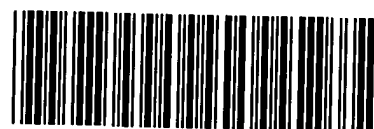

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

COMPANY INFORMATION

Directors	A Moody C Jackett (resigned 20 May 2022) C Ager-Hanssen (appointed 22 December 2022) S Matthews (appointed 23 December 2022)
Registered number	09823112
Registered office	30 Market Place London W1W 8AP
Independent auditors	BKL Audit LLP Chartered Accountants & Statutory Auditor 35 Ballards Lane London N3 1XW

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

CONTENTS

	Page
Strategic report	1 - 2
Directors' report	3 - 5
Independent auditors' report	6 - 9
Statement of comprehensive income	10
Statement of financial position	11 - 12
Statement of changes in equity	13
Statement of cash flows	14
Notes to the financial statements	15 - 29

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Introduction

For the second year in a row, nChain Group was named in the LexisNexis top 100 most innovative companies. nChain is a forward-thinking blockchain patent-developing group, moving rapidly into its next business phase.

Situated in the heart of London, the official tech capital of the world and founded in 2015 around the ideas of its Chief Scientist, nChain UK Ltd ("The Company") advances the potential of blockchain technology through ongoing research and development of inventions within the group ("nChain").

A third party also engages the Company to build, maintain and enhance the open-source software used to run the BSV blockchain upon which its products and solutions are built. With our partners, we are passionate about delivering a global scalable solution to the world.

Our vision is to enable an efficient value exchange for everyone. Our mission is to power the peer-to-peer economy.

Business review

2022 was a year of consolidation in readiness for the beginning of nChain's commercial phase in its business cycle. Focus was on attracting the right skills for the next growth cycle of commercialisation. The group expanded into new markets and developed new business models to drive forward into 2023.

We were thrilled to welcome Christen Ager-Hanssen to nChain as Group CEO.

As an early internet pioneer, entrepreneur and renowned venture capitalist, his values match those of the group exceptionally well. He brings passion, energy and dedication to commercial success. In the last quarter of 2022, we developed an exciting pipeline of commercial leads, beginning the new sales cycle in 2023 with fresh, proven business models suitably ambitious for a global leader in the web3 space.

In a market with high-interest rates, and inflation, we expect a shift as many large enterprises are contacting us as they seek to understand the value potential of transforming their from web2 to web3.

Principal risks and uncertainties

The Company is committed to building regulatory compliant blockchain solutions, including ensuring adherence to GDPR and other industry leading security and privacy standards. The Company believes the market is beginning to understand its differentiated position and need for regulatory compliance, as seen by the initial success of its Kensei platform with responsible gambling and KYC/AML service providers.

Financial key performance indicators

Revenue has increased by 24% compared to 2021, with many customers focusing on the increased need for scalability and solutions at an enterprise level.

In 2022, administrative costs increased as we attracted thought leaders and top talent from around the globe to prepare nChain for the next phase in its cycle, develop new commercial departments, and go-to-market strategies.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

This report was approved by the board and signed on its behalf.



A Moody
Director

Date: 12/07/2023

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their report and the financial statements for the year ended 31 December 2022.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, the Directors' 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 for the Company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 to 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.

Principal activity

The purpose of the Company is to enable enterprise-level organisations to add blockchain based capabilities to their existing business services through the provision of commercial blockchain and IT products and services.

The Company is engaged in the development, maintenance, marketing and service delivery of blockchain products using its world-leading research and engineering resources.

Results and dividends

The loss for the year, after taxation, amounted to £7,274,229 (2021 - loss £599,886).

The directors do not recommend the payment of a final dividend.

Directors

The directors who served during the year were:

A Moody
C Jackett (resigned 20 May 2022)
C Ager-Hanssen (appointed 22 December 2022)
S Matthews (appointed 23 December 2022)

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Future developments

In 2022, nChain focused on building increased shareholder value in the form of valuable strategic resources such as IP and capitalisable product development and advancements, together with research on the growing topic of blockchain scalability and AI.

We expect that in 2023 the Company will reverse the operating loss made in 2022 as the commercial DNA within the business expands and products pick up speed.

With the new business models introduced by the Group CEO, the Company will have an increase in professional services revenue as it works with its sister companies to commercialise the valuable and unique IP products within the Group.

We predict a large growth in the requirement for our research as a service, reviewing and assessing portfolios to establish value creation in a market with high inflation and expensive debt financing.

Research and development activities

Research has continued to expand within nChain, closing the year with a 20% increase in pending and granted patents, totalling 3,149 (2021: 2,633) as at 31 December 2022.

Unique to nChain is the large pipeline of inventions waiting to be filed; this original ideas list continued to grow steadily, increasing by 6% to 1,734 (2021: 1,632).

This year also saw a significant percentage increase in academic paper production. These are subject to double-blind peer review and are critical external markers of quality.

We aim to increase the technology readiness level of the IP products within the group and have begun the development of prototypes based on the IP. This is helpful as we increase the technology readiness level and commercialise the IP product.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

Post balance sheet events

On 1st Feb 2023, the Company acquired 51% shareholding comprising Class A Ordinary Shares in Block Dojo Limited to further its outreach in Blockchain research and development of blockchain based capabilities.

In addition, nChain Group continues to unlock the potential of its strategic resources such as IP via Strategic Collaboration Agreements in 2023 and beyond. To this effect, nChain UK Limited has invested into a wide range of dynamic businesses working to provide Web3 and Blockchain solutions to the global marketplace and are below:

- Unisot Holding AS
- Gate2Chain Limited
- Unbounded Enterprises, INC.
- Trade Window Holdings Limited
- Transmira, INC.
- Libro Publishing Limited
- Planetary Metaverse
- E- Livestock Global, INC.

Events after the report period have been evaluated up to the date of audited financial statements were approved and authorised for issue by the Board of nChain UK Limited and there are no events to be disclosed or adjusted in these audited financial statements, except those noted above.

Auditors

Under section 487 (2) of the Companies Act 2006, BKL Audit LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board and signed on its behalf.



A Moody
Director

Date: 12/07/2023

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

Opinion

We have audited the financial statements of nChain UK Limited (formerly nChain Limited) (the 'Company') for the year ended 31 December 2022, which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of cash flows, the Statement of changes in equity and the related notes, 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 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 Auditors' 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 United Kingdom, including the Financial Reporting Council'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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED) (CONTINUED)

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our Auditors' report thereon. The directors are responsible for the other information contained within the Annual Report. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic report and 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 have been prepared in accordance with applicable legal requirements.

Matters on which we are required to 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 Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you 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.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 3, 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.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED) (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Enquiring of management around actual and potential litigation and claims;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for bias.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED) (CONTINUED)

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' 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 opinions we have formed.

Michael Wedge

Michael Wedge FCA (Senior statutory auditor)

for and on behalf of

BKL Audit LLP

Chartered Accountants

Statutory Auditor

London

Date: 12/07/2023

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Note	2022 £	2021 £
Turnover	4	22,416,508	18,098,817
Gross profit		22,416,508	18,098,817
Administrative expenses		(29,759,791)	(18,781,441)
Operating loss	5	(7,343,283)	(682,624)
Interest receivable and similar income		125,422	-
Interest payable and similar expenses	9	(182,986)	(2,398)
Loss before tax		(7,400,847)	(685,022)
Tax on loss	10	126,618	85,136
Loss for the financial year		(7,274,229)	(599,886)

There was no other comprehensive income for 2022 (2021:£NIL).

The notes on pages 15 to 29 form part of these financial statements.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)
REGISTERED NUMBER: 09823112

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	2022 £	2021 £
Fixed assets			
Tangible assets	11	960,090	1,175,145
		<u>960,090</u>	<u>1,175,145</u>
Current assets			
Inventories	12	70,595	3,624
Debtors: amounts falling due after more than one year	13	14,030,329	603,716
Debtors: amounts falling due within one year	13	8,843,137	6,264,395
Cash at bank and in hand		1,116,741	4,838,017
		<u>24,060,802</u>	<u>11,709,752</u>
Creditors: amounts falling due within one year	14	(4,544,500)	(11,225,297)
Net current assets		<u>19,516,302</u>	<u>484,455</u>
Total assets less current liabilities		<u>20,476,392</u>	<u>1,659,600</u>
Creditors: amounts falling due after more than one year	15	(21,042,781)	(420,024)
Provisions for liabilities			
Deferred tax	16	-	(126,618)
		<u>-</u>	<u>(126,618)</u>
Net (liabilities)/assets		<u>(566,389)</u>	<u>1,112,958</u>
Capital and reserves			
Called up share capital	17	1	1
Share premium account	18	551,092	-
Other reserves	18	5,043,790	-
Profit and loss account	18	(6,161,272)	1,112,957
		<u>(566,389)</u>	<u>1,112,958</u>

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)
REGISTERED NUMBER: 09823112

STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2022

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



A Moody
Director

Date: 12/07/2023

The notes on pages 15 to 29 form part of these financial statements.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total equity
	£	£	£	£	£
At 1 January 2021	1	-	-	1,712,843	1,712,844
Comprehensive income for the year					
Loss for the year	-	-	-	(599,886)	(599,886)
Total comprehensive income for the year	-	-	-	(599,886)	(599,886)
At 1 January 2022	1	-	-	1,112,957	1,112,958
Comprehensive income for the year					
Loss for the year	-	-	-	(7,274,229)	(7,274,229)
Total comprehensive income for the year	-	-	-	(7,274,229)	(7,274,229)
Contributions by and distributions to owners					
Shares issued during the year	-	551,092	-	-	551,092
Share based payment transactions	-	-	5,043,790	-	5,043,790
Total transactions with owners	-	551,092	5,043,790	-	5,594,882
At 31 December 2022	1	551,092	5,043,790	(6,161,272)	(566,389)

The notes on pages 15 to 29 form part of these financial statements.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022**

	2022 £	2021 £
Cash flows from operating activities		
Loss for the financial year	(7,274,229)	(599,886)
Adjustments for:		
Depreciation of tangible assets	303,129	282,681
Interest paid	182,986	2,398
Interest received	(125,422)	-
Taxation charge	(126,618)	(85,136)
(Increase) in stocks	(66,971)	(3,624)
(Increase) in debtors	(2,462,977)	(5,211,902)
(Increase) in amounts owed by groups	(13,542,378)	(156,507)
Increase in creditors	2,381,132	2,861,184
Increase in amounts owed to groups	11,560,828	4,063,860
Share based payment transactions	5,043,790	-
Net cash generated from operating activities	(4,126,730)	1,153,068
Cash flows from investing activities		
Purchase of tangible fixed assets	(88,074)	(655,722)
Interest received	125,422	-
Net cash from investing activities	37,348	(655,722)
Cash flows from financing activities		
Issue of ordinary shares	551,092	-
Interest paid	(182,986)	(2,398)
Net cash used in financing activities	368,106	(2,398)
Net (decrease)/increase in cash and cash equivalents	(3,721,276)	494,948
Cash and cash equivalents at beginning of year	4,838,017	4,343,069
Cash and cash equivalents at the end of year	1,116,741	4,838,017
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	1,116,741	4,838,017
	1,116,741	4,838,017

The notes on pages 15 to 29 form part of these financial statements.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. General information

The principal activity of nChain Limited ("the Company") is to enable enterprise-level organisations to add blockchain based capabilities to their existing business services through the provision of commercial blockchain and IT products and services. The Company is engaged in the development, maintenance, marketing and service delivery of blockchain products using its world-leading research and engineering resources.

The Company is limited by shares and is incorporated in England and Wales.

The registered office is 30 Market Place, London, W1W 8AP.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue to trade for the foreseeable future, being a period of at least twelve months from the date of approval of these financial statements, and will be able to meet its debts as they fall due. The directors are satisfied that the company has sufficient funds to continue to trade for the foreseeable future.

The company has made a loss of £7,274,229 in the year and has net liabilities of £566,389 at the year end. The company is dependent on the support of continued funding from its ultimate shareholders. A shareholder of the parent has indicated their willingness to provide continuing support for the foreseeable future.

2.3 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.4 Turnover

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

Turnover is recognised in the period to which it relates.

2.5 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to profit or loss on a straight-line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.6 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

2.7 Interest income

Interest income is recognised in profit or loss using the effective interest method.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)

2.8 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.9 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

2.10 Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, profit or loss is charged with fair value of goods and services received.

2.11 National Insurance on share options

To the extent that the share price at the reporting date is greater than the exercise price on options granted under unapproved schemes after 19 May 2000, provision for any National Insurance contributions has been made based on the prevailing rate of National Insurance. The provision is accrued over the performance period attaching to the award.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.12 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the reporting date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.13 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Fixtures and fittings	-	20%
Computer equipment	-	20%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.14 Digital assets held as inventories

Digital assets held for the company's trade are recognised in stock at their fair value as it is considered a more relevant measure of the entity's performance.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)

2.15 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)

2.16 Financial instruments

The Company only enters into basic financial instruments and transactions that result in the recognition of financial assets and liabilities like trade debtors and creditors and amounts owed by and to group undertakings.

(i) Financial assets

Basic financial assets, including trade debtors, and amounts due from group undertakings, are initially recognised at transaction price, 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.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. 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 the Statement of Income and Retained Earnings.

(ii) Financial liabilities

Basic financial liabilities, including trade creditors and accruals, 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.

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

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and 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.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the SOFP date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The only estimate in the accounts is the value of the share option charge which has been measured using a binomial model

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

4. Turnover

The whole of the turnover is attributable to provision of commercial blockchain and IT products and services.

Analysis of turnover by country of destination:

	2022 £	2021 £
United Kingdom	32,000	410,017
Rest of Europe	8,600	-
Rest of the world	22,375,908	17,688,800
	<u>22,416,508</u>	<u>18,098,817</u>

5. Operating loss

The operating loss is stated after charging:

	2022 £	2021 £
Research & development charged as an expense	5,491,760	4,454,786
Exchange differences	701,604	(194,934)
Rent	564,542	632,270
Depreciation	303,129	282,681
	<u>6,061,035</u>	<u>4,972,703</u>

6. Auditors' remuneration

During the year, the Company obtained the following services from the Company's auditors:

	2022 £	2021 £
Fees payable to the Company's auditors for the audit of the Company's financial statements	21,700	17,325

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2022 £	2021 £
Wages and salaries	14,629,378	8,313,257
Social security costs	2,192,226	989,755
Cost of defined contribution scheme	562,894	517,787
	<u>17,384,498</u>	<u>9,820,799</u>

The average monthly number of employees, including directors, during the year was 106 (2021 - 100).

8. Directors' remuneration

	2022 £	2021 £
Directors' emoluments	<u>439,375</u>	<u>320,083</u>

During the year retirement benefits were accruing to 2 directors (2021 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £254,375 (2021 - £202,083).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £5,025 (2021 - £7,895).

During the year 1 director received shares under the long-term incentive schemes (2021 -NIL)

9. Interest payable and similar expenses

	2022 £	2021 £
Bank interest payable	-	2,398
Loans from group undertakings	<u>182,986</u>	<u>-</u>

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

10. Taxation

	2022 £	2021 £
Corporation tax		
Current tax on profits for the year	-	(133,475)
Adjustments in respect of previous periods	-	(1,526)
Total current tax	<u>-</u>	<u>(135,001)</u>
Deferred tax		
Origination and reversal of timing differences	(126,618)	49,865
Total deferred tax	<u>(126,618)</u>	<u>49,865</u>
Taxation on profit on ordinary activities	<u>(126,618)</u>	<u>(85,136)</u>

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2021 - *higher than*) the standard rate of corporation tax in the UK of 19% (2021 - 19%). The differences are explained below:

	2022 £	2021 £
Loss on ordinary activities before tax	(7,400,847)	(685,022)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	(1,406,161)	(130,154)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	958,320	3,277
Capital allowances for year in excess of depreciation	(97,917)	(41,505)
Adjustments to tax charge in respect of prior periods	-	(1,526)
Short term timing difference leading to an increase (decrease) in taxation	198,096	-
Unrelieved tax losses carried forward	221,044	-
Other differences leading to an increase (decrease) in the tax charge	-	84,772
Total tax charge for the year	<u>(126,618)</u>	<u>(85,136)</u>

Factors that may affect future tax charges

The Government has enacted an increase in the corporation tax rate to 25% from April 2023.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

11. Tangible fixed assets

	Fixtures and fittings £	Computer equipment £	Total £
Cost			
At 1 January 2022	885,478	731,701	1,617,179
Additions	29,554	58,520	88,074
At 31 December 2022	<u>915,032</u>	<u>790,221</u>	<u>1,705,253</u>
Depreciation			
At 1 January 2022	199,403	242,631	442,034
Charge for the year on owned assets	176,179	126,950	303,129
At 31 December 2022	<u>375,582</u>	<u>369,581</u>	<u>745,163</u>
Net book value			
At 31 December 2022	<u>539,450</u>	<u>420,640</u>	<u>960,090</u>
At 31 December 2021	<u>686,075</u>	<u>489,070</u>	<u>1,175,145</u>

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

12. Stocks

	2022 £	2021 £
Digital assets	70,595	3,624
	<u>70,595</u>	<u>3,624</u>

13. Debtors

	2022 £	2021 £
Due after more than one year		
Amounts owed by group undertakings	13,426,613	-
Other debtors	603,716	603,716
	<u>13,426,613</u>	<u>603,716</u>

	2022 £	2021 £
Due within one year		
Trade debtors	5,733,645	5,471,851
Amounts owed by group undertakings	272,272	156,507
Other debtors	409,019	406,860
Prepayments and accrued income	2,428,201	229,177
	<u>8,843,137</u>	<u>6,264,395</u>

14. Creditors: Amounts falling due within one year

	2022 £	2021 £
Trade creditors	3,552,044	2,227,254
Amounts owed to group undertakings	-	8,067,662
Other taxation and social security	694,482	638,664
Other creditors	48,351	20,176
Accruals and deferred income	249,623	271,541
	<u>4,544,500</u>	<u>11,225,297</u>

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

15. Creditors: Amounts falling due after more than one year

	2022 £	2021 £
Amounts owed to group undertakings	19,628,490	-
Accruals and deferred income	1,414,291	420,024
	<u>19,628,490</u>	<u>420,024</u>

16. Deferred taxation

	2022 £	2021 £
At beginning of year	(126,618)	(76,753)
Charged to profit or loss	126,618	(49,865)
At end of year	<u>-</u>	<u>(126,618)</u>

The deferred taxation balance is made up as follows:

	2022 £	2021 £
Accelerated capital allowances	-	(172,549)
Tax losses carried forward	-	24,846
Other short term timing differences	-	21,085
	<u>-</u>	<u>(126,618)</u>

17. Share capital

	2022 £	2021 £
Allotted, called up and fully paid		
1,250 (2021 - 1) Ordinary shares of £0.001 (2021: £1) each	1	1
	<u>1</u>	<u>1</u>

During the period the 1 Ordinary £1 share was sub divided into 1,000 Ordinary £0.001 shares.

A further 250 Ordinary £0.001 shares were issued for total consideration of £551,093.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

18. Reserves

Share premium account

Included in the share premium account are all amounts paid for shares above their nominal value.

Other reserves

Other reserves consist of the fair value of share options issued as part of the share based payment schemes run by the parent company.

Profit and loss account

Includes all current and prior period retained profits and losses.

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

19. Share based payments

During 2022 the ultimate parent company, HEH Holding AG granted 414,457 share options to ten nChain UK Limited employees.

	Weighted average exercise price (CHF) 2022	Number 2022	<i>Weighted average exercise price (CHF) 2021</i>	<i>Number 2021</i>
Granted during the year	.01	414,457		-
Forfeited during the year	.01	5,389		-
Outstanding at the end of the year		419,846		-

Financial Impact

The expense recognised for share based payments in respect of services received during the period to 31 December 2022 is £5,043,790 (2021: £Nil).

Information on measurement of fair value of share based payments

The fair value of employees share options is measured using a binomial model. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility, expected term of the instruments, expected dividends, and the risk-free interest rate.

The parameters used in the measurement of the fair values at grant date of the equity-settled share based payments were as follows:

	2022	<i>2021</i>
Weighted average share price (CHF)	55.67	
Exercise price (CHF)	.01	
Weighted average contractual life (days)	865	
Expected volatility	140%	
Expected dividend growth rate	0%	
Risk-free interest rate	1.61%	

20. Financial commitments

At 31 December 2022 the Company had commitments as follows:

	2022 £	<i>2021 £</i>
Contracted for but not provided in these financial statements	184,379	<i>106,503</i>

NCHAIN UK LIMITED (FORMERLY NCHAIN LIMITED)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

21. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £562,894 (2021 - £517,787). Contributions totalling £80,183 (2021 - £84,342) were payable to the fund at the reporting date and are included in creditors.

22. Commitments under operating leases

At 31 December 2022 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2022 £	2021 £
Not later than 1 year	630,036	630,036
Later than 1 year and not later than 5 years	2,520,144	2,520,144
Later than 5 years	1,890,108	2,520,144
	<u>5,040,288</u>	<u>5,670,324</u>

23. Related party transactions

Where possible, the company has taken advantage of the exemption conferred by Section 33.1A of Financial Reporting Standard number 102: Related Party Disclosures, from the requirement to disclose transactions with other wholly-owned group undertakings.

Key management remuneration has been disclosed in note 8.

24. Post balance sheet events

On 1st Feb 2023, the Company acquired 51% shareholding comprising Class A Ordinary Shares in Block Dojo Limited to further its outreach in Blockchain research and development of blockchain based capabilities.

25. Controlling party

The immediate parent company is nChain AG, a company incorporated in Switzerland.

The ultimate controlling party is DW Discovery Selection Fund.