

CRYPTOLOGY ASSET GROUP P.L.C

| Contents | Page(s) |
|--|----------------|
| Directors' report | 1 – 5 |
| Consolidated Statement of comprehensive income | 6 |
| Consolidated Statement of financial position | 7 |
| Consolidated Statement of changes in equity | 8 – 9 |
| Consolidated Statement of cashflows | 10 |
| Notes to the Consolidated financial statements | 11 – 45 |
| Independent Auditors' report | 46 – 51 |

CRYPTOLOGY ASSET GROUP P.L.C.

DIRECTORS' REPORT

The directors present their consolidated annual report and financial statements for the year ended 31 December 2021.

Incorporation

Cryptology Asset Group p.l.c was incorporated and registered with the Malta Business Registry on 10 January 2018 and started trading forthwith.

The shares of Cryptology Asset Group p.l.c (ISIN MT0001770107) Ticker: CAP, (formerly 4UD) have been included in the primary market segment of the open market of the Düsseldorf Stock Exchange as of May 5, 2020 and are currently trading also on Gettex and Tradegate, with a market valuation of € 8 at year end (2020: market value of € 4 after taking into consideration the share split that took place).

The listing on the primary market segment of the open market of the Dusseldorf Stock Exchange has been undertaken, against the background of using the capital structure as a source of financing in the future as part of the growth strategy.

Principal Activity of the Parent Company

The principal activity of the parent company is to invest in digital assets and companies with blockchain-related business models and also provide strategic advice to these type of companies. During the year under review, it invested in companies with underlying digital assets.

The Subsidiary

Cryptology Advisory Limited is a fully owned subsidiary of the Company which provides consultancy services specifically related to the use of blockchain technology.

Investment Rationale

At the year end the Group held a portfolio of investments that continues to grow, including both quoted and unquoted investments. This contributed significantly to the performance of the Group's financial results for the year under review. The Group adheres to a clearly defined Investment policy which ensures transparency, consistency and a fair basis of valuing financial instruments. In this regard, for unquoted investments, in view of limited information available, the Group's measurement of fair value would be the price that the financial asset can be expected to sell in the ordinary course of business, as long as the price indicated is supported by sound financial judgement. To this end, the Group obtains sufficient information to measure fairly the value of its investments from observable and unobservable inputs under normal market conditions. In relation to quoted investments, these are valued on the basis of open market information available at year end.

The Group's Advisory Board is composed of key personnel well trained and experienced in the field. The Advisory Board seeks to identify, evaluate and select ongoing viable projects that are likely to have significant positive impact on the Group's results.

CRYPTOLOGY ASSET GROUP P.L.C.

DIRECTORS' REPORT (Continued)

Investment Rationale (continued)

The Group is uniquely positioned to invest further in its existing portfolios. It also looks at other innovative investment opportunities, which could include co-investing with other partners in viable projects such as crypto-asset management.

The global macro-economic scenario has surely affected the Group's investments strategic approach, particularly the current trends in the financial and digital assets' market. The Group intends to act prudently when it comes to considering new investments.

Business Development and Outlook

The Group has developed very positively since its foundation where the digital assets showed a significant increase. However, at time of reporting, the digital assets market has seen a substantial decline in prices which attributed to a 50% drop in the digital assets' value at the year end. With regards to traditional investments, the market is also experiencing price-bruising mainly caused by the macro-economic outlook, both geopolitical and economically, where Central Banks have increased interest rates and inflation which erode purchasing power. Notwithstanding all the above, the Group believes the market will recover and we are poised to participate slowly but securely in upcoming investment opportunities.

The Group will expand its existing stake with suitable companies if management believes that these companies complement to the existing holdings in a meaningful way, and thereby the strategy of the Group is to continue to build a diversified portfolio of companies with blockchain-based business models.

It is the Group's intention to be a key player in the industry by harnessing the experience to mitigate risks and avoid volatility scenarios mainly by seeking and harvesting new investment opportunities by investing in hi-tech companies. To this end, the Group, will continue to invest in key human resource talents to enhance its corporate governance and to assist in the ventures which it intends to pursue. The Board of Directors seeks to consistently improve business results and sustain continuous growth in the market in which it operates, and in line with its investment strategies.

Principal risks and uncertainties

The Group's principal risks and uncertainties are further disclosed in Notes 21 and 22 and specific risk evaluation to Fair Value Measurement as denoted in Note 23 to the financial statements.

Events after the financial reporting date

Disclosures in relation to subsequent events are set out in Note 24 to the financial statements.

Risks posed by COVID-19

The continuance of the coronavirus (COVID-19) across the whole world did not impact on the Company's financial position or on the day-to-day activities. The Company did not experience any financial recession, on the contrary, the financial arena was very active and promising.

CRYPTOLOGY ASSET GROUP P.L.C.

DIRECTORS' REPORT (Continued)

Risks posed by COVID-19 (continued)

At time of reporting, all COVID-19 restrictions on the international arena were lifted and business resumed as normal.

Liquidity required for new investments was adequately tapped and the Group's activities were never hindered.

As was expected, during the financial year reporting period, digital assets and blockchain related models gained ground as more confidence was triggered both from institutional investors and state institutions.

Results

The directors report a Group profit for the year after taxation of € 33,802,934 (2020: € 10,260,310) and total Group comprehensive income of € 46,614,667 (2020: € 239,730,194). The Group profits will be added to profits brought forward of € 282,033,410, leaving accumulated profits of € 330,285,709 to be carried forward to next year, after reflecting adjustments to treasury stock amounting to € 1,637,632.

Performance Review

Initially, the Group's objective was to invest in major investments in USA and Germany. During the past four years, it invested in companies that has yielded positive results. During the year under review the company's profitability has emanated primarily from the sale of Available-for-Sale investments. In addition to the operating profits generated during the year, the Company's positive contribution to Total Comprehensive Income was also derived from fair values changes on Available-for-Sale investments with an increase of € 12,811,733 (2020: € 229,469,884).

Increase in Share Capital

During the financial year, the Group raised € 32 Million through a fresh issue of common shares and all the Treasury Stock held at year ending 2020 was all sold.

On 27 July 2021, an Extra-ordinary General Meeting was held where the shareholders approved a share split of 20:1, hence the new Authorised Capital of the company is now listed at 64,000,000 common shares at € 0.05 per share with 57,217,500 being issued and fully paid-up.

Dividends

The directors do not recommend the payment of a dividend.

Financial Reporting Framework

The directors have resolved to prepare the Group's financial statements for the year ended 31 December 2021 in accordance with the requirements of International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union.

CRYPTOLOGY ASSET GROUP P.L.C.

DIRECTORS' REPORT (Continued)

Directors

The following have served as directors of the company during the year under review:

Mr. Jefim Gewiet: Director
Mr. Patrick Lowry: Director (appointed on 1 March 2021)
Dr. Jorg Werner: Non-Executive Director

In accordance with the Articles of Association, all the directors shall retire from office at least once every three years.

Statement of directors' responsibilities

The Companies Act, 1995 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the financial performance of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- ensure that the financial statements have been drawn up in accordance with International Financial Reporting Standards, as adopted by the European Union;
- account for income and expenditure relating to the accounting period on an accruals basis;
- ensure that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining 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. The directors are also responsible for keeping proper accounting records which 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 Act, 1995. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that, to the best of their knowledge:

- the financial statements give a true and fair view of the financial position of the Group at 31 December 2021 and of its financial performance and its cashflows for the year then ended, in accordance with IFRSs as adopted by the EU on the basis explained in Note 1 to the financial statements; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group together with additional information of the principal risks and uncertainties that the Group faces.

CRYPTOLOGY ASSET GROUP P.L.C.

DIRECTORS' REPORT (Continued)

Auditors

Parker Russell Turner have intimated their willingness to continue in office as auditors of the Group. A resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

Mr. Jefim Gewiet
Director

Mr. Patrick Lowry
Director

Registered Office:
'Beatrice', 66 & 67,
Amery Street,
Sliema, SLM 1707
Malta

30 June 2022

CRYPTOLOGY ASSET GROUP P.L.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

| | Notes | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|---|-------|--------------------|--------------------|----------------------|----------------------|
| REVENUE | 3 | 13,196,945 | 2,545,167 | 13,099,445 | 2,350,167 |
| Cost of investments | | (11,265,227) | (1,964,952) | (11,265,227) | (1,964,952) |
| Fair value movements on HFT investments | | (309,392) | 2,141,882 | (2,141,882) | 2,141,882 |
| GROSS OPERATING PROFIT | | 1,622,326 | 2,722,097 | (307,664) | 2,527,097 |
| Dividends receivable | | - | - | 337,817 | - |
| Profit from sale of AFS investments | | 34,094,836 | 8,702,857 | 34,094,836 | 8,702,857 |
| Impairment provision on intangibles | | (817,926) | (189,665) | (817,926) | (189,665) |
| Loss on sale of intangibles | | - | (38,790) | - | (38,790) |
| TOTAL OPERATING PROFIT | | 34,899,236 | 11,196,499 | 33,307,063 | 11,001,499 |
| Administrative expenses | | (1,630,321) | (924,700) | (1,598,904) | (909,593) |
| Other income | | 971,460 | 348,714 | 886,103 | 348,714 |
| PROFIT BEFORE FINANCE COSTS | | 34,240,375 | 10,620,513 | 32,594,261 | 10,440,620 |
| Finance costs | 4 | (1,204,769) | (666,764) | (1,204,237) | (666,579) |
| PROFIT FOR THE YEAR BEFORE TAXATION | | 33,035,606 | 9,953,749 | 31,390,024 | 9,774,041 |
| Taxation | 8 | 767,328 | 306,561 | 702,146 | 369,694 |
| PROFIT FOR THE YEAR AFTER TAXATION | | 33,802,934 | 10,260,310 | 32,092,170 | 10,143,735 |
| OTHER COMPREHENSIVE INCOME | | | | | |
| Items that will not be reclassified to profit or loss: | | | | | |
| Changes in fair value: | | | | | |
| Quoted AFS investments | | (28,138,151) | 139,653,275 | (28,138,151) | 139,653,275 |
| Unquoted AFS investments | | 37,560,057 | 91,413,873 | 37,560,057 | 91,413,873 |
| Foreign exchange translations | | 3,389,827 | (1,597,264) | 3,389,827 | (1,597,264) |
| | | 12,811,733 | 229,469,884 | 12,811,733 | 229,469,884 |
| TOTAL COMPREHENSIVE INCOME | | € 46,614,667 | € 239,730,194 | € 44,903,903 | € 239,613,619 |

The notes form an integral part of these financial statements.

CRYPTOLOGY ASSET GROUP P.L.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

| | Notes | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|-------------------------------------|--------|----------------------|----------------------|----------------------|----------------------|
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Intangible assets | 9 | - | - | - | - |
| Plant & equipment | 10 | 6,789 | 20,388 | 6,638 | 19,414 |
| Investment in subsidiaries | 11 | - | - | 240 | 240 |
| AFS investments | 13 | 407,462,330 | 326,228,575 | 407,462,330 | 326,228,575 |
| Other receivables | 15 | 375,281 | 396,154 | 375,281 | 396,154 |
| Deferred tax asset | 12 | 1,190,076 | 369,694 | 1,190,076 | 369,694 |
| | | <u>409,034,476</u> | <u>327,014,811</u> | <u>409,034,565</u> | <u>327,014,077</u> |
| Current Assets | | | | | |
| HFT investments | 14 | 2,008,489 | 2,310,000 | 8,542 | 2,310,000 |
| Trade & other receivables | 15 | 3,137,053 | 505,259 | 3,254,091 | 504,061 |
| Cash & cash equivalents | | 1,353,430 | 55,786 | 1,353,430 | 13,443 |
| | | <u>6,498,972</u> | <u>2,871,045</u> | <u>4,616,063</u> | <u>2,827,504</u> |
| TOTAL ASSETS | | <u>€ 415,533,448</u> | <u>€ 329,885,856</u> | <u>€ 413,650,628</u> | <u>€ 329,841,581</u> |
| EQUITY AND LIABILITIES | | | | | |
| Equity | | | | | |
| Share capital | 16 (a) | 2,860,875 | 2,732,500 | 2,860,875 | 2,732,500 |
| Share premium | 16 (b) | 54,053,895 | 23,862,113 | 54,053,895 | 23,862,113 |
| Treasury stock | 16 (c) | - | (31,491) | - | (31,491) |
| Retained earnings | 16 (d) | 330,285,709 | 282,033,410 | 328,432,105 | 281,772,334 |
| | | <u>387,200,479</u> | <u>308,596,532</u> | <u>385,346,875</u> | <u>308,335,456</u> |
| Non-Current Liabilities | | | | | |
| Trade & other payables | 17 | 2,012,505 | 7,740,875 | 2,012,505 | 7,740,875 |
| Current Liabilities | | | | | |
| Interest-bearing loans & borrowings | 18 | 5,992,934 | 6,720,329 | 5,992,934 | 6,720,329 |
| Trade & other payables | 18 | 20,327,530 | 6,828,120 | 20,298,314 | 7,044,921 |
| | | <u>26,320,464</u> | <u>13,548,449</u> | <u>26,291,248</u> | <u>13,765,250</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>€ 415,533,448</u> | <u>€ 329,885,856</u> | <u>€ 413,650,628</u> | <u>€ 329,841,581</u> |

The notes on pages 6 to 45 form an integral part of the financial statements. These Financial Statements were approved by the directors on 30 June 2022 and signed on its behalf by:

Mr. Jefim Gewiet
Director

Mr. Patrick Lowry
Director

CRYPTOLOGY ASSET GROUP P.L.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 31 December 2021

| | Share capital € | Share Premium € | Treasury Stock € | Retained Earnings € | Total € |
|--|-----------------------|-----------------------|------------------------|---------------------------|----------------------|
| The Group | | | | | |
| At 31 December 2019 | 2,732,500 | 23,862,113 | - | 43,940,848 | 70,535,461 |
| FINANCIAL YEAR ENDED 31 DECEMBER 2020 | | | | | |
| Issuance/ (acquisition) of treasury stock | | | (31,491) | (1,637,632) | (1,669,123) |
| Profit for the year representing Total Comprehensive Income | - | - | - | 239,730,194 | 239,730,194 |
| At 31 December 2020 | <u>2,732,500</u> | <u>23,862,113</u> | <u>(31,491)</u> | <u>282,033,410</u> | <u>308,596,532</u> |
| FINANCIAL YEAR ENDED 31 DECEMBER 2021 | | | | | |
| Issue of shares | 128,375 | - | - | - | 128,375 |
| Share premium | - | 31,840,000 | - | - | 31,840,000 |
| (Acquisition) of treasury stock | | - | (134) | (10,586) | (10,720) |
| Issuance of treasury stock | - | (1,648,218) | 31,625 | 1,648,218 | 31,625 |
| Profit for the year representing Total Comprehensive Income | - | - | - | 46,614,667 | 46,614,667 |
| At 31 December 2021 | <u>€ 2,860,875</u> | <u>€ 54,053,895</u> | <u>€ -</u> | <u>€ 330,285,709</u> | <u>€ 387,200,479</u> |

The notes form an integral part of these financial statements.

CRYPTOLOGY ASSET GROUP P.L.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 31 December 2021

| | Share capital € | Share Premium € | Treasury Stock € | Retained Earnings € | Total € |
|--|-----------------------|-----------------------|------------------------|---------------------------|----------------------|
| Holding Company | | | | | |
| At 31 December 2019 | 2,732,500 | 23,862,113 | - | 43,796,347 | 70,390,960 |
| FINANCIAL YEAR ENDED 31 DECEMBER 2020 | | | | | |
| Issuance/ (acquisition) of treasury stock | - | - | (31,491) | (1,637,632) | (1,669,123) |
| Profit for the year representing Total Comprehensive Income | - | - | - | 239,613,619 | 239,613,619 |
| At 31 December 2020 | <u>2,732,500</u> | <u>23,862,113</u> | <u>(31,491)</u> | <u>281,772,334</u> | <u>308,335,456</u> |
| FINANCIAL YEAR ENDED 31 DECEMBER 2021 | | | | | |
| Issue of shares | 128,375 | - | - | - | 128,375 |
| Share premium | - | 31,840,000 | - | - | 31,840,000 |
| (Acquisition) of treasury stock | - | - | (134) | (10,586) | (10,720) |
| Issuance of treasury stock | - | (1,648,218) | 31,625 | 1,648,218 | 31,625 |
| Profit for the year representing Total Comprehensive Income | - | - | - | 45,022,139 | 45,022,139 |
| At 31 December 2021 | <u>€ 2,860,875</u> | <u>€ 54,053,895</u> | <u>€ -</u> | <u>€ 328,432,105</u> | <u>€ 385,346,875</u> |

The notes form an integral part of these financial statements.

CRYPTOLOGY ASSET GROUP P.L.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

| | Notes | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|---|--------|--------------------|--------------------|----------------------|----------------------|
| OPERATING ACTIVITIES | | | | | |
| Cash (used in) operations | 19 (a) | (1,605,723) | (641,338) | (1,570,987) | (700,510) |
| Interest paid | | (460,037) | (434,356) | (459,505) | (434,171) |
| Interest received | | 582,606 | 109,800 | 582,606 | 109,800 |
| Taxation paid | | (125,311) | (33,083) | (118,236) | (13,940) |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| NET CASH (USED IN) OPERATING ACTIVITIES | | (1,608,465) | (998,977) | (1,566,122) | (1,038,821) |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| INVESTING ACTIVITIES | | | | | |
| Purchase of plant and equipment | | - | (27,868) | - | (27,868) |
| Purchase of intangible assets | | (817,926) | - | (817,926) | - |
| Proceeds from sale of intangibles | | - | 604,528 | - | 604,528 |
| Disposal of AFS investments | | 35,308,316 | 12,864,153 | 35,308,316 | 12,864,153 |
| Purchase of AFS investments | | (56,438,669) | (16,325,427) | (56,438,669) | (16,325,427) |
| Convertible loan advances | | (1,079,127) | (396,154) | (1,079,127) | (396,154) |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES | | (23,027,406) | (3,280,768) | (23,027,406) | (3,280,768) |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| FINANCING ACTIVITIES | | | | | |
| Issue of share capital | | 160,000 | - | 160,000 | - |
| Issue of share premium | | 31,840,000 | - | 31,840,000 | - |
| Repurchase of own shares | | (10,720) | (1,669,123) | (10,720) | (1,669,123) |
| Bank loan advances | | 522,490 | 1,490,015 | 522,490 | 1,490,015 |
| Repayment to related parties | | - | (200,000) | - | (200,000) |
| Loan advances from third party | | 600,000 | 200,000 | 600,000 | 200,000 |
| Repayments to third parties | | (6,450,860) | - | (6,450,860) | - |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| NET CASH INFLOW/ (OUTFLOW) FROM FINANCING ACTIVITIES | | 26,660,910 | (179,108) | 26,660,910 | (179,108) |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| Net movement in Cash and Cash Equivalents | | 2,025,039 | (4,458,853) | 2,067,382 | (4,498,697) |
| Cash and Cash Equivalents at the beginning of Year | 19 (b) | (6,664,543) | (2,205,690) | (6,706,886) | (2,208,189) |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 19 (b) | € (4,639,504) | € (6,664,543) | € (4,639,504) | € (6,706,886) |
| | | <hr/> | <hr/> | <hr/> | <hr/> |

The notes form an integral part of these financial statements.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. BASIS FOR PREPARATION

1.1 Statement of Compliance

The consolidated financial statements of Cryptology Asset Group p.l.c have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union.

These financial statements have also been prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta)

1.2 Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiary undertakings drawn up to 31 December each year. Subsidiary undertakings are those companies over which the Group has control, either by way of majority shareholding, through contractual agreements with the other vote holders of the investee or rights arising from other contractual agreements, giving it the power to govern financial and operating policies of the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control of the subsidiary, and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2021

1. BASIS FOR PREPARATION (continued)

1.2 Consolidation (continued)

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The parent company of the Group wholly owns one subsidiary, which is set out in Note 11. No associated undertakings were held at year end.

1.3 Basis of accounting

The financial statements are prepared under the historical cost. Assets and liabilities are measured at historical cost except for the following that are measured at fair value: financial assets measured at fair value through other comprehensive income (FVTOCI), and financial instruments classified at fair value through profit or loss (FVTPL).

These Financial Statements are prepared on a going concern basis. The Directors regard this as appropriate, after due consideration of the Group's statement of financial position, capital adequacy and solvency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 STANDARDS, AMENDMENTS AND INTERPRETATION TO EXISTING STANDARDS

2.1.1 Interpretations and amendments to standards adopted by the Group

During 2021, the Group adopted a number of interpretations and amendments to standards in the financial statements. These changes did not have a significant impact on the Group's accounting policies and on the financial performance and financial position.

Standards adopted during the year ended 31 December 2021

No new standards were adopted during the year.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2021

2.1 STANDARDS, AMENDMENTS AND INTERPRETATION TO EXISTING STANDARDS (continued)

2.1.2 Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB.

On 23 January 2020, the IASB issued 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)' providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place of the reporting date. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

On 18 May 2017, the IASB issued IFRS 17 'Insurance Contracts' that require insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 as is effective for annual reporting periods beginning on or after from 1 January 2023.

On 14 May 2020, the IASB issued 'Reference to the Conceptual Framework (Amendments to IFRS 3)'. The amendment updates an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

On 14 May 2020, the IASB issued 'Proceeds before Intended Use- Amendments to IAS 16'. The amendments prohibit deducting from the cost of an item of PPE and proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items in profit and loss. These amendments are effective for annual periods beginning on or after 1 January 2022.

On 14 May 2020, the IASB issued 'Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)'. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. These amendments are effective for annual periods beginning on or after 1 January 2022.

On 14 May 2020, the IASB issued 'Annual Improvements to IFRS Standards 2018-2020'. These make amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41. These amendments are effective for annual periods beginning on or after 1 January 2022.

The directors are assessing the impact that the adoption of these International Financial Reporting Standards will have on the financial statements in the period of initial application. None of these Standards or amendments to existing Standards have been adopted early by the Group. The directors anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2021

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2.1 Non-derivative financial instruments

Non-derivative financial instruments comprise in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted when the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features or shared credit risk characteristics. The percentage of the write down value is then based on recent historical counterparty default rates for each identified group.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit and loss, which are measured initially at fair value. They are subsequently measured as described below. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

2.2.2 Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds. Classification and subsequent measurement of debt instruments depend on:

- i. The Group's business model for managing the asset; and
- ii. The cash flow characteristics of the asset.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

2.2.2 Debt instruments (continued)

Based on these factors, the Group classifies its debt instruments into one of the following three measurement criteria:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest on specified dates. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- **Fair Value through Other Comprehensive Income (FVOCI):** Financial assets that are held for collecting of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI. Foreign exchange gains and losses on the instrument's amortised cost which also recognised in OCI. No impairment gains or losses are recognised since these are reflected in the movement in fair value through OCI. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is kept in OCI. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- **Fair Value through Profit or loss (FVTPL):** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

2.2.3 Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

On initial recognition of an equity investment that is not held for trading, the Group may irrecoverably elect to present changes in fair value in OCI. This election is made on an investment-by-investment basis and is irrecoverable. Other equity instruments are classified as measured at FVTPL. Gains and losses on such equity instruments are never reclassified to profit and loss and no impairment is recognized. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are kept within OCI on disposal of an investment.

Gains and losses on equity investments held for trading at FVTPL are included in the 'Trading profits' in line with the statement of profit or loss. The Group classifies its equity instruments as follows:

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

2.2.3 Equity instruments (continued)

- i. Financial assets at fair value through profit or loss: This classification includes financial assets classified as held for trading. Financial assets at FVTPL are initially recognized and subsequently measured at fair value based on quoted bid prices in an active market.
- ii. Financial assets at fair value through OCI: Investment securities are classified as available-for-sale financial assets in view of the fact that these are intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices. All investment securities are initially measured at fair value plus transaction costs, if any, that were directly attributable to their acquisition.

Those investments securities classified as available-for-sale financial assets are subsequently measured at fair value based on quoted bid prices in an active market, or be reference to a valuation technique if the market was not active. Shares held as investments are classified as 'Available for Sale Investments' and these are valued at acquisition cost excluding any other ancillary costs. All shareholding listings in each respective investee is below the 20% holding.

2.2.4 Digital assets - Held-for-Trading

The Group's digital assets are purchased with the intent to resell in the near future, generating a profit from margins or from the fluctuations in prices. The Group applies the inventory treatment of a trader under IAS 2 to the digital assets. Under IAS 2, the digital assets are measured at fair value less cost to sell, with change in fair value recognized in the statement of comprehensive income. The cost of digital assets was determined based on the fair value of the bid price at the date of acquisition.

2.2.5 Convertible instruments

Convertible instruments, which give the holder the right to either demand repayment of the principle amount or to write off the debt and instead convert the balance into shares, are split up recognising both the liability and the equity components. The liability component is worked out on the basis of the present value of the payments at the market rate of interest. Once the liability component has been calculated, the equity component represents the difference between the cash paid and the liability component. This scenario applies when the market rate of interest will be higher than the coupon rate.

2.2.6 Investment in subsidiaries and equity-accounted investees

A subsidiary is an entity that is controlled by the Group. Control is the power to govern the financial & operating policies of an entity to obtain benefits from its activities. Investments in subsidiaries and equity-accounted investees are initially include in the Group's statement of financial position at cost and subsequently at cost less any impairment loss which may have arisen. Interest in equity-accounted investees are accounted for using the equity method at Group Level. These are initially recognized at cost, which includes transaction costs. Subsequently the consolidated financial statements include the Group's share of profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence ceases.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

2.2.6 Investment in subsidiaries and equity-accounted investees (continued)

Dividends from the investments are recognised in profit or loss when its right to receive the dividend is established. At the end of each reporting period, the Group reviews the carrying amount of its investments in subsidiaries and equity-accounted investees to determine whether there is any indication of impairment, and if such indication exists, the recoverable amount of the asset is estimated, and an impairment loss is accounted for as explained below.

2.2.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided for on the straight-line method at rates intended to write off the cost to its residual value over the expected useful life. The annual rates used are as follows:

| | % |
|-------------------------------------|----|
| Computer and other office equipment | 25 |
| Computer software | 25 |

Depreciation begins when the asset is available for use and continues until the asset is derecognised. Depreciation charge is recognised within 'cost of sales' and 'administrative expenses' in the statement of comprehensive income.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. The residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each financial reporting date. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred. Property, plant and equipment that are temporarily idle and in course of construction are recognized in the carrying amount of property, plant and equipment at cost within 'Assets under construction'.

2.2.8 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit and loss in the year in which the expenditure is incurred.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

2.2.8 Intangible assets (continued)

The useful life of intangible assets is assessed to be either finite or infinite. The Group's intangible assets consist of digital assets, which are held for the Group's own account. No amortisation is being provided to write of the cost to its residual value, since the assets do not have a definite useful life.

The digital assets were classified as intangible assets under IAS 38, 'Intangible Assets', because:

- it is a resource controlled by an entity (that is, the entity has the power to obtain the economic benefits that the asset will generate and to restrict the access of others to those benefits) as a result of past events and from which future economic benefits are expected to flow to the entity;
- it is identifiable, because it can be sold, exchanged or transferred individually;
- it is not cash or a non-monetary asset; and
- it has no physical form.

Where an indication of impairment exists, the carrying amount of the intangible asset is assessed and written down immediately to its recoverable amount.

For the purpose of assessing impairment, assets are grouped in the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset carrying amount exceeds its recoverable amount.

The recoverable amount is the greater of its fair value less costs to sell and its value in use. To determine the value in use, management estimates expected future cashflows from each cash-generating unit and determines a suitable discounting rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management. Impairment losses are recognised immediately in the income statement. Impairments losses for cash-generating units are charged pro rata to the assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

An impairment loss that had been previously recognised is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been previously recognised.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

2.2.9 Provisions, contingent liabilities and contingent assets

Provisions are recognised when present obligations resulting from a past event will probably lead to an outflow of economic resources from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties granted, legal disputes or onerous contracts.

Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are numerous similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the obligations' class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

A contingent liability is (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognized. Contingent assets are disclosed when an inflow of economic benefits is probable.

2.2.10 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months.

2.2.11 Related Undertakings and Related Parties

The term 'related undertakings' refers to companies having common shareholders or common ultimate shareholders. A party is related to an entity if, directly or indirectly through one or more intermediaries, the party controls or is under common control with the entity, or has an interest in the entity which can give significant influence on control over the entity.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

2.2.12 Bank and Other Borrowings

Bank and other borrowings are recorded at the proceeds received. Finance charges are accounted for on an accrual basis and are shown with accruals to the extent that they are not settled in the period in which they arise.

2.2.13 Fair value measurement

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 in the principal or, its absence, the most advantageous market to which the Group has access at the date. The fair value of a liability reflects its non-performance risk. Fair value conditions, including but not limited to liquidity in the market, at a specific date may and therefore differ significantly from the amounts which will actually be received on the maturity or settlement date. The best evidence of fair value of an instrument is a quoted price in an actively traded market for that instrument. The determination of what constitutes an active market is subjective and requires the collation of data and the exercise of judgement. A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Where it is concluded that an active market does not exist, a valuation technique is used. The latter gives consideration of transaction prices in inactive markets, however it makes use of other observable market data. The main assumptions and estimates which management considers when using valuation techniques are the likelihood and expected timing of future cash flows on the instrument and a risk premium. The valuation techniques used by the Group incorporate all factors that market participants would consider in setting a price and are consistent with accepted methodologies for pricing financial instruments.

The major application of fair value measurement is adopted for the valuation of Available-for-Sale Investments disclosed in the financial statements under Non-Current Assets. In the absence of Level 1 and Level 2 inputs, the directors have applied Level 3 inputs to value these assets. Observable and unobservable inputs are used in this case, since there is little market activity for the asset at measurement date. The directors developed these inputs using the best information available in the circumstances, including the Group's own data, taking into consideration all information about market participants assumptions that is reasonable available. A combination of valuation techniques were adopted taking into account the current replacement value of the asset and available, unaudited financial data of the underlying assets.

2.2.14 Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that the tax arises from a transaction or event which is recognised directly in equity, in which case it is recognised in equity.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

2.2.14 Income taxes (continued)

Current tax is based on the taxable profit for the year, as determined in accordance with tax laws, and measured using tax rates, which have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to the investment in subsidiary to the extent that the Group's ability to control the timing of the reversal of temporary differences and it is probable that those temporary differences will not reverse in the foreseeable future. Deferred tax assets for the carry-forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

2.2.15 Revenue recognition

Revenue is measured at the fair value of consideration received or receivable for services rendered in the normal course of business, net of value added tax.

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the entity and these can be measured reliably. A contract with a customer that results in the recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, the Group first applies IFRS 9 to separate and measure the part of the contract that is within the scope of IFRS 9 and then applies IFRS 15 to the residual. The Group's revenue relates to the sale of held-for-trading investments and the sale of digital assets.

In relation to digital assets, the Exchange generates revenue through transaction fees charged on the platform for digital asset matching services. The Exchange provides a digital asset matching service and facilitates the ability for a customer to purchase or sell digital assets from or to another customer on the Exchange. The Exchange performs these services on behalf of customers and it does not control the digital asset being provided before it is transferred to the buyer, does not have inventory risk related to the digital asset, and is not responsible for the fulfilment of the digital assets. The Exchange also does not set the price for the digital asset as the price is a market rate established by the platform. The Exchange's digital asset matching service represents a single performance obligation.

As a result, the Exchange acts as an agent in facilitating the ability for a customer to purchase or sell digital assets from another customer in accordance with IFRS 15 and presents revenue for the transaction fees charged on a net basis.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

2.2.15 Revenue recognition (continued)

The Exchange considers its performance obligation satisfied, and recognizes revenue, at the point in time the transaction is processed. Contracts with customers are usually open-ended and can be terminated by either party without a termination penalty. Therefore, contracts are defined at the transaction level and do not extend beyond the service already provided.

The Exchange charges a fee at the transaction level. The transaction price, represented by the trading fee, is calculated based on volume and may vary depending on payment type and the value of the transaction. The transaction fee is collected from the customer at the time the transaction is executed. In certain instances, the transaction fee can be collected in digital assets, with revenue measured based on the amount of digital assets received and the fair value of the digital assets at the time of the transaction. The Exchange sets the fee rates, which may differ between trading pairs according to whether the customer is a maker (adding to the order book) or taker, and rules as to the priority in which orders are filled from existing liquidity.

Dividend income from investments is recognised when the right to receive payment is established.

Interest income and expense is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument, or when appropriate, a shorter period to that instrument's carrying amount. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the instrument but not future credit losses. The calculation includes payments or receipts that are an integral part of the effective interest rate, transaction costs and all other discounts or premiums.

Generally fee and commission income, is recognised as the related services are performed. Other fee and commission expenses are expensed as the services are rendered.

2.2.16 Administrative expenses

Operating expenses are recognised in the profit or loss and other statement of comprehensive income upon utilisation of the service or at the date of their origin.

2.2.17 Finance costs

Finance expenses comprise interest on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

(a) Borrowing costs

Borrowing costs include interest on bank overdrafts and borrowings and finance charges on finance leases. Borrowing costs and finance charges directly attributable to the acquisition, construction or production of assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale is capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

2.2.17 Finance costs (continued)

The amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of that borrowing. All other borrowing costs are recognised as an expense in the profit or loss in the period in which they are incurred.

2.2.18 Surplus and deficits

Only surpluses that were realised at the date of the Statement of Financial Position are recognised in these Financial Statements. All foreseeable liabilities and potential deficits arising up to the said date are accounted for even if they become apparent between the said date and the date on which the Financial Statements are approved.

2.2.19 Treasury Stock

The Group is allowed to repurchase common stock anytime that it is believed to be beneficial to the Group and its shareholders. The program continues to allow share repurchase in the open market. The Group can either retire the repurchased stocks or keep them as Treasury stock available for reissuance. When sold these will be reflected as a credit for any additional cash surplus in equity.

Upon issuance of the treasury stock, adjustments will be reflected against Share premium account to neutralize the effect on retained earnings, to the extent originally debited, and which would have resulted from the original acquisition of the treasury stock.

2.2.20 Foreign currency translation

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Group operates. These Financial Statements are presented in Euro, which is the Group's functional and presentation currency. Assets and liabilities in foreign currencies are translated into Euro at the rate of exchange ruling at the balance sheet date. Transactions in foreign currency during the period are translated into Euro at the rate of exchange ruling on the date of the transaction. All profits and losses on exchange are dealt with through the profit and loss account.

2.2.21 Capital management policies and procedures

The Group's capital consists of its net assets, including working capital, presented by its retained funds. The Group's capital management objectives are to ensure its ability to continue as a going concern, to maintain a positive working capital ratio, and to provide an adequate return to shareholders. The Group uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to its primary stakeholders.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

2.2.22 Significant judgement in applying accounting policies and estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable and reliable in the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which estimates is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The main assumptions and estimates are made in estimating the fair value of available-for-sale financial instruments not quoted in active markets. Management is required to make certain assumptions and estimates in arriving at an appropriate fair value, based on the application of valuation techniques that make use of available observable market data. A change in assumptions and estimates could affect the reported fair value of these financial instruments.

3. REVENUE

| | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|--------------------------------------|---------------------|--------------------|----------------------|----------------------|
| Revenue comprises the following: | | | | |
| Sale of Held-For-Trading investments | 2,778,797 | 2,350,167 | 2,778,797 | 2,350,167 |
| Sale of digital assets | 7,972,073 | - | 7,972,073 | - |
| Advisory services | 97,500 | 195,000 | - | - |
| Exercise of exchangeable note | 2,348,575 | - | 2,348,575 | - |
| | <u>€ 13,196,945</u> | <u>€ 2,545,167</u> | <u>€ 13,099,445</u> | <u>€ 2,350,167</u> |

4. FINANCE COSTS

| | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|---------------------------|--------------------|--------------------|----------------------|----------------------|
| Bank interest and charges | 722,117 | 451,860 | 721,585 | 451,675 |
| Other interest on loans | 327,221 | 214,904 | 327,221 | 214,904 |
| Realised loss on exchange | 155,431 | - | 155,431 | - |
| | <u>€ 1,204,769</u> | <u>€ 666,764</u> | <u>€ 1,204,237</u> | <u>€ 666,579</u> |

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

5. PROFIT FOR THE YEAR BEFORE TAX

| | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|--|--------------------|--------------------|----------------------|----------------------|
| Profit for the year before tax is stated after charging: | | | | |
| Total remuneration payable to the external auditors: | | | | |
| - The audit of the financial statements | 20,400 | 14,850 | 16,000 | 13,650 |
| - Other non-assurance services | 4,555 | 3,987 | 4,300 | 3,732 |
| | <u>€ 24,955</u> | <u>€ 18,837</u> | <u>€ 20,300</u> | <u>€ 17,382</u> |
| Directors' emoluments: | | | | |
| - Non-executive director | 12,000 | 12,000 | 12,000 | 12,000 |
| - Director's salary as part-time employee | 60,000 | 60,000 | 60,000 | 60,000 |
| - Director's salary as full-time employee | 181,182 | - | 181,182 | - |
| | <u>€ 253,182</u> | <u>€ 72,000</u> | <u>€ 253,182</u> | <u>€ 72,000</u> |

Compensation to other key management personnel is analysed as follows:

| | Group 2021 | Group 2020 | Holding 2021 | Holding 2020 |
|--------------------------------------|------------------|------------------|------------------|------------------|
| - Remuneration as full-time employee | <u>€ 189,778</u> | <u>€ 167,079</u> | <u>€ 180,109</u> | <u>€ 158,611</u> |

6. EMPLOYEE COMPENSATION AND BENEFITS

| | Group 2021 | Group 2020 | Holding 2021 | Holding 2020 |
|--|------------------|------------------|------------------|------------------|
| Salaries, including directors' remuneration: | | | | |
| Wages and salaries | <u>€ 430,960</u> | <u>€ 227,079</u> | <u>€ 428,548</u> | <u>€ 218,611</u> |
| Managerial and administration | <u>3</u> | <u>2</u> | <u>3</u> | <u>2</u> |
| Average number of employees – Full time equivalents: | <u>3</u> | <u>2</u> | <u>3</u> | <u>2</u> |

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

7. EARNINGS PER SHARE

| | Group 2021 | Group 2020 | Holding 2021 | Holding 2020 |
|--------------------|---------------|---------------|-----------------|-----------------|
| Earnings per share | € 0.81 | € 4.39 | € 0.79 | € 4.38 |

The earnings per share have been calculated on the net profit of the Group, as shown in statement of profit and loss, divided by the average number of shares in issue.

Earnings per share of the Group was calculated on the profit attributable to shareholders of the Group of € 46,614,667 (2020: € 239,730,194), divided by average number of shares for the year ended 31 December 2021 of 57,217,500 (2020: 54,650,000).

Earnings per share of the Holding Company was calculated on the profit attributable to shareholders of the company of € 45,022,139 (2020: € 239,613,619) divided by average number of shares for the year ended 31 December 2021 of 57,217,500 (2020 – 54,650,000). The Earnings per share for comparative figures have been restated in view of a share split of 20:1 on existing shares of 2,732,500.

8. TAXATION

| | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|-------------------|--------------------|--------------------|----------------------|----------------------|
| Comprising: | | | | |
| Deferred taxation | (820,382) | (369,694) | (820,382) | (369,694) |
| Current taxation | 53,054 | 63,133 | - | - |
| | <u>€ (767,328)</u> | <u>€ 306,561</u> | <u>€ (820,382)</u> | <u>€ (369,694)</u> |

The tax effect at the applicable tax rate on the accounting result and the tax charge for the year are reconciled as follows:

| | | | | |
|--|--------------------|--------------------|--------------------|--------------------|
| Profit before taxation | 33,035,606 | 9,953,749 | 31,390,024 | 9,774,041 |
| Tax at the applicable rate of 35% | <u>11,562,462</u> | <u>3,483,812</u> | <u>10,986,508</u> | <u>3,420,914</u> |
| Tax effect on disallowed expenses | 290,616 | 5,285 | 290,381 | 5,050 |
| Tax effect on fair value adjustments | 108,287 | (749,658) | 749,658 | (749,658) |
| Tax effect on consolidation adjustment relating to dividend income | 118,236 | - | - | - |
| Tax effect on income subject to participation exemption | (12,846,929) | (3,046,000) | (12,846,929) | (3,046,000) |
| | <u>€ (767,328)</u> | <u>€ (306,561)</u> | <u>€ (820,382)</u> | <u>€ (369,694)</u> |

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

9. INTANGIBLE ASSETS

| | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|-------------------------------|--------------------|--------------------|----------------------|----------------------|
| Digital assets: | | | | |
| Additions during the year | 817,926 | 189,665 | 817,926 | 189,665 |
| Impairment provisions/ losses | (817,926) | (189,665) | (817,926) | (189,665) |
| | € - | € - | € - | € - |

10. PLANT AND EQUIPMENT - Group

| | Computer and other office equipment € | Computer software € | Total € |
|--------------------------------------|---|---------------------------|------------|
| Cost | | | |
| At 1 January 2021 & 31 December 2021 | 4,772 | 46,420 | 51,192 |
| Depreciation | | | |
| At 1 January 2021 | 1,995 | 28,809 | 30,804 |
| Charge for the year | 1,193 | 12,406 | 13,599 |
| At 31 December 2021 | 3,188 | 41,215 | 44,403 |
| Net Book Value | | | |
| At 31 December 2021 | € 1,584 | € 5,205 | € 6,789 |
| Cost | | | |
| At 1 January 2020 | 1,904 | 21,420 | 23,324 |
| Additions | 2,868 | 25,000 | 27,868 |
| At 31 December 2020 | 4,772 | 46,420 | 51,192 |
| Depreciation | | | |
| At 1 January 2020 | 802 | 13,706 | 14,508 |
| Charge for the year | 1,193 | 15,103 | 16,296 |
| At 31 December 2020 | 1,995 | 28,809 | 30,804 |
| Net Book Value | | | |
| At 31 December 2020 | € 2,777 | € 17,611 | € 20,388 |

CRYPTOLOGY ASSET GROUP P.L.C.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2021

10. PROPERTY, PLANT AND EQUIPMENT - Holding

| | Computer and other office equipment € | Computer software € | Total € |
|--------------------------------------|---|---------------------------|------------|
| COST | | | |
| At 1 January 2021 & 31 December 2021 | 4,171 | 43,725 | 47,896 |
| DEPRECIATION | | | |
| At 1 January 2021 | 1,695 | 26,787 | 28,482 |
| Charge for the year | 1,043 | 11,733 | 12,776 |
| At 31 December 2021 | 2,738 | 38,520 | 41,258 |
| NET BOOK VALUE | | | |
| At 31 December 2021 | € 1,433 | € 5,205 | € 6,638 |
| COST | | | |
| At 1 January 2020 | 1,303 | 18,725 | 20,028 |
| Additions | 2,868 | 25,000 | 27,868 |
| At 31 December 2020 | 4,171 | 43,725 | 47,896 |
| DEPRECIATION | | | |
| At 1 January 2020 | 652 | 12,358 | 13,010 |
| Charge for the year | 1,043 | 14,429 | 15,472 |
| At 31 December 2020 | 1,695 | 26,787 | 28,482 |
| NET BOOK VALUE | | | |
| At 31 December 2020 | € 2,476 | € 16,938 | € 19,414 |

11. INVESTMENT IN SUBSIDIARIES – Holding Company

| | 2021 € | 2020 € |
|--|-----------|-----------|
| Cost | | |
| As at 1 January | 240 | 240 |
| Additions/ (disposals) during the year | - | - |
| As at 31 December | € 240 | € 240 |

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

11. INVESTMENT IN SUBSIDIARIES – Holding Company (continued)

As at 31 December 2021, the Group held the following equity interest:

| Subsidiary and its registered office | Number, class & nominal value of shares held | Percentage of issued shares held |
|---|--|----------------------------------|
| Cryptology Advisory Limited Beatrice, 66 & 67, Amery Street, Sliema, SLM 1707, Malta | 1,199 ordinary 'A' shares of €1 each, 20% paid-up | 99.9% |

The financial statements of Cryptology Advisory Limited prepared using the IFRSs as adopted by the EU and have been audited in accordance with International Standards on Auditing. A clean audit opinion has been issued in respect of these financial statements. The share capital and reserves of Cryptology Advisory Limited at the balance sheet date stood as follows:

| | 2021 € | 2020 € |
|------------------------|--------------------|------------------|
| Ordinary share capital | 240 | 240 |
| Retained earnings | 1,976,770 | 266,007 |
| | <u>€ 1,977,010</u> | <u>€ 266,247</u> |

12. DEFERRED TAXATION

| | At 1 January 2021 | Recognised in profit or loss | At 31 December 2021 |
|-----------------------|----------------------|---------------------------------|------------------------|
| Unutilised tax losses | € 369,694 | € 820,382 | € 1,190,076 |

13. AVAILABLE-FOR-SALE INVESTMENTS

Quoted equity and other non-fixed income instruments measured at FVOCI:

| | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|-------------------------------------|--------------------|--------------------|----------------------|----------------------|
| <i>AFS Investments:</i> | | | | |
| Opening balance | 184,461,044 | 38,266,375 | 184,461,044 | 38,266,375 |
| Movements (at cost) | (1,213,480) | 6,709,512 | (1,213,480) | 6,709,512 |
| Reclassification to HFT investments | - | (168,118) | - | (168,118) |
| Fair Value Movements (Note a) | (28,138,151) | 139,653,275 | (28,138,151) | 139,653,275 |
| | <u>155,109,413</u> | <u>184,461,044</u> | <u>155,109,413</u> | <u>184,461,044</u> |

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

13. AVAILABLE-FOR-SALE INVESTMENTS (continued)

Unquoted equity and other non-fixed income instruments measured at FVOCI:

| | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|--|----------------------|----------------------|----------------------|----------------------|
| <i>AFS Investments:</i> | | | | |
| Opening balance | 135,460,817 | 34,798,075 | 135,460,817 | 34,798,075 |
| Movements (at cost) | 75,942,176 | 10,846,133 | 75,942,176 | 10,846,133 |
| Unrealized gain on exchange | 3,389,827 | (1,597,264) | 3,389,827 | (1,597,264) |
| Fair Value Movements (Note a) | 37,560,057 | 91,413,873 | 37,560,057 | 91,413,873 |
| | <u>252,352,917</u> | <u>135,460,817</u> | <u>252,352,917</u> | <u>135,460,817</u> |
| <i>Asset-Managed Investment (Note b)</i> | | | | |
| Opening balance | 6,306,714 | 6,869,076 | 6,306,714 | 6,869,076 |
| Unrealized gain on exchange | (6,306,714) | (562,362) | (6,306,714) | (562,362) |
| | <u>-</u> | <u>6,306,714</u> | <u>-</u> | <u>6,306,714</u> |
| Total Available-for-Sale investments | <u>€ 407,462,330</u> | <u>€ 326,228,575</u> | <u>€ 407,462,330</u> | <u>€ 326,228,575</u> |

Notes:

(a) Fair Value Movements

The fair value basis measurement of quoted investments has been determined on the basis of Level 1 inputs, being the quoted prices in active markets for identical assets and liabilities that the entity can access at the measurement date. The fair value of the investment at the reporting date decreased to € 52 Million.

The fair value basis measurement of AFS Investments has been determined on the basis of Level 3 criteria. The investment group classification method has been used whereby assets were sub-divided between classifications of sub-groups and analysed on basis of observable and unobservable market data. Management is required to use its own assumptions regarding unobservable inputs because there is little market activity and is unable to corroborate the related observable inputs. Unobservable inputs require management to make certain projections about the information that would be used by market participants in valuing assets or liabilities.

The basis has been derived by analyzing the underlying assets in the investee companies through a combination of valuation techniques. In applying the valuation technique, management also adopted other criteria to factor market changes in the underlying assets and other sensitive market variations in the valuation. The data sensitivity analysis was carried out from unaudited sources but was independently extracted from information provided by third parties and management representations. Other observable market information was obtained and the valuation technique models were compared to other observable market information as follows:

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

13. AVAILABLE-FOR-SALE INVESTMENTS (continued)

(a) Fair Value Movements (continued)

- i. Share prices of other share transfers effected subsequent to the Group's acquisition of shares, representing the price buyers in the market are willing to pay for the shares in investee companies;
- ii. Shareholders' reports prepared by Management confirming the price the investee company is willing to offer for the investment. These represent price indicators to investors from valuation techniques performed by Management;
- iii. Share buy-backs by the investee companies offering existing holders the option to sell the shares; and
- iv. Net Asset Value techniques on investee companies arriving at the share base.

On this basis, valuation techniques were carried out on the financials of the investee companies and data inputs were affected to consider future cashflows and other market available information. In determining the fair value, we analysed the underlying assets, and impairment tests were provided on the sub-classifications of assets to take into account the inherent variations and volatility of the balances.

In carrying out the above analysis we determined the Net Asset Value and compared to observable inputs disclosed above, including share prices for other share transfers effected. This could only be applied if the observable market data and share prices for similar investors investing in the same investee companies could be substantiated to underlying company valuations and future company potential.

The fair value movements included in the quoted AFS investments amounted to a decrease of € (28,138,151) primarily relating to reversals of prior year Fair Value increases following disposal of 381,190 shares (2020 – increase of € 139,653,275). The fair value movements included in the unquoted AFS investments amounts to € 37,560,057 (2020- € 91,413,873). The net total increase of € 9,421,906 (2020 - € 231,067,148) is reflected in Other Comprehensive Income. The Company shall be consistent in applying such valuation methods from one period to the next. Quantitative and qualitative information about unobservable inputs and assumptions are also used.

(b) Assets offered as Collateral

During the previous year, included within quoted AFS investments, there were 350,000 shares to the value of € 26,950,000 at year end, which are being collateralized in favour of a related party. Interest of 5% per annum is being charged on the amounts being offered as collateral. During 2021, all the pledged shares were returned, and the collateral has been released.

There were no assets offered as Collateral at year end. However, at reporting date there were 574,000 shares which were collateralized in favour of a related party.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

13. AVAILABLE-FOR-SALE INVESTMENTS (continued)

(c) Asset-Managed Investment

The Asset-Managed Investment as disclosed in the AFS investments is represented by a corresponding exchangeable note included within non-current liabilities under Note 18 to the financial statements to the equivalent amount. The fair value of the Asset-Managed Investment was calculated solely for the scope of determining a potential future unrealized gain, using the same valuation techniques applied for the other AFS investments held by the Company. The exchangeable note can be exercised within a period of five years against the Asset-Managed Investment.

Upon the exercise of the exchangeable note, a gain may crystallize to the Company based on the fair value increases of the Asset-Managed Investment on the date of the transfer. In March 2021, the exchangeable note had been executed, and gains of € 2,348,575 have been materialized based on the fair value determination of the investment.

14. HELD-FOR-TRADING INVESTMENTS

| | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|--|--------------------|--------------------|----------------------|----------------------|
| <i>Quoted held-for-trading investments measured at FVTPL</i> | | | | |
| Movements during the year: | | | | |
| - Digital assets | 83,800 | - | 8,542 | - |
| - Equity investments | - | 168,118 | - | 168,118 |
| Fair value movements | 1,832,490 | 2,141,882 | - | 2,141,882 |
| | <u>1,916,290</u> | <u>2,310,000</u> | <u>8,542</u> | <u>2,310,000</u> |
| <i>Unquoted held-for-trading investments measured at FVTPL</i> | | | | |
| Movements during the year: | | | | |
| - Digital assets | 92,199 | - | - | - |
| | <u>€ 2,008,489</u> | <u>€ 2,310,000</u> | <u>€ 8,542</u> | <u>€ 2,310,000</u> |

Note: Digital assets are classified as inventory and recognized at fair value. Fair value changes in the carrying amount are recognized in the statement of comprehensive income.

15. TRADE AND OTHER RECEIVABLES

| | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|--|--------------------|--------------------|----------------------|----------------------|
| <i>Amounts falling due after more than one year:</i> | | | | |
| Convertible Note (note a) | € 375,281 | € 396,154 | € 375,281 | € 396,154 |
| | <u>€ 375,281</u> | <u>€ 396,154</u> | <u>€ 375,281</u> | <u>€ 396,154</u> |

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

15. TRADE AND OTHER RECEIVABLES (continued)

| | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|--|--------------------|--------------------|----------------------|----------------------|
| <i>Amounts falling due after more than one year:</i> | | | | |
| Loan advances to related party (note b) | 200,000 | 200,000 | 200,000 | 200,000 |
| Convertible Notes (note c) | 1,100,000 | - | 1,100,000 | - |
| Advanced payments to suppliers | 24,550 | - | 24,550 | - |
| Other debtors (note d) | 1,728,253 | - | 1,728,253 | - |
| Amounts due from related parties | 281 | 281 | - | - |
| Taxation refundable (note 18) | - | - | 118,236 | - |
| VAT recoverable | 5,997 | 5,033 | 5,997 | 5,033 |
| Prepayments and accrued income | 77,972 | 299,945 | 77,055 | 299,028 |
| | <u>€ 3,137,053</u> | <u>€ 505,259</u> | <u>€ 3,254,091</u> | <u>€ 504,061</u> |

Notes:

- (a) The convertible note bears interest at the rate of 2% per annum. The issuer grants each noteholder the right to convert each Note, in whole, but not in part, at any time during the Conversion period, with the final maturity date being set at 30 April 2023.
- (b) Loan advances to related party bear interest at the rate of 10% per annum, are unsecured and are repayable within one year.
- (c) Convertible notes consist of an amount of € 1 Million which bears interest at the rate of 10 % per annum. This was exercised in March 2022 through a conversion of shares. The remaining amounts of € 100K represent a convertible note which bears interest at the rate of 10% per annum and which shall expire on 30 June 2022.
- (d) Other debtors represent amounts which were paid by the company for purchase of AFS investments. The share transfer agreement was affected between the contractual parties. Nonetheless the share transfer was not accepted and registered by the investee.

16. SHARE CAPITAL AND RESERVES – Holding Company

(a) Share Capital

| | 2021 | 2020 |
|--|-------------|-------------|
| <u>Authorised</u> | | |
| 64,000,000 (2020 - 2,900,000) Ordinary shares of € 0.05 (2020 - € 1) each | € 3,200,000 | € 2,900,000 |
| | <hr/> | <hr/> |
| <u>Issued, allotted and 100% paid up</u> | | |
| 57,217,500 (2020 - 2,732,500) Ordinary shares of € 0.05 (2020 - € 1) each | € 2,860,875 | € 2,732,500 |
| | <hr/> | <hr/> |

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

16. SHARE CAPITAL AND RESERVES – Holding Company (continued)

| | 2021 | 2020 |
|-----------------------------|---------------------|---------------------|
| | € | € |
| (b) Share Premium | | |
| Opening balance | 23,862,113 | 23,862,113 |
| Increase during the year | 31,840,000 | - |
| Issuance of treasury stocks | (1,648,218) | - |
| Closing balance | <u>€ 54,053,895</u> | <u>€ 23,862,113</u> |
| (c) Treasury stock | | |
| Closing balance | <u>€ -</u> | <u>€ 31,491</u> |

During an Extra-Ordinary General Meeting held on 4th August 2020, the members present resolved to acquire, in its own name, the Company's shares subject to the following conditions:

- Maximum quantity of shares shall not exceed 10% of the issued shares;
- Authority to acquire own shares shall be valid for 18 months; and
- Maximum price to buy-back the shares shall not exceed €80 per share.

As at 31st December 2020, the Company had acquired a total of 31,491 own shares at a price of € 1,669,123. An amount of € 1,637,632, representing the excess above par value, was reflected against retained earnings. During 2021, the company had acquired 134 own shares at a price of € 10,720. An amount of € 10,586, representing the excess above par value, was reflected against retained earnings.

By 31 December 2021, all treasury stock has been issued. An adjustment of € 1,648,218 was reflected against Share premium account to neutralize the effect on retained earnings, which would have resulted from the original acquisition of the treasury stock.

(d) Retained earnings

Retained earnings represent the accumulated operating profits after taxation after adjusting for other comprehensive income, resulting in total retained earnings of € 330,285,709 (2020 - € 282,033,410) at year end. This primarily comprises the profit attributable to equity holders.

17. NON-CURRENT LIABILITIES

| | Group 2021 | Group 2020 | Holding 2021 | Holding 2020 |
|---|--------------------|--------------------|--------------------|--------------------|
| | € | € | € | € |
| Bank loan advances (note a) | 2,012,505 | 1,490,015 | 2,012,505 | 1,490,015 |
| Loan advances from third party (note b) | - | 6,250,860 | - | 6,250,860 |
| | <u>€ 2,012,505</u> | <u>€ 7,740,875</u> | <u>€ 2,012,505</u> | <u>€ 7,740,875</u> |

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

17. NON-CURRENT LIABILITIES (continued)

Notes:

- (a) The bank loan of € 2 Million (2020- € 1.5 Million) has been granted for the purchase of securities. It bears interest on the basis of the three-month Euribor plus 2.5% per annum, subject to a minimum interest rate per annum of 2.5%. The loan is repayable by 30 March 2024, with the possibility of extending the facility following a re-assessment.
- (b) Loan advances from third party consist of a financial liability resulting from the purchase of AFS investments. The loan bears interest at the rate of 0.65% per annum. The loan was fully repaid during the year under review.

18. TRADE AND OTHER PAYABLES

| | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|---|---------------------|---------------------|----------------------|----------------------|
| Bank overdrafts (note a) | 5,992,934 | 6,720,329 | 5,992,934 | 6,720,329 |
| Amounts payable to subsidiary undertakings (note b) | - | - | 46,554 | 352,684 |
| Loan advances from third party (note c) | 600,000 | 200,000 | 600,000 | 200,000 |
| Exchangeable note (note d) | - | 6,306,713 | - | 6,306,713 |
| Capital creditors (note e) | 19,503,547 | - | 19,503,547 | - |
| Trade creditors | 9,650 | 45,447 | 5,150 | 45,447 |
| Taxation (note f) | 53,054 | 125,311 | - | - |
| Accruals | 161,279 | 150,649 | 143,063 | 140,077 |
| | <u>€ 26,320,464</u> | <u>€ 13,548,449</u> | <u>€ 26,291,248</u> | <u>€ 13,765,250</u> |

Notes:

- (a) Bank overdrafts represent short-term facilities with Baader Bank provided for the purchase of AFS investments. These are pledged over the said investments held by the Group.
- (b) Amounts payable to the subsidiary undertakings are unsecured, interest free and are repayable on demand.
- (c) Loan advances from third party bear interest at the rate of 5% per annum and are repayable within one year.
- (d) The Exchangeable note consists of an instrument which is exercisable against Asset-Managed Investments included within the AFS investments held by the Company, disclosed in Note 13 (b). This instrument is exercisable within a five-year period. The note has been exercised in March 2021.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

18. TRADE AND OTHER PAYABLES (continued)

(e) Capital creditors consist of an investment obligation towards the purchase of AFS investments from a third party. Both contractual parties agreed to cancel the loan with a corresponding reduction in investment value. This cancellation was executed on 9 January 2022.

| (f) Taxation | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|-------------------------|--------------------|--------------------|----------------------|----------------------|
| Opening balance | 125,311 | 95,261 | - | 13,940 |
| Tax charge for the year | 53,054 | 63,133 | - | - |
| Settlement tax paid | (125,311) | (33,083) | - | (13,940) |
| Tax paid at source | - | - | (118,236) | - |
| | <u>€ 53,054</u> | <u>€ 125,311</u> | <u>€ (118,236)</u> | <u>€ -</u> |

19. NOTES TO THE CASH FLOW STATEMENT

(a) Cash (used in) operations

| | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|---|----------------------|--------------------|----------------------|----------------------|
| Profit before taxation | 33,035,606 | 9,953,749 | 31,390,024 | 9,774,041 |
| Adjustment for: | | | | |
| Depreciation | 13,599 | 16,296 | 12,776 | 15,472 |
| Interest receivable | (886,103) | (348,714) | (886,103) | (348,714) |
| Interest payable | 550,579 | 479,003 | 550,047 | 478,818 |
| Fair value movements in HFT investments | 309,392 | (2,141,882) | 2,141,882 | (2,141,882) |
| Profit on disposal of AFS investments | (34,094,836) | (8,702,857) | (34,094,836) | (8,702,857) |
| Impairment loss on intangibles | 817,926 | 189,665 | 817,926 | 189,665 |
| Loss on disposal of intangibles | - | 38,790 | - | 38,790 |
| Operating (loss) | <u>(253,837)</u> | <u>(515,950)</u> | <u>(68,284)</u> | <u>(696,667)</u> |
| Movement in HFT investments | (7,881) | (168,118) | 159,576 | (168,118) |
| Movement in receivables | (1,228,297) | (4,837) | (1,228,297) | (4,960) |
| Movement in payables | (115,708) | 47,567 | (433,982) | 169,235 |
| Cash (used in) operating activities | <u>€ (1,605,723)</u> | <u>€ (641,338)</u> | <u>€ (1,570,987)</u> | <u>€ (700,510)</u> |

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

19. NOTES TO THE CASH FLOW STATEMENT

(b) Cash and cash equivalents

Cash and cash equivalents consist of balance with banks. Cash and cash equivalents included in the statement of cashflows and the statement of financial position comprise the following amounts:

| | Group 2021 € | Group 2020 € | Holding 2021 € | Holding 2020 € |
|----------------|----------------------|----------------------|----------------------|----------------------|
| Cash at bank | 1,353,430 | 55,786 | 1,353,430 | 13,443 |
| Bank overdraft | (5,992,934) | (6,720,329) | (5,992,934) | (6,720,329) |
| | <u>€ (4,639,504)</u> | <u>€ (6,664,543)</u> | <u>€ (4,639,504)</u> | <u>€ (6,706,886)</u> |

20. RELATED PARTY DISCLOSURES

(a) Balances

Amount due from and to related undertakings are disclosed in notes 15 and 18 to the financial statements.

(b) Transactions

During the year under review, the Group carried out transactions, in its normal course of the business and on an arm's length basis, with the following related undertakings:

| Name of entity | Nature of relationship |
|----------------------------------|------------------------|
| Apeiron Investment Group Limited | Majority Shareholder |
| Apeiron 101 Ltd | Related Undertaking |
| Apeiron Advisory Limited | Related Undertaking |
| PreSight Capital Limited | Related Undertaking |
| Grey Study Capital GmbH | Related Undertaking |

The following was the only transaction carried out by the Group with related undertakings having significant control:

| | 2021 € | 2020 € |
|---|-----------|-----------|
| Transactions with majority shareholder and related parties: | | |
| <i>Income</i> | | |
| Recharge of administrative and finance costs to shareholder | 583,528 | 286,466 |
| <i>Costs</i> | | |
| Recharge of administrative and finance costs from shareholder and related parties | 68,007 | 302,989 |

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

20. RELATED PARTY DISCLOSURES (continued)

| | 2021 | 2020 |
|--|------|-----------|
| <i>Capital</i> | | |
| Purchase of AFS investments from shareholder | - | 4,135,583 |

(b) Majority Shareholder and Ultimate Beneficiary Owner

The majority shareholder of the company is Apeiron Investment Group Limited, holding 49.92 % (2020: 54.06%) of total shareholding, with the remaining shareholding being held by various other members, with a percentage holding of less than 20% each. Apeiron Investment Group Limited is a company registered in Malta, with its registered address at 66 & 67, Beatrice, Amery Street, Sliema, SLM 1707, Malta.

The ultimate beneficial owner of Apeiron Investment Group Limited is Mr. Christian Berthold Angermayer, a German National with Passport Number C4YM00ZWL.

21. FINANCIAL RISK MANAGEMENT

By their nature, the Group's activities are principally related to the use of financial instruments. The main activity of the Group is to invest in blockchain-model companies. It is established knowledge that the activities will potentially expose it to a variety of risks, including credit risk, liquidity risk, market risk and currency risk.

The Group's risk management is coordinated by the managing Director and the Advisory Board and focuses on actively securing the Group's short to medium term cash flow by minimising exposure to financial risks. The Group's aim is to disclose possible relevant information to enable users of the Financial Statements to evaluate the nature, extent and precautions taken of risks arising from financial instruments to which the Group is exposed at the end of the financial period.

21.1 Credit risk

This represents the risk of loss of principal or loss of interest to be earned from a borrower's failure in repaying debts or else failure to meet contractual obligations. The credit risk arises every time the Group may want to use future cash flows through the payment of current obligation. In this scenario, the credit risk may be either on the borrower, where an obligation to repay both the principal and the interest accrue in favour of the lender, or to the investor who has placed funds in securities or loaned money where a foreseeable repayment of debt and interest thereon is contemplated.

Credit risk may also be related to an investment's return where yields on bonds correspond to their supposed credit risk. The Group's exposure to credit risk related to the carrying amount of the current financial assets, recognised at the end of the reporting period, as summarised below:

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

21. FINANCIAL RISK MANAGEMENT

21.1 Credit risk (continued)

| | Notes | 2021 € | 2020 € |
|---|--------|------------------|------------------|
| Class of financial assets – carrying amounts: | | | |
| Held-for-trading investments | 14 | 2,008,489 | 2,310,000 |
| Trade and other receivables | 15 | 3,137,053 | 505,259 |
| Cash and cash equivalents | 19 (b) | 1,353,430 | 55,786 |
| | | <u>6,498,972</u> | <u>2,871,045</u> |

During the year under review, the Group held non-cash current assets that were not subject to any risk for liquidating them. All traded financial assets, digital assets and accounts receivables will be eventually liquidated in 2022, hence resulting in no provisions for losses during the reporting period.

Furthermore, the Group continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal with only creditworthy counterparties.

The Group considers that the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

The credit risk for Cash and Cash Equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Exposure to Credit risk on FVTOCI securities and FVTPL digital assets

The Group assesses whether financial instruments have experienced a significance increase in credit risk since initial recognition. When determining whether the risk of default on a financial instrument or a digital asset has increased significantly, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the consultants' historical experience in relation to digital assets and shareholder's historical experience and due diligence and KYC procedures affected on the investee companies. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default as at reporting date; with
- The remaining lifetime probability of default for this point in time that was estimated at the time of initial recognition of the exposure.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

21. FINANCIAL RISK MANAGEMENT

21.2 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

This is an important measure to take cognisance since any assets held by the Group should be saleable when contemplating in generating immediate cash requirements.

In this scenario, the Group does take note of the fact that the market may be illiquid, hence the liquidity risk factor, or quite liquid, hence the financial asset held by the Group will increase in value as there will be no potential capital loss in sight.

At 31 December 2021, the company's financial liabilities have contractual maturities which are summarised below:

| | Note | Current Due within one year € | Non-Current Due between two to five years € |
|---------------------------------------|-------|--|--|
| Financial liabilities: | | | |
| Interest bearing loans and borrowings | 18 | 5,992,934 | 2,012,505 |
| Trade and other payables | 18/17 | 20,274,476 | - |
| | | <u>€ 26,267,410</u> | <u>€ 2,012,505</u> |

In relation to financial liabilities falling due within one year, these consist of a loan from a third party, which was attained to purchase equity investments, which loan of € 600K is projected to be paid in Quarter 4 of 2022. A liability of € 19.5 Million relates to an investment obligation made in September 2021 but for which both contractual parties agreed to cancel the loan with a corresponding reduction in investment value. This cancellation was executed on 9 January 2022.

The Group is also confident that it will be in a good position to honour its obligations with the bank, through the sale of some of its AFS investments or through leveraging with other bankers. Furthermore, the Group has support of its related parties. In this respect, the Group did not require immediate cash to execute its activity, hence the liquidity risk was minimal, if at all. Any new investment projects shall be financed in new cash-rounds through fresh capital from new and/or existing members or through bank financing.

21.3 Market risk

Market risk is the risk that the fair value cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk. It arises in all areas of the Group's activities and is managed by a variety of different techniques as detailed below.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

21. FINANCIAL RISK MANAGEMENT (continued)

21.3 Market risk

The objective of the Group is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the Group's strategy. The major risk here is the movement of equity prices, particularly in this sector of business. The risk is mitigated by the fact, that management make a selection of investments built from experience and by determining the market risk commensurate with the return on them. Whilst it is Management's responsibility and commitment to focus on such unpredictability of the markets, these are minimized as much as possible. The selected investment portfolio of the Group, with its strong performance and its strong demand, gives the Group confidence of a stable position that is expected to reap even higher results in the foreseeable future.

The Group's Advisory Board is being structured to take these considerations into account and with the sole aim to decide when, where and how to purchase and/or sell financial assets. If one considers the economic factors that were brought into play during the year under review, the company is acting prudently when carrying out investments in digital assets and is carrying out detailed scrutiny on quality digital assets including Bitcoin and Ethereum. This is being done in the most prudent and strategic way possible in line with the liquidity required by the company.

21.3.1 Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument would fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk is limited to the variable interest rate of interest-bearing loans and borrowings. Cash and cash equivalents issued at variable rates expose the Group to cash flow interest rate risk. Management monitors the level of floating rate bank balances as a measure of cash flow risk taken on.

Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period is to be immaterial, in view of the Group's limited exposure to bank and borrowings. Through strong business relations with the bank, together with the strong and profitable investments that are being hypothecated, the Group managed to negotiate a favourable interest rate. Such scenario is expected to continue in the coming months.

21.3.2 Currency risk

Exchange-rate risk arises from the change in price of one in relation to another and the fair value or a future cash-flow transaction emanating from the sale or purchase of a financial instrument where exchange rate fluctuations may occur. Since one of its major investments lies across national border and this is predominantly in US Dollars, the Group recognises that this might create an unpredictable gain or loss. At the reporting rate the exchange date has moved in favour of the Group. The Group intends to mitigate currency risk by investing predominantly in Euro and in US Dollars, both of which are stable currencies. Further, during the year under review, the Group has also embarked to invest in hedge funds to mitigate the exposure to risk arising from transactions denominated in US Dollars. The investments held that are denominated in US Dollars are expected to accrue higher returns than the currency risks that may arise.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

21. FINANCIAL RISK MANAGEMENT (continued)

21.3.4 Other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group is exposed to equity price risks arising from the holding of equity instruments classified either as available for sale or at fair value through profit or loss. The carrying amounts of financial instruments at the reporting date which could potentially subject the Group to equity price risk are disclosed in notes 13 and 14 to the financial statements.

The Group counteracts the price risk by adopting an investment strategy of investing in start-up companies with a potential for growth and consequent increase in their market prices.

Furthermore, digital asset prices are volatile and affected by various factors including global supply and demand, interest rates, exchanges rates, inflation or deflation and the political and economic conditions. Supply and demand for such assets rapidly change from time to time affecting by regulations and general economic trends. A decline in the market prices of digital assets could impact the Group's future operations. The consultants engaged by the Company constantly monitors the exposure in response to the market conditions.

COVID-19 could potentially impact global stock markets. However, the Group foresees that its portfolio is already catering for this through its investment strategy in the composition of the investee entities that are already proving solid financial fundamentals. The major drivers are expected to continue to perform strongly in the future and to increase in value due to their decentralized operations in blockchain models, social media, as well as having the largest data centre in the world. Such factors are the current driving-force of these companies which are working in a decentralized manner under the present situation.

21.3.5 Other risks

In view of the inherent volatility of the assets invested in by the Group, the management will take safeguards not to inflate unnecessarily and incorrectly the valuations thereof. Coupled with this approach, there is also risk on fair value computation risk in view of the fact that investees may either not be prompt in providing information or the financial information provided does not carry an independent assurance verification. Consequently, the Management takes responsibility in adopting proper tools in valuing its financial assets.

After year end, the Group exposed itself to a collateral risk with related party, which comprises 574,000 shares in a quoted equity investment which had a Market value of € 44 Million at year end (€ 18 Million at reporting date). Significant fluctuations in the market prices have affected the value of the investment which continues to be monitored in the light of market conditions. This could give rise to further exposure to the Group in view of the decreased values on the investments therein stated and with possible claims on the collateralized assets.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

22. CAPITAL RISK MANAGEMENT

The Group's capital management objectives are to ensure its ability to continue as a going concern and to provide an adequate return to shareholders.

The Group's equity, as disclosed in the statement of financial position, constitutes its capital. The Group's capital structure is monitored by the Directors with appropriate reference to its financial obligations and commitments arising from operational requirements. In view of the nature of its activities, the capital level as at the end of the reporting period is deemed adequate by the Group.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's accounting policy for determining the fair value of financial instruments is described in notes 2.2.1, 2.2.2, 2.2.3 and 2.2.12 to the financial statements. For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair values measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices unadjusted in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, whether directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 inputs are observable inputs for the asset or liability. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs that have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or adjustments are required to reflect differences between the instruments.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines when transfers are deemed to have occurred between Levels in the hierarchy at the end of each reporting period.

Basis of valuing financial assets and liabilities measured at fair value:

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

| Assets | Level 1 € | Level 2 € | Level 3 € | Total € |
|-----------------|--------------------|--------------|--------------------|--------------------|
| AFS investments | 155,109,413 | - | 252,352,917 | 407,462,330 |
| HFT investments | 1,916,290 | - | 92,199 | 2,008,489 |
| | <u>157,025,703</u> | <u>-</u> | <u>252,445,116</u> | <u>409,470,819</u> |

The instruments classified within Level 3 comprise HFT and AFS investments. In this respect, it has to be ascertained whether the financial asset is active or not in the market, hence obtaining financial information from the respective investees. Whilst acknowledging that valuations only provide an estimate of true value, yet the Group ensures to be closest to accuracy by selecting the best practices in a valuation technique.

As contemplated in IFRS 13, the fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the financial asset. Therefore, our valuation of 'Fair Value' is the price that a financial asset can be sold at in an orderly transaction in a market on that date under market conditions, irrespective as to whether the price is observable on an Exchange or using a valuation approach.

During the year under review, the Group held shares that are not easily observable in arriving at fair value. Such shares are not traded in the open market whilst the financial information available from the investee lacks detail. However, the Group holds information where shares are being traded much higher than the original cost. The Group is unable to carry out an exhaustive search to identify the market price but intends to rest on the latest financing-rounds in the investee at a discounted price for prudence sake, together with other observable inputs.

For reasons explained above, the Group has no option but to apply level 3 by making its utmost in maximising the use of relevant observable inputs. In applying level 3, the Group always asks:

- Is there an identical item held by another party as an asset?
- If in the affirmative, the Group will use the market value of the market-participant that holds the identical item;
- The Group, always obtains financial information directly from the investee to compare the Net Asset Value against the market value of the market-participant.

IFRS 13 does not preclude the Group from using our own collected data.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

24. SUBSEQUENT EVENTS

The following subsequent events took place, as follows:

- Through a resolution passed during a Board Meeting held on 30 May 2022, the Group approved the repurchase of own shares not exceeding 10% of the issued share capital. Share purchase price shall be at any price but which will not exceed € 15 per share.
- During the year under review, the Group purchased shares in AFS investments against which a capital creditor resulted at year end. On 9 January 2022, both contractual parties agreed to transfer back the assets to the third party with corresponding cancellation of the liability. Fair value increases of € 1.3 Million were included in Other Comprehensive Income for the year under review which will reverse when the shares are disposed after year end.

25. CAPITAL COMMITMENTS

During 2020, the Company entered into a subscription agreement to purchase Convertible Notes of € 7,505,630 (2020 - € 7,923,080). A payment of € 375,281 has already been affected as disclosed in note 15 to the financial statements, with the remaining balances to be subscribed in the coming years.

Further, the Company committed itself to acquire new shares in AFS investments to the value of USD 1,520,000 through new subscribed hedge funds.

CRYPTOLOGY ASSET GROUP P.L.C.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cryptology Asset Group p.l.c - Report on the Audit of the Consolidated Financial Statements.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Cryptology Asset Group p.l.c, set out on pages 6 to 45, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of comprehensive income, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements show a true and fair view of the financial position of the Group as at 31 December 2021 and of its financial performance and cash flow for the year then ended in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Companies Act (Cap. 386).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 a description of 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.

We summarise below the key audit matters, together with our response by way of the audit procedures we performed to address that matter during our audit, and key observations arising with respect to such risks of material misstatement.

CRYPTOLOGY ASSET GROUP P.L.C.

INDEPENDENT AUDITORS' REPORT

Key Audit Matters (continued)

Fair Value Measurement of Available-for-Sale Investments- changes in fair value reflected in Other Comprehensive Income

Accounting policy 2.2.12 to the financial statements and Notes 13 and 23 for further disclosure

The company's policy for investing in financial instruments is dependent on the experience of the founders, who together with other influential investors, have set aside sufficient funds to finance new projects and innovative products.

Included within the Group's AFS investments of € 407,462,330, there are investments of € 252,352,917 which were invested in securities in jurisdictions that do not require extensive financial reporting. The Company could not value the said AFS investments on the basis of Level 1 and Level 2 inputs since these investments are not quoted on a listed market. Consequently, the valuation of the said securities is determined by using appropriate observable and unobservable market data, and other inputs extracted from determinable sources, which gives rise to an element of risk in determining the fair value. The Level 3 inputs resulted in net fair value gains of € 37,560,057, reflected in OCI on these investments. We have considered that this basis of valuation is a Key Audit Matter mainly as a result of the following:

- unaudited financial information of the investee undertakings;
- observable inputs limited to selective investors; and
- inherent volatility of the underlying assets of the investee undertakings.

Due to the extent of such inherent estimation uncertainty underlying the valuation of the investments, the amounts recognised in the OCI may result to be different than amounts determinable should Level 1 and Level 2 inputs have been applied. These differences may be material.

How our audit addressed the Key Audit Matter

We have evaluated the appropriateness of the methodologies used in estimating the valuation arising on the AFS investments as part of our substantive procedures as follows:

- We analysed the underlying assets of the investee companies through a combination of valuation techniques. In applying the valuation techniques, data inputs and financials of the investee companies were analysed in a manner to factor the market changes in the underlying assets and other sensitive market variations in the valuation. Impairment tests were carried out on the sub-classification of assets to take into account the inherent volatility of the balances.
- We determined the net asset value, following impairment tests carried out, and compared to other observable inputs, including share prices for other share transfers effected subsequent to the Group's acquisition of the shares.

CRYPTOLOGY ASSET GROUP P.L.C.

INDEPENDENT AUDITORS' REPORT

Key Audit Matters (continued)

- The share price is representative of the price that the financial asset can be sold at in an orderly transaction in a market on that date under normal market conditions, irrespective as to whether the price is observable on a listed market or using a valuation technique.
- Consequent to the above, in verifying the fair value, we relied on the share prices sought in latest financing-rounds in the investee at a discounted price, together with other observable inputs. However, this could only be applied and accepted, if the share prices for similar investors investing in the same investee companies could be substantiated to underlying company valuations and future company potential.

Digital Assets Held - inventories

Accounting policy 2.2.4 to the financial statements and Note 14 to the financial statements

The Group holds its own digital assets in digital wallets managed by third-party custodians. The Group's rights to its digital assets require the Group to use complex processes and systems to access and transact digital assets.

We identified the Group's use of complex processes and systems to access and transact its own digital assets as a critical audit matter because the underlying processes and systems are complex.

How our audit addressed the Key Audit Matter

Our audit procedures related to the Group's use of complex processes and systems to access and transact its digital assets included the following:

- We obtained evidence of management's ability to access and transact assets held in digital wallets through custodians proprietary audit tools and relevant internal controls as implemented by the company.
- We obtained confirmations from the third-party custodians.

Other Information

The directors are responsible for the other information. The other information comprises the information disclosed in the directors' report.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated.

With respect to the directors' report, we also considered whether the directors' report includes the disclosures required by Art. 177 of the Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

CRYPTOLOGY ASSET GROUP P.L.C.

INDEPENDENT AUDITORS' REPORT

Other Information (continued)

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with the Companies Act (Cap.386).

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report. We have nothing to report in this regard.

Responsibilities of the Management and Those Charged with Governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU, and in accordance with the Companies' Act, 1995. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In preparing the financial statements, the directors are responsible for assessing the Group'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 the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors are also responsible for overseeing the financial reporting process.

Auditors' 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

CRYPTOLOGY ASSET GROUP P.L.C.

INDEPENDENT AUDITORS' REPORT

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or the business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal and Regulatory Requirements

Matters on which we are required to report by exception by the Act

Pursuant to articles 179(10) and 179(11) of the Companies Act, we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit.
- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.

CRYPTOLOGY ASSET GROUP P.L.C.

INDEPENDENT AUDITORS' REPORT

Report on Other Legal and Regulatory Requirements (continued)

We have nothing to report to you in respect of these responsibilities.

The principal authorised to sign on behalf of Parker Russell Turner on the audit resulting in this independent auditors' report is Mr. Arthur Douglas Turner.

Mr. Arthur Douglas Turner – Partner
On behalf of Parker Russell Turner

“Parker Russell Turner”
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30 June 2022