoinShares” or the “Company”) to perform agreed-upon procedures (“AUP”) as of 21:25 UTC on August 21, 2020. CoinShares engaged Armanino for the purpose of offering note holders, prospective note holders, regulators and partners (collectively, “Authorized Users”) additional transparency and assurance over the digital assets held as asset backing to the XBT Provider exchange-traded notes (ETNs) issued and outstanding (hereinafter referred to as “the hedge”). Therefore, the agreed-upon procedures herein were outlined by management of CoinShares and executed by Armanino under standards for AUP engagements issued by the American Institute of Certified Public Accountants.

Specifically, the procedures detailed herein, and Armanino’s findings, are intended to demonstrate that, at the time the procedures were performed, CoinShares custodied and controlled a number of digital assets (both “physical” or “custodied” digital assets and “synthetic ” assets comprised of derivatives and lending positions for Bitcoin, Litecoin, Ethereum and XRP) with a USD equivalent value greater than or equal to the USD equivalent value of total XBT Provider ETNs issued and outstanding. In short, the procedures are intended to demonstrate that the notes are adequately collateralized by the hedge.

Armanino has been engaged to perform these procedures and issue reports through TrustExplorer’s Real-Time Assurance platform. Data is collected and aggregated through a variety of methods: APIs to third-party block explorers, digital asset exchanges and lending platforms, relevant financial agreements, and account observations.

Armanino obtains the nominal number of issued notes outstanding directly from CoinShares’ API and recalculates fair market value using the aggregated digital asset price as detailed in the XBT Provider Base Prospectus and a foreign exchange rate for the Euro and Swedish krona as of the time of this report.

**The total hedge position across all digital assets as of 21:25 UTC on August 21, 2020 is \$1,052,492,253.** Collateralization ratios and the detailed breakout by note and asset are presented in “Findings & Results.”

The methods and procedures employed are provided in this report and are intended for the use of the Management of CoinShares and Authorized Users.

## Independent Accountant's Report on Agreed-Upon Procedures

### To Management of CoinShares and Authorized Users:

We have performed the procedures enumerated below, as of 21:25 UTC on August 21, 2020. Management of CoinShares (Holdings) Limited ("CoinShares") has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of demonstrating that, at the time the procedures were performed, CoinShares custodied and controlled a number of digital assets (both "physical" or "custodied" digital assets and "synthetic" assets comprised of derivatives and lending positions for Bitcoin, Litecoin, Ethereum and XRP) with a USD equivalent value greater than or equal to the USD equivalent value of total XBT Provider exchange-traded notes ("ETNs" or "notes") issued and outstanding. In short, the procedures are intended to demonstrate that the notes are adequately collateralized by the hedge. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and the associated findings are set forth in the attached sections:

- **Procedures:** Listing of all procedures agreed to by CoinShares and performed by Armanino.
- **Findings & Results:** Table presenting an aggregate summary of any findings and the results of procedures.

We were engaged by CoinShares to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the note and hedge balances represented by CoinShares. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of CoinShares and to meet our ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of Management and Authorized Users of CoinShares and is not intended to be and should not be used by anyone other than these specified parties. The practitioner's report is as of a specified point in time and Armanino has no responsibility to update the report or findings therein for subsequent points in time.

A handwritten signature in cursive script that reads "Armanino".

Armanino<sup>LLP</sup>  
San Jose, California  
August 21, 2020 21:25 UTC

## Procedures

Armanino performed the following agreed-upon procedures:

### **General**

1. Obtain a detailed listing of custody providers and counterparty sources (together, the “Sources”) and relevant wallet addresses from CoinShares designated for inclusion in our agreed-upon procedures testing.

### **Issued Notes Outstanding**

2. Obtain the current number of XBT Provider issued notes outstanding (“ETNs” or “notes”), the accrued management fee (“Fee”), and the note divisor<sup>1</sup> (“Divisor”) as of 21:25 UTC on August 21, 2020 directly from CoinShares via API.
3. Retrieve the digital asset price from the Primary Eligible Marketplaces provided by CoinShares as specified in the XBT Provider Base Prospectus<sup>2</sup> and calculate the average (“Aggregated USD Exchange Rate”) for each digital asset. Retrieve the foreign exchange rate for EURUSD and SEKUSD (“FX Rate”). Calculate the current fair market value (“FMV”) of each note using the following formula:  $([\text{Aggregated USD Exchange Rate} * \text{FX Rate}] - \text{Fee}) * \text{Divisor}$ .
4. Apply the FMV to each note outstanding from Procedure #2 using the following formula:  $(\text{Notes} * \text{FMV}) / \text{FX Rate}$ . Document as “Value of Certificates Outstanding (USD)” in “Findings & Results.”

### **Digital Assets in Hedge Position**

#### **Digital Assets Held in Cold Storage by Custodian**

The procedures outlined below are applicable for digital assets held by the third-party custodian on behalf of CoinShares.

5. For each wallet address provided by the custodian, extract wallet balances (nominal number of digital assets) from publicly available block explorer tools via API.
6. Apply the Aggregated USD Exchange Rate to each of the digital asset wallet balances and calculate the USD equivalent value.

#### **Spot and Equity Digital Assets, Digital Asset Derivatives (Futures, Options, Swaps), Digital Asset Shares, and Digital Asset Loans Held on Digital Asset Exchanges and Other Platforms**

The procedures outlined below are applicable for spot and equity digital assets and digital asset derivative instruments, shares, and loans held within digital asset exchanges and other platform accounts on behalf of CoinShares.

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<sup>1</sup> The “Divisor” is a constant determined upon note issuance to smooth the fair value across the two fiat currencies so they will quote roughly the same in the market.

<sup>2</sup> See prospectus at <https://coinshares.com/assets/etps/documents/xbt-base-prospectus-2020-05-15.pdf>.

7. Obtain the nominal spot and equity digital asset balances and notional derivative instrument balances held on behalf of CoinShares directly from the respective digital asset exchange platform via API.
8. For nominal spot and equity digital asset balances, apply the Aggregated USD Exchange Rate to each of the digital asset balances and calculate the USD equivalent value.
9. For notional derivative instrument balances, sum the USD equivalent value for all open long and short positions.
10. For outstanding digital asset shares, apply the Aggregated USD Exchange Rate to the subscription amount of the underlying digital asset and calculate the USD equivalent value.
11. For outstanding lending positions, obtain the principal and collateral balances via API, account observation, or inspection of the relevant financial agreements and apply the Aggregated USD Exchange Rate to each of the digital asset principal balances, less collateral received, and calculate the USD equivalent value.

## **Findings**

12. Sum all custodied, spot, and equity US Dollar equivalent balances for each source by digital asset type and classify as "Physical." Document the aggregated total for each digital asset type as "Physical Held (USD)" in "Findings & Results."
13. Sum all derivative, share, and lending US Dollar equivalent balances for each source by digital asset type and classify as "Synthetic." Document the aggregated total for each digital asset type as "Synthetic Held (USD)" in "Findings & Results."
14. Sum Physical Held (USD) and Synthetic Held (USD) and divide by Value of Certificates Outstanding (USD) for each digital asset type and document as "Collateralization Ratio" in "Findings & Results."

## Findings & Results

Armanino successfully completed the agreed-upon procedures as outlined above, performed as of **21:25 UTC on August 21, 2020**, with the following findings and results:

Exchange Traded Note	Value of Certificates Outstanding (USD)	Physical Held (USD)	Synthetic Held (USD)	Total Hedge Position (USD)	Collateralization Ratio
Bitcoin Tracker One Bitcoin Tracker Euro	\$751,901,851	\$804,467,212	\$7,065,803	\$811,533,015	107.9%
Ether Tracker One Ether Tracker Euro	\$232,604,932	\$230,637,702	\$6,614,590	\$237,252,291	102.0%
Litecoin Tracker One Litecoin Tracker Euro	\$1,243,907	\$1,305,963	--	\$1,305,963	105.0%
XRP Tacker One XRP Tracker Euro	\$2,309,632	\$3,310,984	(\$910,000)	\$2,400,984	104.0%
<b>Total</b>	<b>\$988,060,322</b>	<b>\$1,039,721,861</b>	<b>\$12,770,393</b>	<b>\$1,052,492,253</b>	<b>106.5%</b>