

INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

We have audited the financial statements of ETC Issuance GmbH, Frankfurt am Main, which comprise the statement of financial position as of December 31, 2020, the statement of comprehensive income, the statement of cash flows for the financial year and the statement of changes in equity from January 1 to December 31, 2020 as well as the notes to the dated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report for the financial year from January 1 to December 31, 2020.

In our opinion, on the basis of the knowledge obtained in the audit

- the accompanying financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Company as of December 31, 2020, and of its financial performance for the financial year from January 1 to December 31, 2020, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, the management report is consistent with the financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 paragraph 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the financial statements and of the management report.

BASIS FOR THE OPINIONS

We conducted our audit of the financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as the "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements and of the Management Report"

section of our auditor's report. We are independent of the company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 paragraph 2 letter f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 paragraph 1 of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the financial statements and on the management report.

KEY AUDIT MATTER IN THE AUDIT OF THE FINANCIAL STATEMENTS

A Key audit matter is such a matter that, in our professional judgment, is of most significance in our audit of the financial statements for the financial year from January 1 to December 31, 2020. This matter was addressed in the context of our audit of the financial statements as a whole, and, in forming our opinion thereon, we do not provide a separate opinion on this matter.

Balance and Valuation of the Cryptocurrency Reserves

For information on the accounting policies applied, please refer to the section "2.4 Fair Value Hedging" in the notes.

The risk for the financial statements

As of December 31, 2020, the Company holds a stock of cryptocurrencies, which exclusively comprises so-called Bitcoins. In total, this stock amounts 12,177.25 units as of December 31, 2020. The stock of Bitcoins is held in custody at a company independent from ETC Issuance GmbH. The stock of Bitcoins represents 99.7% of the Company's assets as of December 31, 2020.

ETC Issuance GmbH has been issuing bearer bonds quoted by unit, secured by deposited Bitcoins since 2020. The Company has formed a valuation unit in accordance with Section 254 of the German Commercial Code and accounts for this using the gross hedge presentation method. The valuation of the stock of Bitcoins as well as the bearer bonds was carried out at the relevant fair value as of the reporting date December 31, 2020.

The balance sheet values of the stock of Bitcoins and the outstanding bearer bonds result from the correct determination of the respective holdings and the fair value. In this context,

there is a risk that incorrectly determined stocks or fair values of the stocks of Bitcoins may materially affect the presentation of the financial position and results of operations and thus the financial statements of ETC Issuance GmbH.

Audit approach

Based on our risk assessment and evaluation of the risks of error, we assessed the establishment and structure as well as functionality of identified internal controls, in particular with regard to the existence of the stocks of Bitcoins, the determination of current market prices and their coverage with issued bearer bonds.

The audit was also based on separate confirmations from the custodian of the Bitcoins, the third party appointed as trustee of the assets in custody and the issued bearer bonds, and the paying agent for the issued bonds. In this context, we also assessed the recording of additions and disposals of Bitcoins performed during the fiscal year at the custodian and the Company's inventory system with respect to their proper recording and compliance with internal controls.

As part of our audit of the correct recording of outstanding bearer bonds, we performed a reconciliation with custody account statements.

We compared the market prices used to determine the fair value with publicly available price information. We also verified the mathematical accuracy of the calculations.

Conclusion

The procedure used by ETC Issuance GmbH to record the existing stocks is appropriate. The market prices used to determine the fair value are appropriate.

RESPONSIBILITIES OF THE LEGAL REPRESENTATIVES AND THE SUPERVISORY BOARD FOR THE FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

The legal representatives are responsible for the preparation of the financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law and that the financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company. In addition, the legal representatives are responsible for such internal control as they have determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the legal representatives are responsible for assessing the Company's ability to continue as a going concern. They are also responsible for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Company or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether

the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee, that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements and this combined management report.

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

- identify and assess the risks of material misstatement of the financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit of the financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- conclude on the appropriateness of the use by the legal representatives of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements present the underlying transactions and events in a manner that the financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company.
- evaluate the consistency of the combined management report with the financial statements, its conformity with (German) law, and the view of the Company's position it provides.
- perform audit procedures on the prospective information presented by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless laws or other legal regulations preclude public disclosure of the matter.

FURTHER INFORMATION PURSUANT TO LEGAL REQUIREMENTS

We were elected as auditor by the Annual Shareholders' Meeting on April 26, 2021. We were engaged by the Management on April 27, 2021. We have been the auditor of ETC Issuance GmbH for the first time

Offenbach am Main, August 20, 2021



BFS REVISION- UND TREUHAND GMBH
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT


Thomas Schlieper
Wirtschaftsprüfer

Statement of Financial Position

Assets	Note	December 31st 2020	December 31st 2019
Current Assets			
Non financial assets, designate in a fair value hedge	2.4	289,003,431	0
Cash and cash equivalents	2.5	<u>214,730</u>	<u>24,519</u>
TOTAL ASSETS		<u>289,218,161</u>	<u>24,519</u>
SHAREHOLDERS' EQUITY			
Share capital		25,000	25,000
Accumulated losses brought forward		-6,457	0
other comprehensive income		2,305	0
Net gain for the financial year		<u>159,190</u>	<u>-6,457</u>
TOTAL SHAREHOLDERS' EQUITY	5.	180,038	18,543
LIABILITIES			
Current Liabilities			
Financial liabilities valued at fair value	2.4/3.2	288,358,708	0
Trade and other payables	2.6/6.1	643,048	5,976
Income taxes	2.7/6.2	<u>36,367</u>	<u>0</u>
TOTAL LIABILITIES		289,038,123	5,976
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>289,218,161</u>	<u>24,519</u>

Statement of Comprehensive Income

	Notes	December 2020	December 201
Revenue	2.9/6.3	891,075	0
other Income		667	0
Other expenses	6.4	-696,199	-6,457
Finance income		14	0
Income tax	6.2	-36,367	0
Net Income		159,190	-6,457
Other comprehensive Income		2,305	0
<i>thereof income that could be reclassified</i>		<i>2,305</i>	<i>0</i>
total income		161,495	-6,457

Statement of Changes in Equity

	Issued Capital	Retained earnings/ (Accumulated losses)	other comprehensive income	Total Equity
At 27 August 2019	25,000			25,000
Net income/(loss) for the year		-6,457		-6,457
At 31 December 2019	25,000	-6,457	0	18,543
At 1 Januar 2020	25,000	-6,457	0	18,543
Net income/(loss) for the year		159,190	2,305	161,495
At 31 December 2020	25,000	152,733	2,305	180,038

Statement of Cash Flows

CASH FLOWS FROM OPERATIONS	Note	2020	2019
total income for the year before tax		161,495	-6,457
Changes in working capital (Decrease)/Increase in trade		<u>28,717</u>	<u>5,976</u>
NET CASH FLOWS FROM OPERATIONS		<u><u>190,211</u></u>	<u><u>-481</u></u>
Cash FLOW FROM FINANCING			
Proceeds from issue of capital		<u>0</u>	<u>25,000</u>
NET CASH FLOW FROM FINANCING		<u><u>0</u></u>	<u><u>25,000</u></u>
Change in cash and cash equivalents cash and cash equivalents at the beginning of the period		<u>190,211</u> <u>24,519</u>	<u>-481</u> <u>25,000</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	2.5	214,730	24,519
Income tax paid		0	0
Financial expenses and income paid		0	0

Notes to the Statements for the period from 01 January 2020 to 31 December 2020

Note 1 - Corporate information

ETC Issuance GmbH (hereinafter the "Company") was incorporated on 27 August 2019 as a limited liability company in the commercial register of the local court of Frankfurt am Main. The Company is registered in the commercial register of the local court of Frankfurt am Main under HRB 116604.

The Company's financial year begins on 1 January and ends on 31 December except for the first year starting on 27 August 2019.

The Company's object is to offer to investors crypto-currencies backed-bonds in Bitcoins ("BTC"). The object of the Company is also to offer the creation and redemption of crypto-currencies backed-bonds on behalf of 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, 2020.

These financial statements were approved for issuance by the Board of Directors of the Company on August 20., 2021.

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

New standards, interpretations and amendments to existing standards

The Company has early adopted several standards in prior year. Therefore in 2020 there are no new standards, interpretation or amendments that are adopted for the company.

The following standards, interpretation or amendments are issued by the IASB, but not yet effective and therefore the company did not apply.

New regulation	Effective for annual periods beginning on or after	In EU effective for annual periods beginning on or after	Company's assessment of the regulation
IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020)	January 1, 2023	Not endorsed yet	Assessment in progress

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 respectively)	January 1, 2023	Not endorsed yet	Assessment in progress
Amendments to • IFRS 3 Business Combinations; • IAS 16 Property, Plant and Equipment; • IAS 37 Provisions, Contingent Liabilities and Contingent Assets • Annual Improvements 2018-2020 (All issued 14 May 2020)	January 1, 2022	Not endorsed yet	Assessment in progress
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020)	January 1, 2021	Not endorsed yet	No changes expected

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.

2.3 Foreign currency translations

These financial statements are presented in Euros ("EUR"), which is the presentation currency of the company. The functional currency is GBP.

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the date of the transactions which might comprise:

the average spot exchange rate for a given currency as determined by the European Central Bank ("ECB") as at the date preceding the date of transaction - in case of settlements of receivables and payables and other transactions,

the actual spot rate applied as at this 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 recognized in the profit or loss.

At year end the income statement is translated to EUR by using the average exchange rate during the year and the balance sheet is translated by using the exchange rate on December 31, 2020. Any difference is recognized in other comprehensive income and will be released when the business is closed or if there is a change in the functional currency of the company.

Equity items are presented at historical rates, i.e. rates as at the date of equity contribution.

2.4 Fair value hedging

The Company's object is to offer to investors crypto-currencies backed-bonds in Bitcoins ("BTC"). The non-interest-bearing bearer bonds "BTCetc Bitcoin Exchange Traded Crypto (BTCE)" (ISIN DE000A27Z304) are secured by a Bitcoin wallet underlying. The BTC includes a market risk concerning the market valuation of Bitcoins. This risk is designated by the company as a hedged risk within the framework of a fair value hedges. The BTC is shown as "Financial liabilities valued at fair value".

The Bitcoin wallet is designated as a hedge instrument concerning the fair value changes in the BTC. The investment in the Bitcoin wallet is done by a trustee and shown as a "Non financial assets, designate in a fair value hedge" and recognized at fair value of the liabilities. The effectiveness of the hedge is proved by critical term match and therefore no ineffectively is booked to net income.

2.5 Cash and cash equivalents in the statement of financial position

Cash and cash equivalents include cash in hand, cash at bank, short-term deposits with original maturities of three months or less and restricted cash.

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

2.6 Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.7 Current income tax

The current income tax charge is determined in accordance with the relevant tax law regulations in respect of the taxable profit. The current income tax charge is calculated on the basis of 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 recognized in the statement of financial position as income tax receivables.

2.8 Deferred income tax

Deferred income tax is calculated using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes and for tax losses. Currently enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from different valuations of depreciable assets and accruals for tax and accounting purposes.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets are also recognized for unused tax losses carried forward to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences, except when the deferred

tax liability arises from the initial recognition of an asset or liability transaction; and at the time of the transaction, affects neither accounting profit nor taxable profit or tax loss.

Deferred tax assets and deferred tax liabilities are offset if, and only if, the Company has a legally enforceable right to offset current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable base.

2.9. Revenue recognition

The company recognize revenue mainly in connection with the management of the Bitcoin investment done. The recognition is done over the time. Management fee is deducted directly from the recognized liability in the amount of 2% p.a.

Note 3 - Critical accounting estimates and judgments

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 Deferred tax

As part of the process of preparing the financial statements, the Company is required to estimate the Company's income taxes. This process involves estimating the Company's actual current tax exposure together with assessing the temporary differences resulting from different treatments for tax and accounting purposes, such as the valuation of fixed assets, accruals and provisions. These differences result in deferred income tax assets and liabilities, which are recognized in the statement of financial position.

The deferred income tax calculation is based on the probability that future taxable profit will be available against which temporary differences and the unused tax losses can be utilized. The calculation is based upon long term financial projections, which contain a considerable amount of uncertainty and the actual outcome may differ. These projections may be altered to reflect changes in the economic, technological and competitive environment in which the Company operates.

The Company is required to assess the likelihood of deferred income tax assets being recovered from future taxable income, and deferred tax assets are recognized to the extent to which such recovery is probable. Significant Company's estimates are required in the valuation of the Company's deferred income tax assets. These estimates take into consideration future taxable income projections, the potential volatility of those projections, historical results and ongoing tax planning strategies. Factors as: the nature of the business and industry, the economic environment in which the Company operates and the stability of local legislation are also considered.

3.2 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 their fair values.

The fair value of BTC is determined by using the market value of the Bitcoin and therefore a level 1 valuation. The uncertainties in this valuation are very low.

Note 4 - Financial risk management

4.1 Financial risk factors

The Company's overall risk management program focuses on minimizing 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.

4.1.1 Currency risk

As at December 31, 2020, most of the assets and liabilities refer to the Bitcoins and therefore are not related to any currency in common sense. The remaining balance sheet items are in EUR or GBP and do not bear any significant currency risk.

4.1.2 Liquidity risk

Liquidity risk management implies maintaining sufficient cash as well as availability of funding through an adequate amount of committed debt facilities.

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

4.2 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 requirements purposes and the Company utilises funds provided by related parties to fund its activities.

4.3 Fair values

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

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

Note 5 - Equity

Share capital

As at December 31, 2020, the Company's share capital is composed of 25,000 shares with a nominal value of EUR 1 each.

Note 6 – Notes to the Financial statements

6.1 Trade and other payables

As of 31 December 2020, trade and other payables include kEUR 263 payables to related parties for services received, kEUR 258 for other services received and kEUR 121 accrued expenses.

6.2 Income taxes

The company recognizes only current taxes. A tax reconciliation is not done due to materiality reasons.

6.3 Revenue

Revenue recognition is done over the time only and is related to the management of the Bitcoin portfolio of the company.

6.4 Other expenses

The other expenses are related to services received from a related party in relation with the management of Bitcoin portfolio in the amount of kEUR 590. In addition expenses related to consulting in the amount of kEUR 48, bookkeeping and auditing in the amount of kEUR 50 and other expenses in the amount of kEUR 8 are recognized.

Note 7 - Audit fees

The audit fees for the financial year ended December 31, 2020 amounts to kEUR 45.

Note 8 - Subsequent events

The steady increase in the trading volume of the bitcoin bearer bond "BTCetc Bitcoin Exchange Traded Crypto (BTCE)" led to the issuance of two more cryptocurrency-backed bearer bonds in April 2021: ZETH (Ethereum Exchange Traded Crypto) and ELTC (Litecoin Exchange Traded Crypto).

Signature of the legal representatives

London, 20/08/2021

Place, Date


Leyla Sharifullina


Timothy Bevan

ETC Issuance GmbH

Management Report

For the period from 1 January to 31 December 2020

Basic company information

ETC Issuance GmbH ("the company") is registered under the law of the Federal Republic of Germany and has its principal place of business in Gridiron, one Pancras Square, London, N1C 4 AG, United Kingdom. The company's only business activity is the issuance of bonds secured by cryptocurrency and other digital assets. By issuing the bonds, the company intends to meet investors' demand for tradable securities through which an investment in cryptocurrencies and other digital assets is made.

On 5 June 2020, the company issued its first bonds (the "bonds", "securities" or "BTCetc", ISIN DE000A27Z304, securities code A27Z30, Bloomberg-Ticker BTCE), subject to approval by the Federal Financial Supervisory Authority (BaFin). BTCetc are secured bonds, which are fully backed by Bitcoin. The bonds have no fixed maturity date. The bonds are not subject to interest. Each bond securitises the right of the bondholder to demand the delivery of Bitcoin from the company, in accordance with the bondholder's claim in respect of each bond, expressed as the amount of BTC per bond ("cryptocurrency claim"). In certain circumstances, bondholders may instead be required to pay a certain amount of cash in USD. BTCetc was listed on Deutsche Börse's XETRA on 18 June 2020 and the notification procedure was carried out in several jurisdictions, including the United Kingdom, Germany, Austria, Italy (as of 4 June 2020), Denmark, Finland, Ireland, Luxembourg, the Netherlands, Norway, Spain, Sweden (as of 2 July 2020), Croatia, Cyprus, Czech Republic, Estonia, France, Greece, Malta, Poland, Portugal, Slovakia and Slovenia (as of 2 February 2021) ("passporting").

Should certain events occur, as described in more detail in the terms of the bond, the company may at any time, at its own and absolute discretion (but it is not obliged to do so), decide to terminate all the bonds and pay them back at their compulsory repayment price. These compulsory repayment events include, among other things, the entry into force of new laws or regulations requiring the acquisition of licenses for the company to meet its obligations under the bonds, changes in the tax treatment of Bitcoin, or the case that the company is instructed by a court of competent jurisdiction or otherwise required by law to arrange for a mandatory repayment. Such a termination necessarily results in the repayment of the bonds for bondholders.

As a service provider, the company does not conduct research and development activities. The company had one branch in the United Kingdom during the period under review.

Report on the economic position

Economic framework conditions

The economic environment for the company in the past financial year was mainly influenced by the effects of the spread of the Coronavirus (SARS-CoV-2) and the associated national and international public measures to contain the pandemic.

However, as a capital-market-oriented company, the company benefited from the fact that, unlike in the service sector and in the brick-and-mortar trade, the protective measures introduced did not have a direct impact on the company's business activities.

Demand for securities and cryptocurrencies developed positively from the third quarter of 2020 at the latest.

The company's results of operations

Management considers the position of the company after the first year of operation to be extremely satisfactory. In 2020, the company generated revenue of EUR 891 thousand (previous year: zero), which is mainly due to income from administrative fees. Administrative fees are the company's main source of income and are determined by the amount of assets held and the price of cryptocurrencies.

The revenue generated was offset by expenses for purchased services amounting to a total of EUR 590 thousand (previous year: EUR 6 thousand). These included, in particular, the costs of personnel provision by the shareholder and expenses for the consulting and service companies that had been used.

Operating expenses amounted to EUR 106 thousand in financial year 2020 (previous year: EUR 0 thousand). They mainly include accounting costs, the costs of annual financial statements preparation and audits, as well as legal and advisory costs. As a result, the annual net profit for the financial year 2020 amounted to EUR 159 thousand (previous year: Loss of EUR 6 thousand).

Financial position of the company

As at 31 December 2020, the company had cash and cash equivalents of EUR 215 thousand (31 December 2019: EUR 25 thousand) held in the receivables accounts at banks.

The company's equity amounted to EUR 180 thousand as of 31 December 2020 (31 December 2019: EUR 19 thousand), comprising EUR 25 thousand in share capital (31 December 2019: EUR 25 thousand) a loss carry-forward of EUR 6 thousand (31 December 2019: zero), other comprehensive income of EUR 2 thousand (31 December 2019: zero) and the realised net profit for the year of EUR 159 thousand (31 December 2019: Loss of EUR 6 thousand).

Cash flow from operating activities amounted to EUR 190 thousand in financial year 2020 (financial year 2019: EUR 0 thousand). Cash flow from financing activities in financial year 2020 amounted to EUR 0 thousand (financial year 2019: EUR 25 thousand). In this context, it should be noted that, in the context of bond issues, which have a balance sheet value of EUR 288,359 thousand as of 31 December 2020, the company did not receive cash and cash equivalents but the equivalent value in cryptocurrencies.

Net assets

The company's net assets increased from EUR 25 thousand as of 31 December 2019 to EUR 289.2 million as of 31 December 2020, due to the increase in total cryptocurrency holdings held in custody to secure the bonds issued and the rise in the Bitcoin price.

Other assets as at 31 December 2020 comprise mainly EUR 288.4 million (31 December 2019: EUR 0) in Bitcoin holdings held by BitGo Trust Company, Inc., the company's regulated custodian, and Bitcoin holdings from billed administrative charges.

Overall, both the company's results of operations, financial position and net assets in 2020 are assessed as positive and stable, and the company has always been able to meet its payment obligations in the 2020 financial year.

Forecast, opportunities and risk report

Risk report: Risks and uncertainties

The company classifies the main risk groups as follows:

- Business risks
- Regulatory risks
- Operational risks
- Financial risks

Since the company receives the cryptocurrencies to back all the bonds issued before the bonds can be issued, the company does not have to procure these cryptocurrencies on its own and is therefore not exposed to any risk associated with the volatility of market prices. For operational and accounting purposes, the company and its administrator use the Bloomberg CFIX daily cryptocurrency price reference for the relevant cryptocurrencies.

i) Business risks

Although the company is not exposed to market risk associated with the coverage of the bonds with Bitcoin, a strongly negative performance and a persistent fall in the price of Bitcoins could have a negative impact on the company. Demand for the bond could fall significantly if Bitcoin's attractiveness as an underlying asset declines. It is also possible to increase redemptions (for repayment of the cryptocurrency claim of BTCetc bonds). This could lead to a reduction in the company's assets under management and related revenues. The company carefully monitors and analyses deviations in financial performance from the budget and can accordingly take timely action to reduce costs and maintain profit margins at the required level.

ii) Regulatory risks

In recent years, numerous large and established banks and asset managers have invested in cryptocurrency companies or have invested in cryptocurrency. This trend seems to be significant and ongoing today, and many financial regulators have generally accepted that cryptocurrencies are likely to remain as an asset class, and have taken a pragmatic stance to address this growing interest of the investment community in cryptocurrencies. However, it is clearly difficult to predict how the regulatory outlook and policy on cryptocurrency could and will change. A shift to a generally more negative view could lead to a reduction in investor appetite and a decrease in relevant business activities. The company's goal is to make its products partially accessible to a wider audience as a diversification strategy to mitigate this risk.

iii) Operational risks

The company has implemented structures and processes to ensure that the operations run smoothly and that the assets under management are presented regularly, accurately and verifiably. The company has taken the additional step of appointing an independent administrator to counter the increased operational risk associated with cryptocurrencies. Since clearing houses such as Clearstream Banking AG do not (yet) treat Bitcoin as an accepted and supported currency for DVP (Delivery Versus Payment) / RVP (Receive Versus Payment) processes, the bonds must be transferred between the company and authorised participants free of payment (FOP) and the corresponding transactions of cryptocurrencies must accordingly take place independently. Any movement of cryptocurrency, in addition to monitoring by the company's operational team, must also be carefully monitored and approved by the company's dedicated independent administrator, without whose consent no transfers of Bitcoin (or other cryptocurrencies) to or from the company's account with the custodian can be made. The same applies to the transfer of bonds from the company's issuing account. In addition, strict measures have been carefully implemented to fully maintain the security and integrity of these operational processes.

iii) Financial risks

The business and operating model pursued by ETC Issuance GmbH ensures that the company does not have to procure Bitcoins or other cryptocurrencies in relation to the issue of the bonds, since the company can only receive cryptocurrency and not a fiat currency such as EUR or GBP for issuing bonds. As a result, the company is exposed to barely any market risk. Due to the same operating model, the company is exposed to a very limited counterparty risk, since it must first receive the cryptocurrency, which is deposited at the custodian before issuing the bonds. The same applies to redemptions, since the company must first have received the bonds intended for redemption by the bondholder for termination before the corresponding repayment of the cryptocurrency (cryptocurrency claim by bond) can take place. Furthermore, the company issues only the bonds to the aforementioned authorised participating brokers (authorised participants).

iv) Outlook

Through best practice, the company continuously evaluates and assesses potential developing risks. Currently, no novel or evolving risks can be identified that could jeopardise the operation and economic survival of the company. The company has also analysed the risks associated with Brexit and is satisfied with its position against these risks. With regard to the ongoing global coronavirus pandemic, no risks can be identified that would call into question the company's core business.

ETC Issuance GmbH thanks all BTCetc bondholders for their trust and support during the past year. We will continue to provide our investors with the highest level of service and security, and will develop cryptocurrency-based exchange-traded products that are made available to investors on regulated stock exchanges. As of 31 December 2020, the assets under management of ETC Issuance GmbH amounted to EUR 288.4 million.

In the current financial year 2021, in addition to issuing Bitcoin-secured bonds, the company also placed further bonds secured by other cryptocurrencies on the capital market. Due to the current uncertainties due to the ongoing coronavirus pandemic, it is not possible to reliably forecast the achievable sales and earnings figures for 2021. Overall, however, the company expects to increase its revenue and achieve a positive net profit for the year.

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ETC Issuance GmbH

The Management


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