

## ASX ANNOUNCEMENT

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DigitalCCLimited

Innovative Digital Currency Solutions

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ASX Code: DCC

Trading as digitalBTC

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## WORLD'S FIRST BITCOIN FOCUSED COMPANY TO LIST ON A MAJOR EXCHANGE REPORTS INITIAL FINANCIALS

### Complete Payback of \$US4 Million Investment in Bitcoin Mining Equipment Now Achieved

Digital CC Limited (trading as digitalBTC) (ASX: DCC) (the "Company" or "digitalBTC") is pleased to release the first company quarterly cashflow report since the successful reverse takeover and re-listing process which concluded in June. digitalBTC is the world's first bitcoin focussed company to be listed on a major exchange, and has reported strong positive cash flow generation from Bitcoin mining activities, and Bitcoin liquidity provisions.

#### Highlights

- ~4,000 bitcoins earned through mining sold for ~US\$2.1 million to 30 June 2014 (some sales occurred prior to the current quarter)
- ~8,600 bitcoins earned through mining to date
- Value of mined coins sold and remaining balance held to date (post quarter end) in excess of the total CAPEX (hardware, installation and shipping) and OPEX (power, hosting and pool fees) for the original purchase of BitFury hardware.
- **In other words, digitalBTC has recouped the cost of both equipment AND power usage to date and continues to generate revenue from coins mined as well as liquidating the hardware.**
- Liquidity desk doubles number of strategic partners and volume increases 150% in final month of quarter.

DigitalBTC successfully completed the reverse takeover and listing of the acquired bitcoin focused business on 6 June 2014. The June Quarter (being the 3 month period ended 30 June 2014) is the first quarter to see cashflow results, albeit for one month, from the bitcoin related operations reported, with consolidation effective 6 June 2014. Certain one-off costs related to the transaction are also reported within this quarter.

DigitalBTC's Executive Chairman, Mr Zhenya Tsvetnenko, said that that the company was extremely pleased with the results from operations generated to date.

"Our purchase of Bitfury Group equipment has proven to be a wise decision, with the Company now having achieved complete payback on our original \$US4 million equipment purchase including all capital and operating costs incurred to date. Returns from this point over and above our payback point will serve to bolster our cash balance, and will be achieved from a combination of continuing equipment liquidation and mining activities," Mr Tsvetnenko said.

"Bitcoin Mining has offered us exceptional results to date, and is an area we will be looking to build upon in the coming quarters. Bitcoin mining is an integral part of the Bitcoin system - without the verification service provided by miners such as ourselves, the whole system would not function. By providing this essential service to the Bitcoin network, we've been able to generate these excellent returns.

On top of these excellent mining results, we've also seen significant growth in the liquidity provision operations. This is an area in which we see tremendous potential, and also an area in which we will be pursuing additional business in the coming quarters.

"The Bitcoin system continues to go from strength to strength, with significant new investments and major merchants coming on board. In the last week, the biggest retailer yet to accept Bitcoin, Dell, began accepting payments for

purchases via the Dell website. This is further demonstration of the capacity of the Bitcoin system to offer enhanced returns for retailers with tight margins, both online and offline.

“As the Bitcoin system continues its rapid mainstream adoption, we fully intend for digitalBTC to participate in this amazing growth potential,” Mr Tsvetnenko said.

### **Bitcoin Mining Operations**

To date, digitalBTC has mined approximately 8,600 bitcoins. Returns from digitalBTC's Bitcoin Mining operations are underpinned by the world leading Bitfury Group mining equipment upon which operations are run.

As at 30 June 2014, digitalBTC held approximately 3,600 bitcoins awaiting liquidation or use in Liquidity Desk operations. The current bitcoin price is US\$620. Due to the nature of accounting standards, bitcoins generated but still held prior to liquidation or use in Liquidity Desk operations **will not be reported as cash flows relating to operation activities.**

A full background briefing on the economic drivers of Bitcoin Mining operations is contained within this report.

### **Liquidity Desk Operations**

The liquidity desk operations are increasingly growing, providing bitcoins to partners who are readily in need of BTC, digitalBTC has taken the step to rename this operations “Liquidity Desk” in favour of the previous “Trading Desk”. Liquidity activities through trusted partners using specialised strategies which include brokering (buying & selling) and lending continue to generate good returns. digitalBTC's capital and coins are allocated to the most compelling opportunities, which are assessed in real time on a risk reward basis.

In line with the pursuit of opportunities to provide liquidity for commercial bitcoin enterprises, digitalBTC has now significantly expanded strategic partners and volume in the final month of the quarter. In return for providing bulk bitcoin liquidity operations, digitalBTC will typically retain a margin over and above current market prices.

### **Application Development**

digitalBTC is focusing on both security and an “easy to use” approach for the applications, capitalising on the rapidly increasing demand for simple digital currency applications as they continue to grow. Only when both security and ease of use can be offered to consumers without one adversely affecting the other within one product, will Bitcoin reach its maximum mainstream adoption rate. In this respect, digitalBTC continues its R&D on a number of innovative methods to tie together the security and ease of use within one product.

### **Future Developments**

digitalBTC continues to aim to be the world's foremost integrated bitcoin companies, with operations across the value chain. From returns generated to date, the company considers additional investments in Bitcoin mining Operations may be warranted, and is assessing potential.

Further technical developments are focussed both on the retail product line and technological enhancement to the liquidity desk operations. The company also continues to evaluate additional development activities in the digital currency sector.

digitalBTC is very pleased with the recent growth in the Bitcoin market and ecosystem, as evidenced by a number of top tier major merchants now accepting bitcoin, such as Dell. The company remains highly excited by the advances that can occur over the coming two to five years with the advance of digital currencies and payment systems, and is committed to building the company to take full advantage of this long term trend.

-ENDS-

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**Quarterly Cash Flow – Explanatory Notes**

The acquisition of the digitalBTC business became effective on 6 June 2014. As such the current quarter cashflow receipts only incorporate cash flows from the digitalBTC business from 6 June 2014. The un-audited financial report is expected to be released in August 2014 with the audited financial report released in September 2014. The financial report will include reverse acquisition accounting provisions and will account for the results for the previous 6 months. With this in mind, the following explanatory notes are provided with respect to the cash flow figures:

- Item 1.1 shows coin sales since the effective date of 6 June 2014. Sales prior to that total ~4,000 bitcoins earned through mining sold for ~US\$2.1 million to 30 June 2014.
- Item 1.7a (Iceland VAT) relates to the purchase of Bifury Group hardware. KPMG in Iceland has advised the company that the VAT is recoverable, and they are in the process of submitting a refund.
- Item 1.11 reflects timing issues around the Effective date – the \$2 million in funds was directed from the Company (then named Macro Energy) to Digital CC Holdings Pty Ltd to purchase Bifury Group hardware. On effective date, Digital CC Holdings, along with the purchased hardware, was fully acquired by the Company. The loan amount will be eliminated in consolidated reporting.
- Item 1.13 was a security deposit for the recent US Marshalls service auction of bitcoin. The company was not a successful bidder in the auction, and the deposit will be returned in the current quarter.
- Item 1.15, the repayment of certain loans from vendors were converted into placement shares in place of cash repayment.
- Item 1.18, again the advanced principal of this loan was received prior to the effective date (utilised primarily for mining equipment purchase) and thus does not appear in the cash flow report. On the effective date the Company acquired all of the previously purchased hardware.

## Background Briefing – Bitcoin Mining Economic Drivers

Bitcoin mining is the term used to describe the process of earning new Bitcoins, which can then be converted to any major currency. The process involves using powerful, cutting edge computer technology to provide a service to the Bitcoin network of verifying Bitcoin transactions. New Bitcoins are created and assigned by the Bitcoin network to the providers of verification services, such as digitalBTC.

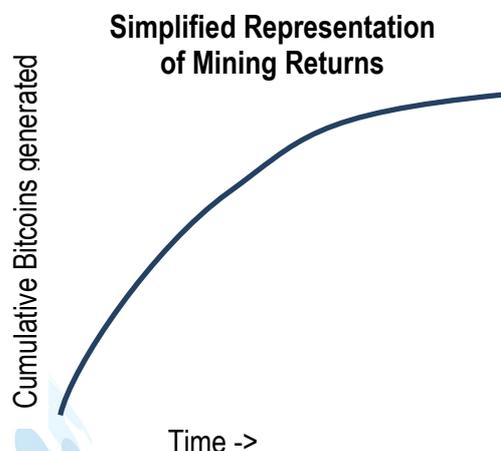
Bitcoin mining economics are primarily driven by two factors – the initial purchase (or capital) cost for the state of the art computing hardware required to verify transactions on the Bitcoin network, followed by the ongoing operating costs for the hardware, the majority of which is power use.

Returns are characterised by initially very rapid daily receipt of bitcoins in return for network transaction verification, with the daily rate then tapering off as network verifications increase in difficulty<sup>1</sup>. At a certain point in the mining equipment life cycle, the daily running costs (primarily power) will exceed the value of bitcoins generated on a daily basis, and the equipment will have reached the end of its useful economic life. This is why newer generation of equipment aim to decrease the chip power consumption.

Payback (on a cash flow basis) will be achieved once the cumulative value of bitcoins received in return for verifying network transactions exceeds both the initial capital cost plus the operating costs incurred to date. As of the end of the quarter, digitalBTC's initial US\$4 million in top of the line Bitfury Group mining equipment was rapidly approaching this payback threshold, prior to any additional returns gained from liquidating (reselling) the purchased equipment.

Post the end of the quarter, operations on the initial \$4million in Bitfury Group hardware have achieved payback – i.e. **both** the initial upfront capital cost and running costs incurred to date have been exceeded by the cumulative value of bitcoins received for verification operations, again prior to any additional returns gained from liquidating portions of the purchased equipment.

Past payback, DigitalBTC has the option of either continuing to run the mining equipment until the end of its lifecycle, or seek additional returns from liquidation prior to the end of its lifecycle. In the case of liquidation, daily returns (and operating costs) will obviously cease, in favour of a lump sum payment received. The equipment is highly modular in nature, made up of small amounts of processing power within each unit and can be progressively part liquidated as required. DigitalBTC will seek to optimise the balance between retention and liquidation, dependant on current daily returns, operating costs and available liquidation prices.



<sup>1</sup> Network difficulty increases are an inbuilt part of the bitcoin protocol and are triggered by increases in verification capacity added to the network, in order to keep the supply of new bitcoins relatively constant