



**ETC Issuance GmbH
Frankfurt am Main**

**Report on the audit of the
standalone financial statements pursuant to IFRS as of
December 31, 2023**





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Please note that the use of rounded amounts and percentages may result in rounding differences of one unit (EUR, %, etc.).

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Auditing Companies

1. Engagement

Due to our election as auditor by the shareholders' meeting of September 21, 2023, the management of

**ETC Issuance GmbH,
Frankfurt am Main**
(hereinafter also referred to as "ETCI" or "Company")

engaged us to conduct a voluntary audit of the Company's standalone financial statements as of December 31, 2023, according to International Financial Reporting Standards (IFRS) as applicable in the EU, in accordance with the generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*, IDW) in accordance with Art. 317 et seq. HGB and to report in writing on the results of our audit.

Pursuant to Art. 321 (4a) HGB, we confirm to have complied with the applicable independence requirements during our audit.

We report about our audit's type, scope and result in this report according to the principles pursuant to IDW PS 450, as amended, to which we have attached the standalone financial statements audited by us. This report is addressed to the audited company.

The performance of our engagement and our responsibility – also in relation to third parties – are based upon the General Terms of Engagement for Auditors and Auditing Companies as amended January 1, 2017 ("GTE"; *Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften in der Fassung vom 1. Januar 2017*) which are attached to this report as Annex.

In deviation from the aforementioned GTE's wording in No. 10 (3), only the electronic audit report will be handed over. Beyond this, there is no entitlement to paper copies of the report.

2. Auditor's report

On June 7, 2024, we issued and signed in Munich an auditor's report upon ETC Issuance GmbH, Frankfurt am Main's standalone financial statements for the fiscal year from January 1, 2023 through December 31, 2023, in the version attached to this report as Annex 1, which is stated below:

"INDEPENDENT AUDITOR'S REPORT

To ETC Issuance GmbH, Frankfurt am Main

Audit opinion

We have audited ETC Issuance GmbH's standalone financial statements pursuant to IFRS, comprising the balance sheet as of December 31, 2023, the statement of comprehensive income for the fiscal year from January 1, 2023 through December 31, 2023, the cash-flow statement and the statement of changes in equity as well as the notes to the standalone financial statements, including a presentation of the accounting and valuation methods.

According to our assessment based on the knowledge obtained during the audit, the attached standalone financial statements comply, in all material respects, with the requirements pursuant to IFRS as applicable in the EU and provide a true and fair view of the Company's assets and financial position as of December 31, 2023 and of its profit situation for the fiscal year from January 1, 2023 through December 31, 2023.

Pursuant to Art. 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the standalone financial statements' legal compliance.

Basis for our audit opinion

We have conducted our audit of the standalone financial statements in accordance with Art. 317 HGB and in compliance with German Generally Accepted Standards for the Audit of Financial Statements as promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*, "IDW"). Our responsibilities pursuant to these requirements and principles are further described in the section "Auditor's Responsibilities for the Audit of the Standalone Financial Statements" in our auditors' report. We are independent from the Company in accordance with the requirements pursuant to German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe the audit

evidence we have obtained is sufficient and appropriate in order to provide a basis for our audit opinions expressed on the standalone financial statements.

Legal representatives' and the Audit, Risk and Compliance Committee's responsibilities for the standalone financial statements

The legal representatives are responsible for the preparation of the standalone financial statements that comply, in all material respects, with the requirements pursuant to IFRS as applicable in the EU and that the standalone financial statements provide a true and fair view of the Company's net assets, financial position, and profit situation. Furthermore, the legal representatives are responsible for such internal controls they have determined as being necessary in order to provide for the preparation of standalone financial statements that are free from material misstatements, whether due to fraud (i.e., manipulation of accounting and property damage) or error.

When preparing the standalone financial statements, the legal representatives are responsible to assess the Company's ability to continue as a going concern. They also have the responsibility to disclose, as applicable, matters related to the continuation as a going concern. Furthermore, they are responsible for financial reporting based on the going concern principle unless otherwise required due to actual or legal circumstances.

The Audit, Risk and Compliance Committee ("ARC") is responsible for monitoring the Company's accounting process for the preparation of standalone financial statements pursuant to IFRS as applicable in the EU.

Auditor's responsibilities for the audit of the standalone financial statements

Our objective is to obtain reasonable assurance as to whether the standalone financial statements as a whole are free from any material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our audit opinion on the standalone financial statements.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Art. 317 HGB and in compliance with German Generally Accepted Standards for the Audit of Financial Statements as promulgated by the IDW will always detect any material misstatement. Misstatements can arise from fraud or error and are considered material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of these standalone financial statements.

We exercise professional judgment and maintain professional skepticism throughout the entire audit. We also:

- identify and assess the risks of material misstatements in the standalone financial statements, whether due to fraud or error, plan and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting any material misstatements resulting from fraud is higher than the risk of not detecting any material misstatements resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;
- obtain an understanding of the internal control system and of arrangements and measures relevant for the audit of the standalone financial statements, in order to plan audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company;
- evaluate the appropriateness of accounting methods applied by the legal representatives and the reasonableness of estimates made by the legal representatives as well as the related disclosures;
- draw conclusions on the appropriateness of the going concern principle applied by the legal representatives and, based on the audit evidence obtained, whether there is a material uncertainty in connection with events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that there is a material uncertainty, we are required to draw attention in the auditor's report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit certificate. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements present the underlying transactions and events in a manner that the standalone financial statements provide a true and fair view of the Company's assets, liabilities, financial position and profit situation.

We discuss with the supervisors, inter alia, the planned scope and timing of the audit as well as significant audit findings, including any significant deficiencies in the internal control system we identify during our audit.”

3. Subject, type and scope of the audit

Subject of our audit were ETCI's standalone financial statements prepared in accordance with IFRS as applicable in the EU, comprising the balance sheet as of December 31, 2023, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the fiscal year from January 1, 2023 through December 31, 2023, as well as the notes to the standalone financial statements.

The legal representatives' and the ARC's responsibilities for the standalone financial statements as well as the auditor's responsibilities for the audit of the standalone financial statements are presented in detail in our auditor's report. In connection herewith, please note that an examination of compliance with legal provisions not related with accounting issues is part of an audit only to such extent such other provisions usually affect the audited standalone financial statements. Furthermore, our audit generally does not have to include an examination as to whether the audited Company's continued existence or the management's effectiveness and efficiency can be guaranteed.

We conducted our audit with interruptions from December 2023 through June 2024.

In the following, we present the principles of our audit approach:

Development of audit strategy

- ▶ Obtaining an understanding of the Company, its environment and its accounting-related internal control system
- ▶ Determination of audit fields and key audit issues on the basis of our risk assessment:
 - Evidence and valuation of cryptocurrency holdings and bearer bonds recognized in the balance sheet
 - Revenues
 - Misstatements due to fraudulent actions at financial statement level and at the level of individual statements
 - Completeness and plausibility of the disclosures in the notes to the standalone financial statements
 - Audit of the proper adoption of the opening balance sheet values from the previous year's financial statements
- ▶ Determination of audit strategy and schedule
- ▶ Selection of audit team

Selection and performance of control-based audit procedures

- ▶ Selection of control-based audit procedures due to risk assessments and our understanding of the business processes and systems
- ▶ Evaluation of the selected accounting-related control measures' structure and effectiveness

Case-by-case audits and analytical reviews of individual items

- ▶ Performance of analytical audit procedures of individual items

- ▶ Case-by-case audits by means of random samples and evaluation of individual circumstances by taking into account the exercised option rights and discretionary scopes, inter alia,
 - Obtaining lawyers' and tax advisors' confirmations
 - Obtaining banks' confirmations
 - Obtaining the administrator's confirmations
 - Obtaining the trustees' confirmations
 - Obtaining the custodian banks' confirmations

Overall assessment of audit results and reporting

- ▶ Formation of audit opinion
- ▶ Reporting in the audit report and audit opinion
- ▶ Oral explanations of the audit results to the management

All requested explanations and verifications were readily provided to us by the management and the employees appointed for disclosing information to us; furthermore, the customary letter of representation was submitted to us in writing. The letter of representation especially confirms that all accountable transactions have been duly recorded in the accounting records and that, in the present standalone financial statements, all assets, liabilities, accruals and deferrals are properly stated, that all expenses and earnings have been disclosed, that all risks have been taken into account and that all required information has been provided.

4. Accounting-related findings and explanations

4.1. Correctness of financial reporting

4.1.1. Bookkeeping and further documents under review

Based on our findings, the accounting records are correct in all material respects. According to our findings, the accounting records and related documents comply with the legal requirements despite the weaknesses described below.

During our audit of the structure and implementation of the general computer controls, we identified the following indications of relevant weaknesses with regard to the accounting-related data's and IT systems' reliability and/or the accounting-related internal IT control system's effectiveness:

- Controls for monitoring IT service providers have not been implemented. This includes controls for monitoring the agreed service levels and KPIs, the assessment of relevant audit reports on the service-related internal control system and own controls in the event of the use of specialist IT support/other external procurement of IT services.
- Administrative authorizations are not limited to IT employees; there is no documented monitoring of the activities of privileged user IDs. According to IDW RS FAIT1 para. 79, additional measures must be taken if, e.g., due to staffing levels, a separation of functions in the performance of tasks between IT and business processes is not possible.
- There is a low level of formalization in the area of IT emergency management. Important content (probability of occurrence and extent of damage; necessary availability and tolerable downtimes, interaction of own measures with service providers) is not defined in the IT emergency plan. No IT emergency tests were performed during the audit period. As these IT risks did not materialize in the financial year, there is no impact on the audit. However, remediation is strongly recommended.
- Furthermore, there were formal deficiencies in the description of the processes / timeliness of the guidelines for the IT processes and in the formal documentation of the financial accounting system's conversion from Xero to Netsuite as of August 1, 2023, which took place in the financial year.

Overall, our audit of the IT-related internal control system in the area of accounting revealed that IT-relevant processes and procedures are only partially defined (in writing). These are primarily implemented in practice. Documented and comprehensible controls in the sense of mechanisms that ensure process compliance are hardly implemented. Overall, we assess the maturity level of the IT-related internal control system's audited aspects as informal. We strongly recommend increasing the maturity level of the IT-related internal control system from standardized to controlled.

Due to the internal IT systems' minor significance for the accounting processes, there were no material effects on our planned, statement-related audit approach.

Our additional audit procedures, which we performed on the basis of these findings, did not reveal any indications that the aforementioned matters had a material effect on the standalone financial statements.

4.1.2. Standalone financial statements

According to our assessment based on our audit's findings, the Company's standalone financial statements as of December 31, 2023 (Annex 1) comply, in all material respects, with the accounting requirements pursuant to IFRS as applicable in the EU in compliance with the legal form-specific requirements.

The standalone financial statements were properly derived from the accounts and further audited documents. All requirements on the structuring, accounting and valuation, on the cash-flow statement, on the statement of changes in equity and on the notes pursuant to IFRS as applicable in the EU have been duly fulfilled in all material respects. The disclosures in the notes are complete and correct in all material respects.

4.2. Standalone financial statements' overall assessment

Findings on the standalone financial statements' overall assessment

All in all, i.e., taking into account the balance sheet, the statement on comprehensive income, the cash-flow statement, the statement of changes in equity and the notes, in compliance with German generally accepted accounting principles, the standalone financial statements provide a true and fair view of the Company's assets, financial position and profit situation.

5. Final remark

We have issued the above report on the audit of ETC Issuance GmbH, Frankfurt am Main's standalone financial statements for the fiscal year from January 1, 2023 through December 31, 2023 in accordance with legal requirements and the German generally accepted reporting standards for audits (IDW PS 450, as amended).

The auditor's report we issued is included in Section 2. under "Auditor's report".

Munich, June 7, 2024

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

Abel
German CPA

Brandscheid
German CPA



ETC ISSUANCE GMBH
COMPANY NUMBER HRB 116604

FINANCIAL STATEMENTS

31 DECEMBER 2023

ETC ISSUANCE GMBH

STATEMENT OF FINANCIAL POSITION

AS AT 31 December 2023

Assets	Notes	31 December 2023 EUR	31 December 2022 EUR
Current Assets			
Non financial assets	2.5/3.1	1.151.937.099	300.765.546
Cash and cash equivalents	2.4	2.959.373	447.277
TOTAL ASSETS		<u>1.154.896.472</u>	<u>301.212.823</u>
SHAREHOLDER'S EQUITY			
Share capital		25.000	25.000
Retained earnings/ (Accumulated losses)		-857.874.678	-8.750.206
Other comprehensive income		858.661.964	9.157.293
TOTAL SHAREHOLDER'S EQUITY	5.	812.286	432.087
LIABILITIES			
Current Liabilities			
Financial liabilities valued at fair value	3.1	1.147.020.673	297.516.002
Trade and other payables	2.5/6.1	6.571.686	2.850.083
Acruals and other provisions		334.200	357.739
Income taxes	2.6/6.2	157.627	56.912
TOTAL LIABILITIES		1.154.084.186	300.780.736
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		<u>1.154.896.472</u>	<u>301.212.823</u>

ETC ISSUANCE GMBH

STATEMENT OF COMPREHENSIVE INCOME

31 DECEMBER 2023

	Notes	2023 EUR	2022 EUR
Revenue	2.8/6.3	12.020.681	10.027.867
Other Income		444.720	213.404
Other expenses	6.4	-11.944.260	-10.067.997
Gain/(Loss) on fair value movements of liabilities to bondholders	6.5	-848.141.639	712.552.298
Finance incompe/(expense)		-14.210	6.072
Income tax	6.2	-126.733	-37.049
Net Income/(Loss)		-847.761.440	712.664.596
Other comprehensive Income			
Net Gain/(Loss) arising on fair value of digital assets		848.141.639	-712.522.298
Total income		380.199	142.298

ETC ISSUANCE GMBH
STATEMENT OF CASH FLOWS
AS AT 31 December 2023

NET CASH FLOWS FROM OPERATIONS	Note	December 2023	December 2022
Total income for the year		380.199	142.298
Changes in working capital (Decrease)/ Increase in trade receivables and payables		2.131.897	-3.399.791
NET CASH FLOWS FROM OPERATIONS		2.512.096	-3.257.493
Change in cash and cash equivalents cash and cash equivalents at the beginning of the period		2.512.096 447.277	-3.257.493 3.704.770
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		2.959.373	447.277

ETC ISSUANCE GMBH

STATEMENT OF COMPREHENSIVE INCOME

31 DECEMBER 2023

	Issued Capital	Retained earnings/ (Accumulated losses)	Other comprehensive income	Total Equity
At 1st January 2022	25.000	-721.414.802	721.679.591	289.789
Net Income/(loss) for the year	0	712.664.596	0	712.664.596
Other Comprehensive Income for the period	0	0	-712.522.298	-712.522.298
At 31st December 2022	25.000	-8.750.206	9.157.293	432.087
At 1st January 2023	25.000	-8.750.206	9.157.293	432.087
Net Income/(loss) for the year	0	-849.124.473	0	-849.124.473
Other Comprehensive Income for the period	0	0	849.504.671	849.504.671
At 31st December 2023	25.000	-857.874.679	858.661.964	812.286

ETC ISSUANCE GMBH
NOTES TO THE ACCOUNTS
AS AT 31 December 2023

Note 1 - Corporate information

ETC Issuance GmbH (hereinafter the "Company") was incorporated on 27 August 2019. The company is registered in the commercial register of the local court of Frankfurt am Main under HRB 116604. ETC Issuance GmbH is a 100% subsidiary of ETC Management Limited, which in turn is a 100% subsidiary of ETC Holdings Limited the ultimate parent company. The three entities together making up the "ETC Group".

The Company's financial year begins on 1 January and ends on 31 December. Its objective is to offer to investors cryptocurrency backed bonds to investors.

Note 2 - Summary of significant accounting policies

2.1 Basis of preparation and adoption of IFRS

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, issued and effective as at December 31, 2023.

These financial statements were approved for issuance by the Board of Directors of the Company on 6th June 2024

The preparation of financial statements in conformity with IFRS as adopted by the European Union requires the use of certain critical accounting estimates.

- The bonds issued by the Company are valued according to IFRS 9 at fair value through profit and loss at balance sheet date.
- The digital assets which collateralise the bonds are also revalued at fair value in accordance with IAS 38

ETC ISSUANCE GMBH
NOTES TO THE ACCOUNTS
AS AT 31 December 2023

The Company has early adopted several standards in prior years. Therefore in 2023 there are no new standards, interpretation or amendments that are adopted by the company.

The following standards, interpretation or amendments have been issued by the IASB, but the company does not consider these to be relevant to the presentation of its financial Statements.

New regulation	Published by the IASB	Effective for annual periods beginning on or after	Adopted by the EU	Company's assessment of the regulation
IFRS 17: Insurance Contracts	18 May 2017	January 1, 2023	Yes	No material impact
IFRS 17: Insurance Contracts - several amendments	25 June 2020	January 1, 2023	Yes	No material impact
IAS 1: Classification of liabilities as current or non-current	23 January 2020	January 1, 2023	Yes	No material impact
IAS 1: Disclosure of Accounting Policies	12 February 2021	January 1, 2023	Yes	No material impact
IAS 8: Definition of Accounting Estimates	12 February 2021	January 1, 2023	Yes	No material impact
IAS 12: Deferred taxes on leases and decommissioning and restoration liabilities	07 May 2021	January 1, 2023	Yes	No material impact

2.2 Going concern

The financial statements disclose all matters of which the Company is aware and which are relevant to the Company's ability to continue as a going concern, including all significant events, mitigating factors and the Company's plans. Accordingly, the financial statements have been prepared on a basis which assumes that the Company will continue as a going concern and which contemplates the recoverability of assets and the satisfaction of liabilities and commitments in the normal course of business.

ETC ISSUANCE GMBH
NOTES TO THE ACCOUNTS
AS AT 31 December 2023

2.3 Foreign currency translations

These financial Statements are presented in Euro ("EUR"), which is the functional currency of the Company.

Individual foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the time of the transactions, which might comprise:

- i. the average spot exchange rate for a given currency as determined by XE.com as at the date of transaction - in case of settlements of receivables and payables and other transactions or,
- ii. the actual spot rate applied as at the date resulting from the type of transaction - in case of foreign currency purchases and sales.

The foreign exchange gains and losses resulting from the Settlement of transactions in foreign currencies and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Digital assets are priced in USD according to prices published by CryptoCompare or Bloomberg. The USD values are then translated to EUR at balance sheet rates as determined by the European Central Bank ("ECB") as described above.

The directors consider there to be an active market in the digital assets held by the Company. Both CryptoCompare and Bloomberg represent accepted industry benchmarks reflecting an amalgamation of prices on the leading exchanges. As such the directors consider there to be minimal judgement required in the application of the prices.

The price reflects the closing price at 4pm and is updated daily based on the number of digital assets held net of any creations or redemptions.

2.4 Cash and cash equivalents in the Statement of financial position

Cash and cash equivalents include cash in hand and cash at bank.

Cash and cash equivalents are carried at nominal value in the Statement of financial position.

ETC ISSUANCE GMBH
NOTES TO THE ACCOUNTS
AS AT 31 December 2023

2.5 Non financial assets / Trade and other payables

Trade and other payables/receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Non-financial assets include digital assets (kEUR 1.145.658) and receivables from primarily accrued management fee income and intercompany loans (kEUR 6.279).

For details of digital assets, please see note 3.1.

2.6 Current income tax

The current income tax Charge is determined in accordance with the relevant tax regulations in respect of the taxable profit. The current income tax Charge is calculated based on the tax laws enacted or substantively enacted at the balance sheet date in countries where the Company operates and generates taxable income.

Income tax payable represents the amounts payable at the balance sheet date. If the amount paid on account of current income tax is greater than the amount finally determined, the excess is recognised in the Statement of financial position as income tax receivables.

The Company has no timing differences for tax purposes and as such does not recognise any deferred tax assets or liability.

2.7 Revenue recognition

The Company derives revenue from the management of its issued bonds. The recognition is recognised over time according to the terms of the individual bonds and the management fees are deducted directly from the recognised bondholder liabilities in accordance with the terms of the individual bonds. The fees are calculated on a daily basis according to the diminishing entitlement of the bond holders as set out in the terms of the individual bonds.

Note 3 - Critical accounting estimates and judgements

The Company made estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that bear a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current or next financial year are discussed below.

3.1 Fair value estimation

The fair value of the financial assets and liabilities is the amount at which the asset could be sold or the liability transferred in a current transaction between market participants, other than in a forced or liquidation sale.

The nominal values of liabilities and receivables less impairment with a maturity up to one year are assumed to approximate to their fair values.

ETC ISSUANCE GMBH
NOTES TO THE ACCOUNTS
AS AT 31 December 2023

The fair value of the cryptocurrencies (see 2.5) is determined by using the market value of these cryptocurrencies and therefore a level 1 valuation. Given there is an active market, the uncertainties in this valuation are very low. Please see note 2.3. Increases in fair value are reflected in Other Comprehensive Income. Decreases in fair value are recognised through the face of the profit and loss account. However any decrease in gains previously recognised in Other Comprehensive income are also recognised through Other Comprehensive Income.

The bonds derive their value from the entitlement of the bondholder to the relevant digital asset and as such are directly correlated to the fair value of those assets as described above.

The Company does not separate out the embedded derivative but treats the bonds as single discrete instruments as again the derivative acquires its value from the underlying assets redeemable for cash in a liquid market.

Note 4 - Financial risk management

4.1 Financial risk factors

The Company's overall risk management program focuses on minimising the potential adverse effects of the financial risks on the performance of the Company. The financial risk is managed under policies covering specific areas such as currency risk, interest rate risk, credit risk and liquidity risk, as well as covenants provided in financing agreements. There has been no change in the types of risk facing the Company versus the prior periods nor in the way those risks are managed.

4.2 Currency risk

As at December 31, 2023, most of the assets and liabilities refer to the cryptocurrency and therefore are not related to any currency in the traditional sense. The remaining balance sheet items are in USD, EUR or GBP and do not bear any significant currency risk. The Company converts its cryptocurrency entitlement into the above currencies according to working capital needs. It does so on a regular scheduled basis in order to minimize its exposure to price volatility in the underlying cryptocurrencies.

4.3 Liquidity risk

Liquidity risk management implies maintaining sufficient cash as well as availability of funding through an adequate amount of committed debt facilities. The Company reviews its cash balances on a regular basis as well as its forecast cash requirements in order to ensure it has sufficient cash to meet its operating needs.

All trade payables are due within one year from the end of the reporting year.

ETC ISSUANCE GMBH
NOTES TO THE ACCOUNTS
AS AT 31 December 2023

4.4 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, in order to provide returns for the sole shareholder and benefits for other stakeholders. The Company was not regulated for capital requirement purposes and the Company utilises funds provided by related parties to fund its activities as well as the revenue generated from the management of the bonds.

4.5 Fair Values

The nominal values of liabilities and receivables less impairment with a maturity up to one year are assumed to approximate to their fair values. Prices of the digital assets themselves and corresponding bonds are inherently volatile but given there is an active market to which we benchmark without adjustment via industry recognised data providers such as CryptoCompare, the risk is deemed to be low.

4.6 Collateralisation of bonds

Per the terms of the bonds, each bond is 100% physically backed by the relevant cryptocurrency. All cryptocurrencies are held in cold storage with a regulated Custodian under the oversight of both an independent third party administrator and security trustee. Cryptocurrency holdings are independently reconciled by both the Company and the third party administrator. No new bonds are issued until the underlying collateral has been lodged with the Custodian.

Given the bonds are fully collateralised, there is no liquidity risk. All bondholder liabilities can be met through redemption of the underlying digital assets.

Note 5 - Equity

5.1 Share capital

As at December 31, 2023, the Company's share capital is composed of 25,000 ordinary shares, issued and fully paid up with a nominal value of EUR 1 each.

100 % of the share capital is owned by its parent Company ETC Management Limited.

There is only one class of share and there have been no movements in the share capital during the course of the year.

Beyond maintaining its paid up share capital, the Company is not subject to any capital requirements.

ETC ISSUANCE GMBH
NOTES TO THE ACCOUNTS
AS AT 31 December 2023

Note 6 - Notes to the Financial Statements

6.1 Trade and other payables

As of 31 December 2023, trade and other payables include kEUR 6.401 payables to related parties for Services received and kEUR 171 for other Services received.

6.2 Income taxes

The Company recognises only current taxes. A tax reconciliation is not done as it is not considered material.

6.3 Revenue

Revenue is recognised only for the period in question and is related to the management of the bond portfolio of the Company.

6.4 Other expenses

The other expenses are mainly related to services received for the management of the bond in the amount of kEUR 1.126, expenses from a related party in an amount of kEUR 10.063 and expenses related to legal, audit, marketing and other services in an amount of kEUR 667.

ETC ISSUANCE GMBH
NOTES TO THE ACCOUNTS
AS AT 31 December 2023

6.5 Movement in Fair Value of Bonds and Digital Assets

The fair value movement of the bonds and the digital assets move in inverse correlation to one another. The change in fair value is due both to the change in number of units in issue and also the price of the bonds/underlying assets. The underlying creations and redemptions are denominated in cryptocurrency and converted to USD at the spot rate ruling at the date of transaction. The USD are then converted to EUR at the rate per XE.com as at December 31st 2023 (1€/ \$1.0824) for 2023 and December 31st 2022 (1 €/ \$1.0723) for 2022.

	2023	2022
Opening Balance	297.516.002	1.010.038.300
Creations	887.429.833	727.163.606
Redemptions	-566.655.136	-810.751.011
Management fees	-12.020.631	-10.027.867
Realised (loss)/gain in fair value of digital asstes	128.402.343	-318.268.407
Unrealised (loss)/gain in fair value of digital asstes	410.985.230	-300.638.619
Closing Balance	1.145.657.641	297.516.002

Note 7 – Audit fees


The audit fees for the interim financial year ended December 31, 2023 amounts to kEUR 72.

Note 8 – Subsequent events

None

London, 6th June 2024

ETC Issuance GmbH



Leyla Sharifullina



Timothy Bevan

[Note: This is a convenience translation of the German original. Solely the original text in the German language is authoritative.]

INDEPENDENT AUDITOR'S REPORT

To ETC Issuance GmbH, Frankfurt am Main

Audit opinion

We have audited ETC Issuance GmbH's standalone financial statements pursuant to IFRS, comprising the balance sheet as of December 31, 2023, the statement of comprehensive income for the fiscal year from January 1, 2023 through December 31, 2023, the cash-flow statement and the statement of changes in equity as well as the notes to the standalone financial statements, including a presentation of the accounting and valuation methods.

According to our assessment based on the knowledge obtained during the audit, the attached standalone financial statements comply, in all material respects, with the requirements pursuant to IFRS as applicable in the EU and provide a true and fair view of the Company's assets and financial position as of December 31, 2023 and of its profit situation for the fiscal year from January 1, 2023 through December 31, 2023.

Pursuant to Art. 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the standalone financial statements' legal compliance.

Basis for our audit opinion

We have conducted our audit of the standalone financial statements in accordance with Art. 317 HGB and in compliance with German Generally Accepted Standards for the Audit of Financial Statements as promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*, "IDW"). Our responsibilities pursuant to these requirements and principles are further described in the section "Auditor's Responsibilities for the Audit of the Standalone Financial Statements" in our auditors' report. We are independent from the Company in accordance with the requirements pursuant to German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe the audit evidence we have obtained is sufficient and appropriate in order to provide a basis for our audit opinions expressed on the standalone financial statements.

Legal representatives' and the Audit, Risk and Compliance Committee's responsibilities for the standalone financial statements

The legal representatives are responsible for the preparation of the standalone financial statements that comply, in all material respects, with the requirements pursuant to IFRS as applicable in the EU and that the standalone financial statements provide a true and fair view of the Company's net assets, financial position, and profit situation. Furthermore, the legal representatives are responsible for such internal controls they have determined as being necessary in order to provide for the preparation of standalone financial statements that are free from material misstatements, whether due to fraud (i.e., manipulation of accounting and property damage) or error.

When preparing the standalone financial statements, the legal representatives are responsible to assess the Company's ability to continue as a going concern. They also have the responsibility to disclose, as applicable, matters related to the continuation as a going concern. Furthermore, they are responsible for financial reporting based on the going concern principle unless otherwise required due to actual or legal circumstances.

The Audit, Risk and Compliance Committee ("ARC") is responsible for monitoring the Company's accounting process for the preparation of standalone financial statements pursuant to IFRS as applicable in the EU.

Auditor's responsibilities for the audit of the standalone financial statements

Our objective is to obtain reasonable assurance as to whether the standalone financial statements as a whole are free from any material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our audit opinion on the standalone financial statements.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Art. 317 HGB and in compliance with German Generally Accepted Standards for the Audit of Financial Statements as promulgated by the IDW will always detect any material misstatement. Misstatements can arise from fraud or error and are considered material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of these standalone financial statements.

We exercise professional judgment and maintain professional skepticism throughout the entire audit. We also:

- identify and assess the risks of material misstatements in the standalone financial statements, whether due to fraud or error, plan and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting any material misstatements resulting from fraud is higher than the risk of not detecting any material misstatements resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;
- obtain an understanding of the internal control system and of arrangements and measures relevant for the audit of the standalone financial statements, in order to plan audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company;
- evaluate the appropriateness of accounting methods applied by the legal representatives and the reasonableness of estimates made by the legal representatives as well as the related disclosures;
- draw conclusions on the appropriateness of the going concern principle applied by the legal representatives and, based on the audit evidence obtained, whether there is a material uncertainty in connection with events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that there is a material uncertainty, we are required to draw attention in the auditor's report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit certificate. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements present the underlying transactions and events in a manner that the standalone financial statements provide a true and fair view of the Company's assets, liabilities, financial position and profit situation.



We discuss with the supervisors, inter alia, the planned scope and timing of the audit as well as significant audit findings, including any significant deficiencies in the internal control system we identify during our audit.

Munich, June 7, 2024

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

Abel
German CPA

Brandscheid
German CPA

General Engagement Terms

for

Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften

[German Public Auditors and Public Audit Firms]

as of January 1, 2017

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1. Scope of application

(1) These engagement terms apply to contracts between German Public Auditors (*Wirtschaftsprüfer*) or German Public Audit Firms (*Wirtschaftsprüfungsgesellschaften*) – hereinafter collectively referred to as "German Public Auditors" – and their engaging parties for assurance services, tax advisory services, advice on business matters and other engagements except as otherwise agreed in writing or prescribed by a mandatory rule.

(2) Third parties may derive claims from contracts between German Public Auditors and engaging parties only when this is expressly agreed or results from mandatory rules prescribed by law. In relation to such claims, these engagement terms also apply to these third parties.

2. Scope and execution of the engagement

(1) Object of the engagement is the agreed service – not a particular economic result. The engagement will be performed in accordance with the German Principles of Proper Professional Conduct (*Grundsätze ordnungsmäßiger Berufsausübung*). The German Public Auditor does not assume any management functions in connection with his services. The German Public Auditor is not responsible for the use or implementation of the results of his services. The German Public Auditor is entitled to make use of competent persons to conduct the engagement.

(2) Except for assurance engagements (*betriebswirtschaftliche Prüfungen*), the consideration of foreign law requires an express written agreement.

(3) If circumstances or the legal situation change subsequent to the release of the final professional statement, the German Public Auditor is not obligated to refer the engaging party to changes or any consequences resulting therefrom.

3. The obligations of the engaging party to cooperate

(1) The engaging party shall ensure that all documents and further information necessary for the performance of the engagement are provided to the German Public Auditor on a timely basis, and that he is informed of all events and circumstances that may be of significance to the performance of the engagement. This also applies to those documents and further information, events and circumstances that first become known during the German Public Auditor's work. The engaging party will also designate suitable persons to provide information.

(2) Upon the request of the German Public Auditor, the engaging party shall confirm the completeness of the documents and further information provided as well as the explanations and statements, in a written statement drafted by the German Public Auditor.

4. Ensuring independence

(1) The engaging party shall refrain from anything that endangers the independence of the German Public Auditor's staff. This applies throughout the term of the engagement, and in particular to offers of employment or to assume an executive or non-executive role, and to offers to accept engagements on their own behalf.

(2) Were the performance of the engagement to impair the independence of the German Public Auditor, of related firms, firms within his network, or such firms associated with him, to which the independence requirements apply in the same way as to the German Public Auditor in other engagement relationships, the German Public Auditor is entitled to terminate the engagement for good cause.

5. Reporting and oral information

To the extent that the German Public Auditor is required to present results in writing as part of the work in executing the engagement, only that written work is authoritative. Drafts are non-binding. Except as otherwise agreed, oral statements and explanations by the German Public Auditor are binding only when they are confirmed in writing. Statements and information of the German Public Auditor outside of the engagement are always non-binding.

6. Distribution of a German Public Auditor's professional statement

(1) The distribution to a third party of professional statements of the German Public Auditor (results of work or extracts of the results of work whether in draft or in a final version) or information about the German Public Auditor acting for the engaging party requires the German Public Auditor's written consent, unless the engaging party is obligated to distribute or inform due to law or a regulatory requirement.

(2) The use by the engaging party for promotional purposes of the German Public Auditor's professional statements and of information about the German Public Auditor acting for the engaging party is prohibited.

7. Deficiency rectification

(1) In case there are any deficiencies, the engaging party is entitled to specific subsequent performance by the German Public Auditor. The engaging party may reduce the fees or cancel the contract for failure of such subsequent performance, for subsequent non-performance or unjustified refusal to perform subsequently, or for unconscionability or impossibility of subsequent performance. If the engagement was not commissioned by a consumer, the engaging party may only cancel the contract due to a deficiency if the service rendered is not relevant to him due to failure of subsequent performance, to subsequent non-performance, to unconscionability or impossibility of subsequent performance. No. 9 applies to the extent that further claims for damages exist.

(2) The engaging party must assert a claim for the rectification of deficiencies in writing (*Textform*) [Translators Note: *The German term "Textform" means in written form, but without requiring a signature*] without delay. Claims pursuant to paragraph 1 not arising from an intentional act expire after one year subsequent to the commencement of the time limit under the statute of limitations.

(3) Apparent deficiencies, such as clerical errors, arithmetical errors and deficiencies associated with technicalities contained in a German Public Auditor's professional statement (long-form reports, expert opinions etc.) may be corrected – also versus third parties – by the German Public Auditor at any time. Misstatements which may call into question the results contained in a German Public Auditor's professional statement entitle the German Public Auditor to withdraw such statement – also versus third parties. In such cases the German Public Auditor should first hear the engaging party, if practicable.

8. Confidentiality towards third parties, and data protection

(1) Pursuant to the law (§ [Article] 323 Abs 1 [paragraph 1] HGB [German Commercial Code: *Handelsgesetzbuch*], § 43 WPO [German Law regulating the Profession of *Wirtschaftsprüfer*: *Wirtschaftsprüferordnung*], § 203 StGB [German Criminal Code: *Strafgesetzbuch*]) the German Public Auditor is obligated to maintain confidentiality regarding facts and circumstances confided to him or of which he becomes aware in the course of his professional work, unless the engaging party releases him from this confidentiality obligation.

(2) When processing personal data, the German Public Auditor will observe national and European legal provisions on data protection.

9. Liability

(1) For legally required services by German Public Auditors, in particular audits, the respective legal limitations of liability, in particular the limitation of liability pursuant to § 323 Abs. 2 HGB, apply.

(2) Insofar neither a statutory limitation of liability is applicable, nor an individual contractual limitation of liability exists, the liability of the German Public Auditor for claims for damages of any other kind, except for damages resulting from injury to life, body or health as well as for damages that constitute a duty of replacement by a producer pursuant to § 1 ProdHaftG [German Product Liability Act: *Produkthaftungsgesetz*], for an individual case of damages caused by negligence is limited to € 4 million pursuant to § 54 a Abs. 1 Nr. 2 WPO.

(3) The German Public Auditor is entitled to invoke demurs and defenses based on the contractual relationship with the engaging party also towards third parties.

(4) When multiple claimants assert a claim for damages arising from an existing contractual relationship with the German Public Auditor due to the German Public Auditor's negligent breach of duty, the maximum amount stipulated in paragraph 2 applies to the respective claims of all claimants collectively.

(5) An individual case of damages within the meaning of paragraph 2 also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty regardless of whether the damages occurred in one year or in a number of successive years. In this case, multiple acts or omissions based on the same source of error or on a source of error of an equivalent nature are deemed to be a single breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the German Public Auditor is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(6) A claim for damages expires if a suit is not filed within six months subsequent to the written refusal of acceptance of the indemnity and the engaging party has been informed of this consequence. This does not apply to claims for damages resulting from scienter, a culpable injury to life, body or health as well as for damages that constitute a liability for replacement by a producer pursuant to § 1 ProdHaftG. The right to invoke a plea of the statute of limitations remains unaffected.

10. Supplementary provisions for audit engagements

(1) If the engaging party subsequently amends the financial statements or management report audited by a German Public Auditor and accompanied by an auditor's report, he may no longer use this auditor's report.

If the German Public Auditor has not issued an auditor's report, a reference to the audit conducted by the German Public Auditor in the management report or any other public reference is permitted only with the German Public Auditor's written consent and with a wording authorized by him.

(2) If the German Public Auditor revokes the auditor's report, it may no longer be used. If the engaging party has already made use of the auditor's report, then upon the request of the German Public Auditor he must give notification of the revocation.

(3) The engaging party has a right to five official copies of the report. Additional official copies will be charged separately.

11. Supplementary provisions for assistance in tax matters

(1) When advising on an individual tax issue as well as when providing ongoing tax advice, the German Public Auditor is entitled to use as a correct and complete basis the facts provided by the engaging party – especially numerical disclosures; this also applies to bookkeeping engagements. Nevertheless, he is obligated to indicate to the engaging party any errors he has identified.

(2) The tax advisory engagement does not encompass procedures required to observe deadlines, unless the German Public Auditor has explicitly accepted a corresponding engagement. In this case the engaging party must provide the German Public Auditor with all documents required to observe deadlines – in particular tax assessments – on such a timely basis that the German Public Auditor has an appropriate lead time.

(3) Except as agreed otherwise in writing, ongoing tax advice encompasses the following work during the contract period:

- a) preparation of annual tax returns for income tax, corporate tax and business tax, as well as wealth tax returns, namely on the basis of the annual financial statements, and on other schedules and evidence documents required for the taxation, to be provided by the engaging party
- b) examination of tax assessments in relation to the taxes referred to in (a)
- c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)
- d) support in tax audits and evaluation of the results of tax audits with respect to the taxes referred to in (a)
- e) participation in petition or protest and appeal procedures with respect to the taxes mentioned in (a).

In the aforementioned tasks the German Public Auditor takes into account material published legal decisions and administrative interpretations.

(4) If the German Public auditor receives a fixed fee for ongoing tax advice, the work mentioned under paragraph 3 (d) and (e) is to be remunerated separately, except as agreed otherwise in writing.

(5) Insofar the German Public Auditor is also a German Tax Advisor and the German Tax Advice Remuneration Regulation (*Steuerberatungsvergütungsverordnung*) is to be applied to calculate the remuneration, a greater or lesser remuneration than the legal default remuneration can be agreed in writing (*Textform*).

(6) Work relating to special individual issues for income tax, corporate tax, business tax, valuation assessments for property units, wealth tax, as well as all issues in relation to sales tax, payroll tax, other taxes and dues requires a separate engagement. This also applies to:

- a) work on non-recurring tax matters, e.g. in the field of estate tax, capital transactions tax, and real estate sales tax;
- b) support and representation in proceedings before tax and administrative courts and in criminal tax matters;
- c) advisory work and work related to expert opinions in connection with changes in legal form and other re-organizations, capital increases and reductions, insolvency related business reorganizations, admission and retirement of owners, sale of a business, liquidations and the like, and
- d) support in complying with disclosure and documentation obligations.

(7) To the extent that the preparation of the annual sales tax return is undertaken as additional work, this includes neither the review of any special accounting prerequisites nor the issue as to whether all potential sales tax allowances have been identified. No guarantee is given for the complete compilation of documents to claim the input tax credit.

12. Electronic communication

Communication between the German Public Auditor and the engaging party may be via e-mail. In the event that the engaging party does not wish to communicate via e-mail or sets special security requirements, such as the encryption of e-mails, the engaging party will inform the German Public Auditor in writing (*Textform*) accordingly.

13. Remuneration

(1) In addition to his claims for fees, the German Public Auditor is entitled to claim reimbursement of his expenses; sales tax will be billed additionally. He may claim appropriate advances on remuneration and reimbursement of expenses and may make the delivery of his services dependent upon the complete satisfaction of his claims. Multiple engaging parties are jointly and severally liable.

(2) If the engaging party is not a consumer, then a set-off against the German Public Auditor's claims for remuneration and reimbursement of expenses is admissible only for undisputed claims or claims determined to be legally binding.

14. Dispute Settlement

The German Public Auditor is not prepared to participate in dispute settlement procedures before a consumer arbitration board (*Verbraucherschlichtungsstelle*) within the meaning of § 2 of the German Act on Consumer Dispute Settlements (*Verbraucherstreitbeilegungsgesetz*).

15. Applicable law

The contract, the performance of the services and all claims resulting therefrom are exclusively governed by German law.