

CRYPTOLOGY ASSET GROUP P.L.C

Company Registration No: C 84355

CONSOLIDATED ANNUAL REPORT

For the period from 10 January 2018
to 31 December 2018

CRYPTOLOGY ASSET GROUP P.L.C

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CRYPTOLOGY ASSET GROUP P.L.C.

DIRECTORS' REPORT (Continued)

Investment Strategies

The Group's Advisory Board is composed of three 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.

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.

Other future considerations

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 be investing in key human resource talents to enhance its corporate governance and to assist it 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.

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

There were no significant events and transactions which took place after the financial reporting date which would require adjustment to this annual report and financial statements. Further disclosures in relation to subsequent events are set out in Note 24 to the financial statements.

Results

The directors report a loss for the period after taxation of € (1,569,221) and total comprehensive income of € 7,020,304 on revenue of € 2,648,098. The accumulated losses will be carried forward to next year for offsetting against first available future profits.

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 period ended 31 December 2018 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)

Statement of directors' responsibilities (considerations)

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 2018 and of its financial performance and its cashflows for the period 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.

Auditors

Parker Randall 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.

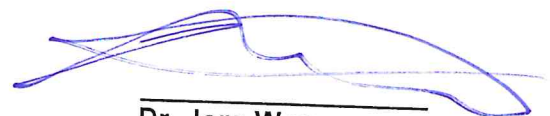
BY ORDER OF THE BOARD



Mr. Jefim Gewiet
Managing Director

Registered Office:
Block A, Apt 12, Il-Piazzetta
Tower Road,
Sliema,
Malta

17 December 2019



Dr. Jorg Werner
Director


CRYPTOLOGY ASSET GROUP P.L.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018

		The Group €	Holding Company €
ASSETS			
Non-current assets	Notes		
Property, plant and equipment	9	977	977
Intangible assets	11	14,567	12,546
Investment in subsidiaries	12	-	480
Available-for-sale investments	13	36,473,830	36,473,830
		<u>36,489,374</u>	<u>36,487,833</u>
Other non-current assets			
Deferred tax asset	10	719,759	719,759
Current Assets			
Held-for-trading investments	14	188,233	188,233
Trade and other receivables	15	90,954	8,564
Cash and cash equivalents		212,689	198,137
		<u>491,876</u>	<u>394,934</u>
TOTAL ASSETS		<u>€ 37,701,009</u>	<u>€ 37,602,526</u>
EQUITY AND LIABILITIES			
Equity			
Share capital			
Share premium	16 (a)	2,650,000	2,650,000
Retained earnings	16 (b)	20,644,612	20,644,612
	16 (c)	7,020,304	6,990,603
		<u>30,314,916</u>	<u>30,285,215</u>
Non-Current Liabilities			
Trade and other payables	17	6,732,078	6,732,078
Current Liabilities			
Trade and other payables	18	654,015	585,233
TOTAL EQUITY AND LIABILITIES		<u>€ 37,701,009</u>	<u>€ 37,602,526</u>

The notes on pages 5 to 38 form an integral part of the financial statements. These Financial Statements were approved by the directors on 17 December 2019 and signed on its behalf by:


Mr. Jefim Gewiet
Managing Director


Dr. Jorg Werner
Director

CRYPTOLOGY ASSET GROUP P.L.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from 10 January to 31 December 2018

	Notes	The Group €	Holding Company €
CASH FLOW FROM OPERATING ACTIVITIES			
Cash used in operations	19 (a)	(1,894,938)	(1,912,532)
Interest paid		(12,925)	(12,096)
Interest received		890	888
NET CASH USED IN OPERATING ACTIVITIES		<u>(1,906,973)</u>	<u>(1,923,740)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of plant and equipment	19 (b)	(1,303)	(1,303)
Purchase of intangible assets	19 (b)	(21,420)	(18,725)
Purchase of investments in subsidiaries		-	(480)
Purchase of available-for-sale investments		(27,434,329)	(27,434,329)
NET CASH FLOW USED IN INVESTING ACTIVITIES		<u>(27,457,052)</u>	<u>(27,454,837)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Issue of share capital		2,650,000	2,650,000
Issue of share premium		20,644,612	20,644,612
Exchangeable note	17	6,282,102	6,282,102
NET CASH GENERATED FROM FINANCING ACTIVITIES		<u>29,576,714</u>	<u>29,576,714</u>
Net movement in Cash and Cash Equivalents		212,689	198,137
Cash and Cash Equivalents at the beginning of Year	19 (c)	-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	19 (c)	<u>€ 212,689</u>	<u>€ 198,137</u>

The notes form an integral part of these financial statements.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the period from 10 January to 31 December 2018

1.2 Consolidation (continued)

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.

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 its two subsidiaries, which are set out in Note 12. 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 Adoption of new standards during the period ended 31 December 2018

The Group was incorporated during 2018. Therefore, accounting policies reflect any updates in accounting standards which became effective as from 1 January 2018.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 10 January to 31 December 2018

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES

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:

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 10 January to 31 December 2018

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

2.2.3 Equity instruments (continued)

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 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:

- 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 by 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% mark.

2.2.4 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 included 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. Dividends from the investments are recognised in profit or loss when its right to receive the dividend is established.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 10 January to 31 December 2018

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

2.2.6 Intangible assets (continued)

The useful life of intangible assets are assessed to be either finite or infinite. The Group's intangible assets consists of computer software with a finite life. Amortisation is provided for on the straight-line method at rates intended to write of the cost to its residual value over the expected useful life. The annual rates used are as follows:

	%
Computer software	25

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

2.2.7 Impairment of Assets

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.

2.2.8 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.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 10 January to 31 December 2018

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

2.2.11 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.

2.2.12 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.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 10 January to 31 December 2018

2.2 PRINCIPAL ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

2.2.14 Revenue recognition (continued)

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 in the scope of IFRS 9 and then applies IFRS 15 to the residual.

2.2.15 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.

2.2.16 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. 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.

2.2.17 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.

2.2.18 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.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period from 10 January to 31 December 2018

9. PROPERTY, PLANT AND EQUIPMENT

	Computer and other office equipment €
COST	
Additions	1,303
DEPRECIATION	
Charge for the period	326
NET BOOK VALUE	
At 31 December 2018	€ 977

10. DEFERRED TAXATION

	At 10 January 2018	Recognised in profit or loss	At 31 December 2018
Unutilised tax losses	€ -	€ 719,759	€ 719,759

11. INTANGIBLE ASSET

	The Group €	Holding Company €
COST		
Additions	21,420	18,725
AMORTISATION		
Charge for the period	6,853	6,179
NET BOOK VALUE		
At 31 December 2018	€ 14,567	€ 12,546

12. INVESTMENT IN SUBSIDIARIES – Holding Company

Cost	€
As at 1 January	-
Additions during the year	480
As at 31 December	€ 480

As at 31 December 2018, the Group held the following equity interest:

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 10 January to 31 December 2018

13. AVAILABLE-FOR-SALE INVESTMENTS

Unquoted equity and other non-fixed income instruments measured at FVOCI (available-for-sale as at 31 December 2018):

	The Group €	Holding Company €
<i>AFS Investments:</i>		
Additions (at cost)	21,152,227	21,152,227
Unrealized gain on exchange	915,555	915,555
Fair Value Movements (Note a)	7,673,970	7,673,970
	<u>29,741,752</u>	<u>29,741,752</u>
<i>Asset-Managed Investment (Note b):</i>		
Additions (at cost)	6,282,102	6,282,102
Unrealized gain on exchange	449,976	449,976
	<u>6,732,078</u>	<u>6,732,078</u>
Total Available-for-sale investments at period end	<u>€ 36,473,830</u>	<u>€ 36,473,830</u>

Notes:

(a) Fair Value Movements

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.

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:

- 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;

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 10 January to 31 December 2018

14. HELD-FOR-TRADING INVESTMENTS

Financial assets designated at FVTPL consist of the following equity instruments:

	The Group €	Holding Company €
<i>Quoted equity investments</i>		
Additions	4,521,911	4,521,911
Disposals at carrying amount	(2,848,553)	(2,848,553)
Realised loss on purchase of investment	(1,229,073)	(1,229,073)
Decrease in fair value of investments	(244,702)	(244,702)
Unrealized loss on exchange	(11,350)	(11,350)
Total quoted held-for-trading investments	€ 188,233	€ 188,233

15. TRADE AND OTHER RECEIVABLES

	The Group €	Holding Company €
VAT recoverable	13,816	8,564
Prepayments and accrued income	77,138	-
	€ 90,954	€ 8,564

16. SHARE CAPITAL AND RESERVES – Holding Company

(a) Share Capital

<u>Authorised</u>	
2,650,000 Ordinary shares of € 1 each	€ 2,650,000
<u>Issued, allotted and 100% paid up</u>	
2,650,000 Ordinary shares of € 1 each	€ 2,650,000

(b) Share Premium

Share premium	€ 20,664,612
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Share premium represents the excess paid by the shareholders over the nominal value of the shares, being € 1 per share.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO CONSOLIDATED THE FINANCIAL STATEMENTS (continued) For the period from 10 January to 31 December 2018

19. NOTES TO THE CASH FLOW STATEMENT

(a) Cash used in operations

	The Group €	Holding Company €
(Loss) before taxation	(2,269,837)	(2,318,681)
Adjustment for:		
Depreciation	326	326
Amortisation	6,853	6,179
Interest receivable	(890)	(888)
Interest paid	12,925	12,096
Unrealized losses on exchange	11,350	11,350
Operating loss before working capital	(2,239,273)	(2,289,618)
Increase in held-for-trading investments	(199,583)	(199,583)
Increase in trade and other receivables	(90,954)	(8,564)
Increase in payables	634,872	585,233
Cash used in operating activities	€ (1,894,938)	€ (1,912,532)

(b) Plant and equipment

During the period under review the Group purchased plant and equipment amounting to € 1,303, and intangible assets of € 21,420 as disclosed in notes 9 and 11 to the financial statements. These purchases were paid for in cash.

(c) 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:

	The Group	Holding Company
Cash at bank	€ 212,689	€ 198,137

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 10 January to 31 December 2018

21. FINANCIAL RISK MANAGEMENT (continued)

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, in this respect, did not invest in interest-bearing securities during the period under review.

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:

	Notes	€
Class of financial assets – carrying amounts:		
Held-for-trading investments		
Trade and other receivables	14	188,233
Cash and cash equivalents	15	90,954
	19	212,689
		<hr/>
		491,876

During the period under review, the Group held non-cash current assets that were not subject to any risk for liquidating them. All traded financial assets and accounts receivables were eventually liquidated in 2019, hence resulting in no provisions for losses during the reporting period.

Loans provided to the Group where all honoured and paid in full during 2019 rendering a risk-free lending position to third parties. 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.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 10 January to 31 December 2018

21. FINANCIAL RISK MANAGEMENT (continued)

21.2 Liquidity risk (continued)

	Note	Current Due within one year €	Non-Current Due between two to five years €
Financial liabilities:			
Trade and other payables	18	31,047	6,732,078
Loan advances from related undertakings	18	600,000	-
		<u>€ 631,047</u>	<u>€ 6,732,078</u>

In relation to financial liabilities falling due within two to five years, these relate to the Exchangeable Note supported by AFS investments which are closely monitored for their valuation. On the expiration of the exchangeable note, the AFS investments will be transferred in compensation for the financial obligation, not resulting in liquidity risks to the Group.

In this respect, the Group or any of its subsidiaries, 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.

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.

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 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.

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.

CRYPTOLOGY ASSET GROUP P.L.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 10 January to 31 December 2018

21. FINANCIAL RISK MANAGEMENT (continued)

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.

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 the Group's 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.

CRYPTOLOGY ASSET GROUP P.L.C.

INDEPENDENT AUDITORS' REPORT

Key Audit Matters (continued)

Fair Value Measurement of Available-for-Sale Investments:

Available-for-sale Investments – changes in fair value reflected in Other Comprehensive Income

Reference is made to Accounting policy 2.2.12 to the financial statements and Notes 13 and 23 for further disclosure. The Group'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.

The Group's financial instruments for the period under review were predominantly invested in securities in jurisdictions that do not require extensive financial reporting. The Group does not value its 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 € 7,673,970, reflected in Other Comprehensive Income (OCI). 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. 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 conditions, irrespective as to whether the price is observable on a listed market or using a valuation technique.

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INDEPENDENT AUDITORS' REPORT

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.
- 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.