

**Annual Report**

**Nxchange B.V.**

**2018**

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## Director's Report

### Key Figures

(All amounts are in € thousand unless otherwise stated.)

	31.12.2018	31.12.2017
Capital raised	2,387	1,477
Equity	952	750
Total assets / liabilities	1,526	1,141
Results over the year - loss	-708	-330
Cash (e/o year)	661	391
Liquidity ratio <sup>1</sup>	192%	157%
Solvency ratio <sup>2</sup>	62%	66%

### General

The world is changing, and it is changing fast. By use of technology, communities are getting a voice and they want to be heard. In the era of social networking and distributed networks it makes sense to come up with a solution for security issuers to raise capital through their networks and deal directly with their investors. Investors in turn want full transparency, 24/7 access, real-time settlement and the ability to use their assets and services anytime, anyplace and anywhere. In a nutshell, this is why Nxchange was built with the mission to become the *Next Generation Stock Exchange*.

It all started more than 4 years ago, on 20 February 2015. On this date, Nxchange B.V. was incorporated and registered in the trade register of the Dutch Chamber of Commerce under 62712616. Soon after its foundation, Nxchange B.V. started complex and lengthy license applications for Regulated Market and Investment firm permits, which it was delighted to receive in March 2016. In order to expand the exchange services a Multilateral Trading Facility ("MTF") permit and extension of the Investment Firm license was needed. These licenses were obtained on 28 August 2018 and 6 November 2018.

Next to acquiring the extended licenses, Nxchange B.V., in cooperation with ABN Amro Clearing N.V. jointly developed the blockchain bank account (also called Banking as a Service) in order to be able to directly settle transactions with client money safely and securely stored at a bank. This so-called Cash Trading Account was put into use on 29 November 2018. From this date on, all client money has been safely stored and handled by a firm with a banking license, i.e. ABN Amro Clearing N.V.

After having obtained the relevant permits and a more efficient solution to handle client money, Nxchange B.V. is now ready to start operating as the *Next Generation Stock Exchange*. With this proposition, partners of Nxchange are provided with a white-labelled stock exchange that can be fully integrated in their web-environment to raise capital and offer their investment community the possibility to trade these assets in a secondary market by combining the positive aspects of crowdfunding with the benefits of a regulated stock exchange, as a better alternative to existing stock-markets and private equity investing solutions.

In this Director's Report, I would like to share with you other relevant developments in 2018, Nxchange's future strategy, the main targets of 2019, the financial implications and the key risks.

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<sup>1</sup> Liquidity ratio is calculated as current assets divided by current liabilities.

<sup>2</sup> Solvency ratio is calculated as equity divided by total assets.

## **What else happened in 2018?**

During 2018, next to the successful application for the MTF permit and extension of the investment firm license as well as the implementation of a Cash Trading Account with ABN Amro Clearing NV, Nxchange focused on three other areas:

First of all, Nxchange's business model relies on the cooperation with partners. Their role is twofold: to find companies which would like to raise capital on Nxchange's platform and to facilitate the listing process of the issuer. As part of this partnership, Nxchange is the permit owner, the platform provider and is responsible for the issuers and investors acting on the exchange.

In the beginning of 2018, Nxchange signed a partnership agreement with its first partner, Rabobank, the largest retail bank in the Netherlands. After a 3-month trial period, this partnership agreement was successfully extended in the beginning of 2019. The Rabobank partnership resulted in €200k of revenue in 2018. Next to this partnership, Lykke AG, a Swiss crypto currency platform, became, on 30 September 2018, a shareholder of Nxchange B.V. with the long-term objective to become a partner of Nxchange B.V. as well.

Secondly, after having obtained the relevant licenses eventually in November 2018, Nxchange B.V. relied on the employees of GoldRepublic B.V., an affiliated company of Nxchange B.V. After acquiring its final licenses allocated the full needed resources to Nxchange and started the transfer process to transfer the employees to Nxchange. This transfer was concluded in June 2019. As a result, at the end of 2018, Nxchange's cost base increased.

Furthermore, Nxchange B.V. reached a conclusion with its affiliated companies Monopink N.V. and GoldRepublic B.V. that it is the economical and legal owner of its Intellectual Property.

Finally, during the preparation of the accounts, in order to improve its transparency, it was decided to write off the Deferred Tax receivable of €182k. The Deferred Tax receivable related to losses in 2015, 2016 and 2017. In the Netherlands such losses can be compensated with tax profits up to 9 years in the future. The company is confident that it will recover such losses in the future but that the timing of it is uncertain.

## **The Next Steps**

### *Onboarding partners and growth with existing partners*

Essential to realise the necessary growth, Nxchange will continue to focus on setting up partnerships for its Stock Exchange as a Service model. In 2019 Nxchange has signed a new partnership agreement with Dusk Bitfinex planning to go live in September 2019 and is close to signing a partnership agreement with TSPC and EECX (both active in the renewable energy finance sector). Furthermore, it will focus on streamlining the process of onboarding and expanding the number of listings with its existing partner Rabobank.

### *Support, legal and compliance*

When additional partnerships will be onboarded, Nxchange will further increase its operations-, legal- and compliance monitoring teams to ensure effective procedures and a properly functioning market.

### *Tokenization of ownership*

Blockchain technology will become the beating heart of the Global Financial System. Tokenization of ownership will be key both for security tokens (tokens with a 1:1 relationship to a security) or utility tokens (tokens that can be used to pay for a certain service/ product).

One thing is clear: Blockchain and smart contracts could catapult the securitization industry into a new digital age. The technology's potential to streamline processes, lower costs, increase the speed of transactions, enhance transparency and fortify security will impact all participants in the securitization lifecycle – from originators, sponsors/ issuers and servicers to rating agencies, trustees, investors and even regulators. As a result ICO fundraising by issuing both security and utility tokens surged to \$6.8 billion in 2017. This market however is not regulated at the moment. Since 2017 almost all regulators have now placed an absolute stop on issuing, or facilitating trade in, securitized tokens without the required permits in place.

Nxchange, with its Regulated Market, MTF and Investment Firm permits and with a platform which could connect to a distributed network, has the possibility to become the first regulated security token issuer and trading platform. Nxchange is currently in the process of setting this up in collaboration with Euroclear and ABN Amro Clearing bank.

### *IT*

From an IT point of view Nxchange will continue to develop certain aspects of the IT platform. These aspects will most notably include improving the functionality of onboarding of new partners, improved design of Nxchange's website and a more customer friendly onboarding procedure of new investors. Once the agenda of tokenization of ownership has been brought a step further, additional investments will be made to ensure that its trading venue can incorporate settlement on distributed networks (blockchain networks). Finally, IT investments will also be considered in Artificial Intelligence, UX/UI for commercial and market surveillance purposes.

## **Financial implications**

### **Key Risks**

Nxchange's risk analysis comprises the following areas:

#### *Continuity*

Nxchange was incorporated on 20th of February 2015 and has incurred start-up losses since. However, due to capital injections its equity and its working capital are both positive at December 31, 2018. The company is in its early stage of development and to maintain its position as attractive alternative proposition for equity and bond listings, it needed to invest in the development of its platform. Also, the process for the application of the MTF and broker licensees in the second half of last year was costly and consequently cash outflows were substantial. In addition, revenues from existing listings and partnerships were not yet sufficient to cover all costs incurred.

So far, the Company was successful in attracting new investors and partners to fund the ongoing growth of the business. To support further roll out of the business model the company attracted several funding parties in the first half of 2019. Currently, a total of €1.365k has been raised in the first six months. In order to ensure the company's ability to finance its operations for at least the next twelve months and to maintain and adhere to its regulatory capital requirements. Management expects new funds to come from ordinary business proceeds or additional funding.

Given the current cash position (approximately €867k at the end of June 2019), committed additional funding of €625k and already invoiced services for €150k the company needs some additional income to be able to cover its costs for the next twelve months. Nxchange will have to maintain its mandatory buffers, currently at a minimum level of €855k. Management is constantly monitoring the current and future cash flow position and will take proper action in time, if needed, to safeguard the continuity of its existing businesses. We are confident that we will be able to take care of this. The management has applied all accounting principles on a going concern basis.

#### *Regulatory capital*

As a result of its licenses, Nxchange has to comply with regulatory capital requirements. These regulatory capital requirements consist of regulatory capital of €125k plus the higher of a 6-month forecasted cost level or €730k. It also requires Nxchange to hold a liquidity level which needs to be higher than the regulatory capital level. On a monthly basis, these regulatory capital levels are monitored. It is also analysed whether it is likely that Nxchange will continuously meet such levels in the near future. On a quarterly basis, Nxchange reports on these regulatory capital levels to the DNB.

### *Credit Risk*

Nxchange has limited credit risk. Issuance fees from issuers which are listed on Nxchange will be deducted from the capital raised in the primary market issue.

Nxchange credit risk is further mitigated by the obligation for investors to deposit funds before entering into a transaction and the delivery versus payment settlement system. Transaction fees are automatically deducted and paid to Nxchange as part of each transaction. Inherent to its business model, Nxchange will be collecting setup fees from partners. Partnerships will only be started when the required setup fees are committed.

As of 31 December 2018, the assets held by the Nxchange are not past due or impaired.

As discussed below, there is an outstanding receivable from Effective Management Group B.V. (shareholder) of €116,077. Effective Management Group B.V. will pay its debt in the course of the coming months.

### *Concentration risk*

During 2018, the continuity of Nxchange's platform has been somewhat related to the continuity of Fastned as a listing. However, at the end of 2018, this dependency was reduced as Rabobank became a partner of Nxchange. As part of this partnership, Rabobank will direct its clients that are best served by a hybrid financing to the Nxchange platform. The partnership with Rabobank has resulted in 4 new listings 2019 so far. Rabobank expects to list another twenty five companies before the end of 2019. During the first months of 2019, Nxchange has seen a further increase of its pipeline of new partnerships and new listings. Nxchange entered into two additional partnerships.

### *Strategic risk*

As an exchange, Nxchange is uniquely positioned as a result of the MTF license with its scalable partner model. Attracting the right partners however takes time and operating the platform is expensive. As Nxchange is currently not profitable, the main strategic risk is to find the appropriate investors in Nxchange on a timely basis.

### *Operational*

As Nxchange is highly automated, we consider system risks to be substantial. However, many precautions have been taken to mitigate this risk, including daily backups, business continuity and recovery plans and regular IT audits.

The risk of conflicts of interest is considered an important risk. The process of hiring employees, a strong code of conduct and regular compliance awareness trainings facilitate employees in maintaining their independence from the listed entities.

The loss of a Key Person (the current sole Board Member) is a risk faced by Nxchange. During the year, this risk has been mitigated by improving the Nxchange's compliance and finance departments. In addition, subject to the approval process, the Company has recently appointed a new CTO and CFO and aims to hire a new CCO as board members in the very near future.

With respect to reputational risk, we are aware of the importance of Nxchange's reputation, so we take steps to maintain it and the investors' trust. The most important step is carefully evaluating companies which intend to list their securities and have a very extensive AML/KYC procedure for on-boarding both issuers and investors.

### *Legal and Regulatory*

We are subject to a number of complex regulatory and reporting laws, for which we have compliance procedures in place, supported by an external legal counsel and account to ensure compliance. We face the risk that the laws regarding investment entities, (foreign) investors or taxation might change, but we do not expect any significant impact from this risk at present.

We are currently seeking agreement with the AFM and DNB to execute a restructuring of Nxchange. As part of this restructuring Nxchange B.V. will become a 100% subsidiary of Nxchange Holding B.V. Nxchange's employees are employed by a subsidiary of Nxchange Holding B.V., i.e. Nxchange IT B.V. Nxchange IT B.V. was founded on 27 November 2018.

#### *Risk Management, Quality Control and Investor Reporting*

Nxchange is an early stage and growing company. As such our internal processes and procedures have room for optimization. In order to mitigate our key risks, we use external legal counsels (including a self-employed part-time compliance officer) and hired a full time compliance officer. The Risk committee, comprising of four key team members heading compliance, finance, operations and management, evaluates each listing and is supported by input from the legal counsel.

#### **Targets 2019**

The year 2019, will focus on the onboarding of at least three additional partners and at least twenty new listings with our existing partner Rabobank. As more partners are getting access to our platform, it will require further improvements, hence the optimisation of the trading platform will be an important area of focus for 2019 as well. Next to the increase of our commercial and platform development activities, our financial situation in 2019 will likely require new capital investor or an existing shareholder of Nxchange increasing its investment in Nxchange, hence this will be another area of focus. Finally, it is our eventual aim to go live with the first tokenized security listing in Q4 of this year.

In summary, we look forward to 2019. A year during which we can further implement and prove the business model of Nxchange.

Founder and CEO,

Marleen Evertsz

## Financial Statements

(All amounts are in € thousand unless otherwise stated.)

### Statement of profit or loss for the period 01-01-2018 till 31-12-2018

	Notes	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
		EUR	EUR
<b>Continuing operations</b>			
Revenue	5]	230	29
Cost of providing services		0	0
<b>Gross profit</b>		<u>230</u>	<u>29</u>
Personnel expenses	6]	367	158
Other expenses	7]	380	270
<b>Operating result</b>		<u>-517</u>	<u>-399</u>
Finance income		0	0
Finance costs	8]	9	13
Finance costs - net		<u>-9</u>	<u>-13</u>
<b>Result before income tax</b>		-526	-412
Income tax expense	9]	182	-82
<b>Result from continuing operations</b>		<u><u>-708</u></u>	<u><u>-330</u></u>
Profit from discontinued operation (attributable to owners of the Company)		0	0
<b>Result for the period</b>		<u><u>-708</u></u>	<u><u>-330</u></u>
Result is attributable to:			
Owners of the Company		<u>-708</u>	<u>-330</u>
		<u><u>-708</u></u>	<u><u>-330</u></u>

(All amounts are in € thousand unless otherwise stated.)

**Statement of comprehensive income for the period 01-01-2018 till 31-12-2018**

	<b>01.01.2018 - 31.12.2018</b>	<b>01.01.2017 - 31.12.2017</b>
	<b>EUR</b>	<b>EUR</b>
<b>Result for the period</b>	-708	-330
<b>Other comprehensive income</b>	0	0
<b>Other comprehensive income for the period, net of tax</b>	0	0
<b>Total comprehensive income for the period</b>	<u>-708</u>	<u>-330</u>
Total comprehensive income for the period is attributable to owners of the company:		
	-708	-330
	<u>-708</u>	<u>-330</u>
Total comprehensive income for the period is attributable to owners arises from:		
Continuing operations	-708	-330
Discontinued operations	0	0
	<u>-708</u>	<u>-330</u>
<b>Comprehensive income / (loss) per share (in €)</b>	-38,6	-19,8

(All amounts are in € thousand unless otherwise stated.)

### Statement of financial position 31-12-2018

After proposed appropriation of the result.

	Notes	31.12.2018	31.12.2017
		EUR	EUR
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible fixed assets	10]	451	359
Financial fixed assets	11]	55	55
Deferred tax assets	12]	<u>0</u>	<u>182</u>
		<b>506</b>	<b>597</b>
<b>Current assets</b>			
Receivables and prepayments	13]	359	153
Cash & Cash equivalents	14]	<u>661</u>	<u>391</u>
		<b>1,020</b>	<b>544</b>
<b>Total assets</b>		<b>1,526</b>	<b>1,141</b>
<b>Equity</b>			
Issued capital	15]	18	17
Share premium	15]	2,369	1,460
Retained earnings	16]	<u>-1,435</u>	<u>-727</u>
		<b>952</b>	<b>750</b>
<b>Liabilities</b>			
Non-current liabilities	17]	43	43
Current liabilities	18]	<u>531</u>	<u>347</u>
		<b>574</b>	<b>391</b>
<b>Total Equity and Liabilities</b>		<b>1,526</b>	<b>1,141</b>
Net assets attributable to owners of the Company		952	750

(All amounts are in € thousands unless otherwise stated.)

**Statement of changes in equity for the period 01-01-2018 till 31-12-2018**

	Issued share capital	Share premium	Retained earnings	Total
	EUR	EUR	EUR	
<b>2018</b>				
<b>Balance at 01 January 2018</b>	<b>17</b>	<b>1,460</b>	<b>-727</b>	<b>750</b>
Result for the period	0	0	-708	-708
Other comprehensive income	0	0	0	0
<i>Transactions with owners in their capacity as owners:</i>				
Issuance of share capital	1	0	0	1
Contributions of equity net of transaction costs	0	909	0	909
<b>Balance at 31 December 2018</b>	<b>18</b>	<b>2,369</b>	<b>-1,435</b>	<b>952</b>
<b>2017</b>				
<b>Balance at 01 January 2017</b>	<b>10</b>	<b>1,147</b>	<b>-397</b>	<b>760</b>
Result for the period	0	0	-330	-330
Other comprehensive income	0	0	0	0
<i>Transactions with owners in their capacity as owners:</i>				
Issuance of share capital	7	0	0	7
Contributions of equity net of transaction costs	0	313	0	313
<b>Balance at 31 December 2017</b>	<b>17</b>	<b>1,460</b>	<b>-727</b>	<b>750</b>

Proposed appropriation of the results of the year

The Board of Directors proposes to appropriate the loss of the year of €707,971 to the accumulated losses. This proposed appropriation is reflected in the accompanying financial report.

(All amounts are in € thousand unless otherwise stated.)

**Statement of cash flows for the period 01-01-2018 till 31-12-2018**

Notes	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
	EUR	EUR
<b>Cash flows from operating activities</b>		
Operating result	-517	-399
<i>Adjustments for</i>		
Depreciations	24	17
Interest paid	-9	-13
Changes in working capital	-23	48
<b>Net cash outflow from operating activities</b>	<b>-525</b>	<b>-347</b>
<b>Cash flows from investing activities</b>		
Payment of concessions and licenses	-115	-125
<b>Net cash outflow from investing activities</b>	<b>-115</b>	<b>-125</b>
<b>Cash flows from financing activities</b>		
Proceeds from issues of shares and other equity securities	15] 910	320
Repayment subordinated loans	0	-93
Payment subordinated loans Stichting Escrow Nxchange	0	75
<b>Net cash inflow from financing activities</b>	<b>910</b>	<b>302</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>270</b>	<b>-170</b>
Cash and cash equivalents at the beginning of the financial year	14] 391	561
Effects of exchange rate changes on cash and cash equivalents	0	0
<b>Cash and cash equivalents at end of year</b>	<b>661</b>	<b>391</b>

## **Notes to the Financial Statements**

### **Note 1 General Information**

Nxchange B.V. is a limited liability Company (Besloten Vennootschap) incorporated and existing under Dutch law. Nxchange is registered with the chamber of commerce under number 62712616, having its official seat (statutaire zetel) at the Herengracht 454 in Amsterdam, the Netherlands (the Company). The Company commenced operations on the 20th of February 2015.

The Company's registered office is Herengracht 454, 1017 CA Amsterdam, the Netherlands.

The objectives of the Company are to facilitate trade of financial instruments through its trading platform to account holders in both the primary and secondary market. The financial objectives are to be demonstrated by generating dividends and significant medium- to long-term capital growth. The Company aims to deliver these objectives by providing a trading platform to Pan European companies wishing to attract capital.

The Company's own shares are not traded in the public market.

The financial statements were authorized for issue by the Board of Director on 30 June 2019.

### **Note 2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below.

#### *Basis of preparation*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and the statutory provisions of Part 9, Book 2, of the Dutch Civil Code. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

#### *Basis of consolidation*

Since, 27 November 2018, Nxchange B.V. has one subsidiary Nxchange IT B.V. As at 31 December 2018, Nxchange IT B.V. was a dormant entity. The accounts of Nxchange B.V. are prepared on a stand-alone basis as the inclusion of Nxchange IT B.V. is immaterial for the purpose of giving a true and fair view.

#### *Going Concern Basis of Accounting*

The company is in start-up phase, where it is essential that enough capital and liquidity is available to safeguard the company's operations in the coming year. The management of the company is confident that it will be able to meet its obligations and capital requirements. Therefore, the company is applying all accounting principles on a going concern basis

#### *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

Nature of change	Impact	Mandatory application date
<i>IFRIC 23 Uncertainty over Income Tax Treatments</i>		
This interpretation clarifies that entities must assess whether it is probable that a tax authority (with full knowledge of all relevant information) will accept an uncertain tax treatment used in tax filings. If so, tax accounting should be consistent with that treatment. If not, the effect of uncertainty should be reflected in the tax accounting applied (using whichever of a 'most likely amount' or 'expected value' approach is expected to better predict the resolution of the uncertainty).	At this stage, this interpretation may affect the measurement of the deferred tax asset, which is the result of the historical losses and expectation that these losses will be compensated in the near future.	Must be applied for financial years commencing on or after 1 January 2019 (subject to EU endorsement).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

#### *Intangible assets*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated;

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

#### *Derecognition of intangible assets*

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

#### *Impairment of intangible assets other than goodwill*

At the end of each reporting period, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss. We also refer to the going concern paragraph as this may impact a potential impairment.

#### *Deferred tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in Other Comprehensive Income (OCI) or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### *Financial instruments*

##### Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

##### Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement financial assets, other than those designated and effective as hedging instruments, are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL are reviewed for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

#### *Financial assets at FVTPL*

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. The Company currently does not own any assets at FVTPL.

#### *HTM investments*

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Company has the intention and ability to hold them until maturity. The Company currently holds no assets designated into this category. HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes in the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

#### *Receivables*

Receivables are recognized initially at fair value. They are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

A provision for impairment is established when there is objective evidence that the entity will not be able to collect all amounts due to be received. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganization, and default in payments are considered indicators that the amount to be received is impaired. Once a financial asset has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

At year-end the carrying amount of the receivables approximate their fair value.

#### *Cash and cash equivalents*

Cash and cash equivalents include cash in hand and bank overdrafts. As at year-end the carrying amount of cash and cash equivalents approximate their fair value.

The company's cash flow statement is reported using the indirect method.

#### *Equity, reserves and dividend payments*

Share capital represents the nominal (par) value of shares that have been issued. Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

#### *Payables and accrued expenses*

Payables and accrued expenses are recognised initially at fair value and subsequently stated at amortised cost. The difference between the proceeds and the amount payable is recognised over the period of the payable using the effective interest method. As at year-end the carrying amount of payables and accrued expenses approximate their fair value. Retained earnings includes all current and prior period retained profits and share-based employee remuneration. All transactions with owners of the parent are recorded separately within equity. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

#### *Revenue*

The majority of revenue consists of: set-up fees from partners, transaction fees, and license fees. Set-up fees from partners and license fees are recognized in the period when the performance obligation has been satisfied and payment from the client is probable. Transaction fees are recognized upon settlement of the transaction on Nxchange's platform.

#### *Legal and professional expenses*

Legal and professional expenses are costs incurred on a regular basis for fees paid for regulatory bodies and fees paid to agents for carrying out the duties on behalf of the entity for regulatory and compliance purpose. These costs are immediately recognised in profit or loss as an expense.

#### *Taxation*

The entity is domiciled in the Netherlands and is therefore subject to the Dutch Tax Law.

### **Note 3 Financial risk management**

#### **Financial risk factors**

Nxchange has made a solid risk analysis on several areas. The following areas can be distinguished:

#### Market risks

The Company is exposed to the risk of concentration in certain activities or markets. This risk is mitigated by a low overhead and a minimum reserve requirement as set by the regulatory authorities.

#### - Price risk

The Company is exposed to price risk with respect to general price increases (consumer price index).

#### - Interest rate risk

The Company only runs minimal interest rate risk on cash in the bank. The risk is that the minimal interest rate decreases even further.

#### Credit risk

The Company has limited exposure to credit risk, which is the risk that one party will cause a financial loss for the other party by failing to discharge an obligation. This risk is mitigated by the obligation for clients to deposit funds before entering a transaction and the delivery versus payment settlement system. Within the credit risk we can distinguish three individual external risks.

#### - Counterparty risk and bankruptcy risk.

This risk relates to the undertaking concerned; both debtors and creditors:

- Debtors (partners). Nxchange enters into partnership agreements with established companies in the financial services sector. These partnership agreements are usually the result of extensive and lengthy negotiations. The partnership agreement requires the payment of a set-up fee and revenue guarantee. If, after various reminders, the partner fails to pay its set-up fee or revenue guarantee, the partnership agreement cannot continue and will be terminated.

Nxchange's counterparty risk to issuers and investors is limited. Nxchange deducts the issuers fee from the raised capital, hence there is no risk that this fee will not be collected. The issuers pay a license fee which is collected every annum. This a relatively small fee as percentage of its raised capital. As investors on Nxchange's platform only trade with real-time settlement, there is no risk that investors cannot meet their fees. This system is automated; hence investors cannot place a trade without sufficient balance on their account.

- Concentration risk.

The risk that too large proportion of sales is concentrated with one debtor:

- Partners. Currently there is a risk of having too few partners, with only one partner as per year/end. Nxchange has a large pipeline of new partners which would like to list their clients on Nxchange's platform and entered into two new partnership agreements in Q2 2019.

- Investors. In 2018, Nxchange had only one listed entity with one shareholder with an absolute majority of shares. Hence there was a risk that a de-listing happens when this shareholder sells its shares. In addition, when the listed entity would have announced negative results there was a chance that a collective sale of investors occurred. As a result of such events, there has been a risk that Nxchange will lose its investor base. However, in 2019, Nxchange has entered into several partnership agreements. Such partnership agreements will lead to a large number of listings and new investors.

Financial and liquidity risk.

As a result of Nxchange's three licenses: the Investment Firm license, the Regulated Market permit and Multilateral Trading Facilities permit, the Company is required to meet certain capital requirements. The current relevant regulatory capital requirements require regulatory capital of €125k plus the higher of a 6-month forecasted cost level or €730k. It also requires Nxchange to hold a liquidity level which needs to be higher than the regulatory capital level. There is a risk that Nxchange is not able to meet such regulatory liquidity and capital levels. In order to manage this risk, the Board of Directors is constantly monitoring these levels and has processes in place to attract new funding on a timely basis.

Liquidity risk is the risk that the Company may be unable to meet short term financial demands. The table below analyses Nxchange's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances.

(All amounts are in € thousands unless otherwise stated.)

Financial liabilities	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>2018</b>				
Subordinated loans Klaver	-	-	43	-
Monopink current account	85	-	-	-
GoldRepublic current account	307	-	-	-
Other liabilities / payables	139	-	-	-
<b>2017</b>				
Subordinated loans Klaver	-	-	43	-
Monopink current account	125	-	-	-
GoldRepublic current account	50	-	-	-
Liabilities to tax authority (payroll taxes)	5	-	-	-
Other liabilities / payables	167	-	-	-

## Financial instruments

### Accounting classification and fair values of financial instruments

The following table presents the fair values of financial instruments, based on Nxchange's categories of financial instruments, including current portions, compared to the carrying amounts at which these instruments are included on the balance sheet:

#### Financial assets per category

<b>2018</b>	<b>Carrying amount</b>	<b>Fair value</b>
Other financial assets	55	55
Cash and cash equivalents	661	661
Trade and other receivables	359	359
	<b>1,075</b>	<b>1,075</b>

  

<b>2017</b>		
Other financial assets	55	55
Cash and cash equivalents	391	391
Trade and other receivables	153	153
	<b>599</b>	<b>599</b>

#### Financial liabilities per category

<b>2018</b>	<b>Carrying amount</b>	<b>Fair value</b>
Subordinated loans Klaver	43	43
GoldRepublic current account	307	307
Monopink current account	85	85
Other liabilities / payables	96	96
	<b>531</b>	<b>531</b>

  

<b>2017</b>		
Subordinated loans Klaver	43	43
GoldRepublic current account	50	50
Monopink current account	125	125
Other liabilities / payables	129	129
	<b>391</b>	<b>391</b>

#### Operational risks

- Outsourcing risk.  
Nxchange uses Triple IT B.V. as hosting party, for storage and backup of all client related information. Euroclear Nederland is the depository party.
- Market abuse risk:  
Nxchange employees and stakeholders are not allowed to trade on Nxchange's platform. A comprehensive compliance module for issuers is developed. This module indicates restrictions and sets strict rules. Insiders may temporarily be blocked, so they cannot make trades while having sensitive information. Nxchange monitors and reports all transactions and indicates suspicious transactions or unusual behavior from trading clients. The AFM monitors closely whether we adhere to the standards.

- Legal risk

The compliance officer is responsible for reporting non-compliance with laws and regulations to the Board and regulators. He also performs risk assessments. In order to, an external lawyer is used when more background information is needed. All employees are obliged to join a Compliance Awareness Training and test. A Rule Book is developed with an explanation of all processes and rules for trading clients. The Compliance Module is developed for issuing companies. Both documents are living documents, maintained when necessary because of changing legislation.

The loss of a Key Person (one of the Board Members) is a risk faced by the Company. The Company has recently on-board a new CFO and is in the process of hiring a CCO to mitigate this risk. Risk exposure pertaining to unqualified personnel is mitigated by a thorough process for hiring employees. This process includes background checks and a certificate of good conduct from the Dutch Government of the individual employee.

### **Fair value estimation**

The entity is required to classify, for disclosure purposes, fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

As at 31 December 2018, the Company has no financial assets and liabilities measured at fair value.

### **Fair values, including valuation methods and assumptions**

As at 31 December 2018, the carrying amounts of cash and cash equivalents, other receivables and prepayments, and short-term liabilities approximated their fair values due to the short-term maturities of these assets and liabilities.

### **Note 4 Critical accounting estimates and judgements**

#### **Critical accounting estimates and judgements**

The Board of Directors makes estimates and assumptions that affect the reported amounts of the assets and liabilities within the next financial year, for example deferred tax assets and capitalization of intangible assets. Estimates and judgements are continually evaluated and are based on factors including expectations of future events that are believed to be reasonable under the circumstances.

#### **Functional currency**

The financial performance of the Company is measured and reported to investors in euros. The financial statements are presented in euros, which is also the Company's functional currency.

## Note 5 Revenue

(All amounts are in € thousands unless otherwise stated.)

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
	EUR	EUR
License fee	15	15
Partner fee	200	0
Transaction fee	5	3
Other fees	10	11
<b>Total revenue</b>	<b>230</b>	<b>29</b>

## Note 6 Personnel expenses

(All amounts are in € thousands unless otherwise stated.)

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
	EUR	EUR
Salaries including bonuses	108	145
Social security costs	9	10
Allocated personnel expenses from group companies	223	0
Other personnel expenses	27	3
<b>Total personnel expenses</b>	<b>367</b>	<b>158</b>

The average number of employees was 1 in 2018 and in 2017. During the course of 2018, Nxchange B.V. hired staff from GoldRepublic B.V. These employees (including Nxchange's Managing Director) will be transferred to Nxchange's subsidiary Nxchange IT BV subsequent to obtaining regulatory approval of the restructuring of Nxchange.

The total remuneration of key management personnel amounts to €189k in 2018 and €158k in 2017. Part of this remuneration is included in the line "allocated personnel expenses from group companies".

## Note 7 Other expenses by nature

(All amounts are in € thousands unless otherwise stated.)

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
	EUR	EUR
<b>Other expenses by nature</b>		
Professional services	246	94
Depreciation costs	24	17
IT expenses	(22)	67
Sales and marketing expenses	26	10
Regulatory costs	67	58
Other operating	39	24
<b>Total other expenses</b>	<b>380</b>	<b>270</b>

## Specification of external auditor's fees

The fees for the audit of the Company are included in the professional services and are inclusive of tax-advice.

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
	EUR	EUR
<b>External auditor's fees</b>		
Audit of the financial statements Nxchange BV	25	28
Audit Stichting Escrow Nxchange	5	5
IT audit engagements	0	13
Other audit engagements	2	0
Tax related engagements	0	14
<b>External auditor's fees</b>	<b>32</b>	<b>60</b>

For 2018, ENDYMION Accountants B.V. was appointed as the external auditor of the Company and replaced Grant Thornton.

## Note 8 Finance costs

(All amounts are in € thousand unless otherwise stated.)

	<b>01.01.2018 - 31.12.2018</b>	<b>01.01.2017 - 31.12.2017</b>
	EUR	EUR
<b>Finance costs</b>		
Paid interest subordinated loans	-2	-4
Received interest subordinated loans	0	4
Bank charges	-5	-9
Negative yield money market fund costs	0	0
Non deductible VAT	-3	-4
<b>Total finance costs</b>	<b>-9</b>	<b>-13</b>

## Note 9 Income tax expense

(All amounts are in € thousand unless otherwise stated.)

The reconciliation of the tax expense, based on the domestic effective tax rate at 20% (2017: 20%) and the reported deferred tax asset are as follows:

	<b>01.01.2018 - 31.12.2018</b>	<b>01.01.2017 - 31.12.2017</b>
Profit for tax	-526	-412
Domestic tax rate	20%	20%
<b>Tax income</b>	<b>105</b>	<b>82</b>

The corporate tax expense for the year can be recognized to the profit and loss as follows.

	<b>01.01.2018 - 31.12.2018</b>	<b>01.01.2017 - 31.12.2017</b>
<i>Deferred tax expense comprises</i>		
Tax income 2017		82
Tax income 2018	105	
Release deferred tax asset from 2015 to 2017	-182	
Tax expense not recognised	-105	
<b>Deferred tax expense</b>	<b>-182</b>	<b>82</b>

## Note 10 Intangible fixed assets

(All amounts are in € thousand unless otherwise stated.)

The depreciation term of concessions & permits is 20 years. A summary of the movements in 2017 and 2018 is given below:

<b>Concessions &amp; permits</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
<b>Gross carrying amount</b>		
Opening balance	<b>354</b>	<b>229</b>
Addition	115	125
Closing balance	<b>469</b>	<b>354</b>
<b>Depreciation and impairment</b>		
Opening balance	<b>-17</b>	<b>-7</b>
Depreciation	-17	-10
Closing balance	<b>-34</b>	<b>-17</b>
<b>Carrying amount at closing balance</b>	<b>435</b>	<b>337</b>

The addition of concessions & permits costs includes the application costs of the Multilateral Trading Facility (MTF) which was granted to Nxchange on 30 August 2018. Part of this addition includes an accrual for the AFM costs.

The depreciation term of the website is 5 years. A summary of the movements in 2017 and 2018 is given below:

<b>Website</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
<b>Gross carrying amount</b>		
Opening balance	<b>34</b>	<b>34</b>
Addition	0	0
Closing balance	<b>34</b>	<b>34</b>
<b>Depreciation and impairment</b>		
Opening balance	<b>-12</b>	<b>-5</b>
Depreciation	-7	-7
Closing balance	<b>-19</b>	<b>-12</b>
<b>Carrying amount at closing balance</b>	<b>16</b>	<b>23</b>

## Note 11 Financial fixed assets

(All amounts are in € thousands unless otherwise stated.)

	31.12.2018	31.12.2017
<b>Opening balance</b>	<b>55</b>	<b>130</b>
Repayment loan Stichting Escrow Nxchange	-50	-75
Capital contribution Stichting Escrow Nxchange	50	0
Capital contribution Nxchange IT B.V.	0	0
<b>Closing balance</b>	<b>55</b>	<b>55</b>

On 19 March 2018, the subordinated loan has been repaid to Nxchange B.V. Immediately after, Nxchange B.V. contributed this amount to the capital of Stichting Escrow Nxchange.

On 27 November 2018, Nxchange IT BV, a 100% subsidiary of Nxchange BV was founded. This entity is dormant per 31 December 2018. During the course of 2019, Nxchange IT will be used to employ the personnel.

## Note 12 Deferred tax assets

Nxchange B.V. has €1,434k (2017 €814k) of accumulated losses which are available for offsetting against future taxable profits for a period of 9 years since origination.

(All amounts are in € thousands unless otherwise stated.)

Tax year	Tax loss	Year expiring
2015	84	2024
2016	412	2025
2017	412	2026
2018	526	2027
<b>Total</b>	<b>1,434</b>	

Due to uncertainty about the timing of future profits in the period 2019-2027, Nxchange BV has determined that it cannot recognize deferred tax assets on the tax losses carried forward. See also note 9.

### Note 13 Receivables and prepayments

(All amounts are in € thousands unless otherwise stated.)

<u>Receivables and prepayments</u>	<u>31.12.2018</u>	<u>31.12.2017</u>
Prepaid expenses	3	2
Receivables from the Tax authority (VAT)	43	9
Receivables from Nx'one	0	21
Receivables from Stichting Escrow Nxchange	8	4
Receivables from EMG BV	116	116
Other receivables	6	0
Accounts receivables	183	0
<b>Balance at 31 December</b>	<b>359</b>	<b>153</b>

The fair values of other receivables approximate carrying value. All other receivables and prepayments have a maturity of less than 1 year.

### Note 14 Cash and cash equivalents

(All amounts are in € thousands unless otherwise stated.)

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with original maturity of less than 90 days.

	<u>31.12.2018</u>	<u>31.12.2017</u>
	<u>EUR</u>	<u>EUR</u>
Cash at ABN AMRO Bank	661	391
Cash at Deutsche Bank	0	0
	<b>661</b>	<b>391</b>

## Note 15 Share capital and premium and shareholders distribution

(All amounts are in € thousand unless otherwise stated.)

<u>Share capital and premium</u>	<u>Number of shares</u>	<u>Issued share capital</u>	<u>Share premium</u>	<u>Total</u>
<b>Balance at 1 January 2018</b>	<b>16,665</b>	<b>17</b>	<b>1,460</b>	<b>1,477</b>
Ordinary shares issued	1,667	1	0	1
Share premium	0	0	909	909
<b>Balance at 31 December 2018</b>	<b>18,332</b>	<b>18</b>	<b>2,369</b>	<b>2,387</b>

### Shareholders distribution

	<u>31.12.2018</u>		<u>31.12.2017</u>	
	<u>Number of shares</u>	<u>%</u>	<u>Number of shares</u>	<u>%</u>
EMG B.V.	11,062	60.34%	11,062	66.38%
Lykke AG	1,667	9.09%		
Arapiles Holding B.V.			999	5.99%
P.C. Klaver	999	5.45%		
A.A. Butter	800	4.36%	800	4.80%
M.H. Verkoren	634	3.46%	634	3.80%
H.C. Verkoren	634	3.46%	634	3.80%
W.M. Verkoren	634	3.46%	634	3.80%
R.L. Klaver	634	3.46%	634	3.80%
B.K Klaver	634	3.46%	634	3.80%
M.K. Klaver	634	3.46%	634	3.80%
<b>Totaal</b>	<b>18,332</b>	<b>100%</b>	<b>16,665</b>	<b>100%</b>

The Company issued 1,667 ordinary shares in 2018. All issued shares were fully paid, except for EMG BV which still has to pay the share premium for an amount of €116.077. The par value per share was €1. For all purposes, including voting rights, all ordinary shares are treated the same, except for the main shareholder which has the first right of purchase when other shareholders wish to sell their shares. Additionally, EMG has to approve every share transfer.

The Company has a call option on Lykke's 1,667 ordinary shares. The option's exercise price is €1,144k and it can be exercised between 1 and 30 September 2019. The fair value of the option is nil. Lykke has a put option for the same time frame. The put option is at Lykke's acquisition price. If Lykke exercises its put option, then Yellitech B.V. is obliged to purchase the shares. EMG B.V. has guaranteed this purchase.

## Note 16 Retained earnings

(All amounts are in € thousands unless otherwise stated.)

### Retained earnings

<b>Balance at 01 January 2018</b>	<b>-727</b>
Result in 2018	-708
<b>Balance at 31 December 2018</b>	<b><u><u>-1,435</u></u></b>

### Proposed appropriation of the results of the year

The Board of Directors proposes to appropriate the loss of the year of €707,971 to the accumulated losses. This proposed appropriation is reflected in the accompanying financial report.

## Note 17 Long term liabilities

(All amounts are in € thousand unless otherwise stated.)

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>EUR</b>	<b>EUR</b>
<b>Opening balance</b>	<b>43</b>	<b>136</b>
Repayment subordinated loan Klaver	0	-50
Repayment subordinated loan Verkoren	0	-43
<b>Closing balance</b>	<b><u><u>43</u></u></b>	<b><u><u>43</u></u></b>

In the beginning of 2017, the subordinated loans amounted to €136k and consisted in two parts: €93k Klaver and €43k Verkoren. In May 2017 the subordinated loan part of Verkoren of €43k is fully repaid. The subordinated loan of Klaver has a remaining duration of 2.5 years and interest is calculated at 5%. The loan is subordinated and is convertible after 2.5 years at the discretion of the creditor for the remaining outstanding amount. Amortised cost is equal to the face value. The equity component of the subordinated loan is measured at € 0.

### Note 18 Short term liabilities

(All amounts are in € thousands unless otherwise stated.)

	31.12.2018	31.12.2017
	EUR	EUR
Payroll taxes withheld	0	5
Holiday allowance	0	6
Creditors	37	122
Regulatory expenses to be paid	50	0
Auditor expenses to be paid	35	23
Monopink Current Account	85	125
GoldRepublic Current Account	307	50
Other short term debt	17	18
	<u>531</u>	<u>347</u>

### Note 19 Related party transactions

Parties are considered to be related if one party has the ability to control the other party, or exercise significant influence over the other party in making financial or operational decisions. In previous years, Monopink N.V. was considered to be the legal and economical owner of Nxchange's intellectual property (IP). After a detailed review this year, it was concluded that Monopink could not have been the legal and economical owner of the Nxchange IP. As such the SLA agreement between Monopink and Nxchange was terminated as at 1 January 2018 and the license fee (€50k) of 2016 was credited.

GoldRepublic B.V., an entity headed by the same Managing Director and with, similar shareholders as Nxchange B.V, except for Lykke, is considered a related party. GoldRepublic B.V. provides software developers to develop the Nxchange IP and employees to work on the other relevant areas (such as commercial and operational) for Nxchange. During the year, GoldRepublic B.V. invoiced (€223k) Nxchange B.V. for these services.

Effective Management Group B.V., shareholder Nxchange and represented by Marleen Evertsz, still has to pay the share premium for an amount of €116,077.

The current account to Stichting Escrow Nxchange amounted to €7k (receivable), which is excluding the capital contribution of €50k.

### Note 20 Contingent Liabilities

There are no contingent liabilities.

## Note 21 Capital management policy

Nxchange's capital management objectives are:

- To comply with the ongoing requirements stipulated by the regulators
- To ensure the ability as a going concern
- To provide an adequate return to shareholders

Management assesses the capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage.

The amounts managed as capital by the Company for the reporting periods under review are summarized as follows:

	<b>31.12.2018</b>	<b>31.12.2017</b>
Issued Share capital	18	17
Share premium	2.369	1.460
Retained earnings	-1.435	-727
Intangible fixed assets	-451	-359
Deferred tax assets	0	-201
Capital contribution/ Loan Stichting Escrow Nxchange	-50	-50
<b>Tier 1 Capital</b>	<b>451</b>	<b>159</b>
Subordinated loans	43	43
<b>Total Regulatory Capital</b>	<b>495</b>	<b>202</b>

## Note 22 Subsequent events

GoldRepublic transferred the majority of its staff to Nxchange IT BV., a subsidiary of Nxchange BV This transfer was concluded in June 2019. As a result, Nxchange's operational cost base increased.

In the first half of 2019 investors were attracted who invested an amount of €840k in NXPR's, the Nxchange Profit Rights. NXPR are part of the equity and have the same right to the profit as ordinary shares without voting rights. In addition, a new investor in the ordinary capital of Nxchange invested an amount of €525k and committed an additional amount of €635k in 2019.

Amsterdam, the Netherlands, 30 June 2019

Board of Director Nxchange

On behalf of Effective Management Group B.V.  
M.L. Evertsz

## **Other Information**

### Statutory rules concerning appropriation of result

Article 4 of the Company's articles of association stipulates the following about appropriation of the result:  
The result is at the free disposal of the general meeting of shareholders.

### Independent auditor's report

The independent auditor's report is attached to this report on the next page.

## **INDEPENDENT AUDITOR'S REPORT**

To: The shareholders of Nxchange B.V.

### **A. Report on the audit of the financial statements 2018 included in the annual report**

#### **Our opinion**

We have audited the financial statements 2018 of Nxchange B.V. based in Amsterdam.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Nxchange B.V. as at 31 December 2018 and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1. the statement of financial position as at 31 December 2018;
2. the following statements for 2018:
  - the statements of profit or loss, comprehensive income, changes in equity and cash flows; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

#### **Basis for our opinion**

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Nxchange B.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **B. Report on the other information included in the annual report**

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the director's report;
- other information as required by Part 9 of Book 2 of the Dutch Civil Code.

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Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

### **C. Description of responsibilities regarding the financial statements**

#### **Responsibilities of management for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting, unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

#### **Our responsibilities for the audit of the financial statements**

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

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We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- concluding on the appropriateness of management's 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 findings in internal control that we identify during our audit.

Amsterdam, 30 June 2019

ENDYMION Accountants B.V.

Signed on the original by drs. H. Rijntjes RA