

**Registered Number: 015310V (Isle of Man)**

**KR1 PLC (formerly Kryptonite 1 PLC)**

**Annual Report and  
Financial Statements**

**For the year ended 31 December 2018**

# KR1 PLC (formerly Kryptonite 1 PLC)

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# KR1 PLC (formerly Kryptonite 1 PLC)

## Company Information For the year ended 31 December 2018

**Directors:** S Corran  
G McDonaugh  
R Williams  
J Woodgate  
K Van Schreven

**Secretary:** S Corran

**Registered office:** 4th Floor  
Queen Victoria House  
41-43 Victoria Street  
Douglas  
Isle of Man  
IM1 2LF

**Registered number:** 015310V (Isle of Man)

**Auditors:** Greystone LLC  
Chartered Accountants  
18 Athol Street  
Douglas  
Isle of Man  
IM1 1JA

# **KR1 PLC (formerly Kryptonite 1 PLC)**

## **CEO's Report For the year ended 31 December 2018**

I am pleased to present the audited final results of the Company for the twelve months ended 31 December 2018.

Technology adoption cycles are often volatile and full of uncertainty. The highs and lows are driven by the market trying to judge the impact new technology will have on society and we lurch between hope and fear as the size and scale of the disruption begins to take shape. It is a testament to how powerful Satoshi's invention has become, that the dials of hope and fear in the blockchain ecosystem are constantly turned up to eleven and over the last year we have seen once again what crypto means by a 'correction'. Bitcoin entered a deep and unforgiving 54-week bear market and hit a low of around \$3,100, an 84% correction from the highs of 2017.

In line with this, the last year has presented a new set of challenges for KR1 as a company and although we sold positions at the heights of 2017, placing us in a very strong position for the long-term future, we still had to navigate falling prices across the board, a lack of liquidity, and a temporary shift away from or slowdown of initial token offerings (ICOs). What remains is an array of new approaches from regular equity raises and 'SAFT' agreements (Simple Agreement for Future Tokens) to security token offerings and initial exchange offerings (IEOs). Holding and managing positions in digital assets allows KR1 to function at full capacity as a capital allocator in a space that moves as fast as the crypto economy. We cannot yet fully grasp the true extent of how this foundational technology can be applied to society, and hence, as we explore the possibilities, there are fascinating opportunities at every turn.

As the market began to correct, we knew the rate of innovation within the development community would not slow down. It, therefore, became our core focus to continue finding and investing in great projects, especially as valuations began to come down to more reasonable levels. In the depths of the bear market, great opportunities were becoming unmissable opportunities and so to take full advantage, we decided to raise new capital to bolster our investment capabilities and we successfully raised £785,000 at a price of 5p per share in December 2018. Given the crypto market conditions at the time, this sum was above expectations and shows that we have garnered great support from our early investors as well as articulated our vision successfully to new supporters.

Since we first launched KR1 in early 2016 to take advantage of the emerging crypto economy, hundreds of other funds have entered the market, raising sizable sums, scaling quickly and deploying capital at the inflated valuations seen at the peak of 2017. Whether purchasing liquid digital assets, future-token contracts or equity, many of those funds that emerged after KR1 have either experienced major withdrawals from investors this past year or are heavily underwater since inception. Being late in the cycle can effectively end an endeavour before it begins. However, a portfolio like KR1's, built from the very start of the token economy, with some investments dating back into 2016 and early 2017, and with projects coming to market at regular intervals, enables us to draw down certain positions that are in profit while maintaining positions that are currently below where we invested in them. This has proven a great strategy even in the last year in the crypto markets as we did not miss out on any opportunity and were still able to stick with long-term projects alongside their product roadmaps.

During the bear market, numerous institutions and crypto banking providers as well as OTC desks started dealing in assets other than just Bitcoin and we have now on-boarded with many of them to ensure seamless crypto to fiat transactions. Also, a lot of new, more credible 'USD-pegged' stablecoins have launched that are fully compliant in various jurisdictions and we also now have the first versions of trust-less/decentralised stablecoins that have massive sums of collateral backing them. Our capabilities to manage risk within the portfolio are now greatly enhanced.

# **KR1 PLC (formerly Kryptonite 1 PLC)**

## **CEO's Report**

**For the year ended 31 December 2018**

We decided before the downturn to keep the team small and nimble and this decision has meant our cost base has remained relatively low during the 'Crypto Winter' months. Further, just as positive sentiment returned to the market more recently, just a few weeks before the release of our results, we had the eagerly awaited launch of the Cosmos network, one of our earliest investments. This has given us a major boost, not just for the significant price that the token has achieved but also as the first fully functioning Proof of Stake blockchain. With that, we are now generating a yield (staking yields) from this particular investment as the network rewards participants for actively securing the network and validating transactions. It is early days, but the current projections, based on the performance of the protocol so far, suggest this one holding alone could generate revenues which go a long way to covering the annual costs of the Company.

When considered alongside the fact that our other two largest investments, Dfinity and Polkadot, are also Proof of Stake chains that may generate similar yields, we believe we have managed to place ourselves at the heart of the next shift in the lifecycle of this technology and we are very excited for what is to come.

Focusing on another investment, we knew that a secure and battle-tested custody solution would be an essential requirement to get major financial institutions to enter the crypto space. VoIt represented the best of both worlds for us, a start-up at the perfect stage for investment yet fully operational with the very best in class security operations. Our equity holding in VoIt saw a great uplift in a significant funding round reported in the last year as they are continuing to sign up clients, increasing assets under custody and launching new product lines including lending, OTC, crypto to fiat exchange and staking, as well as a combination of 'hot', 'warm', 'cold' and 'frozen' crypto storage solutions. We are excited for their roadmap ahead and will continue to store a majority of our assets with them going forward.

It may well be too early to call, but we have recently seen a major shift in sentiment, driving the price of Bitcoin upwards to prices not seen for half a year or more. Should this indeed be the shift from a bear market to a bull market, then this new asset class is in a very strong position to find new highs and establish native digital assets as one of the major alternative asset classes in the financial world.

This is the first time that permission-less, global assets have been available to so many. Whether it is on cheap mobile phones with internet access in the developing world or from a fancy trading station well equipped with a Bloomberg terminal in New York, it is still the same asset. Add to this picture the fact that in 2019, major entities from the legacy financial system are getting involved, including Fidelity, JP Morgan, CME, NYSE, Yale Endowment and Harvard, as well as some of the biggest tech giants such as Facebook.

We are more confident than ever that digital assets will power a new wave of technologies that are the logical next step in an increasingly digital world that all of us participate and live in and where the things we interact with conversely interact with each other autonomously. This future digital world should be based on the premises of trustlessness, independent verifiability, the laws of mathematics and decentralisation where no single point of failure occurs. Our job at KR1, on behalf of our shareholders, has always been to capture some of those networks on which the digital world will be built upon and we look forward with great optimism to the future of this emerging technology.



**George McDonough**  
**CEO**

Date: 31 May 2019

# **KR1 PLC (formerly Kryptonite 1 PLC)**

## **Strategic Report For the year ended 31 December 2018**

The directors present their strategic report for the year ended 31 December 2018.

### **Review of business**

The results for the year and financial position of the company are as shown in the annexed financial statements.

Given the detailed review of the business is given in the CEO's Report, the company's directors are of the opinion that a further analysis using Key Performance Indicators is necessary for an understanding of the development, performance or position of the business.

### **Principal risks and uncertainties**

KR1 plc's strategy is to purchase digital assets and private equities in decentralised technology companies. This is a new and rapidly changing sector with a significant degree of risk. The company relies heavily on the expertise of the directors in the sector and aims to diversify its portfolio to minimise overall risks.

We refer to our financial risk management objectives and policies in note 10 to the accounts.

### **On behalf of the board:**



**George McDonough**

Date: 31 May 2019

# **KR1 PLC (formerly Kryptonite 1 PLC)**

## **Report of the Directors For the year ended 31 December 2018**

The directors present their report with the financial statements of the company for the year ended 31 December 2018.

### **Principal activity**

The principal activity of the company in the year under review was that of an investment company trading in the blockchain technology sector.

### **Dividends**

No dividends will be distributed for the year ended 31 December 2018 (2017:£nil).

### **Future developments**

These are discussed fully in the CEO's Report.

### **Events since the end of the year**

Information relating to events since the end of the year is given in the notes to the financial statements.

### **Directors**

The directors shown below have held office during the whole of the period from 1 January 2018 to the date of this report.

S Corran  
G McDonagh  
J Woodgate  
R Williams  
K Van Schreven

### **Corporate governance**

The directors recognise the importance of sound corporate governance and intend to observe the requirements of the Code of Best Practice, as published by the Committee on Corporate Governance (commonly known as the "Combined Code") to the extent they consider appropriate in light of the Company's size, stage of development and resources. At present, due to the size of the Company, audit, remuneration and risk management issues will be addressed by the Board supported by the Company's independent advisors. As the Company grows the Board will consider establishing an audit and management committee and will consider developing further policies and procedures which reflect the principles of good governance and the Combined Code.

### **Strategic Report**

A separate Strategic Report has been prepared (page 4) and which contains information regarding the Company's exposure to risk and its risk management policies and objectives.

# KR1 PLC (formerly Kryptonite 1 PLC)

## Report of the Directors For the year ended 31 December 2018

### Substantial interests

On 31 December 2018, the following were registered as being interested in 3% or more of the Company's ordinary share capital:

|   | <b>31 December<br/>2018 Ordinary<br/>Shares of<br/>0.19p each</b> | <b>Percentage of<br/>Issued Share<br/>Capital</b> |
|---|---|---|
| Vidacos Nominees Limited                | 33,289,473  | 26.24%  |
| Lynchwood Nominees Limited              | 9,086,837   | 7.6%  |
| Hargreaves Lansdownn (Nominees) Limited | 8,756,190   | 6.9%  |
| R B Rowan                               | 6,209,649   | 4.89%   |
| Pershing Nominees Limited               | 5,032,893   | 3.97%   |
| Adam Powell                             | 5,000,000   | 3.94%   |
| Beaufort Nominees Limited               | 4,210,528   | 3.32%   |
| The Bank of New York (Nominees) Limited | 4,000,000   | 3.15%   |

### Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland as applicable to an Isle of Man Company. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with Financial Reporting Standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Statement as to disclosure of information to the auditors

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

# **KR1 PLC (formerly Kryptonite 1 PLC)**

**Report of the Directors  
For the year ended 31 December 2018**

## **Auditors**

Greystone LLC, being eligible, will be proposed for appointment at the forthcoming Annual General Meeting.

**On behalf of the board:**

A handwritten signature in black ink, appearing to read 'G McDonough', written in a cursive style.

**G McDonough - Director**

Date: 31 May 2019

# **KR1 PLC (formerly Kryptonite 1 PLC)**

## **REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KR1 PLC (FORMERLY KRYPTONITE 1 PLC)**

### **Opinion**

We have audited the financial statements of KR1 Plc (the ‘company’) for the year ended 31 December 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company’s affairs as at 31 December 2018 and of its result for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;

### **Basis for opinion**

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

This report is made solely to the company’s members, as a body. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members, as a body, for our audit work, for this report, or for the opinion we have formed.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors’ use of the going concern basis of accounting in the preparation of the financial
- statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

# KR1 PLC (formerly Kryptonite 1 PLC)

## REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KR1 PLC (FORMERLY KRYPTONITE 1 PLC)

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, 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.

| <b>Key audit matter</b>   | <b>How our audit addressed the key audit matter</b>   |
|---|---|
| <b>Valuation of digital assets</b><br>At 31 December 2018 the company had digital assets valued at £1.1m as disclosed in note 8. As the carrying value of these digital assets represents a significant asset of the company, it was necessary to assess whether the carrying value of the assets exceed their fair value. Additionally, the inherent volatility of digital assets present additional risks of material misstatement, with values changing significantly within a single day. | We assessed the valuation of digital assets, using CoinMarketCap.com to re-calculate the valuation as at the year end, using the closing rates for the 31 December 2018.<br><br>Having completed our work in this area, we did not identify any material misstatements regarding the carrying value of the digital assets.  |
| <b>Key audit matter</b>   | <b>How our audit addressed the key audit matter</b>   |
| <b>Existence of digital assets</b><br>As noted above, at 31 December 2018 the company had digital assets valued at £1.1m. We considered the existence of and rights attached to digital assets as an area at risk of material misstatement due to their carrying value as well as their intangible nature.  | We traced the digital assets using the company's unique private keys to the addresses in which the digital assets are held to confirm their existence and rights attached to them.<br><br>Having completed our work in this area, we did not identify any discrepancies with regards to existence of digital assets.  |
| <b>Key audit matter</b>   | <b>How our audit addressed the key audit matter</b>   |
| <b>Valuation of equity and other investments</b><br>At 31 December 2018 the company had equity and other investments of £3.9m as disclosed in note 8. As the carrying value of these investment assets represents a significant asset of the company, it was necessary to assess whether the carrying value of the assets exceed its fair value. In addition, the valuation of these investments involve significant management judgement as disclosed in note 9.                             | We critically assessed management's assumptions and techniques used in their valuation of equity and other investments for reasonableness and having confirmed the reasonableness of management's assumptions and techniques applied.<br><br>Having completed our work in this area, we did not identify any material misstatements regarding the carrying value of the equity and other investments. |

## **KR1 PLC (formerly Kryptonite 1 PLC)**

### **REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KR1 PLC (FORMERLY KRYPTONITE 1 PLC)**

#### **Our application of materiality**

The scope and focus of our audit was influenced by our assessment and application of materiality. We define materiality as the magnitude of misstatement that could reasonably be expected to influence the readers and the economic decisions of the users of the financial statements. We use materiality to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Due to the nature of the company we considered digital asset investments and related gains/(losses) along with equity and other investments to be the main focus for the readers of the financial statements, accordingly this consideration influenced our judgement of materiality. Based on our professional judgement, we determined materiality for the company to be £81,000, based on 1.0% of gross assets.

On the basis of our risk assessments, together with our assessment of the overall control environment, our judgement was that performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the company ranged from £54,000 (67% of materiality) for higher risk areas to 62,300 (77% of materiality) for lower risk areas.

We agreed to report to those charged with governance all audit differences in excess of £4,050, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to those charged with governance on disclosure matters that we identified when assessing the overall presentation of the financial statements.

#### **An overview of the scope of our audit**

As KR1 Plc is a standalone entity based in the Isle of Man the scope of our work was an audit of the financial statements of the company. The scope of the audit and audit strategy was tailored by obtaining an understanding of the company, its activities and its control environment. Our planned audit testing was directed accordingly and was focused on areas where we assessed there to be the highest risks of material misstatement.

We obtained an understanding of how the company uses service organisations in its operations and evaluated the design and implementation of relevant controls at the company that relate to the services provided by service organisations. We visited the service organisation engaged by KR1 that provides administration and director services.

We undertook an interim visit to evaluate the internal controls over those risk areas we identified as being relevant to our audit. During the final audit we performed specifically designed audit tests on significant transactions, balances and disclosures.

In order to maintain and reinforce our knowledge of KR1 Plc and the risks it faces the engagement partner and audit manager met with the Isle of Man based director. This dialogue continued throughout the audit process, as we reassessed and re-evaluated audit risks where necessary and tailored our approach accordingly.

# **KR1 PLC (formerly Kryptonite 1 PLC)**

## **REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KR1 PLC (FORMERLY KRYPTONITE 1 PLC)**

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters**

In our opinion, based on the work undertaken in the course of the audit:

- 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 strategic report and the directors' report has been prepared in accordance with applicable legal requirements.

### **Matters on which we report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report. We have nothing to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

# **KR1 PLC (formerly Kryptonite 1 PLC)**

## **REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KR1 PLC (FORMERLY KRYPTONITE 1 PLC)**

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) 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. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

<https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx> This description forms part of our auditor's report.

**Greystone LLC  
Chartered Accountants & Registered Auditors  
Douglas, Isle of Man**

31 May 2019

# KR1 PLC (formerly Kryptonite 1 PLC)

## Statement of Comprehensive Income For the year ended 31 December 2018

|   | <i>Note</i> | <b>2018</b><br>£          | <b>2017</b><br>£         |
|---|-------------|---------------------------|--------------------------|
| <b>Income</b>   |             |                           |                          |
| Realised gain on disposal of digital investments      |             | 2,586,337                 | 4,268,012                |
| FOREX (loss)/gain on cash equivalents                 |             | (997,904)                 | 1,179,777                |
| Unrealised gain/(loss) on investments                 |             | 636,693                   | (8,356)                  |
| Unrealised (loss)/gain on digital investments         |             | (11,716,283)              | 10,828,357               |
| Unrealised gain on loan issued                        |             | 1,665                     | 5,364                    |
|   |             | <u>(9,489,492)</u>        | <u>16,273,154</u>        |
| <b>Expenses</b>                                       |             |                           |                          |
| Administration expenses                               |             | (102,794)                 | (63,710)                 |
| Advisory fees   |             | (136,947)                 | (28,400)                 |
| Audit fees  |             | (19,800)                  | (16,920)                 |
| Bank charges and trading commissions                  |             | (57,188)                  | (134,013)                |
| Branding and promotional expenses                     |             | (107,675)                 | (13,002)                 |
| Commission  |             | (15,850)                  | (75,000)                 |
| Escrow fees   |             | -                         | (5,000)                  |
| Foreign exchange loss                                 |             | (239,059)                 | (474)                    |
| Insurance   |             | (1,129)                   | (2,496)                  |
| Legal and professional                                |             | (89,703)                  | (47,864)                 |
| Office rental   |             | (39,317)                  | (9,216)                  |
| Staff costs   | <b>3</b>    | (455,997)                 | (1,357,746)              |
| Other expenses  |             | -                         | (3,884)                  |
| Travel expenses                                       |             | (102,961)                 | (36,539)                 |
|   |             | <u>(1,368,420)</u>        | <u>(1,794,264)</u>       |
| Taxation  | <b>5</b>    | 2,519,393                 | (2,868,386)              |
| <b>(Loss)/profit for the year</b>                     |             | <u><b>(8,338,519)</b></u> | <u><b>11,610,504</b></u> |
| Other comprehensive income                            |             | -                         | -                        |
| <b>Total comprehensive (loss)/income for the year</b> |             | <u><b>(8,338,519)</b></u> | <u><b>11,610,504</b></u> |
| Earnings per share expressed in pence per share:      |             |                           |                          |
| Basic and diluted                                     | <b>6</b>    | <u>(6.95)</u>             | <u>3.16</u>              |

The notes on pages 17 to 33 form part of these financial statements.

# KR1 PLC (formerly Kryptonite 1 PLC)

## Statement of Financial Position For the year ended 31 December 2018

|                                     | <i>Note</i> | <b>2018</b><br>£        | <b>2017</b><br>£         |
|-------------------------------------|-------------|-------------------------|--------------------------|
| <b>Assets</b>                       |             |                         |                          |
| Fixed asset investments             | 8           | 5,001,073               | 14,214,185               |
| Cash at bank                        |             | 87,387                  | 788,792                  |
| Cash held on trading platforms      |             | 618,150                 | 248,927                  |
| Cash equivalents                    |             | 99,320                  | 2,505,245                |
| Debtors                             | 7           | 819,247                 | 2,804                    |
|                                     |             | <u>6,625,177</u>        | <u>17,759,953</u>        |
| <b>Creditors</b>                    |             |                         |                          |
| Amounts falling due within one year | 11          | (508,172)               | (4,208,376)              |
| <b>Net current assets</b>           |             | <u><b>6,117,005</b></u> | <u><b>13,551,577</b></u> |
| <b>Capital and reserves</b>         |             |                         |                          |
| Called up share capital             | 12          | 718,843                 | 685,993                  |
| Share premium                       |             | 3,034,746               | 2,163,649                |
| Profit and loss account             |             | 2,363,416               | 10,701,935               |
| <b>Shareholders' funds</b>          |             | <u><b>6,117,005</b></u> | <u><b>13,551,577</b></u> |

The notes on pages 17 to 33 form part of these financial statements.

The financial statements were approved by the Board of Directors on 31 May 2019 and were signed on its behalf by:

**George McDonagh**



**Director**

**Stephen Corran**



**Director**

## KR1 PLC (formerly Kryptonite 1 PLC)

### Statement of Changes in Equity For the year ended 31 December 2018

|  | Called up<br>Share Capital<br>£ | Share<br>Premium<br>£   | Profit and<br>Loss Account<br>£ | Total Equity<br>£        |
|--|---------------------------------|-------------------------|---------------------------------|--------------------------|
| Balance at 1 January<br>2017           | 590,993                         | 758,649                 | (908,569)                       | 441,073                  |
| Shares issued                          | 95,000                          | 1,405,000               | -                               | 1,500,000                |
| Profit for the year                    | -                               | -                       | 11,610,504                      | 11,610,504               |
| <b>Balance at 31<br/>December 2017</b> | <b><u>685,993</u></b>           | <b><u>2,163,649</u></b> | <b><u>10,701,935</u></b>        | <b><u>13,551,577</u></b> |
| Balance at 1 January<br>2018           | 685,993                         | 2,163,649               | 10,701,935                      | 13,551,577               |
| Shares issued                          | 32,850                          | 871,097                 | -                               | 903,947                  |
| Loss for the year                      | -                               | -                       | (8,338,519)                     | (8,338,519)              |
| <b>Balance at 31<br/>December 2018</b> | <b><u>718,843</u></b>           | <b><u>3,034,746</u></b> | <b><u>2,363,416</u></b>         | <b><u>6,117,005</u></b>  |

The notes on pages 17 to 33 form part of these financial statements.

# KR1 PLC (formerly Kryptonite 1 PLC)

## Statement of Cash Flows For the year ended 31 December 2018

|   | 2018<br>£          | 2017<br>£          |
|---|--------------------|--------------------|
| <b>Cash flows from operating activities</b>                   |                    |                    |
| (Loss)/profit for the year                                    | (8,338,519)        | 11,610,504         |
| Realised gain on disposal of digital investments              | (2,586,337)        | (4,268,012)        |
| FOREX loss/(gain) on cash equivalents                         | 997,904            | (1,179,777)        |
| Expenses settled with digital investments                     | -                  | 23                 |
| Expenses settled with cash equivalents                        | -                  | 3,452              |
| Foreign exchange (gain) on purchase of digital investments    | -                  | 611                |
| Foreign exchange loss   | 239,059            | 474                |
| Unrealised loss/(gain) on digital investments                 | 11,716,283         | (10,828,357)       |
| Unrealised (gain)/loss on other investments                   | (638,358)          | 2,992              |
|   | <b>1,390,032</b>   | <b>(4,658,090)</b> |
| Increase in debtors   | (3,700,304)        | (734)              |
| (Decrease)/increase in creditors                              | (816,443)          | 4,170,392          |
|   | <b>(4,516,747)</b> | <b>4,169,658</b>   |
| <b>Net cash outflow from operating activities</b>             | <b>(3,126,715)</b> | <b>(488,432)</b>   |
| <b>Cashflows from investing activities</b>                    |                    |                    |
| Net purchases of investments                                  | 721,624            | 1,134,691          |
| <b>Net cash inflow from investing activities</b>              | <b>721,624</b>     | <b>1,134,691</b>   |
| <b>Cashflows from financing activities</b>                    |                    |                    |
| Proceeds from issue of ordinary shares                        | 903,947            | 1,500,000          |
| <b>Net cash generated by financing activities</b>             | <b>903,947</b>     | <b>1,500,000</b>   |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   | <b>(1,501,144)</b> | <b>2,146,259</b>   |
| <b>Cash and cash equivalents at the beginning of the year</b> | <b>3,542,964</b>   | <b>217,402</b>     |
| Effect of exchange fluctuations on cash                       | (239,059)          | (474)              |
| Effect of exchange fluctuations on cash equivalents           | (997,904)          | 1,179,777          |
| <b>Cash and cash equivalents at 31 December</b>               | <b>804,857</b>     | <b>3,542,964</b>   |
| <b>Represented by:</b>  |                    |                    |
| Cash at bank  | 87,387             | 788,792            |
| Cash held on trading platforms                                | 618,150            | 248,927            |
| Cash equivalents  | 99,320             | 2,505,245          |
|   | <b>804,857</b>     | <b>3,542,964</b>   |

The notes on pages 17 to 33 form part of these financial statements.

# KR1 PLC (formerly Kryptonite 1 PLC)

## Notes to the financial statements For the year ended 31 December 2018

### 1. The Company

KR1 PLC (“the Company”) was incorporated in the Isle of Man. Its registered office is 4th Floor, Queen Victoria House, 41-43 Victoria Street, Douglas, Isle of Man, IM1 2LF. On 5 February 2018 the Company changed its name from Kryptonite 1 PLC to KR1 PLC. The principal activity of the Company is that of an investment company trading in the blockchain technology sector.

### 2. Basis of preparation

The financial statements are prepared in accordance with Financial Reporting Standard 102 – ‘The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland’ (‘FRS 102’). The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The financial statements are presented in GBP. The Company’s functional currency is also GBP and has been assessed by the Directors based on consideration of the currency and economic factors that mainly influence the Company’s digital investments, investments, operating costs, financing and related transactions. Changes to these factors may have an impact on the judgement applied in the determination of the Company’s functional currency.

#### (a) Measurement convention

The financial statements have been prepared under the historical cost convention except for investments and digital investments which are carried at fair value.

#### (b) Income

Income is measured at the fair value of the consideration received or receivable. Income represents amounts receivable from digital investments and investment sales and is recognised on the date of the sale.

#### (c) Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Foreign exchange differences arising on translation are recognised in profit or loss.

#### (d) Consolidation

The subsidiary was incorporated during 2018 but did not start trading until after the year end, therefore consolidated financial statements have not been prepared.

#### (e) Expenses

Expenses are accounted for on an accruals basis.

#### (f) Fixed asset investments

Investments comprise shares, monetary loan stock, pre Initial Coin Offering (ICO) investments in future tokens or equity and investments in digital investments.

# KR1 PLC (formerly Kryptonite 1 PLC)

## Notes to the financial statements

For the year ended 31 December 2018 (continued)

### 2. Accounting policies (continued)

#### (f) Fixed asset investments (continued)

Investments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognition in profit or loss. For those investments listed on a recognised market, net realisable value is taken as mid-market price. Where the directors consider the market price of a company is likely to irreversibly fall, additional write downs in valuation to below mid-market price are made. The net realisable value of certain investments is not readily determinable by reference to a quoted market price. The directors have therefore made their own assessment of the net realisable value and adjusted the carrying value of the investment where it is considered less than cost. This estimate requires estimation techniques, which are reliant upon their experience and expertise.

#### (g) Fixed asset investments (continued)

Investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably and contracts linked to such instruments that, if exercised, will result in delivery of such instruments, shall be measured at cost less impairment.

#### (h) Digital investments

The Company accounts for digital investments at their initial cost and subsequently revalues the carrying amounts of the digital investments held at each reporting date based on their current fair value. The changes in fair value are recognised in the Company's Statement of Comprehensive Income.

The Company obtains the equivalency rate of digital currencies, which are held as investments, to GBP from various exchanges including Coinmarket and Oanda. The rate obtained from these sources represents a generally well recognised quote price in an active market, which market and database is accessible to the Company on an ongoing basis.

#### (i) Convertible loans

Loans which may be converted into ordinary shares are given a split accounting treatment. The conventional debt element is recognised as an asset and is calculated as the present value of future cash flows of that asset as discounted at the rate of interest applied to comparable assets without the right to convert. The remaining balance is accounted for as equity being the fair value attaching to the option to convert and shown within other reserves.

#### (j) Cash and cash equivalents

Cash and cash equivalents include cash at bank, cash held on trading platforms and digital currency, which are used to buy and sell digital investments.

#### (k) Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

# KR1 PLC (formerly Kryptonite 1 PLC)

## Notes to the financial statements

For the year ended 31 December 2018 (continued)

### 2. Accounting policies (continued)

#### (k) Financial instruments (continued)

##### (i) Basic financial assets

Basic financial assets, which include trade and other receivables and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

##### (ii) Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at lower of cost and NRV.

##### (iii) Impairment of financial assets

Financial assets, other than those held at fair value through profit or loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

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

##### (iv) Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

##### (v) Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities, including trade and other payables, bank loans, and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

# **KR1 PLC (formerly Kryptonite 1 PLC)**

## **Notes to the financial statements**

**For the year ended 31 December 2018 (continued)**

### **2. Accounting policies (continued)**

#### **(k) Financial instruments (continued)**

##### **(vi) Derecognition of financial liabilities**

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

##### **(l) Judgements and key sources of estimation uncertainty**

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

##### **(m) Judgements and key sources of estimation uncertainty (continued)**

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

The most significant estimates applied in these financial statements include valuation of investments and digital currencies.

##### **(n) Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense. Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the reporting date. Deferred tax balances are not discounted. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

# KR1 PLC (formerly Kryptonite 1 PLC)

## Notes to the financial statements

For the year ended 31 December 2018 (continued)

### 3. Staff costs

|                       | <b>2018</b>    | <b>2017</b>      |
|-----------------------|----------------|------------------|
|                       | <b>£</b>       | <b>£</b>         |
| Directors' salaries   | 147,978        | 59,526           |
| Staff salaries        | 46,056         | 12,459           |
| Social security costs | 261,963        | 19,185           |
| Bonus pool            | -              | 1,266,576        |
|                       | <u>455,997</u> | <u>1,357,746</u> |

The average monthly number of employees during the year was as follows:

|           | <b>2018</b> | <b>2017</b> |
|-----------|-------------|-------------|
| Directors | <u>4</u>    | <u>3</u>    |
|           | <b>2018</b> | <b>2017</b> |
| Employees | <u>1</u>    | <u>1</u>    |

The Company operates a Director's and Analyst bonus scheme whereby a bonus pool is created equal to 15% (2017: 10%) of the portfolio appreciation for the relevant period.

The portfolio appreciation is calculated with reference to the Company's audited financial statements as:

Current Audited Net Assets prior to any company bonus scheme

Less:

- the previous years Audited Net Assets, where a bonus was due (31 December 2017)
- any capital injections in the period between the above two Audit Net Asset positions

A participant may elect to receive an amount of bonus in unlisted digital tokens, however the percentage paid to all participants must not exceed 20% of that particular investment. Such tokens if chosen by the participant will be held on trust by the Company until such time as they are traded on a public exchange.

Bonus amounts paid in cash will be paid net of social security costs by the Company. Should the participant elect to receive an amount of bonus in unlisted digital tokens, the participant shall be liable for all tax plus all or any other deductions required by law.

At the year end an accrual for the bonus pool relevant to the year has been calculated at £nil (2017: £1,266,576)

# KR1 PLC (formerly Kryptonite 1 PLC)

## Notes to the financial statements

For the year ended 31 December 2018 (continued)

### 4. Operating profit/(loss)

The operating profit/(loss) is stated after charging:

|   | 2018       | 2017         |
|---|------------|--------------|
|   | £          | £            |
| Auditors' remuneration                        | 19,800     | 16,920       |
| Foreign exchange loss                         | 239,059    | 474          |
| Unrealised loss/(gain) on digital investments | 11,782,776 | (10,828,357) |
| Unrealised gain on loan issued                | 1,665      | 5,364        |
| Unrealised loss on investments                | 636,519    | 8,356        |
| Directors' remuneration                       | 261,963    | 1,326,102    |

### 5. Tax on profit on ordinary activities

The company is subject to tax in the Isle of Man at a rate of 0% (2017: 0%).

The company has a UK permanent establishment which is subject to income tax in the UK at a rate of 19% (2017: 20%/19%).

#### a) Analysis of charge in period

Current tax:

|   | 2018    | 2017    |
|---|---------|---------|
|   | £       | £       |
| UK corporation tax on profits in the period | 115,634 | 711,494 |

Deferred tax:

|   |                    |                  |
|---|--------------------|------------------|
| Origination and reversal of timing difference | (2,635,027)        | 2,156,892        |
| Tax on profit of ordinary activities          | <u>(2,519,393)</u> | <u>2,868,386</u> |

#### b) Factors affecting tax charge for the period

The tax assessed for the period on the UK Permanent establishment is lower than the standard rate of tax for an open ended investment company in the UK (19%/20%)

The differences are explained below:

|  | 2018               | 2017             |
|--|--------------------|------------------|
|  | £                  | £                |
| Profit on ordinary activities before tax                             | 608,601            | 14,478,890       |
| Profit on ordinary activities multiplied by the standard rate of tax | 115,634            | 2,895,778        |
| Effects of:  |                    |                  |
| Utilisation of tax losses  | -                  | 27,392           |
| Over accrual of prior year tax                                       | (2,635,027)        | -                |
| Tax charge for the period  | <u>(2,519,393)</u> | <u>2,868,386</u> |

# KR1 PLC (formerly Kryptonite 1 PLC)

## Notes to the financial statements

For the year ended 31 December 2018 (continued)

### 6. Earnings per share

The basic (loss)/ profit per share is calculated by dividing the loss/profit for the year attributable to ordinary shareholders by the weighted average number of shares in issue.

(Loss)/profit for the year - £ (8,338,519) (2017: £11,610,504).

Weighted average number of Ordinary 0.19p Shares in issue – 120,063,148 (2017: 366,948,746).

(Loss)/profit per share - basic – (6.95p) (2017: 3.16p).

The conversion rights attaching to the Deferred Shares are not dilutive for the year.

Weighted average number of Ordinary 0.19p Shares in issue for dilutive purposes – 126,889,175 (2017: 366,948,746).

(Loss)/profit per share - dilutive – (6.95p) (2017:3.16p).

### 7. Debtors: amounts falling due within one year

|                     | <b>2018</b>    | <b>2017</b>  |
|---------------------|----------------|--------------|
|                     | <b>£</b>       | <b>£</b>     |
| Staff advances      | 42,958         | -            |
| Due from Subsidiary | 1,534          | -            |
| Prepayments         | 10,977         | 2,804        |
| Due from escrow     | 763,778        | -            |
|                     | <u>819,247</u> | <u>2,804</u> |

The amount due from escrow represents proceeds from the share issue 19 December after deduction of expenses.

### 8. Fixed asset investments

|   | <b>2018</b>      | <b>2017</b>       |
|---|------------------|-------------------|
|   | <b>£</b>         | <b>£</b>          |
| <b>Financial instruments at fair value:</b> |                  |                   |
| Subsidiary                                  | 100              | -                 |
| Listed investments                          | 63,951           | 132,882           |
| Unlisted equity investments                 | 1,381,107        | 327,766           |
| Pre ICO investments                         | 2,060,271        | 1,380,657         |
| Digital investments                         | 1,042,896        | 12,153,216        |
| <b>Debt instrument at amortised cost:</b>   |                  |                   |
| Loan issued                                 | 138,192          | 136,527           |
| Convertible loan notes                      | 314,556          | 83,137            |
|   | <u>5,001,073</u> | <u>14,214,185</u> |

The subsidiary, KRX Limited, incorporated in Gibraltar 3 July, 2018 not traded during the year. Some items of expenditure have been paid by the Company as detailed in note 7.

# KR1 PLC (formerly Kryptonite 1 PLC)

## Notes to the financial statements

For the year ended 31 December 2018 (continued)

### 8. Fixed asset investments (continued)

The loan issued is an interest free EUR denominated loan which does not have fixed repayment terms. The movement on the loan relates wholly to an exchange gain arising in the period.

The Company accounts for fixed asset investments at their initial cost and subsequently revalues the carrying amounts of the fixed asset investments held at each reporting date based on their current fair value. The changes in fair value are recognised in the Company's Statement of Comprehensive Income.

|  | <b>2018</b>      | <b>2017</b>       |
|--|------------------|-------------------|
|  | <b>£</b>         | <b>£</b>          |
| Balance at 1 January                   | 14,214,185       | 259,585           |
| Acquisition of fixed asset investments | 2,590,931        | 3,454,052         |
| Disposal of fixed asset investments    | (752,776)        | (324,817)         |
| Movement in net unrealised gain        | (11,051,267)     | 10,825,365        |
| Balance at 31 December                 | <u>5,001,073</u> | <u>14,214,185</u> |

|  | <b>2018</b>      | <b>2017</b>       |
|--|------------------|-------------------|
|  | <b>£</b>         | <b>£</b>          |
| Fixed asset investments                        | 16,052,340       | 3,388,820         |
| Unrealised (loss)/gain fixed asset investments | (11,051,267)     | 10,825,365        |
|  | <u>5,001,073</u> | <u>14,214,185</u> |

### 9. Fair value estimation

The fair value of financial assets and liabilities traded in active markets (such as publicly traded securities) are based on quoted market prices at the close of trading on the year end date. The Company holds listed investments with a value of £63,951 at the year end which are considered as a Level 1 in the fair value hierarchy.

For instruments for which there is no active market, the Company may use internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value unlisted equity and options, for which markets were or have been inactive during the financial year. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk.

The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

# KR1 PLC (formerly Kryptonite 1 PLC)

## Notes to the financial statements

For the year ended 31 December 2018 (continued)

### 9. Fair value estimation (continued)

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The other fixed asset investments are also valued at fair value through the profit or loss but are unlisted investments and are considered as level 3 in the fair value hierarchy.

The Company obtains the equivalency rate of digital currencies, which are held as investments, to GBP from various exchanges including Coinmarket and Oanda. The rate obtained from these sources represents a generally well recognised quote price in an active market, which market and database is accessible to the Company on an ongoing basis, however due to the volatility and other aspects detailed in note 10 and therefore considered as a Level 3 in the fair value hierarchy.

The following table includes a roll forward of the amounts for the years ended 31 December 2018 and 31 December 2017 for investments at fair value through profit or loss and classified within Level 3. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

|  | <b>2018</b>      | <b>2017</b>       |
|--|------------------|-------------------|
|  | £                | £                 |
| <b>Level 3:</b>                        |                  |                   |
| Balance at 1 January                   | 14,214,185       | 259,585           |
| Acquisition of investments             | 2,617,487        | 3,454,052         |
| Disposal of investments                | (752,776)        | (324,817)         |
| Movement in net unrealised (loss)/gain | (11,141,774)     | 10,825,365        |
| Balance at 31 December                 | <u>4,937,122</u> | <u>14,214,185</u> |

The table below shows the valuation techniques and key assumptions applied to the underlying unlisted investments.

| <b>Valuation technique</b>  | <b>Significant unobservable inputs</b> | <b>Unlisted investment</b> |
|-----------------------------|--|----------------------------|
|                             |  | £                          |
| <b>Level 3:</b>             |  |                            |
| Subsidiary                  | Cost                                   | 100                        |
| Unlisted equity investments | Cost less impairment                   | 1,381,107                  |
| Pre ICO investments         | Cost less impairment                   | 2,060,271                  |
| Digital investments         | Fair value                             | 1,042,896                  |
| Debt instrument             | Cost less impairment                   | 138,192                    |
| Convertible loan notes      | Cost plus interest accrued             | 314,556                    |
|                             |  | <u>4,937,122</u>           |

# KR1 PLC (formerly Kryptonite 1 PLC)

## Notes to the financial statements

For the year ended 31 December 2018 (continued)

### 10. Financial instruments and risk management

The Company is exposed, in varying degrees, to a variety of financial related risks including liquidity risk, credit risk and market risk. These risk arise through directly held investments and activities of the Company and are actively managed by the board of Directors on an ongoing basis.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. As at the year end the Company does not have significant financial liabilities.

#### *Credit risk*

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company. The Company has advanced convertible loan notes to private companies which exposes the Company to credit risk. The loans are advanced to unquoted private companies, which have no credit risk rating. They are entered into as part of the investment strategy of the Company. The Company is also exposed to Credit risk through its cash and cash equivalents and digital currencies, at bank and on trading platforms.

The Directors continually review all advanced loans and credit ratings of counterparty financial institutions on a regular basis.

At the reporting date the financial assets exposed to credit risk amounted to the following:

|                                | <b>2018</b>      | <b>2017</b>      |
|--------------------------------|------------------|------------------|
|                                | <b>£</b>         | <b>£</b>         |
| Cash at bank                   | 87,387           | 788,792          |
| Cash held on trading platforms | 618,150          | 248,927          |
| Convertible loan notes         | 314,556          | 83,137           |
| Cash equivalents               | 99,320           | 2,505,245        |
|                                | <u>1,119,413</u> | <u>3,626,101</u> |

Cash balances are placed with a creditworthy financial institution. Standard Bank Group Limited is rated, by Moody's, (P)Ba1. A proportion of the Company's cash is held on recognised trading platforms.

#### *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices and digital asset prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### *Market price risk*

Market price risk is the risk that the fair value of the financial interests of the Company will fluctuate as a result of changes in market prices, other than those arising from interest rate and currency risks. The Company primarily obtains digital investments and interests in unquoted private enterprises through equity stakes and by providing seed funding. Due to the concentrated nature of these interests, the Company is exposed to inherent price risks. The Company's investments at fair value represents a significant interest in digital investments and blockchain technology sector. These market price risks are managed by the Company through ongoing monitoring and adjusting the investment strategy to better manage exposures to price risk.

# KR1 PLC (formerly Kryptonite 1 PLC)

## Notes to the financial statements

For the year ended 31 December 2018 (continued)

### 10. Financial risk (continued)

#### *Sensitivity analysis for digital investments*

If the average fair values of the digital investments at fair value through profit or loss had increased/decreased by 10% during 2018 with all other variables held constant, the Company's loss for the year would have moved by +/- £104,290 (2017: +/- £1,215,322).

#### *Sensitivity analysis for pre ICO investments*

If the average fair values of the pre ICO investments at fair value through profit or loss had increased/decreased by 10% during 2018 with all other variables held constant, the Company's loss for the year would have moved by +/- £206,027 (2017: +/- £138,066).

#### *Sensitivity analysis for equity investments*

If the average fair values of the equity investments at fair value through profit or loss had increased/decreased by 10% during 2018 with all other variables held constant, the Company's loss for the year would have moved by +/- £144,506 (2017: +/- £46,065).

#### *Foreign currency risk*

The Company invests in financial instruments and enters into transactions that are denominated in currencies other than its function currency. Consequently, the Company is exposed to risk that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the fair value of future cash flows of that portion of the Companies financial assets or liabilities denominated in currencies other than British Pounds.

The Company's total net exposure to fluctuations in foreign currency exchange rate at the statement of financial position date and as at 31 December 2018 was as follows:

|                                      |                     |
|--------------------------------------|---------------------|
| <b>31 December 2018</b>              | <b>USD</b>          |
| Cash and cash equivalents £291,923   | 371,745             |
|                                      | <u>371,745</u>      |
| <b>31 December 2017</b>              | <b>USD</b>          |
| Cash and cash equivalents £321,013   | 433,086             |
|                                      | <u>433,086</u>      |
| <b>31 December 2018</b>              | <b>BTC</b>          |
| Cash and cash equivalents £55,092    | 18.74492214         |
|                                      | <u>18.74492214</u>  |
| <b>31 December 2017</b>              | <b>BTC</b>          |
| Cash and cash equivalents £692,429   | 65.9894057          |
|                                      | <u>65.9894057</u>   |
| <b>31 December 2018</b>              | <b>ETH</b>          |
| Cash and cash equivalents £40,578    | 387.44467764        |
|                                      | <u>387.44467764</u> |
| <b>31 December 2017</b>              | <b>ETH</b>          |
| Cash and cash equivalents £1,764,418 | 3145.6649481        |
|                                      | <u>3145.6649481</u> |

# KR1 PLC (formerly Kryptonite 1 PLC)

## Notes to the financial statements

For the year ended 31 December 2018 (continued)

### 10. Financial risk (continued)

#### 31 December 2018

Cash and cash equivalents £3,649

**BCH**

30.76277078

30.76277078

#### 31 December 2017

Cash and cash equivalents £48,398

**BCH**

25.7776321

25.7776321

#### 31 December 2018

Cash and cash equivalents £329,001

**EUR**

366,040

366,040

#### 31 December 2017

Cash and cash equivalents £nil

**EUR**

-

-

#### *Sensitivity analysis (continued)*

If the USD exchange rate had increased/decreased by 10% at 31 December 2018 with all other variables held constant, the Company's loss for the year would have increased/decreased by £29,192.

If the BTC exchange rate had increased/decreased by 10% at 31 December 2018 with all other variables held constant, the Company's loss for the year would have increased/decreased by £5,509.

If the ETH exchange rate had increased/decreased by 10% at 31 December 2018 with all other variables held constant, the Company's loss for the year would have increased/decreased by £4,058.

If the EUR exchange rate had increased/decreased by 10% at 31 December 2018 with all other variables held constant, the Company's loss for the year would have increased/decreased by £32,900.

If the BCH exchange rate had increased/decreased by 10% at 31 December 2018 with all other variables held constant, the Company's loss for the year would have increased/decreased by +/- £365.

#### *Interest rate risk*

Interest rate risk is the risk that changes in interest rates will affect the Company's income or the value of financial instruments. The Company is not exposed to significant interest rate risk

#### *Capital risk management*

The Company's capital structure comprises shareholders' equity as required to fund asset acquisitions. The Company's objective when managing its capital structure is to finance internally generated growth and maintain financial flexibility including access to capital markets. The capital of the Company is managed by the Directors.

#### *Concentration of risks*

The Company invests primarily in digital investments. These investments may involve certain risk management considerations including:

# KR1 PLC (formerly Kryptonite 1 PLC)

## Notes to the financial statements

For the year ended 31 December 2018 (continued)

### 10. Financial risk (continued)

#### *Custody of Company assets*

The Company maintains custody of the digital investments, by generating the private keys that control movement of the digital asset. Digital asset exchanges may also require the Company to provide control of the private keys when an exchange is utilized by the Company. The Company is responsible for taking such steps as it determines, in its sole judgment, to be required to maintain access to these keys, and prevent their exposure from hacking, malware and general security threats. The Directors are not liable to the Company for the failure or penetration of the security system absent gross negligence, fraud or criminal behaviour on the part of the Company. To the extent that the security system is penetrated, any loss of the Company's digital investments may adversely affect the Company's investment, and could result in total loss of capital. The Company has a substantial portion of its assets in custody on various digital asset exchanges, financial institutions, or held in private wallets in connection with its trading of certain investments and its cash management activities. In the event of a party's insolvency, recovery of the Company's assets on deposit may be lost. As the Company custodies a substantial portion of its assets on various exchanges, financial institutions, and private wallets, the Company has group concentrations of credit risk with these parties.

#### *Risk of loss of private key*

Digital investments are controllable only by the possessor of unique private keys relating to the addresses in which the digital investments are held. The theft, loss or destructions of a private key required to access a digital asset is irreversible, and such private keys would not be capable of being restored by the Company. Any loss of private keys relating to digital wallets used to store the Company's digital investments could result in the loss of the digital investments and the Company could incur substantial, or even total, loss of capital.

#### *Technology and security*

The Company must adapt to technological change in order to secure and safeguard digital investments. While the Company believes it has developed an appropriate proprietary security system reasonably designed to safeguard the Company's digital investments from theft, loss, destruction or other issues relating to hackers and technological attack, such assessment is based upon known technology and threats. To the extent that the Company is unable to identify and mitigate or stop new security threats, the Company's digital investments may be subject to theft, loss, destruction or other attack, which could have a negative impact on the performance of the Company or result in loss of the Company's assets.

#### *Volatility and speculative*

Digital investments represent a speculative investment and involve a high degree of risk. As relatively new products and technologies, digital investments have not been widely adopted as a means of payment for goods and services by major retail and commercial outlets. Conversely, a significant portion of the demand for digital investments is generated by speculators and investors seeking to profit from the short or long term holding of digital investments. The relative lack of acceptance of digital investments in the retail and commercial marketplace limits the ability of end-users to pay for goods and services with digital investments. A lack of expansion by digital investments into retail and commercial markets, or a contraction of such use, may result in increased volatility.

# KR1 PLC (formerly Kryptonite 1 PLC)

## Notes to the financial statements

For the year ended 31 December 2018 (continued)

### 10. Financial risk (continued)

#### *Counterparty risk*

Some of the markets in which the Company may affect its transactions are “over the counter” or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange-based” markets. This exposes the Company to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Company to suffer a loss. Such “counterparty risk” is accentuated for digital investments where the Company has concentrated its transactions with a small group of counterparties. The Company is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, the Company has no internal credit function that evaluates the creditworthiness of their counterparties. The ability of the Company to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparty’s financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Company.

#### *Digital investments exchanges*

The digital investments exchanges on which digital investments trade are relatively new and largely unregulated and may therefore be more exposed to theft, fraud and failure than established, regulated exchanges for other products. In general, digital asset exchanges are currently start-up businesses with no institutional backing, limited operating history and no publicly available financial information. Exchanges generally require cash to be deposited in advance in order to purchase digital investments, and no assurance can be given that those deposit funds can be recovered. Additionally, upon sale of digital investments, cash proceeds may not be received from the exchange for several business days. The participation in exchanges requires users to take on credit risk by transferring digital investments from a personal account to a third party's account. The Company will take credit risk of an exchange every time it transacts. Digital asset exchanges may impose daily, weekly, monthly or customer specific transaction or distribution limits or suspend withdrawals entirely, rendering the exchange of digital investments for fiat currency difficult or impossible. Additionally, digital asset prices and valuations on digital asset exchanges have been volatile and subject to influence by many factors including the levels of liquidity on exchanges and operational interruptions and disruptions. The prices and valuation of digital investments remain subject to any volatility experienced by digital asset exchanges, and any such volatility can adversely affect an investment in the Company. Digital asset exchanges are appealing targets for cybercrime, hackers and malware. It is possible that while engaging in transactions with various digital asset exchanges located throughout the world, any such exchange may cease operations due to theft, fraud, security breach, liquidity issues, or government investigation. In addition, banks may refuse to process wire transfers to or from exchanges. Over the past several years, many exchanges have, indeed, closed due to fraud, theft, government or regulatory involvement, failure or security breaches, or banking issues. Any financial, security or operational difficulties experienced by such exchanges may result in an inability of the Company to recover money or digital investments being held by the exchange, or to pay investors upon redemption. Further, the Company may be unable to recover digital investments awaiting transmission into or out of the Company, all of which could adversely affect an investment in the Company. Additionally, to the extent that the digital asset exchanges representing a substantial portion of the volume in digital asset trading are involved in fraud or experience security failures or other operational issues, such digital asset exchanges' failures may result in loss or less favourable prices of digital investments, or may adversely affect the Company, its operations and investments.

# KR1 PLC (formerly Kryptonite 1 PLC)

## Notes to the financial statements For the year ended 31 December 2018 (continued)

### 11. Creditors: amounts falling due within one year

|                      | 2018           | 2017             |
|----------------------|----------------|------------------|
|                      | £              | £                |
| Trade creditors      | 112,618        | 17,614           |
| Tax accrual          | 348,993        | 711,494          |
| Deferred tax accrual | -              | 2,156,892        |
| Bonus pool           | -              | 1,266,576        |
| Accrued expenses     | 46,561         | 55,800           |
|                      | <u>508,172</u> | <u>4,208,376</u> |

### 12. Called up share capital

| Allotted, issued and fully paid<br>Number: | Class        | Nominal value | 2018           | 2017           |
|--|--------------|---------------|----------------|----------------|
|  |              |               | £              | £              |
| 126,889,175 (2017: 109,599,702)            | New Ordinary | 0.19p         | 241,090        | 208,240        |
| 3,000,000                                  | Deferred A   | 0.1p          | 3,000          | 3,000          |
| 3,000,000                                  | Deferred B   | 0.1p          | 3,000          | 3,000          |
| 31,411,002                                 | Deferred C   | 0.9p          | 282,699        | 282,699        |
| 210,061,001                                | Deferred D   | 0.09p         | 189,054        | 189,054        |
|  |              |               | <u>718,843</u> | <u>685,993</u> |

On 31 May 2018, the Company issued 789,473 ordinary shares of 0.19 pence each at a price of 10 pence per share, to a consultant as payment in kind for services rendered to the Company.

On 19 December 2018, the Company raised £785,000 through the issue of 15,700,000 ordinary shares of 0.19 pence each at a price of 5 pence per share. As at 31 December 2018 a share debtor of £763,778 is due to the Company as detailed in note 7. The amount constitutes the fundraise of £785,000 less expenses deducted.

On 19 December 2018, the Company issued 800,000 ordinary shares of 0.19 pence each at a price of 5 pence per share, to two consultants as payment in kind for services rendered to the Company.

Special rights/constraints attaching to the deferred A and B shares are as follows:

The deferred A shareholders have one vote at general meetings of the company. Until such time as the ordinary shares of the company have traded on the NEX markets or any other facility recognised as a medium for trading shares at a mid-market price of no less than 6p per share for a continuous period of 28 days, these shares carry no rights to dividends or to participation in the assets of the company other than the right to repayment at par on a winding up, such payment to be deferred to repayment at par of the ordinary shares. After the mid-market price has achieved 6p for a continuous period of 28 days each deferred A share will have rights equivalent to ordinary shares.

In the event that on a winding up there is no surplus of assets of the company over the paid-up capital of the company the right to repayment of the ordinary shares will take priority over the repayment of the deferred A Shares.

## **KR1 PLC (formerly Kryptonite 1 PLC)**

### **Notes to the financial statements**

**For the year ended 31 December 2018 (continued)**

#### **12. Called up share capital (continued)**

The deferred B Shareholders have one vote at general meetings of the company. Until such time as the ordinary shares of the company have traded on the NEX markets or any other facility recognised as a medium for trading shares at a mid-market price of no less than 7.5p per share for a continuous period of 28 days, these shares carry no rights to dividends or participation in the assets of the company other than a right to repayment at par on a winding up, such repayment to be deferred to repayment at par of the ordinary shares and deferred A shares. After the mid-market price has achieved 7.5p for a continuous period of 28 days each deferred B share will have rights equivalent to an ordinary share. In the event that on a winding up there is no surplus of assets of the company over the paid-up capital of the company the right to repayment of the ordinary shares and the deferred A shares will take priority over the repayment of the deferred B shares.

On 7 April 2010, the ordinary shares were sub-divided into one ordinary share 0.1 pence per share and one deferred C share of 0.9 pence per share.

Special rights/constraints attaching to the ordinary shares and deferred C shares are as follows:

The ordinary shares will entitle the holders to receive notice of, attend and vote at general meetings of the company. The ordinary shares will carry the right to participate in dividends declared by the company. On a winding up, the ordinary shares will carry the right to repayment at par (£0.001 per share) in priority to deferred A shares, deferred B shares and deferred C shares and the right to participate in any surplus assets of the company.

The deferred C shares do not carry the right to participate in any surplus assets of the Company.

The deferred C shares have very limited rights and will not entitle the holder to receive notice of, attend or vote at general meetings of the company. The deferred C shares will carry no rights to participate in dividends declared by the company. On a winding up, the deferred C shares will carry the right to repayment at par (£0.009 per share), deferred to repayment at par of the ordinary shares, deferred A shares and deferred B shares.

The deferred D shares shall not entitle the holder to receive notice of, attend or vote at general meetings of the Company. Each deferred D share shall carry no rights to dividends or to participation in the assets of the Company other than a right to repayment at par on a winding up, such repayment to be deferred to repayment at par of the ordinary shares, deferred A shares and deferred B shares.

In the event of any sub division of any part of the shares of the company or in the event of a takeover, amalgamation or any form of reconstruction of the company the price specified above for the deferred A and B shares shall be amended as may be just and equitable in the circumstances in a manner to be determined by the auditors.

## **KR1 PLC (formerly Kryptonite 1 PLC)**

### **Notes to the financial statements**

**For the year ended 31 December 2018 (continued)**

#### **13. Related party disclosures**

Bridgewater (IOM) Limited provides administrative services to the company. Administration charges for these services amounted to £84,000 (2017: £63,610). S Corran is a director of Bridgewater (IOM) Limited. As at the year end the amount owed to Bridgewater was £63,840 (2017: £42,000).

During the year the Company paid office rental of £27,648 (2017; £9,216) to Smaller Company Capital Limited. R Williams and J Woodgate are also directors of Smaller Company Capital Limited.

During the year the Company paid administration expenses of £ 1,554 (2017; £nil) on behalf of its subsidiary as detailed in note 7.

#### **14. Post balance sheet events**

On 26 February 2019, the Company issued 3,806,675 new ordinary shares of 0.19 pence each in the Company following the exercise of 3,806,675 warrants, due to expire on 14 March 2019. The Warrants were exercised at a price of 0.76 pence each netting proceeds of £28,930.

Following the launch of the Cosmos Network on the 14 March 2019, the Company has participated in staking yield activity whereby the Cosmos tokens (“ATOM”) can be staked as a ‘security deposit’ to participate in block creation and network maintenance. The Company will receive a native network fee yield committing their ATOM for validation of transactions across the Cosmos Network.

On 26 March, 2019, the Company entered into a Simple Agreement for Future Equity with Commonwealth Labs Inc receiving the right to Certain shares of Commonwealths capital stock. The Company invested \$50,000.

On 17 April 2019, the Company entered into an Early Contribution Agreement with Vega Holdings Ltd for the establishment of an open source decentralised trading platform. The Company has invested \$100,000 and will receive cryptographic tokens issued by Vega for the purpose of raising capital. The Company will also receive 1% of the token supply in consideration of the provision of services.

#### **15. Ultimate controlling party**

There is not deemed to be an ultimate controlling party.

#### **16. Net asset value per share**

The company has a net asset value per Ordinary Share of 4.82p (2017: 12.36p).

The net asset value per Ordinary Share is at 4.82p (2017: 12.36p) if the market value of the current asset investments is included within the assessment of the net assets.