Hydro66 UK Limited

Note from the Directors regarding the 2016 Annual Report and Financial Statements.

The 2016 audited financial statements contain some numbers that differ from the comparatives as presented in the 2017 audited financial statements.

Hydro66 UK Limited did not meet the criteria to have an audit in either year. Audits were undertaken to fulfil the requirements of the CSE.

The numbers for 2017 were audited first, with unaudited 2016 number presented as comparatives.

A subsequent full audit of the 2016 numbers resulted in some changes in treatment to be consistent with the audited numbers for 2017.

A government grant which had previously been booked as deferred income and released over 5 years, was reclassified to Property, Plant and Equipment and depreciated over the same useful economic life of the assets for which it was granted.

Capitalised salary costs were reclassified from prepaid costs to Property, Plant and Equipment and depreciated over the same useful economic life of the assets to which the costs related.

Foreign exchange gains on intercompany loans were reclassified from the Income Statement to Other Comprehensive Income.

The total impact of the differences on the Income Statement for 2016 was an increase in the report loss from £801,839 to £938,311. Total Comprehensive Income increased from a loss of £851,268 to a loss of £699,029.

The total impact of the differences on net assets was an increase in net assets of £152,239.

Richard Croft - Director

Registration number:
09027295

Hydro66 UK Limited

Annual Report and Financial Statements

For the year ended 31 December 2016

Annual report and financial statements

Year ended 31 December 2016

CONTENTS

Directors and professional advisors

The board of directors	David Rowe Richard Croft Justin Fielder
Registered office up to 9 February 2017	8 Percy Street London W1T 1DJ
Registered office from 10 February 2017	15 Percy Street London W1T 1DS
Registered number	09027295
Auditor	Grant Thornton UK LLP 30 Finsbury Square London EC2A 1AG

Strategic Report

Year ended 31 December 2016

Principal activities

The principal activities of Hydro66 UK Limited ("the Company") during the year were, and will continue to be, the provision of colocation services.

The Company delivers low-cost, environmentally-friendly colocation services. Using locally generated clean green hydropower, Hydro66's first data centre is located in the leading cloud and data centre cluster in the Nordics, in Northern Sweden. This gives customers the ability to reduce their carbon footprint while providing cost savings against the traditional colocation model.

The Company also contributes a small amount of its computing power to digital currency pools. For its contribution to the pools the Company receives income in the form of digital currencies.

Trading performance – key performance indicators

The directors consider revenue and EBITDA as the key financial metrics against which the performance of the Company is measured.

	Year ended December 31 2016	**Year ended December 31 2015**	**Year ended December 31 2014**
Revenue [£]	**0.4m**	0.3m	0.5m
EBITDA [£]	**(0.7m)**	(1.3m)	(0.3m)

Trading performance – review of the year

Revenue saw growth over 2016, up 42% on the previous year reflecting the sales during the year of the existing space and earnings from digital currency pools.

Financial Results

The company reported operating loss before interest and tax of (£0.9m) for the year (2015: (£1.4m)) with operating expenses before depreciation and realised gains on digital currencies of £1.1m for the year (2015: £1.7m).

Prospects

The Directors see prospects for the Company as being very healthy. The Company has a strong pipeline and expects to fill the existing capacity during 2017.

Data centers are increasingly under the spotlight as being energy-intensive, and with that scrutiny comes the need for innovation and transparency. Large numbers of companies are realising the environmental and cost benefits of locating processing power in a cool climate close to abundant green power. The Hydro66 data centre is ideally located to deliver these benefits.

Cash flow, banking facilities and financial position

The Company finished the year ended 31 December 2016 in a strong financial position with closing cash and cash equivalents of £1.4m (2015: £0.2m); and closing digital currencies recorded as intangible assets of £0.2m (2015: nil).

Net assets at 31 December 2016 increased to £4.4m from (£1.4m) as at 31 December 2015.

Principal Risks and Uncertainties

The principal risks and uncertainties associated with the Company's activities are set out below, along with the financial risks, which are included in more detail in note 3 of the financial statements.

Strategic Risks - the main strategic risks to the Company's business arise from deterioration in general economic conditions and increased competition.

Adverse global economic conditions and uncertain conditions have created, and in the future may create, uncertainty and unpredictability and add risk to our future outlook. An uncertain global economy could also result in churn in our customer base, reductions in revenues from our offerings, longer sales cycles, slower adoption of new technologies and increased price competition, adversely affecting our liquidity.

Regulatory Risks - A number of customers operate in the digital currency space. Increased legal or regulatory burdens affecting the space could result in churn in our customer base and reductions in revenues from our offerings, adversely affecting our liquidity. Digital currency is a new technology and the legislation surrounding it, including local tax regimes, is evolving. Hydro66 currently has operations in the United Kingdom and Sweden where it is subject to VAT and Corporation tax. The Directors are of the view that the tax has been appropriately accounted for and reported although it is an evolving area of local legislation and therefore could be at risk of challenge from local tax authorities.

Operations Risks – Key operational risks involve the delivery and support provided to customers. The Company is reliant on third party suppliers which provide support. To mitigate against these risks and to ensure a high level of service is provided to our customers, the Company's operational teams are required to monitor service levels and review the disaster recovery plans that are currently in place. The Company also continuously reviews key contracts and relationships with its suppliers to ensure high levels of service are sufficiently provided to the Company.

The objective of the Board is to manage risk across the Company, enabling it to achieve its key business objectives.

Changes in business objectives which may alter the risks faced by the Company are monitored closely by the Board throughout the year to ensure that the necessary changes to internal controls or procedures are implemented. The main risks arising from the Company's financial position are credit risk, foreign currency risk and liquidity risk. Refer to note 3 of the financial statements for further detail.

Statement of Directors' responsibilities
The directors are responsible for preparing the Voluntary Directors' Report and the non-statutory consolidated financial statements.

Those charged with governance have requested the directors to prepare financial statements for each financial year. The directors have elected to prepare the non-statutory financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The directors do not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the group for that period. In preparing these non-statutory financial statements, the directors are have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and accounting estimates that are reasonable and prudent;
- stated whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepared the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors have taken responsibility 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. They have also taken responsibility for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:
- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Charitable Donations

Worldwide charitable donations made by the Company during the year were nil (December 2015: nil).

Employees

The Company attaches importance to good communications and relations with employees. Meetings are actively held to fulfil the objectives on a frequent basis. All employees are kept up to date with developments in the Company and financial factors expected to affect the Company performance.

Future Outlook

The directors are confident of the future performance of the Company. The Company has enjoyed strong revenue growth and an increased customer base, which is a central driver for the future growth of the Company. Further details are disclosed on page 3.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has access to adequate resources to continue in operational existence for the foreseeable future.

The Company's business activities, together with the factors likely to affect its future performance are set out within this report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are incorporated in this review.

The Company meets its day-to-day working capital requirements using cash in hand and digital currencies. The Company closed a funding round in July 2016 for USD $3m, $1.5m of which has been invested into the expansion of the Company as of the date of this report. Based on the forecasted burn rate, cash in hand and digital currency funds are anticipated to meet the Company's operational requirements for the foreseeable future.

Directors

The directors who served the Company during the year were as follows:

David Rowe
Richard Croft
Justin Fielder

Disclosure of information to Auditor

In the case of each Director in office at the date the Directors' Report is approved:

a) So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

b) The 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 auditor is aware of that information

Independent Auditor

The auditors, Grant Thornton UK LLP are expected to be reappointed by resolution of the shareholders at the general meeting.

On behalf of the Board

R. Croft

Richard Croft, Director
3rd July 2018

Independent auditor's report to the directors of Hydro66 UK Limited

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We have audited the non-statutory financial statements (the 'financial statements') of Hydro66 UK Limited and its subsidiaries (the 'group') for the year ended 31 December 2016 which comprise the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's directors, as a body, in accordance with our letter of engagement 18 May 2018. Our audit work has been undertaken so that we might state to the company's directors those matters we are required to state to them 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 directors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements give a true and fair view of the state of the group's affairs as at 31 December 2016 and of its loss for the year then ended in accordance with IFRSs as adopted by the European Union.

Other Matter

The Group was not required to have an audit for the year ended 31 December 2015. Accordingly, the corresponding figures for the year ended 31 December 2015 are unaudited.

Grant Thornton UK LLP

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
3 July 2018

Hydro66 UK Limited

Consolidated income statement

Year ended 31 December 2016

Continuing operations	Note	Year ended 31 Dec 2016 £	Unaudited Year ended 31 Dec 2015 £
Turnover	4	346,737	299,435
Operating expenses	5	(1,285,048)	(1,663,477)
Operating loss		(938,311)	(1,364,042)
Operating loss before depreciation		(704,105)	(1,285,812)
Depreciation	5, 10	(234,206)	(78,230)
Operating profit / (loss) before interest and taxes		(938,311)	(1,364,042)
Interest payable and similar charges		-	-
Profit / (loss) on ordinary activities before taxation		(938,311)	(1,364,042)
Taxation	9	-	-
Profit / (loss) for the financial year		(938,311)	(1,364,042)

Consolidated statement of other comprehensive income

Year ended 31 December 2016

Profit / (loss) for the year	(938,311)	(1,364,042)
Other comprehensive income - Items that may be reclassified to profit or loss	239,282	-
Total comprehensive profit / (loss) attributable to equity holders	(699,029)	(1,364,042)

The accompanying accounting policies and notes (pages 12-26) form part of these financial statements.

Hydro66 UK Limited

Consolidated statement of financial position

Year ended 31 December 2016

	Note	At 31 Dec 2016 £	Unaudited At 31 Dec 2015 £	Unaudited At 1 Jan 2015 £
Non-current assets				
Property, plant and equipment	10	2,828,359	2,350,978	757,964
Intangible assets (digital currencies)	11	210,659	-	-
		3,039,018	2,350,978	757,964
Current assets				
Trade and other receivables	12	123,959	549,225	782,895
Cash at bank and in hand	13	1,443,905	161,273	134,892
		1,567,864	710,498	917,787
Current liabilities				
Short-term borrowings	15	-	(3,897,227)	(1,640,296)
Trade and other payables	14	(249,349)	(326,524)	(112,376)
Deferred income	14	-	(257,616)	-
		(249,349)	(4,481,367)	(1,752,672)
Net current assets / (liabilities)		1,318,515	(3,770,869)	(834,885)
Net assets		4,357,533	(1,419,891)	(76,921)
Capital and reserves				
Called-up equity share capital	16	919,611	518,459	518,459
Share premium reserve	16	6,075,301	-	-
Foreign exchange reserve	16	260,354	21,072	-
Retained earnings at start of year		(1,959,422)	(595,380)	-
Earnings in the year		(938,311)	(1,364,042)	(595,380)
Shareholders' funds		4,357,533	(1,419,891)	(76,921)

The accompanying accounting policies and notes (pages 12-26) form part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 3rd July 2018. Signed on behalf of the Board by:

R. Croft

Richard Croft

Director
Company number 09027295

Hydro66 UK Limited

Consolidated statement of changes in equity

Year ended 31 December 2016

	Note	Share capital	Share premium	FX reserve	Retained earnings	Total Equity
		£	£	£	£	£
Balance at 1 Jan 2015 (unaudited)		518,459	-	-	(595,380)	(76,921)
Total profit / (loss) for the year		-	-	-	(1,364,042)	(1,364,042)
Foreign exchange movement		-	-	21,072	-	21,072
Balance at 31 Dec 2015 (unaudited)		518,459	-	21,072	(1,959,422)	(1,419,891)
Total profit / (loss) for the year		-	-	-	(938,311)	(938,311)
Issue of share capital	16	401,152	6,075,301	-	-	6,476,453
Foreign exchange movement		-	-	239,282	-	239,282
Balance at 31 Dec 2016		**919,611**	**6,075,301**	**260,354**	**(2,897,733)**	**4,357,533**

The accompanying accounting policies and notes (pages 12-26) form part of these financial statements.

Hydro66 UK Limited

Consolidated statement of cash flows

Year ended 31 December 2016

	Note	At Dec 31, 2016 £	Unaudited At Dec 31, 2015 £
Cash flows from operating activities			
Profit / (loss) before taxation		**(938,311)**	(1,364,042)
Adjustments for:			
Depreciation of property, plant and equipment	**10**	**234,206**	78,230
Increase in intangible assets	**11**	**(277,423)**	-
Net changes in working capital:		**530,598**	657,575
Cash (used in) / from operations		**(450,930)**	(628,237)
Cash flows from investing activities			
Additions to property, plant and equipment	**10**	**(706,532)**	(1,630,589)
Proceeds from government grant		**257,400**	
Proceeds from disposal of intangible assets	**11**	**66,764**	-
Net cash used in investing activities		**(382,368)**	(1,630,589)
Cash from financing activities			
Proceeds/ (pay down) from borrowings	**15**	**-**	2,256,931
Proceeds from share related transactions	**16**	**2,243,229**	-
Net cash from financing activities		**2,243,229**	2,256,931
Net (decrease) / increase in cash and cash equivalents		**1,409,931**	(1,895)
Cash and cash equivalents opening balance	**13**	**161,273**	134,892
Effect of exchange rate		**(127,299)**	28,276
Cash and cash equivalents at end of the year		**1,443,905**	161,273

The accompanying accounting policies and notes (pages 12-26) form part of these financial statements.

1. General information

Nature of operations
The Company is incorporated in the United Kingdom, domiciled in the United Kingdom and its registered office is 15 Percy Street, London, England, W1T 1DS. During 2016 the Company's registered office was 8 Percy Street, London, England, W1T 1DJ. The Company moved its registered office on 10th February 2017. The registered number of the Company is 09027295.

2. Summary of significant accounting policies and estimates

Basis of preparation
The consolidated financial statements of the Company have been prepared in accordance with IFRSs as adopted by the European Union, IFRS Interpretations Committee ("IFRS IC") interpretations and the Companies Act 2006 applicable to the companies reporting under IFRSs

These financial statements are presented in Pounds Sterling (£) which is also the functional currency of the Company.

The preparation of the financial statements in conformity with IFRSs requires the use of certain critical accounting estimates which have been laid out in note 2. These accounting policies were consistently applied for all the years presented.

Going concern
The financial statements presented within have been prepared on a going concern basis. See Strategic report for additional details.

Changes in accounting policy and disclosures

(a) Transition to IFRS

The financial statements and notes have been prepared in accordance with IFRSs for the first time.

The Company's transition date is 1 January 2016. The Company prepared its opening IFRSs statement of financial position at that date and the Company's IFRSs adoption date is 31 December 2016. The Company has applied IFRS 1 in preparing these financial statements. In preparing these financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions from full retrospective application of IFRSs as described in note 22.

(b) New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2016 that would be expected to have a material impact on the Company.

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2016 and not early adopted

IFRS 7 Financial Instruments: Disclosures initiative (issued 29 January 2016)

IFRS 7 addresses the disclosure requirements relating to the significance of financial instruments to an entity and the nature and extent of risks associated with those financial instruments. Additional hedge accounting disclosures will be required when IFRS 9 becomes effective. The Company is yet to assess the full impact of the standard.

IFRS 9 Financial Instruments

IFRS 9 addresses the classification and measurement of financial assets and will replace IAS 39. The Standard is effective for accounting years commencing on or after 1 January 2018, subject to adoption by the European Union. The Company is yet to assess the full impact of the standard.

2. Summary of significant accounting policies and estimates (continued)

IFRS 15 Revenue from Contracts with Customers

The Standard sets out at what point and how revenue is recognised and requires enhanced disclosures. Revenue contracts should be recognised in accordance with a single, principles based five-step plan. The Standard is effective for accounting years beginning on or after 1 January 2018. The Company is yet to assess the full impact of the standard, although it is noted that no firm guidance yet exists for the accounting for revenue on digital currency creation. The company continues to monitor guidance and will assess any impact as it evolves.

IFRS 16 Leases

The Standard assesses the use of off-balance sheet leases, bringing most lessee leases on-balance sheet and eliminating the distinction between operating and finance leases, leaving lessor accounting largely unchanged. The Standard is effective for years beginning on or after 1 January 2019. The Company is yet to assess the full impact of the standard.

Amendments to IAS 16 Property, Plant and Equipment

The IASB has clarified that a depreciation method based on revenue is not an appropriate method in determining a pattern in which the asset's future economic benefits are consumed. The amendments are effective for accounting years beginning on or after 1 January 2016. The Company is yet to assess the full impact of the standard.

Amendments to IAS 38 Intangible Assets

The amendments clarify the suitability of using a revenue-based method of amortisation for intangible assets. The amendments are similar to those made to IAS 16, however, the amendments to IAS 38 include a rebuttable presumption that an amortisation method based on revenue generated is not appropriate. The amendments are effective for accounting years beginning on or after 1 January 2016. The Company is yet to assess the full impact of the standard.

Annual Improvements to IFRS 2010-2012 Cycle

The issues addressed in this cycle cover IFRS2, IFRS3, IFRS8, IFRS13, IAS7, IAS16, IAS24 and IAS38. The Annual Improvements are effective for accounting years beginning on or after 1 February 2015. The Company is not expecting any of these issues to significantly impact on the Company's financial statements.

Annual Improvements 2012-2014 cycle

The issues are effective for accounting years beginning on or after 1 July 2016. The Company is not expecting any of these issues to significantly impact on the Company's financial statements.

Sources of estimation and key judgements

The key sources of estimation at the reporting date are discussed below:

(a) Digital currency recognition and valuation

The Company recognises revenue from the provision of transaction verification services within digital currency networks. As consideration for these services, the Company receives digital currency from each specific network in which it participates.

Revenue is measured based on the fair value of the currency received. The fair value is determined using the spot price of the currency on the date of receipt. Digital currencies are treated as intangible assets and carried at the spot rate on the date of receipt.

Digital currencies are a new type of currency available only in digital form and are deemed to be intangibles assets under IAS38. The cost model has been applied to digital currencies.

2. Summary of significant accounting policies and estimates (continued)

The digital currency market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital currencies would have a significant impact on the Company's earnings and financial position.

(b) Evolving Tax Regimes

Digital currency is a new technology and the legislation surrounding it, including local tax regimes, is evolving. Hydro66 currently has operations in the United Kingdom and Sweden where it is subject to VAT and Corporation tax. The Directors have taken the judgement that the tax has been appropriately accounted for and reported although it is an evolving area of local legislation and therefore could be at risk of challenge from local tax authorities.

(C) Agent versus principal

For digital currency earned on behalf of customers, the company records the transaction as an agent and does not recognise the digital currency at the spot rate within revenue. The digital currency is subsequently transferred to the customer.

Critical accounting policies

Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services, stated net of discounts and returns. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities. Revenue represents amounts invoiced for the provision of data centre services, including space and power.

The Company also recognizes revenue from the provision of transaction verification services within digital currency networks. As consideration for these services, the Company receives digital currency from each specific network in which it participates.

Revenue is measured based on the fair value of the currency received. The fair value is determined using the spot price of the currency on the date of receipt. The currency is recorded on the statement of financial position, as a current intangible asset at the spot rate. Realised gains or losses, as well as gains or losses on the sale of currency for traditional (fiat) currencies are included in profit and loss. There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting of digital currencies and management has exercised significant judgement in determining appropriate accounting treatment. Management has examined various factors surrounding the substance of the Company's operations and the guidance in IAS 18, Revenues, including the stage of completion being the completion and addition of a block to a blockchain and the reliability of the measurement of the digital currency received. In the event authoritative guidance is enacted by the IASB, the Company may be required to change its policies which could result in a change in the Company's financial position and earnings.

Property, plant and equipment

Property, plant and equipment are stated at cost at acquisition less accumulated depreciation. Cost includes the original purchase price for the asset and costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided on all property, plant and equipment to write off the cost, less any residual value, on a straight-line basis over the expected useful economic lives of the assets concerned by applying the following annual rates

Office equipment	3 years
Plant and machinery	3 – 25 years
Buildings	50 years

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. An asset's carrying amount is written down immediately to its recoverable amount (higher of an asset's fair value less costs to sell and value in use) if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the consolidated income statement.

2. Summary of significant accounting policies and estimates (continued)

Trade payables
Trade payables are either obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers or transaction obligations for amounts due to end customer.

Trade payables are classified as current liabilities if settlement is due within one year or less. If not, they are presented as non-current liabilities.

Operating Leases
Rentals applicable to operating leases where substantially all the benefits and risks of ownership do not transfer to the lessee are charged to the income statement on a straight-line basis over the period of the lease.

Taxation
The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the UK and Sweden where the Group operates and generates taxable income.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of the assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferring income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Provisions and contingencies
A provision is recognised in the statement of financial position when the Company has a legal obligation or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle that obligation, and a reliable estimate of the amount can be made. Provisions are discounted. If the obligation cannot be reliably measured, it is classified as a contingent liability.

Pension scheme arrangements
The Company operates a defined contribution pension schemes for the benefit of employees. The amount charged to the profit and loss account is the contribution payable by the Company in the year.

Differences between contributions payable and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Share Capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Foreign currencies
(a) Functional and presentation currency
Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is the Company's functional and presentation currency.
(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation to year-end exchange rates of monetary assets and liabilities denominated in foreign

2. Summary of significant accounting policies and estimates (continued)

currencies are recognised in the income statements.

Government Grants
Government grants related to fixed assets, are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, the grant is recognised in profit or loss over the life of the depreciable asset as a reduced depreciation expense.

Receivables
Receivables are non-derivative financial assets with a fixed or determinable payment that are not quoted in an active market. After initial recognition loans and receivables are carried at amortised cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Assets carried at amortised cost
In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the group will not be able to collect all the amounts due under the original terms of the invoice. The carrying amount of the receivables is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectable.

Cash and cash equivalents
Cash and short-term deposits in the statement of financial position comprise cash at bank and short-term deposits with a maturity of three months or less.

Intangible assets - Digital currency valuation
Digital currencies consist of cryptocurrency denominated assets such as Bitcoin and Litecoin; and are included in non-current assets as an intangible asset. Digital currencies are treated as intangible assets and carried at the spot rate they were earned at. The fair value is determined using the spot price of the currency on the date of receipt. Gain or loss is recognised in the profit and loss account at the point of sale. Digital currency is not amortised as the directors consider that it has an indefinite useful life. The digital currency market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital currencies would have a significant impact on the Company's earnings and financial position. Intangible assets are held at cost less any impairment. All individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable

De-recognition of liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

3. Financial risk management

The Company is exposed, in varying degrees, to a variety of financial related risks. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts as well as its trade and other receivables which have a balance of £233,687 as at December 31, 2016. The majority of cash is deposited in bank accounts held with one major bank in Sweden and one major bank in the United Kingdom so there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to risk on its energy taxes receivable is minimal since it is refundable from stable governments.

The Company has implemented certain operational processes and policies to address the Company's credit related risks around customer payment default and other transactional impacts. Transactional bad debt risk is managed by transactional controls, regular monitoring and reporting of revenues and debtors. If necessary, the Company will assess

3. Financial risk management (continued)

the relationship with the customer and is constantly managing any significant relationship. See note 12 for assessment of exposure related to trade debtors.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining cash and cash equivalent balances to ensure that it is able to meet its obligations as and when they fall due. The Company manages Company-wide cash projections centrally and regularly updates projections for changes in business and fluctuations caused in digital currency prices and exchange rates.

Foreign currency risk
Currency risk relates to the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign exchange rates. Exchange rate fluctuations affect the costs that the Company incurs in its operations as well as the currency in which the Company has historically raised capital. The Company's presentation currency is Pounds Sterling (£). Major purchases are transacted in Pounds Sterling (£) and Swedish Kronor, while financing to date has been completed in Pounds Sterling (£) and US Dollars. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than an entity's functional currency. A portion of the Company's general and administrative costs are incurred mainly in currencies separate from each entity's functional currency, such as the Euro and the US Dollar. The fluctuation of these currencies in relation to the Pounds Sterling (£) will consequently impact the profitability of the Company and may also affect the value of the Company's assets and liabilities and the amount of shareholders' equity. The Company's most significant foreign currency is the Swedish Kronor, and the net monetary position held in Swedish Kronor (in Pounds Sterling (£) equivalents) is £231,000.

Interest rate risk
The Company's exposure to interest rate risk is limited and only relates to its ability to earn interest income on cash balances at variable rates. Changes in short term interest rates will not have a significant effect on the fair value of the Company's cash account.

Digital Currency and Risk Management
Digital currencies are measured using level one fair values, determined by taking the rate from the largest digital currency exchanges. Digital currency prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the global political and economic conditions. The profitability of the Company is directly related to the current and future market price of coins; in addition, the Company may not be able to liquidate its inventory of digital currency at its desired price if required. A decline in the market prices for coins could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its coin sales. Digital currencies have a limited history and the fair value historically has been very volatile. Historical performance of digital currencies are not indicative of their future price performance. The Company's digital currencies currently consist of Bitcoin and Litecoin, and a 25% variance in the price of these currencies could have a £53,000 impact on the Company's earnings before tax.

4. Revenue

The Company's operations are centred on providing data centre services and digital currency services. Management therefore considers there are two reporting segments for the Company.

The geographical split of revenue by customer or digital currency pool location is as follows:

	2016	**2016**	2015	2015
	£	**£**	£	£
	Data Centre Services	Digital Currency Services	Data Centre Services	Digital Currency Services
United Kingdom	**176,976**	**-**	278,207	-
USA	**-**	**142,927**	-	-
Europe	**26,834**	**-**	21,228	-
	203,810	**142,927**	299,435	-

5. Expenses by nature

	Year ended 31 December 2016	Year ended 31 December 2015
	£	£
Cost of sales		
Direct costs	**198,974**	852,906
Administrative expenses		
Depreciation of property, plant and equipment	**234,206**	78,230
Employee benefit expense (see note 8)	**502,774**	312,626
Marketing and customer acquisition costs	**102,787**	129,989
Professional fees	**173,686**	89,933
Other expenses	**72,621**	199,793
Total administrative expenses	**1,086,074**	810,571
Total cost of sales and administrative expenses	**1,285,048**	1,633,477

6. Auditor Remuneration

	Year ended 31 December 2016	Year ended 31 December 2015
	£	£
Fees payable to the Company's auditors for the audit of the Company	**30,000**	-
Fees payable to the Company's auditors for the audit of the subsidiaries	-	
Fees payable to the Company's auditors for other services:		
- Tax advisory services	**6,000**	-
- Fees payable for other services	-	-
Total auditor remuneration	**36,000**	-

7. Directors' emoluments and employees

(a) Employee benefit expense

	Year ended 31 December 2016	Year ended 31 December 2015
	£	£
Employee costs during the year (including directors)		
Wages and salaries	**449,674**	265,900
Social security costs	**53,100**	46,726
Total	**502,774**	312,626

(b) Average number of people employed

	Year ended 31 December 2016	Year ended 31 December 2015
Average number of people employed during the year	**Number**	Number
Sales and marketing	**2**	2
Operational	**6**	6
Total	**8**	8

(c) Directors' emoluments and key management compensation

	Year ended 31 December 2016	Year ended 31 December 2015
	£	£
Directors' emoluments		
Wages and salaries	**107,665**	100,000
Social security costs	**12,619**	12,689
Aggregate emoluments	**120,284**	112,689

	Year ended 31 December 2016	Year ended 31 December 2015
	£	£
Highest paid director		
Wages and salaries	**58,332**	100,000
Social security costs	**6,931**	12,689
Share based payments	-	-
Aggregate emoluments	**65,263**	112,689

Key management of the Company are the directors of the Company and are included above..

8. Pension Scheme

The Company does not operate a pension scheme.

9. Tax

The tax charge / (credit) represents:

	Year ended 31 December 2016	Year ended 31 December 2015
	£	£
Current tax		
Current tax - UK	-	-
Foreign taxation	-	-
Adjustment in respect of previous period	-	-
Total current tax	-	-
Deferred tax – current year	-	-
Deferred tax – prior year	-	-
Total deferred tax	-	-
Tax on profit on ordinary activities	-	-
Total current and deferred tax relating to items of OCI	-	-
	-	-

Domestic income tax is calculated at the domestic effective tax rate of 20% (2015: 20%) of the estimated assessable profit for the year.

The tax charge for the year can be reconciled to the profit per the Income Statement as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
	£	£
Profit / (loss) before tax	**(938,311)**	(1,364,042)
Tax at UK rate 20% (2015: 20%)	**(187,662)**	(272,808)
Effect of:		
Income not taxable for tax purposes		
Foreign tax rates	-	-
Rate changes	-	-
Tax losses not recognised as a deferred tax asset	**187,662**	272,808
Tax charge for the year	-	-
Corporation tax asset / (liability) provided		
Opening 1/1/2016 and closing 31/12/2016	-	-

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Due to history of taxable losses and uncertainty regarding of timing of utilisation management estimates that no taxable profits will be available in the foreseeable future. There were no deferred tax assets or liabilities recognised at the current or prior year end. After the processing of the 2016 tax result, the tax losses currently amount to approximately £1.6m.

10. Property, plant and equipment

	Land & Buildings	Plant & Machinery	Construction in progress	Office Equipment	Total
	£	£	£	£	£
Cost					
As at 1 January 2015	-	92,557	686,439	32,745	811,741
Additions	790,804	839,785	-	-	1,630,589
Transfer from Construction in Progress	646,895	39,544	(686,439)	-	-
Effect of foreign exchange	13,582	29,421	-	-	43,003
At 31 December 2015	1,451,281	1,001,307	-	32,745	2,485,333
Additions	180,377	526,155	-	-	706,532
Government grant	(214,562)	(42,838)	-	-	(257,400)
Effect of foreign exchange	157,230	123,363	-	-	280,593
At 31 December 2016	**1,574,326**	**1,607,987**	-	**32,745**	**3,215,058**
Accumulated Depreciation					
As at 1 January 2015	-	24,637	-	29,140	53,777
Charge for year	8,539	68,178	-	1,513	78,230
Effect of foreign exchange	336	2,012	-	-	2,348
At 31 December 2015	8,875	94,827	-	30,653	134,355
Charge for year	32,527	206,597	-	1,513	240,637
Government grant	(3,218)	(3,213)	-	-	(6,431)
Effect of foreign exchange	1,827	16,311	-	-	18,138
At 31 December 2016	**40,011**	**314,522**	-	**32,166**	**386,699**
Net book value					
At 31 December 2016	**1,534,315**	**1,293,465**	-	**579**	**2,828,359**
At 31 December 2015	1,442,406	906,480	-	2,092	2,350,978
At 1 January 2015	-	67,920	686,439	3,605	757,964

11. Intangible assets – digital currency

	£
Cost	
As at 1 January 2015	-
Additions	-
Disposals	-
Effect of foreign exchange	-
At 31 December 2015	-
Additions	277,423
Disposals	(66,764)
Effect of foreign exchange	-
At 31 December 2016	**210,659**

No amortisation has been charged against digital currency during the year as it is treated as having an indefinite useful life. Management record digital currencies on a first in first out basis.

12. Trade and other receivables

	31 December 2016	31 December 2015	1 January 2015
Current Debtors	**£**	£	£
Current trade receivables (less than 30 days) - net	**63,857**	2,175	-
Accounts receivable (net)	**63,857**	2,175	-
Tax receivable (VAT)	**20,795**	30,652	323,488
Prepayments	**39,307**	207,015	459,407
Other debtors	-	309,383	-
Total current trade and other receivables	**123,959**	549,225	782,895

The Company does not hold any material trade receivables over one year. The Company has not recorded a provision for uncollected trade receivables.

13. Cash and cash equivalents

	31 December 2016	31 December 2015	1 January 2015
	£	£	£
Cash and cash equivalents	**1,443,905**	161,273	134,892
Total cash and cash equivalents	**1,443,905**	161,273	134,892

14. Trade and other payables

	31 December 2016	31 December 2015	1 January 2015
	£	£	£
Trade payables	**111,590**	217,775	27,141
Other taxation and social security	**17,217**	14,804	13,935
Other payables	**100,622**	86,134	71,300
Accrued expenses	**19,920**	7,811	-
Deferred income	-	257,616	-
Total trade and other payables	**249,349**	584,140	112,376

15. Borrowings

	31 December 2016	31 December 2015	1 January 2015
	£	£	£
Short-term borrowings	-	3,897,227	1,640,296
Total borrowings	-	3,897,227	1,640,296

During the year ended 31 December 2016 the company repaid a loan from David Rowe, a director of the company, of £4.2m. The repayment of the loan was settled by the issue of 150,137 shares.

16. Shareholder Capital and Reserves

The balance on the share capital account represents the aggregate nominal value of all ordinary shares, with full right regarding voting, participation and dividends, in issue to the parent company. All ordinary shares have a nominal value of £1.00.

	Note	Share capital	Share premium	FX reserve	Retained earnings	Total Equity
		£	£	£	£	£
Balance at 1 Jan 2015 (unaudited)		518,459	-	-	(595,380)	(76,921)
Total profit / (loss) for the year		-	-	-	(1,364,042)	(1,364,042)
Foreign exchange movement		-	-	21,072	-	21,072
Balance at 31 Dec 2015		518,459	-	21,072	(1,959,422)	(1,419,891)
Total profit / (loss) for the year		-	-	-	**(938,311)**	**(938,311)**
Issue of share capital		**401,152**	**6,075,301**	-	-	**6,476,453**
Foreign exchange movement		-	-	**239,282**	-	**239,282**
Balance at 31 Dec 2016		**919,611**	**6,075,301**	**260,354**	**(2,897,733)**	**4,357,533**

17. Commitments

17(a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised in liabilities is as follows:

	31 December 2016	31 December 2015
	£	£
Property, plant and equipment	-	-

17(b) Non-cancellable operating leases

The Group has no non-cancellable operating leases.

The Company has various commercial agreements with vendors. The Company does not have any contingencies as of 31 December 2016.

18. Subsidiaries

Hydro66 UK Limited owns the following operating subsidiaries:

	Shareholding	Class	Country of Incorporation	Principal activity
Megamining Limited	100%	Ordinary	England	Provision of digital mining services
Hydro66 Svenska AB	100%	Ordinary	Sweden	Colocation & Digital Currency Transaction Services
Hydro66 Services AB	100%	Ordinary	Sweden	Colocation

19. Related party transactions

Key management are considered to be the Directors. Details of emoluments are disclosed in note 7.

During the year ended 31 December 2016 the company repaid a loan from David Rowe, a director of the company, of £4.2m. The repayment of the loan was settled by the issue of 150,137 shares.

Hydro66 Svenska AB, a sister company of which David Rowe and Richard Croft are directors, provided hosting services to Megamining Ltd. 2016: £76k; 2015: £543k.

Croft Legal Services Ltd, of which Richard Croft is a Director, provided legal services to Megamining Ltd. 2016: £67k; 2015: £73k.

During the year, Megamining Ltd transferred 40 bitcoins to David Rowe in exchange for USD 30k; 2015: nil.

Kurchakee Ltd, of which David Rowe is a director, bought finance and legal services and office space from Megamining Ltd. 2016: £44k; 2015: nil.

Moiety AB (formerly known as Cloud Autograf AB), of which Anne Graf is a director, provided consultancy services to Hydro66 Svenska AB. 2016: SEK 418,792; 2015: nil.

0920 Media AB (brand name Meramedia), of which Anne Graf is a director, provided marketing services to Hydro66 Svenska AB. 2016: SEK 328,038; 2015: nil.

Incita AB. Anne Graf is a director of this company. In 2016, Hydro66 Svenska AB purchased SEK 49,260 of marketing services from Incita AB. There were no transactions with this company in 2015.

20. Ultimate parent company

The ultimate controlling entity is Hydro66 UK Ltd. The ultimate controlling party is David Rowe, who owned 60.2% of the company at 31 December 2016.

21. Post financial statement events

On 15 February 2018, a sale purchase agreement was executed to sell 100% of the company to Arctic Blockchain Ltd. As

consideration for the sale the shareholders of Hydro66 UK Ltd were issued 80% of the shares and rights to subscribe to further shares in Arctic Blockchain Ltd.

22. Transition to IFRS

These consolidated financial statements represent the first annual financial statements prepared in accordance with IFRS as adopted by European Union. The Company adopted IFRS 1, First-time Adoption of International Financial Reporting Standards. The accounting policies set out in note 2 have been applied on a retrospective basis in preparing the financial statements for the year ended 31 December 2016, the comparative information presented in these financial statements for the year ended 31 December 2015 and in preparation of the opening IFRS statement of financial position at 1 January 2015. This is the first year that the Company has prepared consolidated financial statements so there is no reconciliation between previous reporting and IFRS.

IFRS Mandatory Exceptions

Set forth below are the applicable mandatory exceptions in IFRS 1 applied in the conversion from UK GAAP to IFRS;

Estimates

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under UK GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.