



**DigitalCC Limited**

Innovative Digital Currency Solutions

Digital CC Limited ABN 59 009 575 035

ASX Code: DCC

Trading as digitalBTC

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20 October 2014

## **SEPTEMBER QUARTER REPORT SHOWS CONTINUED ROBUST PERFORMANCE**

Digital CC Limited (trading as digitalBTC) (ASX: DCC) (the “Company” or “digitalBTC”), an innovative digital currency company, is pleased to announce a continued robust operational performance from all areas of the business for the September Quarter.

### **Highlights**

- **Bitcoins earned for the quarter of 6,140 bitcoins (7,200 bitcoins earned from 3.5 months of substantial bitcoin mining operations to 30 June 2014).**
- **~8,500 bitcoins or US\$3.3 million in bitcoins held at 30 September 2014<sup>1</sup>.**
- **Agreement signed for up to 40% cheaper power, across half of the Company’s power requirements.**
- **digitalX brand of products launched (<http://digitalX.com>) during quarter.**
- **50/50 Joint venture signed with the owners of one of world’s biggest cryptocurrency exchanges Cryptsy.com. The JV is a digitalX branded product named digitalX Mintsy (<http://mintsy.co>). Mintsy will offer users the ability to connect their own computers and mining equipment to the network to verify transactions and generate their own bitcoins and other coins. Users will also be able to buy computing capacity from a cloud without the need to understand the complexities of the hardware and its maintenance. Users will not only be able to generate their own bitcoins and other coins by owning fractions of computing power, but also trade this computing power on a secondary market. Mintsy will immediately gain access to over 250,000 registered users of Cryptsy.com. Mintsy will earn its fees from sale of cloud based computing capacity used for mining as well as trading activities of its users.**
- **Pre enrolment launched for digitalX Pocket consumer product. digitalX Pocket will allow consumers an easier and more secure online payment method, to be launched in early 2015.**
- **Significant increase in volume of bitcoins traded through Liquidity Desk operations with bitcoins sales of US\$2.5 million during the quarter.**
- **digitalX Direct product has been soft launched making it the third product under the digitalX brand. digitalX Direct allows institutional and commercial investors to buy bitcoins in bulk through an API instantaneously on defined payment terms. First transactions were commenced through digitalX Direct providing bitcoin liquidity to the world’s first regulated Bitcoin investment fund GABI (Global Advisors Bitcoin Investment Fund) and the world’s first United**

Note 1: Price per bitcoin of US\$390 on 30 September 2014

**States Commodity Futures Trading Commission (CFTC) regulated swap provider Tera Exchange.**

- **Continued momentum in Bitcoin system adoption, with major firm Dell now accepting payments in bitcoin and payment processors PayPal and Square moving to integrate bitcoin into their services.**

digitalBTC Executive Chairman, Mr Zhenya Tsvetnenko, said the Company has seen robust progress across a number of fronts over the past 3 months.

“Across the September quarter, as well as earning a significant number of bitcoins from our mining operations, we have substantially progressed our aspirations to be a leader in the revolutionary digital currency space,” said Mr Tsvetnenko.

“Both our Liquidity Operations and Software development have made rapid advances. We have achieved several industry ‘firsts’ and are moving towards product launches,” said Mr Tsvetnenko.

“Whilst the Company notes the movements of the USD / bitcoin price over the course of the quarter, price fluctuations do not in any way impact on the underlying inbuilt payments system of Bitcoin. This system, which allows transfer of value from one user to another without an intermediary, is a truly disruptive technology.”

“Investors should of course remember that movement in the bitcoin price has little bearing on the technology and the digital currency revolution of which we are a leading participant. Short term fluctuations do not affect our continued progress and we are well funded to operate our business and work towards achieving our near term goals around managing our mining capacity and launching our cutting edge software products,” said Mr Tsvetnenko.

### **Mining Operations**

Bitcoin mining remains the primary revenue generator for the Company as it is an essential process of the Bitcoin ecosystem that involves verifying Bitcoin transactions on the Bitcoin network. digitalBTC earns Bitcoins that are readily converted into US dollars for providing this service to the network.

For the September quarter, the Company earned ~6,140 bitcoins, bringing the cumulative total generated from operations to date to ~13,340. Of these, the Company has subsequently liquidated US\$3.2 million of the bitcoins earned from its mining operations.

	As at 30 September 2014	As at 30 June 2014 (end of previous Financial Period)	Cumulative to 30 September 2014
<b>Bitcoins earned from mining</b>	~6,140	~7,200	~13,340
<b>Bitcoins sold from mining</b>	~2,290	~4,000	~6,290
<b>Sale of bitcoins from mining</b>	~US\$1.1 million	~US\$2.1 million	US\$3.2 million
<b>Avg. sales price per bitcoin</b>	~US\$480	~US\$525	~US\$510
<b>Increase in Liquidity Desk bitcoins</b>	~1,050	~400	~1,450
<b>Bitcoins held at period end</b>	~8,500	~3,600	~8,500
<b>Market value of all bitcoins held</b>	~US\$3.3 million <sup>1</sup>	~US\$2.3 million <sup>2</sup>	~US\$3.3 million <sup>1</sup>

**Note: Readers are reminded that bitcoins earned from mining, but not yet sold do not appear in the accompanying cash flow statement.**

As a response to the decline in the bitcoin price during the quarter, the Company elected to reduce the number of bitcoins sold from its mining operations. Management regularly assess opportunities in the market to maximise the dollar value return from the bitcoins earned from mining and will continue to evaluate these opportunity during the current quarter.

Management of the Company's mining capacity during the quarter included the acquisition of US\$1.143 million in additional BitFury Group manufactured hardware, increasing capacity at the time by ~90%, and a divestment via a lease arrangement of ~11% of its first generation mining capacity for an upfront lease fee of US\$460,000. digitalBTC continually evaluates the option to either operate the Bitcoin mining equipment to earn new bitcoins, or to seek additional attractive returns from liquidation of the Bitcoin mining hardware prior to the end of its useful life.

To secure a significant reduction in the cost base of the mining operations, the Company also signed a multi-year hosting and power supply agreement with Verne Global. The agreement covers approximately half of digitalBTC's power requirements at Verne Global's dual sourced, 100% renewable powered data centre campus in Iceland. The power costs are up to 40% cheaper than some of the Company's previous arrangements.

This is expected to increase the ROI from mining operations, as well as extend the useful life of purchased hardware as lower operating costs will allow mining to remain economic for a greater period of time.

### **Summary of Company Working Capital Position**

The Company had US\$4.3 million in cash and US\$3.3 million<sup>1</sup> bitcoins at 30 September 2014.

Subsequent to the end of the quarter, the Company received a US\$1 million refund of its Value Added Tax from the Iceland Tax Authority related to the original US\$4 million purchase of BitFury Mining Hardware announced to ASX in early 2014.

Note 1: Price per bitcoin of US\$390 on 30 September 2014

Note 2: Price per bitcoin of US\$640 on 30 June 2014

## Software Development

The Company continued active development of a range of consumer and business focused products leveraging the disruptive Bitcoin technology. On the consumer front, the Company has launched pre-enrolments for the **digitalX Pocket** product. The Company's strategy for **digitalX Pocket** is to allow consumers to enjoy a simpler and more secure way to pay online, with seamless cross border transactions and social media integration. It will eliminate transaction cut off times, which traditionally restrict cross border payments. The Company aims to launch the product beta version (first trial version) in early 2015.

**digitalX Pocket** pre enrolments are available at: <https://pocket.digitalx.com/>

Also announced during the quarter was the **digitalX Mintsy** joint venture which was formed with the owners of the leading digital currency trading site Cryptsy.com to enter additional digital currency markets. digitalX Mintsy is being designed to provide various crypto-currency mining services to digital currency users, beginning with the sale of cloud mining contracts called hashfracs, litefracs and xfracs along with the ability to trade them among users in a secondary market. The joint venture will have a focus on additional digital currencies beyond Bitcoin, further broadening the reach of digitalBTC within the digital currency sector. Cryptsy.com will actively promote digitalX Mintsy to its customer base of over 250,000 registered users. The aim of digital Mintsy is to allow the broader community to participate in the process of "mining" and generating their own bitcoins and alternative coins without the need for in depth knowledge of the Bitcoin technology or hardware maintenance.

Revenue from the joint venture is expected to include sales of cloud mining contracts and the collection of fees on the trading of those contracts as well as fees from the sophisticated users connecting own hardware to Mintsy's system. An additional benefit from the project is the ability that it will provide to digitalBTC to liquidate its own Bitcoin mining hardware to Mintsy's users.

The product is planned to be available in four languages: English, Chinese, Russian and Spanish. Chinese Yuan (renminbi) denominated bitcoin trading now represents approximately 71.5% of all Bitcoin exchange trading. digitalX Mintsy is expected to launch in late 2014.

**digitalX Mintsy** pre enrolments are available at: <http://www.mintsy.co/>

## Liquidity Desk

The liquidity desk operations are growing significantly, providing bitcoins to partners with a need for readily available bulk quantities of bitcoin. The Company provides liquidity to the bitcoin market through strategies such as coin lending and commercial quantity sales to institutional investors and commercial operators. These activities continue to generate attractive returns for the Company in both rising and falling bitcoin price environments. digitalBTC's capital and coins are allocated to the most compelling opportunities, which are assessed in real time on a risk reward basis.

As the world's first bitcoin-focused company to commence trading on a major stock exchange, digitalBTC provides industry leading levels of financial disclosure through its quarterly cash flow reporting and audited financial statements. This places digitalBTC well above many other digital currency companies and supports engagement with other regulated firms. This has been particularly evident for the company's Liquidity Desk operations with two

“first ever” transactions, one with the bitcoin hedge fund GABI and another with derivatives exchange TeraExchange, being undertaken with regulated counterparties.

Representing the launch of **digitalX Direct**, an automated private bulk liquidity platform for institutional investors and large commercial operators, digitalBTC provided the Global Advisors Bitcoin Investment Fund (“GABI”) its first over-the-counter bitcoin transaction. GABI intends to grow the fund’s bitcoin portfolio further over time.

GABI operates within the Collective Investment Funds (Jersey) Law 1998 as an Expert Fund and is certified by the Jersey Financial Services Commission (“JFSC”). Global Advisors Jersey Limited (“GAJL”) is the Investment Manager to GABI and holds both Investment Business and Fund Services Business licenses with the JFSC.

Subsequent to the end of the quarter, the Liquidity Desk also conducted the first bitcoin derivative transaction to be executed on a regulated exchange. The initial trade between digitalBTC and a hedging counterparty was conducted on TeraExchange. The TeraExchange USD/Bitcoin swap provides institutional market participants with the first regulated risk transfer mechanism to hedge or gain exposure to bitcoin. All trading of USD/Bitcoin swaps on TeraExchange, a regulated swap execution facility, are now subject to the rules and regulations of the U.S. Commodity Futures Trading Commission.

### **Market Developments**

Market adoption of Bitcoin continued significantly during the quarter, with the multinational company Dell announcing it would accept bitcoin payments. Figures from coindesk.com, news leader in digital currency, show that merchant numbers increased by 21% over the quarter, now reaching ~ 76,000. Major mainstream payments processors PayPal and Square also announced bitcoin integration into their services.

Investor interest in Bitcoin remained very strong, with a further US\$60 million in Venture Capital funds invested during the quarter. All time Venture Capital investment into Bitcoin now stands at US\$317 million.

On 20 August 2014, the Australian Taxation Office officially recognised Bitcoins (and other digital currencies) as personal property, subject to CGT. Importantly, there will be no income tax or GST implications for individuals if they pay for goods or services in Bitcoin (provided they are not in business or carrying on an enterprise). The Company welcomes this important first step in the recognition of Bitcoin in the Australian regulatory environment, and will continue to press for further improvements in the regulatory environment for both Bitcoin and the Bitcoin service companies in the burgeoning industry.

digitalBTC is a founding member of the Australian Digital Currency Commerce Association (ADCCA), which is advocating for a supportive regulatory environment. As a member of ADDCA, digitalBTC supports the objective to have Bitcoin classed as “money” for GST purposes.

Subsequently on 2 October, the Senate Economics Reference Committee of the Australian Federal parliament launched an Inquiry into Digital Currencies such as Bitcoin. The final report from the committee is due March 2015. This is welcome news, as this now means Bitcoin is on the Australian legislative agenda, a key step in making sure the industry has appropriate government oversight and acceptance.

## Corporate Developments

The release of the Company's Preliminary Financial Results for the period ended 30 June 2014 on 29 August and subsequent Annual Report on 30 September 2014, saw digitalBTC become the first bitcoin focused company to report audited public financial statements prepared in accordance with International Financial Reporting Standards. The Company believes this is a significant step for the global financial reporting of Bitcoin as the financial report is compliant with International Financial Reporting Standards and has been audited by a "Big Four" accounting firm.

The quarter also saw some changes at the board level, with Mr Brett Mitchell appointed as an Independent Non-Executive Director. Mr Mitchell is a corporate finance executive with over 20 years of experience in the finance and resources industries, and has been involved in the founding, financing and management of both private and publicly-listed resource companies. He is a partner in Verona Capital Pty Ltd, a private venture capital and project generation business, and is currently a director of ASX listed companies Erin Resources Ltd, Tamaska Oil and Gas Ltd and Citation Resources Ltd. Mr Mitchell will be involved with the Company's corporate strategy and investor relations.

Mr Emmanuel Abiodun and Mr Brett Lawrence retired from the Board during the quarter. Both directors played a key role in the formation of digitalBTC and indicated a desire to pursue other personal endeavours. Mr Lawrence is the former Managing Director of Macro Energy Limited, the listed vehicle involved in the digitalBTC reverse takeover transaction.

digitalBTC also commissioned The Sophisticated Investor to produce a research report covering the Company and the Bitcoin sector more broadly in order to better inform and educate Australian investors about the Company and the emerging digital currency sector.

The report is available to view at <http://www.digitalbtc.com/analyst-reports/>

### About digitalBTC

digitalBTC is an innovative digital currency solutions company specializing in the development of digital currency mining, trading and payment applications. The world's first bitcoin-focused company to commence trading on a major stock exchange, digitalBTC is publicly traded on the ASX (ASX: DCC). For more information, please visit <http://digitalbtc.com>.

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## Appendix 4c

### Quarterly report for entities admitted on the basis of commitments

Name of entity

Digital CC Limited

ABN

59 009 575 035

Quarter ended ("current quarter")

30-September-2014

Cash flows related to operating activities		Current quarter USD\$'000	Year to date USD\$'000
1.1	Cash receipts from sale of bitcoins	2,551	2,551
1.2	Payments for		
	(a) staff costs	(442)	(442)
	(b) advertising & marketing	(33)	(33)
	(c) research and development expense	(4)	(4)
	(d) leased assets	-	-
	(e) Administrative and corporate costs	(319)	(319)
	(f) professional fees	(474)	(474)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	2	2
1.5	Interest and other costs of finance paid	-	-
1.6	Income Taxes paid	-	-
1.7	Other (provide details if material)		
	(a) Prepayment of power and hosting**	(483)	(483)
	(b) Power and hosting of bitcoin mining equipment	(579)	(579)
	(c) Purchase of bitcoins for Liquidity Desk	(1,317)	(1,317)
	(d) Receipt of US Marshall deposit	600	600
	(e) Receipt of lease fee for mining hardware	237	237
	** 3 month power prepayment with Verne Global		
1.18	<b>Net Operating Cash Flows</b>	<b>(261)</b>	<b>(261)</b>
<b>Cash flows related to investing activities</b>			
1.9	Payment for acquisition of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	(25)	(25)
	(d) physical non-current assets	(16)	(16)
	(e) other non-current assets	-	-
1.10	Proceeds from disposal of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	-	-
	(e) other non-current assets	-	-
1.11	Loans to other entities	-	-
1.12	Cash acquired through business combinations	-	-
1.13	Other (security deposit)	-	-
	<b>Net investing cash flows</b>	<b>(41)</b>	<b>(41)</b>
1.14	<b>Total operating and investing cash flows</b>	<b>(302)</b>	<b>(302)</b>
<b>Cash flows related to financing activities</b>			
1.15	Proceeds from issues of shares, options, etc.	-	-
1.16	Proceeds from sale of forfeited share	-	-
1.17	Proceeds from borrowings	-	-
1.18	Repayment of borrowings	-	-
1.19	Dividends paid	-	-
1.20	Other (Cost of Capital)	-	-
	<b>Net financing cash flows</b>	<b>-</b>	<b>-</b>
	<b>Net increase (decrease) in cash held</b>	<b>(302)</b>	<b>(302)</b>
1.21	Cash at beginning of quarter/year to date	4,575	4,575
1.22	Exchange rate adjustments to item 1.21	87	87
1.23	<b>Cash at end of quarter</b>	<b>4,360</b>	<b>4,360</b>

<b>Payments to directors of the entity and associates of the directors</b>			
<b>Payments to related entities of the entity and associates of the related entities</b>		Current quarter USD\$'000	
1.23	Aggregate amount of payments to the parties included in item 1.2	228	
1.24	Aggregate amount of loans to the parties included in item 1.10	-	
1.25	Explanation necessary for an understanding of the transactions Salary, Director fees and reimbursement of corporate costs		
<b>Non-cash financing and investing activities</b>			
2.1	Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows N/A		
2.2	Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest N/A		
<b>Financing facilities available</b>			
<i>Add notes as necessary for an understanding of the position.</i>			
		Amount available USD\$'000	Amount used USD\$'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-
<b>Reconciliation of cash</b>			
Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter USD\$'000	Previous quarter USD\$'000
4.1	Cash on hand and at bank	4,360	4,575
4.2	Deposits at call	-	-
4.3	Bank overdraft	-	-
4.4	Other (proccide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.23)		4,360	4,575
<b>Acquisitions and disposals of business entities</b>			
		Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1	Name of entity		
5.2	Place of incorporation or registration		
5.3	Consideration for acquisition or disposal		
5.4	Total net assets		
5.5	Nature of business		

#### Compliance statement

- This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- This statement does give a true and fair view of the matters disclosed.

Sign here:

Mark Laybourn  
Chief Financial Officer



20-Oct-14

#### Notes

- The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- The definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report except for any additional disclosure requirements requested by AASB 107 that are not already itemised in this report.
- Accounting Standards.** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.