

# **CoinShares Digital Securities Limited**

*Audited financial statements for the year ended 31 December 2022*

# CoinShares Digital Securities Limited

## Audited financial statements

For the year ended 31 December 2022

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# CoinShares Digital Securities Limited

## Company Information

For the year ended 31 December 2022

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<b>The Company</b>	CoinShares Digital Securities Limited
<b>Registered Number</b>	127061
<b>Registered Office</b>	2nd Floor 2 Hill Street St Helier Jersey JE2 4UA
<b>Directors</b>	Jeri-Lea Brown Stuart Pinnington Kirsty Lawrence (appointed 28 October 2022) Townsend Lansing Jr. (appointed 28 October 2022) Benjamin Gilbert (resigned 20 October 2022)
<b>Company Secretary</b>	CoinShares Corporate Services (Jersey) Limited
<b>Independent Auditor</b>	Baker Tilly Channel Islands Limited PO Box 437 1st Floor, Kensington Chambers 46-50 Kensington Place St Helier Jersey JE4 OZE
<b>Bank</b>	Barclays Bank PLC. 13 Library Place, St Helier Jersey JE4 8NE

# CoinShares Digital Securities Limited

## Directors' Report

For the year ended 31 December 2022

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The directors present their report and the financial statements of CoinShares Digital Securities Limited (the 'Company') for the year ended 31 December 2022.

### Incorporation

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

### Principal activity

The principal activity of the Company is to act as an issuer of exchange traded products ('ETPs'). These ETPs, collectively referred to as Digital Securities, are non-interest bearing, secured, undated, limited recourse debt securities that are fully secured by the holdings of the digital assets underlying each ETP. Digital Securities are listed on several stock exchanges and Multilateral Trading Facilities.

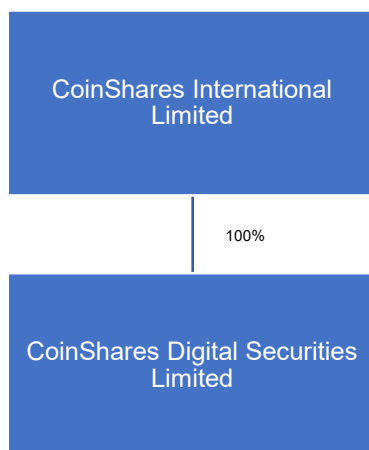
Digital Securities do not have a fixed maturity. A Digital Security holder can sell the product on the regulated market on which it is listed, or in accordance with (and subject to) the terms of the Prospectus, may redeem the securities directly with the Issuer in return for an amount of underlying digital assets equal to the aggregate Coin Entitlement of the Digital Securities (less relevant fees and costs) or, in certain limited circumstances, for an amount in US dollars equal to the net proceeds of sale of the aggregate Coin Entitlement (less relevant fees and costs). The Issuer may, at any time, determine that all Digital Securities are to be redeemed compulsorily in accordance with (and subject to) the terms of the Prospectus.

The Company currently has 13 ETPs in issuance referencing individual digital currencies. Seven of those ETPs allow investors to share in staking rewards that are earned when the Company uses the digital currencies underlying those ETPs to participate in staking on the underlying digital currency protocol (the 'Staking Classes').

### Group structure

The Company belongs to a group of companies, the ultimate holding entity of which is CoinShares International Limited, incorporated in Jersey, Channel Islands ('CSIL' and such group, the 'Group'). The Company's share capital consists of 10,000 fully-paid shares of £0.01 each, all of which are held ultimately by CSIL, which accordingly controls the Company.

CSIL has an audit committee that complies with international corporate governance rules.



### Review of operations

2022 was a disappointing year for the digital asset market. Against market turmoil and major insolvencies, the digital asset space saw a decreasing amount of institutional and retail interest, coupled with diminishing liquidity. Prices fell dramatically in the first half of 2022 and have stabilised but not recovered.

## CoinShares Digital Securities Limited

### Directors' Report (continued)

For the year ended 31 December 2022

#### Review of operations (continued)

The obligation represented by the Company's Digital Securities (and the corresponding AUM amount) has decreased significantly over the course of 2022, falling 46% to finish at £244 million. This decrease has been driven by the decrease in the market value of the digital currencies underlying the Digital Securities.

Despite these headwinds, the Company was able to launch 10 new ETPs in 2022 and saw strong net inflows of £232 million.

During the year, the Company launched a CoinShares Physical FTX Token ('CFTT') Digital Security offering investor exposure to FTX Token ('FTT'), the native token to the FTX digital asset exchange. As a result of FTX entering Chapter 11 bankruptcy in November 2022 and resultant volatility surrounding FTT, the Company suspended creations in CFTT on 14 November 2022 and suspended all redemptions in CFTT on 18 November 2022. On 19 December 2022 all outstanding CFTT were compulsorily redeemed for approximately \$0.10 each, and distributed to ETP holders. Additionally, the CFTT seed was redeemed and the resulting FTT was transferred to CoinShares Capital Markets (Jersey) Limited ('CSCMJL') in full.

On 15 September 2022, the Ethereum blockchain transitioned from a Proof-of-Work mechanism to a Proof-of-Stake mechanism ('the Merge'). Prior to the completion of the Merge a forked version of the Ethereum blockchain that continued using the Proof-of-Work consensus was created ('ETHW') and distributed to holders of Ethereum. The Company sold the ETHW received, in exchange for Ethereum, and distributed the additional Ethereum pro rata to holders of the CoinShares Physical Ethereum Digital Security through an increase to the coin entitlement.

#### Key performance indicators

##### Digital assets

	31 December 2022 Number	31 December 2021 Number	31 December 2022 £	31 December 2021 £
<b>By Currency</b>				
Bitcoin	10,351	8,253	142,828,745	292,798,603
Ethereum	75,386	56,877	75,435,400	158,753,330
Litecoin	41,455	31,105	2,419,356	3,451,251
XRP	16,967,728	3,179,439	4,846,955	1,978,176
Polkadot	279,238	-	1,016,188	-
Tezos	2,355,697	-	1,419,274	-
Cardano	8,474,941	-	1,766,299	-
Solana	1,139,161	-	9,554,260	-
FTX Token	-	-	-	-
Chainlink	70,881	-	329,500	-
Uniswap	90,209	-	385,011	-
Cosmos	104,654	-	818,359	-
Matic	2,003,812	-	1,279,145	-
Algorand	17,355,131	-	2,543,340	-
	<b>48,968,644</b>	<b>3,275,674</b>	<b>244,641,832</b>	<b>456,981,360</b>

Refer to note 7 Digital assets for further details.

#### Future developments

The Directors expect the present level of activity to be sustained for the foreseeable future and to continue issuing new Digital Securities.

# CoinShares Digital Securities Limited

## Directors' Report (continued)

For the year ended 31 December 2022

### Risks and uncertainties

#### *Coronavirus disease (COVID-19)*

The Directors continue to actively monitor the advice and developments regarding COVID-19. The CoinShares Group has implemented and will continue to implement measures to ensure the ongoing safety and well-being of our employees while maintaining normal business operations.

#### *Impact of Russian-Ukraine event*

On 24 February 2022 Russia initiated military actions in Ukraine (the 'Crisis'), resulting in the implementation of sanctions and other government actions. These, along with the Crisis itself, have had an impact on financial and commodities markets. Directors closely monitor and assess the impact on the Company's portfolio operations and valuation.

#### *Other financial risks*

The market value of Digital Assets is not tied to any particular company, government, or tangible asset. Instead, the valuation of these assets relies on future expectations regarding the network's value, transaction volume, and overall asset usage. Consequently, a substantial portion of the value in Digital Assets is speculative, which can result in heightened volatility. Investors may encounter significant gains or losses based on the valuation of Digital Assets.

Given the speculative nature of investing in Digital Assets, their prices are prone to fluctuation for various reasons, and such fluctuations may be unpredictable. The volatile nature of these assets means that their prices can experience fluctuations without any discernible pattern or foreseeable cause. Therefore, investors should be prepared for potential price swings and the associated financial risks when engaging in Digital Asset investments.

The following sets out a description of the principal risks inherent in the activities of the Company along with the action taken to manage these risks.

<b>Market risk</b>	<p><b>Currency risk:</b> The Company seeks to mitigate currency risk by only receiving enough fees from CoinShares (Jersey) Limited ('CSJL') to cover expenses, and not receiving the management fee directly. On the basis of the above information, the Company believes currency risk is not material.</p> <p><b>Interest rate risk:</b> Interest rate risk is the risk that the value of the Company will be impacted by fluctuations in the prevailing levels of market interest rates. The majority of the Company's financial assets and liabilities are either non-interest bearing, or at a fixed interest rate and as a result, the Company is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.</p> <p><b>Digital asset price risk:</b> Digital assets are an extremely volatile asset class. Digital asset price risk arises from the uncertainty about future prices of the digital assets, impacting both the fair value of the digital assets held by the Company and the fair value of the liabilities of the Company towards security holders. To mitigate its exposure to changes in prices of digital assets, any exposure to changes in prices on the digital assets held is matched by the changes in value of the obligations to security holders.</p> <p><b>Capital risk management:</b> The capital of the Company is represented by the net assets attributable to ordinary shareholders. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Company. This is achieved through actively managing the Company's products.</p>
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## CoinShares Digital Securities Limited

### Directors' Report (continued)

For the year ended 31 December 2022

#### Risks and uncertainties (continued)

<b>Credit risk</b>	<p>Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company. Digital asset activity has an inherent credit risk due to the nature of the industry, which is non-regulated, extremely volatile, has low barriers to entry and is vulnerable to bad actors.</p> <p>Credit risk from balances with custodians, banks, brokers and financial institutions is managed, monitored and controlled by the finance department in accordance with the Company policy. It is the Company's policy to only enter into transactions with reputable counterparties, as determined through appropriate due diligence.</p> <p>The risk of losing Digital Assets in digital wallets due to fraud is reduced through digital assets being kept in cold storage with Komainu, providing a cold storage vault. The Company does not expect to incur material credit losses in respect of digital assets.</p>
<b>Liquidity risk</b>	<p>Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities, in particular towards security holders. Liquidity issues could arise as a result of the redemption of securities. In this case, the Company would be required to have sufficient liquidity to finance the redemption of the securities. The prospectus and final terms for each security define the formula at which the securities can be redeemed based on a coin entitlement.</p> <p>Securities holders can request redemption of their securities which will be settled two business days following a valid redemption notice. The Company it is required holds the relevant digital asset at all times to be able to meet these redemptions. The Directors believe that the risk is adequately mitigated and therefore no sensitivity analysis is required.</p>
<b>Operational risk</b>	<p>These are risks relating to losses as a result of operational matters such as having inappropriate or insufficient routines, human error, systems failures and legal risks.</p> <p>The main operational risk for the Company would be the inability to redeem a security through either systems failures or continuity planning issues. The risk is mitigated through the use of a business continuity plan which has been tested, and demonstrated that the traders can perform their work from anywhere.</p> <p>The risk of hacking, and losing digital assets in digital wallets due to fraud is reduced through the majority of the digital assets being kept in cold storage with Komainu, who have a SOC 1 Type 2 report. The latest SOC 1 Type 2 Report, covering the period 1 January 2021 to 30 November 2021, was independently reviewed by PricewaterhouseCoopers CI LLP and authorised for issue of 19 August 2022. A SOC 1 Type 2 Report covering Komainu's control framework in 2022 is in progress. In addition to limiting the exposure to fraud for the Company, cold storage of digital assets with Komainu also reduces the Company's exposure to hacking.</p> <p>The cyber risks are mitigated through the use of systems to prevent external attacks (such as, but not limited to, firewalls, detection of possible phishing emails, encryption using secure keys and strong physical security). Komainu, as custodian, are subject to periodic reviews. The risk of theft of the Company's custodied coins is considered minimal owing to the strong control framework built around the storage and transfer of Digital Assets.</p>

# CoinShares Digital Securities Limited

## Directors' Report (continued)

For the year ended 31 December 2022

### Risks and uncertainties (continued)

<b>Climate risk</b>	<p>Climate change risks pose significant threats to many businesses, including those engaged in the issuance of ring-fenced Digital Securities listed on stock exchanges. The Company's primary activity revolves around issuing multiple series of Digital Securities, which are susceptible to wide fluctuations in value. Various factors beyond the Company's control, such as global or regional political conditions, economic fluctuations, financial instability, regulatory changes, judicial events, and climate risk, can influence the market price of the underlying Digital Assets.</p> <p>The directors of the Company hold the opinion that climate risk is already incorporated into the pricing of the underlying Digital Assets. They do not view climate risk as a distinct and separate significant risk to the Company itself. This stance is based on the understanding that any fluctuations in the value of the underlying digital assets, which the Company holds at fair value through profit or loss, will be shouldered by the holders of the Digital Securities. In other words, the Company believes that the risk associated with climate change is ultimately borne by the investors in the Digital Securities.</p>
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Refer to note 15 'Risk management' for further details.

### Results and dividends

The total comprehensive income for the year amounted to £nil (2021: £76,636).

The directors do not recommend the payment of a dividend for the year (2021: £nil).

### Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial period. Under that law, the directors have elected to prepare the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union ('IFRS') which comprise Standards and Interpretations approved by the International Standards Board. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company as at the end of that period, and of the profit or loss of the Company for that period.

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

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

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

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



# CoinShares Digital Securities Limited

## Directors' Report (continued)

For the year ended 31 December 2022

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### Directors and Company Secretary

The directors and company secretary who served during the year and up to the date of this report are listed on page 1.

### Directors' interest in shares

The directors holding office at the end of the reporting period had no direct interests in the share capital of the Company but did have an interest in the ultimate parent company, CSIL.

### Going concern

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

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

The Company has net assets of £nil (2021: £nil) at the end of the reporting period. All expenses of the Company are settled by CSJL through the issuance of fees to CSJL to cover the Company's expenses as agreed in the Service Level Agreement dated 21 May 2021. The directors have prepared these financial statements on a going concern basis due to CSJL's contractual obligation to cover the Company's expenses, and ongoing financial support received from other Group entities, inclusive of its parent company, which will continue to be provided for the foreseeable future.

There is continuing to be increased volatility seen in the price of digital assets. The directors do not consider the price movements to impact the going concern for the Company as the products are fully hedged.

### Comparative information

There has been no change to the previously audited figures. In 2021, the directors elected to amend the accounting period end to 31 December in order to align the Company with the rest of the Group, as a result certain comparable financial information presented in these financial statements has not been audited in the format presented.

### Corporate Governance Statement

The Company belongs to CSIL, a Jersey, public limited liability company whose shares are listed for trading on Nasdaq Stockholm. The Corporate Governance framework for CoinShares International Limited is grounded in the Company's Articles of Association, Companies (Jersey) Law 1991, as amended, the Code, Nasdaq Rulebook for Issuers of Shares (the "Main Market Rulebook"), and the Company's internal rules and guidelines. Further details regarding Corporate Governance applied to the Company can be found on the CoinShares International Limited website.

### Independent Auditor

Baker Tilly Channel Islands Limited has expressed its willingness to continue in office.

The report was approved by the board of directors on 17 July 2023 and signed on its behalf by:



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

## CoinShares Digital Securities Limited

### Global Statement for the Financial Statements

For the year ended 31 December 2022

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#### Global Statement for the Financial Statements

I certify that, to the best of my knowledge, the financial statements have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, financial position and performance of the Company and that the Director's report attached presents a true and fair view of the development of the business, the performance and the financial position of the Company and that it describes the main risks and uncertainties it faces.

*Townsend Lansing*

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**Townsend Lansing Jr.**

**Director**

Date: **17 July 2023**

# Independent auditor's report

To the Members of CoinShares Digital Securities Limited

## Opinion

We have audited the financial statements of CoinShares Digital Securities Limited (the "Company") which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs); and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991, as amended.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Jersey, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Matter

The statement of comprehensive income and statement of cash flows for the year ended 31 December 2021 were unaudited, this was due to a change in the financial year-end reporting date to align with the Group's financial reporting date as disclosed in Note 2.1.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	The Risk	How our audit addressed the matter
<p><b>Digital assets – Existence, Rights and Obligations</b></p> <ul style="list-style-type: none"> <li>Total value; £244,641,832 (2021: 456,981,360)</li> <li>As disclosed in Note 7.</li> </ul>	<p>There is a risk that the financial statements may be materially misstated due to;</p> <ul style="list-style-type: none"> <li>the digital assets not being owned by the company; and</li> <li>The rights and the rewards not being appropriately transferred to the company; and</li> </ul>	<p>Our audit procedures with respect to Digital assets included but were not limited to:</p> <ul style="list-style-type: none"> <li>Walkthroughs to gain an understanding of the Company’s internal control for digital assets including additions and disposals.</li> <li>Confirmations obtained from the custodian and exchanges with which the digital currency is held.</li> <li>Test of detail on a sample of additions and disposals, we agreed this to appropriate supporting documents.</li> </ul> <p>We have no findings to report.</p>

## Our Application of Materiality

Materiality for the financial statements as a whole was set at £31,000 (PY: £10,400), determined with reference to a benchmark of total expenses, of which it represents 1.5% (PY: 1.8%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 60% (PY: 60%) of materiality for the financial statements as a whole, which equates to £18,000 (PY: £6,240). We applied this percentage in our determination of performance materiality because the entity is deemed a high risk.

## **Conclusions relating to Going Concern**

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

## **Other Information**

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Matters on which we are required to Report by Exception**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies (Jersey) Law 1991, as amended, requires us to report to you if, in our opinion:

- proper accounting records have not been kept;
- proper returns adequate for the audit have not been received from branches not visited by us;
- the financial statements are not in agreement with the accounting records and returns; and
- we have not obtained all information and explanation that, to the best of our knowledge and belief, was necessary for the audit.

## **Responsibilities of the Directors**

As explained more fully in the Directors' Report set out on page 2, the Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is 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 Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Directors are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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 to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. 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.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- Enquiry of management to identify any instances of non-compliance with laws and regulations, including actual, suspected or alleged fraud;
- Reading minutes of meetings of the Board of Directors;
- Review of legal invoices;
- Review of management's significant estimates and judgements for evidence of bias;
- Review for undisclosed related party transactions;
- Using analytical procedures to identify any unusual or unexpected relationships; and
- Undertaking journal testing, including an analysis of manual journal entries to assess whether there were large and/or unusual entries pointing to irregularities, including fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

This description forms part of our auditor's report.

## **Other Matters which we are Required to Address**

We were appointed by board of directors on 11 August 2021 to audit the financial statements. Our total uninterrupted period of engagement is 3 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee in accordance with ISAs.

## **Use of this Report**

This report is made solely to the Members of the Company, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991, as amended. Our audit work has been undertaken so that we might state to the Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and its Members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Ewan Spraggon**

**For and on behalf of Baker Tilly Channel Islands Limited**

Chartered Accountants

St Helier, Jersey

Date: 17 July 2023

**Now, for tomorrow**

## CoinShares Digital Securities Limited

### Statement of Comprehensive Income

For the year ended 31 December 2022

		1 January 2022 to 31 December 2022	Unaudited 1 January 2021 to 31 December 2021
	Note	£	£
<b>Revenue</b>	4	<b>2,101,877</b>	1,220,116
<b>Gross profit</b>		<b>2,101,877</b>	1,220,116
Administration expenses	5	(2,094,339)	(1,140,337)
Fair value loss on digital assets	7	(302,608,417)	-
Loss on digital asset receivables	9	(151,082)	-
Gain/(loss) on ETP liabilities	11	429,278,798	(127,849,591)
Gain on digital asset payables	13	1,285,223	45,069
Loss on foreign exchange		(7,538)	(3,143)
<b>Operating profit/(loss)</b>		<b>127,804,522</b>	(127,727,886)
<b>Profit/(loss) before taxation</b>		<b>127,804,522</b>	(127,727,886)
Taxation on profit/(loss)	6	-	-
<b>Profit/(loss) after taxation</b>		<b>127,804,522</b>	(127,727,886)
Fair value (loss)/gain on digital assets	7	(127,804,522)	127,804,522
<b>Other comprehensive (loss)/income</b>		<b>(127,804,522)</b>	127,804,522
<b>Total comprehensive income</b>		<b>-</b>	76,636

All items dealt with in arriving at the result for the years ended 31 December 2022 and 31 December 2021 relate to continuing operations.

*The above should be read in conjunction with the accompanying notes on pages 17 to 35 which form an integral part of these financial statements.*

# CoinShares Digital Securities Limited

## Statement of Financial Position

As at 31 December 2022

		As at 31 December 2022	As at 31 December 2021
	Note	£	£
<b>ASSETS</b>			
<b>Current assets</b>			
Digital assets	7	244,641,832	456,981,360
Trade and other receivables	8	676,922	99,288
Digital asset receivables	9	50,015	-
Cash and cash equivalents	10	4,940	4,970
<b>Total assets</b>		<b>245,373,709</b>	<b>457,085,618</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
ETP liabilities	11	244,043,894	456,835,433
Trade and other payables	12	681,862	104,258
Digital asset payables	13	647,953	145,927
<b>Total liabilities</b>		<b>245,373,709</b>	<b>457,085,618</b>
<b>NET ASSETS</b>		<b>-</b>	<b>-</b>
<b>EQUITY</b>			
Share capital	14	-	-
Retained earnings		-	-
<b>Total equity</b>		<b>-</b>	<b>-</b>

The financial statements on pages 13 to 35 were approved and authorised for issue by the Board of Directors of the Company and signed on its behalf by:

*Kirsty Lawrence*

-----  
Kirsty Lawrence  
Director

Date: 17 July 2023

*The above should be read in conjunction with the accompanying notes on pages 17 to 35 which form an integral part of these financial statements.*



## CoinShares Digital Securities Limited

### Statement of Changes in Equity

For the year ended 31 December 2022

	Ordinary Shares £	Retained Earnings £	Total equity £
<b>At 1 January 2021</b>	-	<b>(76,636)</b>	<b>(76,636)</b>
Loss for the year (unaudited)	-	(127,727,886)	(127,727,886)
Other comprehensive income (unaudited)	-	127,804,522	127,804,522
<b>Total comprehensive income (unaudited)</b>	<b>-</b>	<b>76,636</b>	<b>76,636</b>
<b>At 31 December 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>At 1 January 2022</b>	-	-	-
Profit for the year	-	127,804,522	127,804,522
Other comprehensive loss	-	(127,804,522)	(127,804,522)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>At 31 December 2022</b>	<b>-</b>	<b>-</b>	<b>-</b>

The Company has issued 1 share valued at £0.01.

*The above should be read in conjunction with the accompanying notes on pages 17 to 35 which form an integral part of these financial statements.*

# CoinShares Digital Securities Limited

## Statement of Cash Flows

For the year ended 31 December 2022

		1 January 2022 to 31 December 2022	Unaudited 1 January 2021 to 31 December 2021
	Note	£	£
<b>Cash flows from operating activities</b>			
<b>Profit/(loss) for the year</b>		<b>127,804,522</b>	<b>(127,727,886)</b>
Adjustments for:			
- (Gain)/loss on ETP liabilities	11	<b>(430,412,939)</b>	127,804,522
- Loss on digital assets		<b>302,608,417</b>	-
		<hr/>	<hr/>
		-	76,636
Change in working capital:			
- Trade and other receivables		-	5,000
- Trade and other payables		<b>(30)</b>	<b>(76,666)</b>
		<hr/>	<hr/>
<b>Net cash flow (used in)/provided by operating activities</b>		<b>(30)</b>	<b>4,970</b>
		<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(30)</b>	<b>4,970</b>
<b>At the beginning of the year</b>		<b>4,970</b>	-
		<hr/>	<hr/>
<b>At the end of the year</b>	10	<b>4,940</b>	<b>4,970</b>
		<hr/>	<hr/>

*The above should be read in conjunction with the accompanying notes on pages 17 to 35 which form an integral part of these financial statements.*

### Reconciliation of net debt

#### Non-cash analysis

#### Cash flows from operating activities

- Trade and other receivables	<b>(588,370)</b>	<b>(104,288)</b>
- Trade and other payables	<b>588,370</b>	<b>104,288</b>
- Net issuance of ETP liabilities	<b>218,112,690</b>	<b>329,176,838</b>
- Net purchase of digital assets	<b>(218,112,690)</b>	<b>(329,176,838)</b>

# CoinShares Digital Securities Limited

## Notes to the Financial Statements

For the year ended 31 December 2022

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### 1 General information

The Company operates in Jersey, Channel Islands. The principal activity of the Company is to act as an issuer of exchange traded products ('ETPs').

The Company is a public company limited by shares and is incorporated and domiciled in Jersey. The address of its registered office is 2nd Floor, 2 Hill Street, St Helier, Jersey JE2 4UA and its company registration number is 127061.

### 2 Significant accounting policies

#### 2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'), which comprise Standards and Interpretations approved by the International Accounting Standards Board ('IASB') and the Companies (Jersey) Law 1991, as amended. There were no material departures from IFRS.

There has been no change to the previously audited figures. In 2021, the directors elected to amend the accounting period end to 31 December in order to align the Company with the rest of the Group (CoinShares International Limited ('CSIL') and its subsidiaries), as a result certain comparable financial information presented in these financial statements has not been audited in the format presented.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 2.6).

The following principal accounting policies have been applied:

#### 2.2 Adoption of new and revised Standards

##### New and amended IFRS Standards that are effective for the current year

From 1 January 2022, the Company has applied the below amendments to IFRS Standards and Interpretations issued by the IASB that are effective for annual periods beginning from 1 January 2022:

- Annual Improvements to IFRSs 2018-2020 Cycle: Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 - effective 1 January 2022
- Reference to the Conceptual Framework (Amendments to IFRS 3) – effective 1 January 2022
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) – effective 1 January 2022
- Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37) – effective 1 January 2022

The adoption of these amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.

##### New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) – effective 1 January 2023
- Definition of Accounting Estimates (Amendments to IAS 8) – effective 1 January 2023
- Disclosure of Accounting policies and Classification of Liabilities as Current or Non-current (Amendments to IAS 1) – effective 1 January 2023
- Amendments to IFRS 17 Insurance Contracts – effective 1 January 2023
- Deferral of IFRS 9 (Amendments to IFRS 4) – effective 1 January 2023

# CoinShares Digital Securities Limited

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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### 2 Significant accounting policies (continued)

#### 2.2 Adoption of new and revised Standards (continued)

##### New and revised IFRS Standards in issue but not yet effective (continued)

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

#### 2.3 Going concern basis

The Company has net assets of £nil (2021: £nil) at the end of the reporting period. All expenses of the Company are settled by CSJL through the issuance of fees to CSJL to cover the Company's expenses as agreed in the Service Level Agreement dated 21 May 2021. The directors have prepared these financial statements on a going concern basis due to CSJL's contractual obligation to cover the Company's expenses, and ongoing financial support received from other Group entities, inclusive of its parent company, which will continue to be provided for the foreseeable future.

There is continuing to be increased volatility seen in the price of digital assets. The directors do not consider the price movements to impact the going concern for the Company as the products are fully hedged.

#### 2.4 Changes in accounting policies

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

#### 2.5 Foreign currency translation

##### Functional and presentation currency

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

##### Transactions and balances

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

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

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

#### 2.6 Judgements and sources of estimation uncertainty

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

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

# CoinShares Digital Securities Limited

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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### 2 Significant accounting policies (continued)

#### 2.6 Judgements and sources of estimation uncertainty (continued)

##### Critical judgements

Accounting treatment of digital assets: the classification of digital assets as intangible in the financial statements is a significant judgement, as there is currently no clear accounting standards dealing with digital assets. Digital assets do not meet the definition of a financial instrument as they do not constitute a contract that gives rise to another financial asset. Furthermore, the digital assets which are used to collateralise the Company's ETP liabilities do not meet the definition of inventory as the assets are held for hedging and are not held for sale in the ordinary course of business.

Digital assets are initially recognised at their fair value as listed on exchanges, and derecognised at the value derived in the same manner. Subsequent remeasurements are performed using the valuation as formula defined in the prospectus and final terms. The fair value hierarchy of Digital Assets and the measurement is disclosed under section 2.10 and 2.11 respectively. Fair value movements on digital assets are recorded in other comprehensive income. When the valuation is lower than the original cost of the asset, fair value movements are recognised through profit and loss. This is a critical judgement made by the directors but is representative of industry standards also applied within the CoinShares group.

Accounting treatment of ETPs: The Company's ETPs, are settled in digital assets and therefore do not meet the definition of a financial instrument set out in IFRS 9. In all other respects they operate in the same way as an equivalent contract settled in cash. The Company has determined that the accounting policies for these contracts are the same as they would be for an equivalent contract settled in cash and meeting the definition of a financial instrument.

##### Estimates

Management have not made estimates in the process of applying the Company's accounting policies.

#### 2.7 Revenue

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

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

##### Sale of services

The Company charges fees to CSJL to cover costs incurred as part of issuing exchange traded products.

For Digital Securities with a management fee, the management fee is deducted from the ETP liabilities. The management fee is aggregated and payable in Digital Assets to CSJL on a monthly basis in consideration for the provision by CSJL of all management and administration services in relation to the ETP liabilities. As the entirety of the management fee is paid to CSJL, the Company does not recognise any management fee revenue or corresponding expense.

# CoinShares Digital Securities Limited

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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### 2 Significant accounting policies (continued)

#### 2.7 Revenue (continued)

##### Sale of services (continued)

For staked Digital Securities, the Digital Assets are staked with a third party and staking rewards are shared between Digital Security holders and the Company. There is no management fee payable in relation to the CoinShares' Staked Digital Securities. As staking rewards are received, a fixed percentage based staking reward will be retained for Digital Security holders, any surplus staking rewards are aggregated and payable to CoinShares Capital Markets (Jersey) Limited ('CSCMJL') as the staking agent. As the surplus staking rewards are paid to CSCMJL, the Company does not recognise any staking reward revenue.

#### 2.8 Expenses

All expenses of the Company are recognised on an accruals basis.

#### 2.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at all with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

#### 2.10 Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy under IFRS is set out as follows:

Level 1 – The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Fair value for Digital assets was determined by reference to price quotations in an active market (classified as level 1 in the fair value hierarchy).

#### 2.11 Intangible assets - digital assets

Digital assets are accounted for as an intangible asset under the revaluation model. All digital assets are treated as one class of asset.

All purchases and sales of digital assets are recognised on the trade date, as the settlement of digital assets is done instantly, after the trade has taken place.

For staked Digital Securities, digital assets received as staking rewards are recognised at the point in which the Company is entitled to received the staking rewards.

Securities are remeasured using reference indices as detailed in the prospectus. Given that the value of ETPs is measured by reference to the valuation of underlying digital assets, the same remeasurement basis is used for the valuation of digital assets and the ETPs.

# CoinShares Digital Securities Limited

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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### 2 Significant accounting policies (continued)

#### 2.11 Intangible assets - digital assets (continued)

Digital assets have been classified as Level 1 as per note 2.10.

If the digital asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income. However, the increase shall be recognised in the profit and loss to the extent that it reverses previously recognised revaluation losses in the profit and loss.

The decrease in the carrying value of a digital asset as a result of a revaluation shall be recognised in other comprehensive income to the extent that it reverses previously recognised gains in other comprehensive income. If a revaluation loss exceeds the accumulated gains recognised in equity in respect of digital assets, the excess shall be recognised in the profit and loss.

Digital assets are derecognised when the Company has transferred substantially all risks and rewards of ownership on disposal. Gains or losses realised on disposal of the digital assets are presented in the statement of changes in equity as a transfer from the revaluation reserve to retained earnings.

#### 2.12 ETP liabilities

The Company is an issuer of ETPs. The ETPs are described as per the prospectus, publicly available on [coinshares.com](http://coinshares.com).

The Company issues securities to holders which have been recognised as liabilities in the Statement of Financial Position. These liabilities have been classified as Level 1 as per note 2.10.

A liability for an ETP is recognised on the settlement date, being the date of the completion of the trade as per the prospectus.

ETPs are valued using the coin entitlement calculation defined in the prospectus. For staked Digital Securities, the coin entitlement is increased in line with the staking rewards attributable to holders. Movements in the value of the ETPs are recognised through profit and loss.

#### 2.13 Financial instruments

##### Financial Assets

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

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

For financial assets, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition, using a lifetime expected loss allowance for all financial assets. To measure expected credit losses, financial assets have been grouped based on shared credit risk characteristics and the Company assesses at each year end whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired.

## CoinShares Digital Securities Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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#### 2 Significant accounting policies (continued)

##### 2.13 Financial instruments (continued)

###### Financial Assets (continued)

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit and loss.

These assets are presented as current assets except for those that are expected to be realised later than 12 months after the year end, which are presented as non-current assets.

Financial assets, or a part thereof, are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the Company transfers the financial asset and substantially all the risks and rewards of ownership to another entity. When there is no reasonable expectation of recovering a financial asset it is derecognised. The gain or loss on derecognition is recognised in the profit and loss.

###### Financial liabilities

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

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

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

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

Financial liabilities (or part thereof) are derecognised when, and only when, the Company's obligations are discharged, cancelled, or they expire. Any difference between the carrying amount of a financial liability (or part thereof) that is derecognised and the consideration paid is recognised in profit or loss.

##### 2.14 Taxation

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

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



## CoinShares Digital Securities Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

## 2 Significant accounting policies (continued)

### 2.14 Taxation (continued)

The taxation charge is based on the profit for the year as adjusted for tax purposes. The Company pays tax at 0%, the standard Jersey tax rate.

### 2.15 Share capital

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

## 3 Operating segments

The Company monitors its assets and liabilities according to three core operating segments, defined by the primary characteristics of ETPs. The Company deems that it has three reportable operating segments in respect of assets and liabilities, being:

- Digital Securities with a management fee;
- Staked Digital Securities; and
- Central costs

The Company does not monitor its revenues and expenses split by operating segment.

This is the measure reported to the Board of Directors, being the Company's chief operating decision-maker, for the purposes of assessing performance and allocating resources.

The following is an analysis of the Company's assets and liabilities by reportable segment in the year ended 31 December 2022.

### 31 December 2022

	Digital Securities with a Management Fee	Staked Digital Securities	Central Costs	Total
	£	£	£	£
Digital assets	226,244,967	18,396,865	-	244,641,832
Trade and other receivables	-	-	676,922	676,922
Digital asset receivables	-	50,015	-	50,015
Cash and cash equivalents	-	-	4,940	4,940
<b>Total assets</b>	<b>226,244,967</b>	<b>18,446,880</b>	<b>681,862</b>	<b>245,373,709</b>
ETP Liabilities	226,140,396	17,903,498	-	244,043,894
Trade and other payables	-	-	681,862	681,862
Digital asset payables	104,571	543,382	-	647,953
<b>Total liabilities</b>	<b>226,244,967</b>	<b>18,446,880</b>	<b>681,862</b>	<b>245,373,709</b>
<b>Net assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## CoinShares Digital Securities Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

#### 3 Operating segments (continued)

The following is an analysis of the Company's assets and liabilities by reportable segment in the period ended 31 December 2021.

##### 31 December 2021

	Digital Securities with a Management Fee	Staked Digital Securities	Central Costs	Total
	£	£	£	£
Digital assets	456,981,360	-	-	<b>456,981,360</b>
Trade and other receivables	-	-	99,288	<b>99,288</b>
Digital asset receivables	-	-	-	-
Cash and cash equivalents	-	-	4,970	<b>4,970</b>
<b>Total assets</b>	<b>456,981,360</b>	-	<b>104,258</b>	<b>457,085,618</b>
ETP Liabilities	456,835,433	-	-	<b>456,835,433</b>
Trade and other payables	-	-	104,258	<b>104,258</b>
Digital asset payables	145,927	-	-	<b>145,927</b>
<b>Total liabilities</b>	<b>456,981,360</b>	-	<b>104,258</b>	<b>457,085,618</b>
<b>Net assets</b>	-	-	-	-

#### 4 Revenue

	1 January 2022 to 31 December 2022	Unaudited 1 January 2021 to 31 December 2021
	£	£
Fee income	<b>2,101,877</b>	1,220,116
	<b>2,101,877</b>	1,220,116

The Company charges fees to the Programme Manager, CSJL, to cover its expenses as agreed in the Service Level Agreement dated 21 May 2021. These costs consist primarily of professional expenses, custody fees and trading fees.

Revenue on products is recognised in CSJL and CSCMJL as programme manager and staking agent respectively.

# CoinShares Digital Securities Limited

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 5 Administration expenses by nature

Included within administration expenses of £2,094,339 (2021: £1,140,337) (see page 36) are the following amounts:

	1 January 2022 to 31 December 2022 £	Unaudited 1 January 2021 to 31 December 2021 £
Audit fees	37,250	72,500

### 6 Taxation

The Company is subject to tax at the rate of 0% (2021: 0%).

### 7 Digital assets

	31 December 2022 Number	31 December 2021 Number	31 December 2022 £	31 December 2021 £
<b>By Currency</b>				
Bitcoin	10,351	8,253	142,828,745	292,798,603
Ethereum	75,386	56,877	75,435,400	158,753,330
Litecoin	41,455	31,105	2,419,356	3,451,251
XRP	16,967,728	3,179,439	4,846,955	1,978,176
Polkadot	279,238	-	1,016,188	-
Tezos	2,355,697	-	1,419,274	-
Cardano	8,474,941	-	1,766,299	-
Solana	1,139,161	-	9,554,260	-
Chainlink	70,881	-	329,500	-
Uniswap	90,209	-	385,011	-
Cosmos	104,654	-	818,359	-
Matic	2,003,812	-	1,279,145	-
Algorand	17,355,131	-	2,543,340	-
	<b>48,968,644</b>	<b>3,275,674</b>	<b>244,641,832</b>	<b>456,981,360</b>

	31 December 2022 £	Unaudited 31 December 2021 £
<b>Reconciliation of Digital Assets</b>		
Digital assets opening balance	456,981,360	-
Additions to digital assets	296,699,302	432,281,297
Net staking rewards	2,269,586	-
Disposals of digital assets	(79,167,212)	(102,234,617)
Management fees paid to CSJL	(1,728,265)	(869,842)
Fair value loss through profit and loss	(302,608,417)	-
Fair value (loss)/gain through other comprehensive income	(127,804,522)	127,804,522
<b>Digital assets closing balance</b>	<b>244,641,832</b>	<b>456,981,360</b>

## CoinShares Digital Securities Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

#### 7 Digital assets (continued)

During the year, the Company launched a CoinShares Physical FTX Token ('CFTT') Digital Security offering investor exposure to FTX Token ('FTT'), the native token to the FTX digital asset exchange. As a result of FTX entering Chapter 11 bankruptcy in November 2022 and resultant volatility surrounding FTT, the Company suspended creations in CFTT on 14 November 2022 and suspended all redemptions in CFTT on 18 November 2022. On 19 December 2022 all outstanding CFTT were compulsorily redeemed for approximately \$0.10 each, and distributed to ETP holders. Additionally, the CFTT seed was redeemed and the resulting FTT was transferred to CSCMJL in full.

On 15 September 2022, the Ethereum blockchain transitioned from a Proof-of-Work mechanism to a Proof-of-Stake mechanism ('the Merge'). Prior to the completion of the Merge a forked version of the Ethereum blockchain that continued using the Proof-of-Work consensus was created ('ETHW') and distributed to holders of Ethereum. The Company sold the ETHW received, in exchange for Ethereum, and distributed the additional Ethereum pro rata to holders of the CoinShares Physical Ethereum Digital Security through an increase to the coin entitlement.

#### 8 Trade and other receivables

	31 December 2022 £	31 December 2021 £
Amounts owed by Group undertakings	665,022	98,093
Prepayments and sundry debtors	11,900	1,195
	<b>676,922</b>	<b>99,288</b>

Fee income of £2,101,877 (2021: £1,220,116) was earned from CSJL, as programme manager, to cover the Company's expenses as per the Service Level Agreement, of which £665,022 (2021: £98,093) was outstanding at year end.

#### 9 Digital asset receivables

	31 December 2022 Number	31 December 2021 Number	31 December 2022 £	31 December 2021 £
<b>Amounts owed by Group undertakings</b>				
CSCMJL - Solana (i)	1,280	-	10,736	-
<b>Amounts owed by third parties</b>				
Staking rewards - Algorand (ii)	272,231	-	39,279	-
	<b>273,511</b>	<b>-</b>	<b>50,015</b>	<b>-</b>

(i) Amounts owed by Group undertakings relate to staked products where the reward earned by the noteholder is greater than the reward being received.

(ii) Staking rewards in respect of the CoinShares Physical Staked Algorand product are received quarterly. At the year-end, the Company had an outstanding receivable of £39,279 (2021: £nil) in respect of accrued staking rewards.

## CoinShares Digital Securities Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

#### 9 Digital asset receivables (continued)

	31 December 2022 £	Unaudited 31 December 2021 £
<b>Reconciliation of digital asset receivables</b>		
Digital asset receivables opening balance	-	-
Additions	240,660	-
Disposals	(39,563)	-
Loss on digital asset receivables	(151,082)	-
	<b>50,015</b>	<b>-</b>

#### 10 Cash and cash equivalents

	31 December 2022 £	31 December 2021 £
Cash at bank	4,940	4,970
	<b>4,940</b>	<b>4,970</b>

#### 11 ETP liabilities

	31 December 2022 Number	31 December 2021 Number	31 December 2022 £	31 December 2021 £
<b>Securities type</b>				
CoinShares Physical Bitcoin	10,448,800	8,278,800	142,773,000	292,704,836
CoinShares Physical Ethereum	2,527,286	1,901,600	75,396,910	158,704,613
CoinShares Physical Litecoin	212,500	156,500	2,416,053	3,449,113
CoinShares Physical XRP	434,800	80,300	4,840,826	1,976,871
CoinShares Physical Staked Polkadot	257,500	-	980,519	-
CoinShares Physical Staked Tezos	453,000	-	1,402,567	-
CoinShares Physical Staked Cardano	8,265,000	-	1,764,189	-
CoinShares FTX Physical Staked Solana	10,928,100	-	9,183,556	-
CoinShares Physical Chainlink	715,000	-	329,077	-
CoinShares Physical Uniswap	910,000	-	384,530	-
CoinShares Physical Staked Cosmos	193,000	-	774,317	-
CoinShares Physical Staked Matic	195,000	-	1,277,325	-
CoinShares Physical Staked Algorand	1,745,000	-	2,521,025	-
	<b>37,284,986</b>	10,417,200	<b>244,043,894</b>	456,835,433

## CoinShares Digital Securities Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

#### 11 ETP liabilities (continued)

	31 December 2022 £	Unaudited 31 December 2021 £
<b>Reconciliation of ETP liabilities</b>		
ETP liabilities opening balance	456,835,433	-
Creations of ETPs	296,631,728	432,281,297
Redemptions of ETPs	(78,909,345)	(103,104,458)
Net movement on staking rewards	287,617	-
Net movement on management fee	(1,533,830)	(190,997)
Fair value (gain)/loss	(429,267,709)	127,849,591
<b>ETP liabilities closing balance</b>	<b>244,043,894</b>	<b>456,835,433</b>
	31 December 2022 £	Unaudited 31 December 2021 £
Gain/(loss) on ETPs to CSCMJL and Third Parties	287,229,082	(107,375,102)
Gain/(loss) on other ETPs	142,038,627	(20,474,489)
	429,267,709	(127,849,591)
Other gain on ETPs	11,089	-
<b>Total gain/(loss) on ETP liabilities</b>	<b>429,278,798</b>	<b>(127,849,591)</b>

#### 12 Trade and other payables

	31 December 2022 £	31 December 2021 £
Trade payables	46,809	57,842
Amounts payable to parent company	311,766	-
Accrued liabilities	323,287	46,416
	681,862	104,258

Amounts owed to the ultimate parent company, CSIL, of £311,766 (2021: £nil) consist of expenses settled on behalf of the Company. These amounts are repayable on demand, bear interest at 0% and are unsecured.

## CoinShares Digital Securities Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

#### 13 Digital asset payables

	31 December 2022 Number	31 December 2021 Number	31 December 2022 £	31 December 2021 £
<b>Amounts payable to Group undertakings</b>				
CSJL - Bitcoin	4	3	55,745	93,767
CSJL - Ethereum	38	17	38,490	48,717
CSJL - Litecoin	57	19	3,303	2,138
CSJL - XRP	21,455	2,097	6,129	1,305
CSJL - Solana	741	-	6,211	-
CSJL - Chainlink	91	-	423	-
CSJL - Uniswap	113	-	481	-
CSCMJL - Polkadot	9,801	-	35,669	-
CSCMJL - Tezos	27,730	-	16,707	-
CSCMJL - Cardano	10,126	-	2,110	-
CSCMJL - Cosmos	5,632	-	44,042	-
CSCMJL - Matic	2,851	-	1,820	-
CSCMJL - Algorand	287,905	-	41,540	-
<b>Amounts payable to third parties</b>				
Third parties - Solana	44,739	-	375,229	-
Third parties - Algorand	138,987	-	20,054	-
	<b>550,270</b>	2,136	<b>647,953</b>	145,927

Amounts owed to the Group undertakings relate to either digital assets which are due to be paid to CSJL for the management fee or CSCMJL for the staking rewards as per the prospectus, or assets provided by CSCMJL to test future digital asset products. These amounts are denominated in the relevant digital asset.

Amounts owed to the Third Parties relate to fees where seed capital has been provided for products. These amounts are denominated in the relevant digital asset.

	31 December 2022 £	Unaudited 31 December 2021 £
<b>Reconciliation of digital asset payables</b>		
Digital asset payables opening balance	145,927	-
Additions	3,652,255	869,843
Disposals	(1,865,006)	(678,847)
Gain on digital asset payables	(1,285,223)	(45,069)
	<b>647,953</b>	145,927

# CoinShares Digital Securities Limited

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 14 Share capital

#### Shares classified as equity

	Allotted, called-up and unpaid			
	31 December 2022 Number	31 December 2021 Number	31 December 2022 £	31 December 2021 £
Ordinary shares of £0.01 each	1	1	-	-
	<b>1</b>	<b>1</b>	<b>-</b>	<b>-</b>

The Company is authorised to issue 10,000 ordinary shares of £0.01 each, they confer on the holder the right to receive dividends at the Company's discretion. If, at the Company's discretion, there is a return of assets, ordinary shares confer on the holders thereof the rights in respect of the assets of the Company available for distribution among the shareholders. Ordinary shares issued and allotted are accounted for as equity.

### 15 Risk management

The Company issues securities which are 100% physically backed and therefore has a liability towards security holders linked to digital assets, as well as the specific operational risks to holding digital assets.

The following sets out a description of the principal risks inherent in the activities of the Company along with the action taken to manage these risks.

#### a) Market risk

##### i) Currency risk

The Company seeks to mitigate currency risk by only receiving enough fees from CSJL to cover expenses, and not receiving the management fee directly. On the basis of the above information, the Company believes currency risk is not material.

##### ii) Interest rate risk

Interest rate risk is the risk that the value of the Company will be impacted by fluctuations in the prevailing levels of market interest rates.

The majority of the Company's financial assets and liabilities are either non-interest bearing, or at a fixed interest rate and as a result, the Company is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

##### iii) Digital asset price risk

Digital assets are an extremely volatile asset class. Digital asset price risk arises from the uncertainty about future prices of the digital assets, impacting both the fair value of the digital assets held by the Company and the fair value of the liabilities of the Company towards security holders.

To mitigate its exposure to changes in prices of digital assets, any exposure to changes in prices on the digital assets held is matched by the changes in value of the obligations to security holders.



## CoinShares Digital Securities Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

#### 15 Risk Management (continued)

##### a) Market risk (continued)

	Carrying amount as at 31 December 2022 £	Price change -50% £	Price change 100% £
<b>Assets</b>			
Bitcoin	142,828,745	71,414,372	285,657,490
Ethereum	75,435,400	37,717,700	150,870,800
Litecoin	2,419,356	1,209,678	4,838,712
XRP	4,846,955	2,423,477	9,693,910
Polkadot	1,016,188	508,094	2,032,376
Tezos	1,419,274	709,637	2,838,548
Cardano	1,766,299	883,150	3,532,598
Solana	9,554,260	4,777,130	19,108,520
Chainlink	329,500	164,750	659,000
Uniswap	385,011	192,506	770,022
Cosmos	818,359	409,180	1,636,718
Matic	1,279,145	639,572	2,558,290
Algorand	2,543,340	1,271,670	5,086,680
Digital asset receivables	50,015	25,008	100,030
Other assets	681,862	681,862	681,862
<b>Total assets</b>	<b>245,373,709</b>	<b>123,027,786</b>	<b>490,065,556</b>
<b>Liabilities</b>			
ETP liability	244,043,894	122,021,947	488,087,788
Digital assets payable	647,953	323,977	1,295,906
Other liabilities	681,862	681,862	681,862
<b>Total liabilities</b>	<b>245,373,709</b>	<b>123,027,786</b>	<b>490,065,556</b>
<b>Net assets</b>	<b>-</b>	<b>-</b>	<b>-</b>

The above analysis shows the impact of both a fifty percent decline and a one hundred percent increase in digital assets prices. A change in price does not impact the NAV.

##### b) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company. Digital asset activity has an inherent credit risk due to the nature of the industry, which is non-regulated, extremely volatile, has low barriers to entry and is vulnerable to bad actors.

Credit risk from balances with custodians, banks, brokers and financial institutions is managed, monitored and controlled by the finance department in accordance with the Company policy. It is the Company's policy to only enter into transactions with reputable counterparties, as determined through appropriate due diligence.

The risk of losing Digital Assets in digital wallets due to fraud is reduced through digital assets being kept in cold storage with Komainu, providing a cold storage vault. The Company does not expect to incur material credit losses in respect of digital assets.

##### c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities, in particular towards security holders.

## CoinShares Digital Securities Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

#### 15 Risk Management (continued)

##### c) Liquidity risk (continued)

The following maturity analysis shows that liquidity risks are dealt with through matching the maturity of the assets and liabilities.

	Carrying amount as at 31 December 2022 £	On demand £	Less than 3 months £
<b>Current assets</b>			
Amounts owed by related parties	665,022	665,022	-
Digital asset receivables*	50,015	50,015	-
Cash at bank	4,940	4,940	-
Prepayments and sundry debtors	11,900	11,900	-
Digital assets*	244,641,832	244,641,832	-
<b>Total current assets</b>	<b>245,373,709</b>	<b>245,373,709</b>	<b>-</b>
<b>Current liabilities</b>			
Accounts payable	681,862	681,862	-
Digital assets payable*	647,953	647,953	-
ETP liabilities*	244,043,894	244,043,894	-
<b>Total current liabilities</b>	<b>245,373,709</b>	<b>245,373,709</b>	<b>-</b>
<b>Net current assets</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* As disclosed in note 2, digital assets and ETP liabilities are not financial instruments however there is an active market and they are readily realisable on demand.

Liquidity issues could arise as a result of the redemption of securities. In this case, the Company would be required to have sufficient liquidity to finance the redemption of the securities. The prospectus and final terms for each security define the formula at which the securities can be redeemed based on a coin entitlement.

Securities holders can request redemption of their securities which will be settled two business days following a valid redemption notice. The Company ensures that it holds the relevant digital asset at all times to be able to meet these redemptions. The Directors believe that the risk is adequately mitigated and therefore no sensitivity analysis is required.

##### d) Capital risk management

The capital of the Company is represented by the net assets attributable to ordinary shareholders. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Company. This is achieved through actively managing the Company's products.

##### e) Operational risk

These are risks relating to losses as a result of operational matters such as having inappropriate or insufficient routines, human error, systems failures and legal risks.

The main operational risk for the Company would be the inability to redeem a security through either systems failures or continuity planning issues. The risk is mitigated through the use of a business continuity plan which has been tested, and demonstrated that the traders can perform their work from anywhere.

## CoinShares Digital Securities Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

#### 15 Risk Management (continued)

##### e) Operational risk (continued)

The risk of hacking, and losing digital assets in digital wallets due to fraud is reduced through the majority of the digital assets being kept in cold storage with Komainu, who have a SOC 1 Type 2 report. The latest SOC 1 Type 2 Report, covering the period 1 January 2021 to 30 November 2021, was independently reviewed by PricewaterhouseCoopers CI LLP and authorised for issue of 19 August 2022. A SOC 1 Type 2 Report covering Komainu's control framework in 2022 is in progress. In addition to limiting the exposure to fraud for the Company, cold storage of digital assets with Komainu also reduces the Company's exposure to hacking.

The cyber risks are mitigated through the use of systems to prevent external attacks (such as, but not limited to, firewalls, detection of possible phishing emails, encryption using secure keys and strong physical security). Komainu, as custodian, are subject to periodic reviews. The risk of theft of the Company's custodied coins is considered minimal owing to the strong control framework built around the storage and transfer of Digital Assets.

#### 16 Related party transactions

The Group consists of the Company and the following entities held by the ultimate parent company, CSIL:

Name	Defined as	Investee Relationship	CSIL's Ownership %	Jurisdiction	Date of Acquisition
<b>Key Group entities</b>					
CoinShares (Jersey) Limited	CSJL	Subsidiary	100%	Jersey	26/09/2018
CoinShares Capital Markets (Jersey) Limited	CSCMJL	Subsidiary	100%	Jersey	30/06/2019
CoinShares (Holdings) Limited	CSHL	Subsidiary	100%	Jersey	19/04/2019
<b>Other Group entities</b>					
CoinShares (UK) Limited	CSUKL	Subsidiary	100%	UK	19/04/2017
XBT Provider AB (publ)	XBTP	Subsidiary	100%	Sweden	25/09/2017
CoinShares GP II Limited	CSGP2L	Subsidiary	100%	Jersey	09/02/2018
CoinShares Corporate Services (Jersey) Limited	CSCSJL	Subsidiary	100%	Jersey	25/06/2018
CoinShares Co	CSCo	Subsidiary	100%	USA	01/07/2018
Gold Token SA	GTSA	Associate	23%	Switzerland	08/08/2018
CoinShares Employment Services (Jersey) Limited	CSESJL	Subsidiary	100%	Jersey	09/08/2018
GABI Trading Limited (Asia)	GTLA	Subsidiary	100%	Hong Kong	12/02/2019
CoinShares Capital, LLC	CS Cap	Subsidiary	100%	USA	18/09/2019
CoinShares Capital Markets (UK) Limited	CSCMUKL	Subsidiary	100%	UK	30/06/2019
CoinShares GP I LLC	CSGPI	Subsidiary	100%	USA	20/03/2020
Elwood Asset Management Services Limited	EAMSL	Subsidiary	100%	UK	20/07/2021
Elwood Asset Management LLP	EAMLLP	Subsidiary	100%	UK	20/07/2021
CoinShares France	CSF	Subsidiary	100%	France	17/12/2021
CoinShares Asset Management	CSAM	Subsidiary	100%	France	17/12/2021
FlowB Holding Switzerland SA	Flowbank	Associate	28.31%	Switzerland	02/10/2021
CoinShares Technologies Limited	CSTL	Subsidiary	100%	Jersey	30/06/2019

## CoinShares Digital Securities Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

#### 16 Related party transactions (continued)

Napoleon Crypto SAS and Napoleon Software SAS were absorbed into Napoleon Group SAS on 11 May 2022 and 31 May 2022 respectively. Napoleon Group SAS was subsequently renamed to CoinShares France on 7 August 2022.

Following an internal restructuring, Napoleon Asset Management SAS was acquired on 4 July 2022 as a component of the CoinShares France acquisition that occurred at the end of 2021. It was subsequently renamed CoinShares Asset Management on 7 August 2022.

CoinShares (Holdings) Limited ('CSHL') was dissolved on 10 January 2023.

CoinShares Technologies Limited ('CSTL') (formerly GABI Capital Limited) was dissolved on 11 January 2023.

Elwood Asset Management Services Limited and Elwood Asset Management LLP were dissolved on 28 March 2023.

CSIL is the Company's ultimate parent company. CSIL has settled costs of £311,766 (2021: £91,844), and at year end, there is an outstanding payable of £311,766 (2021: £nil).

CSHL was previously the Company's immediate parent company. CSHL has settled costs of £nil (2021: £126,485).

CSJL is the programme manager for the programme and is also a subsidiary of CSIL. CSJL pays for the costs of the Company through a fee. CSJL has settled expenditure directly of £1,534,948 (2021: £898,695) and has been charged fees of £2,101,877 (2021: £1,220,116). As at the year end, the Company has an outstanding receivable of £665,022 (2021: £98,093). The Company also holds the management fee in digital assets on behalf of CSJL before it gets paid. At the year end, the Company holds digital assets as payables to CSJL as detailed in note 13.

CSCMJL is the provider and staking agent for the programme and earns staking rewards through staked products. CSCMJL is also a subsidiary of CSIL. CSCMJL has seeded digital assets to the Company as detailed in the following tables. The Company also holds the staking rewards in digital assets on behalf of CSCMJL before it gets paid. At the period end, the Company also has receivables and payables with CSCMJL as detailed in notes 9 and 13.

	31 December 2022	31 December 2022	31 December 2022
	Digital assets	Securities issued	£
<b>Seeded by CSCMJL</b>			
Bitcoin	5,500	5,500,000	75,892,363
Ethereum	39,643	1,315,000	39,668,958
Solana	17,394	170,000	145,886
			<b>115,707,207</b>
	31 December 2021	31 December 2021	31 December 2021
	Digital assets	Securities issued	£
<b>Seeded by CSCMJL</b>			
Bitcoin	5,500	5,500,000	195,137,596
Ethereum	39,450	1,315,000	110,111,789
Litecoin	12,000	60,000	1,331,443
			<b>306,580,828</b>

Komainu Holdings Limited is an investment of CSIL, and is the parent company to Komainu (Jersey) Limited ('KJL'). KJL provides custody services to the Company. During the year, KJL charged custody fees of £529,137 (2021: £526,916), of which £31,127 (2021: £56,476) remains outstanding at the year end.

## CoinShares Digital Securities Limited

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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#### 17 Events after the reporting date

On 1 February 2023, the Company announced that a fee holiday had been agreed for the CoinShares Physical Ethereum product, reducing the management fees from 1.25% per annum to 0% per annum.

On 27 March 2023, the Company launched two new index ETPs CoinShares Physical Top 10 Crypto Market ETP & CoinShares Physical Smart Contract Platform ETP. These two products are listed on German's main market Xetra. These products have both had their management fees reduced to 0.0% per annum.

In the period following the financial year end, digital asset prices have shown strong price recovery. As at 17 July 2023 Bitcoin stands at \$30.2k, and Ethereum at \$1.9k, having increased 83% and 60% respectively since 31 December 2022.

#### 18 Ultimate controlling party

The Company's parent company is CSIL, a company incorporated in Jersey, Channel Islands at 2nd Floor, 2 Hill Street, St Helier, Jersey, JE2 4UA. CSIL is considered to be the ultimate controlling party.

Audited financial statements for the ultimate controlling party are available at the Company's website:

[www.coinshares.com/investor-relations](http://www.coinshares.com/investor-relations)

## CoinShares Digital Securities Limited

### Appendix 1: Detailed administration expenses for the year ended 31 December 2022 (unaudited)

	Unaudited 1 January 2022 to 31 December 2022 £	Unaudited 1 January 2021 to 31 December 2021 £
<b>Administration expenses</b>		
Audit and accountancy fees	37,250	72,500
Custody fees	529,137	526,916
Directors salaries	15,000	8,750
General expenses	44,539	12,000
Legal fees	116,626	31,548
Marketing expenses	12,626	-
Professional fees	822,607	412,268
Trading expenses	516,554	76,355
	<b>2,094,339</b>	<b>1,140,337</b>

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