

**INNOVATION LABS LIMITED**

**Annual Report and Financial Statements  
31 December 2017**

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## **Director's report**

The directors present their report and the audited financial statements for the year ended 31 December 2017.

## **Principal activities**

The company's principal activity during the year was to attract users and direct traffic to other companies engaged in online activities and services through marketing, advertising, affiliation and client procurement techniques.

## **Financial statements presentation**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and in accordance with the Maltese Companies Act (Cap. 386). The accounting policies as adopted in the published results for the year ended 31 December 2017 have been consistently applied.

## **Overall company's performance**

The company's performance for 2017 was a strong year as it experienced growth in net revenues of 155.2% whilst increasing operating expenses by 217.1%. The overall increase in EBITDA (from EUR 5.7 million in 2016 to EUR 14.7 million in 2017) is mainly attributable to a business combination and the acquisitions of intangible assets made during the year.

## **Net revenues**

Net revenues in 2017 increased to EUR 20.7 million (2016: EUR 8.1 million) which is equivalent to an increase of 155.2%. Revenue for 2017 is made up of EUR 12.8 million organic revenue and EUR 7.9 million generated as a result of business combinations.

## **Marketing expenses**

During 2017, marketing costs were EUR 1.43 million (2016: EUR 0.46 million). The increase resulted in strong year-on-year growth both organically and through business combinations.

## **Operating expenses**

During 2017, total operating expenses increased when compared to previous year with total cost of EUR 12.3 million (2016: EUR 3.9 million). This includes depreciation and amortisation cost of EUR 6.3 million (2016: EUR 1.4 million) and EUR 1.7 million (2016: EUR 0.5 million) of personnel expenses. Operating expenses have increased from prior year as a result of increasing staff headcounts as well as an increase in amortisation due to the additions in intangible assets acquired during the year.

## **Profit from operations**

Profit before tax for the year 2017 amounted to EUR 6.4 million (2016: EUR 4.2 million).

## **Net finance costs**

Net finance costs for 2017 were EUR 2 million (2016: EUR 12k). The increase is due to interest on loan agreement between the Company and its parent.

## **Director's report - continued**

### **Statement of financial position**

The largest asset on the balance sheet related to intangible assets which mainly comprise domains and affiliate contract which increased from EUR 9.3 million in 2016 to EUR 49.8 million in 2017 which reflects the company's growth. Trade and other receivables increased to EUR 21.5 million from EUR 7.6 million in 2016, mainly due to an increase in intercompany balances compared to the previous year, trade receivables led to an increased amounting to EUR 1.6 million. Trade and other payables increased mostly as a result of an intercompany loan which was used to finance the acquisitions made during the year, which amounted to EUR 46.4 million.

### **Significant risks and uncertainties**

It is the company's view that the responsibility for compliance with laws and regulations rests with the customer. Although gaming laws and regulations of many jurisdictions do not specifically apply to the supply of B2B services, certain countries have sought to regulate or prohibit the supply of such services. The company may therefore be subject to such laws, directly or indirectly. The company mitigates this risk through monitoring of legal developments, contractual arrangements, and by seeking external advice to assist with the assessment of risk exposures as appropriate.

Outside the European Union the regulatory frameworks are more fragmented. Regulatory developments in the online gaming sector and their implications for the Group are uncertain and government authorities could make assessments and decisions that differ from the Group's understanding or interpretation.

This evolving environment makes compliance an increasingly complex area with the risk of non-compliance with territory specific regulations, including responsible gambling and anti-money laundering obligations. These uncertainties represent a risk for the company's ability to develop and grow the business, as changes in legislation or enforcement practices could force the group to exit markets, or even result in financial sanctions, litigation, licence withdrawal, or unexpected tax exposures, which have not duly been provided for in these financial statements

### **Results and dividends**

The financial results are set out on page 9. The director did not declare a dividend during the current and preceding financial years. The director proposes that the balance of retained earnings amounting to EUR 6,287,076 (2016: EUR 4,402,237) to be carried forward to the next financial year.

### **Financial risk management**

Information on the company's financial risk management is disclosed in Note 2 of the financial statements.

### **Director**

The director of the company who held office during the year was Mr Robin Eirik Reed.

The company's Articles of Association do not require the director to retire.

**Director's report - continued**

**Statement of director's responsibilities for the financial statements**

The director is required by the Maltese Companies Act (Cap. 386) to prepare financial statements that give a true and fair view of the state of affairs of the company as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the director is responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business as a going concern.

**Statement of director's responsibilities for the financial statements - continued**

The director is also responsible for designing, implementing and maintaining internal control as the director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act (Cap. 386). The director is 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.

**Auditors**

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.



Mr. Robin Eirik Reed  
Director

**Registered office**  
@GIG Beach  
Triq id-Dragunara  
St. Julians  
STJ 3148  
Malta

31 October 2018



## *Independent auditor's report*

To the Shareholders of Innovation Labs Limited

### *Report on the audit of the financial statements*

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#### *Our opinion*

In our opinion:

- Innovation Labs Limited's financial statements give a true and fair view of the company's financial position as at 31 December 2017, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

#### **What we have audited**

Innovation Labs Limited's financial statements, set out on pages 8 to 35, comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

#### **Independence**

We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.



## *Independent auditor's report - continued*

To the Shareholders of Innovation Labs Limited

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### *Other information*

The director is responsible for the other information. The other information comprises the Director's report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the director's report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the director's report, we also considered whether the director's report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

- The information given in the director's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the director's report has been prepared in accordance with the Maltese Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the director's report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

## *Independent auditor's report - continued*

To the Shareholders of Innovation Labs

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

The director is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the director determines 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 director is 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 director either intends to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional 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 on 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 director.
- Conclude on the appropriateness of the director'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 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.



## *Independent auditor's report - continued*

To the Shareholders of Innovation Labs Limited

We communicate with the director 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.

## *Report on other legal and regulatory requirements*

### *Other matters on which we are required to report by exception*

We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:

- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- Certain disclosures of director's remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

### **PricewaterhouseCoopers**

78, Mill Street  
Qormi  
Malta

A handwritten signature in blue ink, appearing to read 'Romina Soler', written over a faint circular stamp.

Romina Soler  
Partner

31 October 2018

## Statement of financial position

		As at 31 December	
	Notes	2017 €	2016 €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	6	49,800,818	9,281,371
Property, plant and equipment	4	218,295	183,158
Investments in subsidiaries	5	12,698,522	-
Derivative financial instruments	7	205,714	205,714
<b>Total non-current assets</b>		<b>62,923,349</b>	<b>9,670,243</b>
<b>Current assets</b>			
Trade and other receivables	8	21,459,579	7,599,130
Cash at bank and other intermediaries	9	371,265	370,350
<b>Total current assets</b>		<b>21,830,844</b>	<b>7,969,480</b>
<b>Total assets</b>		<b>84,754,193</b>	<b>17,639,723</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	10	1,200	1,200
Capital reserves	11	3,874,466	157,559
Foreign currency translation reserve		2,994	2,994
Retained earnings		6,287,076	4,402,237
<b>Total equity</b>		<b>10,165,736</b>	<b>4,563,990</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities	19	5,383,515	902,642
<b>Current liabilities</b>			
Trade and other payables	13	13,507,810	2,868,503
Current income tax liabilities		620,998	620,998
Borrowings	20	55,076,134	8,683,590
<b>Total current liabilities</b>		<b>69,204,942</b>	<b>12,173,091</b>
<b>Total equity and liabilities</b>		<b>84,754,193</b>	<b>17,639,723</b>

The notes on pages 12 to 35 are an integral part of these financial statements.

The financial statements on pages 8 to 35 were authorised for issue by the Director on 31 October 2018 and were signed on its behalf by:

Mr Robin Eirik Reed  
Director



## Statement of comprehensive income

		Year ended 31 December	
	Notes	2017 €	2016 €
<b>Net revenue</b>		<b>20,698,201</b>	<b>8,110,200</b>
<b>Operating expenses</b>			
Personnel expenses	15	(1,681,928)	(537,218)
Depreciation and amortisation	4, 6	(6,310,563)	(1,449,271)
Marketing		(1,430,375)	(455,798)
Other operating expenses	14	(2,869,245)	(1,433,989)
<b>Total operating expenses</b>		<b>(12,292,111)</b>	<b>(3,876,276)</b>
<b>Operating profit</b>		<b>8,406,090</b>	<b>4,233,924</b>
Finance income	16	110	-
Finance costs	17	(2,040,493)	(12,648)
<b>Profit before tax</b>		<b>6,365,707</b>	<b>4,221,276</b>
Tax expense	18	(4,480,868)	(1,348,105)
<b>Profit for the year</b>		<b>1,884,839</b>	<b>2,873,171</b>

The notes on pages 12 to 35 are an integral part of these financial statements.

## Statement of cash flows

		Year ended 31 December	
	Notes	2017 €	2016 €
<b>Cash flows from operating activities</b>			
Cash generated from operations	21	473,403	109,266
Interest received		110	-
Interest paid		-	(12,648)
Income taxes paid		5	-
<b>Cash generated from operations</b>		<b>473,518</b>	<b>96,618</b>
<b>Cash flows from investing activities</b>			
Purchase of intangible assets	6	(46,758,623)	(3,448,027)
Purchases of property, plant and equipment	4	(106,524)	(85,650)
<b>Net cash used in investing activities</b>		<b>(46,865,147)</b>	<b>(3,533,677)</b>
<b>Cash flows from financing activities</b>			
Borrowings from parent company	20	46,392,544	3,726,392
<b>Net cash used in investing activities</b>		<b>46,392,544</b>	<b>3,726,392</b>
Net movement in cash and cash equivalents		915	289,333
<b>Cash and cash equivalents at beginning of year</b>		<b>370,350</b>	<b>81,017</b>
<b>Cash and cash equivalents at end of year</b>	9	<b>371,265</b>	<b>370,350</b>

The notes on pages 12 to 35 are an integral part of these financial statements.

**1. Summary of significant accounting policies - continued**

**1.1 Basis of preparation - continued**

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2015. Amongst others, it replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018 and is not expected to have a material effect on the financial reporting.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The standard is not expected to have a material effect on the financial reporting.

The company will be impacted by IFRS 16 in cases where group undertakings are lessees. In view of the changes in the definition of the lease term and the different treatments of variable lease payments and of extension and termination options, the Directors are still to establish the estimated amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of IFRS 16. The standard is effective for annual periods beginning as from 1 January 2019 and at this stage, the Group does not intend to adopt the standard before its effective date. The standing is not expected to have a material effect on the financial reporting.

In the opinion of the company's director, there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

**1.2 Foreign currency translation**

**(a) Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in euro which is the company's functional and presentation currency.

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

**1. Summary of significant accounting policies - continued**

**1.5 Property, plant and equipment - continued**

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

**1.6 Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

**1.7 Financial assets**

**1.7.1 Classification**

The company classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months, after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (Notes 1.8 and 1.9).

**1.7.2 Recognition and measurement**

The company recognises a financial instrument in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Loans and receivables are initially recognised at fair value plus transaction costs. They are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership or has not retained control of the financial asset.

**1. Summary of significant accounting policies - continued**

**1.10 Share capital**

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

**1.11 Financial liabilities**

The company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The company's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39.

Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The company derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

**1.12 Trade and other payables**

Trade payables comprise obligations to pay for services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**1.13 Borrowings**

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities when the company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

**1.14 Current and deferred taxation**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**1. Summary of significant accounting policies - continued**

**1.16 Revenue recognition - continued**

*Cost per acquisition*

For cost per acquisition deals, a client pays a one-time fee for each player who deposits money on the client's site. Cost per acquisition contracts consist of a pre-agreed rate with the client. Revenue from such contracts is recognised in the month in which the deposits are made.

Other income is recognised as it accrues unless collectability is in doubt.

Interest income is recognised for all interest-bearing instruments using the effective interest method.

**1.17 Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

**1.18 Dividend distribution**

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial information in the period in which an obligation to pay a dividend is established.

**2. Financial risk management**

**2.1 Financial risk factors**

The company's activities potentially expose it to a variety of financial risks: market risk (foreign exchange risk), credit risk and liquidity risk. The management of the company's financial risk is based on a financial policy approved by the ultimate parent's Board of directors, and exposes the company to a low level of risk. Risk management is coordinated at a group level in respect of all companies of which Gaming Innovation Group Inc. is the ultimate parent. The company did not make use of derivative financial instruments to hedge risk exposures during the current and preceding period.

*(a) Market risk*

*(i) Foreign exchange risk*

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency. The company's financial assets and financial liabilities are mainly denominated in Euro. Accordingly, based on the above, the company is not significantly exposed to foreign exchange risk and a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possibly at the end of the reporting period is not deemed necessary.

## 2. Financial risk management – continued

### 2.1 Financial risk factors - continued

Other trade receivables which are past due and impaired amount to EUR 112,149 (2016: EUR 59,231) and for which a provision for impairment has been recorded. The company manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from partners are within controlled parameters. The company's receivables, which are not impaired financial assets, are principally debts in respect of transactions with partners for whom there is no recent history of default. Management does not expect any losses from non-performance by these partners.

Furthermore, the company considers credit risk in relation to amounts due from group companies to be limited taking into account their financial position and the support of the Gaming Innovation Group. As a consequence, the director considers that the company was not exposed to significant credit risk as at the end of the reporting period. The company seeks to manage credit risk by only undertaking transactions with reputable counterparties. Control structures are in place to assess credit risk on similar lines.

#### *(c) Liquidity risk*

The Company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities which include amounts due to fellow subsidiaries of EUR 1,060,274 (2016: EUR 2,660,860), amounts due to immediate parent of EUR 12,002,956 borrowings of EUR 55,076,134 (2016: EUR 8,683,590) and trade payables of EUR 101,701 (2016: EUR 152 ). The immediate parent company and fellow subsidiaries have undertaken not to request amounts due unless alternative funds are made available to the company.

The financial statements have been prepared on a going concern basis which assumes the continued support of the Group's ultimate and immediate parent company to settle the company's obligations as and when they fall due and that the Group companies will not request amounts due to them when alternative funds are made available to the Group.

As disclosed in note 1.1, the Company's current liabilities exceeded current assets by EUR 47,374,098 (2016: EUR 4,203,611).

Liquidity risk is monitored at a group level by ensuring that sufficient funds are available to each subsidiary within the Gaming Innovation Group.

### 2.2 Capital risk management

The company's equity, as disclosed in the statement of financial position, constitutes its capital. The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The company's capital structure (including the additional paid-in capital) is monitored at a Group level with appropriate reference to subsidiaries' financial conditions and prospects.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

In assessing the adequacy of the company's capital, the director gives due consideration to the undertaking by the group parent company that it will not request amounts due until funds are available as described above.

**4. Property, plant and equipment**

	Computer and office equipment €	Furniture and fittings €	Improvements to premises €	Total €
<b>Cost</b>				
As at 1 January 2016	97,034	57,545	56,814	211,393
Additions	23,642	62,008	-	85,650
As at 31 December 2016	120,676	119,553	56,814	297,043
As at 1 January 2017	120,676	119,553	56,814	297,043
Additions	32,249	74,275	-	106,524
As at 31 December 2017	152,925	193,828	56,814	403,567
<b>Accumulated depreciation</b>				
As at 1 January 2016	35,605	8,740	9,468	53,813
Depreciation charge	35,036	15,566	9,470	60,072
As at 31 December 2016	70,641	24,306	18,938	113,885
As at 1 January 2017	70,641	24,306	18,938	113,885
Depreciation charge	35,668	26,250	9,469	71,387
As at 31 December 2017	106,309	50,556	28,407	185,272
<b>Net book value</b>				
As at 1 January 2016	61,429	48,805	47,346	157,580
As at 31 December 2016	50,035	95,247	37,876	183,158
As at 31 December 2017	46,616	143,272	28,407	218,295

**5. Investment in subsidiary**

During 2017, the company acquired 100% of the share capital of Rebel Penguin ApS', a company incorporated in Denmark. The consideration comprised a cash consideration of €9,119,996 and 7,165,000 treasury shares in Gaming Innovation Group Inc., with a fair value at completion date of €3,578,526, yielding a total fair valued consideration of €12,698,522. Additional information is available in Note 23.

**6. Intangible assets - continued**

On 9 March 2016, the Group purchased intangibles for a total consideration of EUR 4,200,000. An amount of EUR 2,940,000 comprised cash consideration whilst the remaining consideration was settled through the issuance of 4,336,314 shares in GIG Inc. The market value of the new shares in GIG Inc. as at the date of the purchase agreement was EUR 1,260,000. EUR 3,994,286 of the consideration was allocated to domains and affiliate contracts, whilst the residual was allocated to the fair value of an option to acquire further assets (see below).

Through the acquisition, the company also purchased 50% of the risks and rewards of domains (termed, "development domains"), and acquired the right, but not the obligation, to purchase the remaining 50% of the risks and rewards of the development domains at any time during March 2017 and March 2018. On the date of purchase, the director calculated this option to have a fair value of €205,714. Note 6 includes details of the valuation of this option, the value of which is recognised as a derivative financial instrument in these financial statements.

Subsequently, on 30 March 2016, the Group acquired intangibles for a total consideration of €5,166,793. €1,442,493 of the consideration was for cash, whilst €3,632,945 was settled through the issuance of shares in GIG Inc. The Group also granted the seller the option to purchase 1,000,000 shares in GIG Inc. as part of the consideration. The fair value of the share option at grant date amounted to €91,357 and is recognised as part of the cost to acquire the intangible assets, with a corresponding entry to equity, reflecting a contribution from the Group's parent (Note 10)

**7. Derivative financial assets**

	2017 €	2016 €
<i>Call option to acquire intangible assets</i>		
<b>At 1 January</b>	<b>205,714</b>	-
Fair value at initial recognition	-	205,714
<b>As at 31 December</b>	<b>205,714</b>	205,714

*Valuation of call option to acquire intangible assets*

During 2016, the company acquired the right to buy the remaining 50% of the risks and rewards of 'development domains' at any time during March 2017 and March 2018. The purchase price payable by the company if the option is exercised will be calculated using a specified price mechanism, equating to the annualised revenue generated by the development domains during a period of six months prior to the exercise date, on which a 2.5x multiple will be applied.

At initial recognition, the fair value of the acquired option was estimated to amount to €205,714. The fair value of the option represents the difference between the consideration payable as determined by the above-mentioned price mechanism (established in the purchase contract), compared with the price payable if an industry multiple would have been applied to the mechanism determining the consideration payable by the Group. Based on past acquisitions of similar domains, the director believes that a multiple of 4x revenue generated by domains is a fair representation of an industry multiple. A discount rate of 15% was used to calculate present value of the derivative, both at initial recognition, and at year end.

The director estimates that as at 31 December 2017, using the same inputs above, the fair value of the derivative remains substantially unchanged and accordingly no fair value movements were recognised in profit and loss for the year.

## 11. Capital contribution reserve

	2017 €	2016 €
At 1 January	157,559	9,248
Capital contribution arising on granting of share options by the ultimate parent company		
- fair value of employee service (Note 12)	138,381	56,953
- acquisition of intangible assets	-	91,358
- Capital contribution arising on shares contributed by ultimate parent company to acquire the subsidiary (Note 5)	3,578,526	-
At 31 December	<u>3,874,466</u>	<u>157,559</u>

The capital contribution reserve comprises the fair value of share options granted by the ultimate parent company as consideration to employees in the company, for the acquisition of intangible assets and shares contributed to acquire the investment in Rebel Penguin ApS (Notes 23). This is a non-distributable reserve.

## 12. Share based payments

Share options are granted to selected employees, as well as to consultants. All options are conditional on the employees and the consultants completing a specified number of years' service (the vesting period); certain options are also conditional on the Group achieving certain earnings targets. The options are exercisable starting between 1 and 6 years from the grant date. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2017 Average exercise price in EUR per option	Options	2016 Average Exercise price in EUR per option	Options
<b>Share options which were granted or converted into options of GIG Inc</b>				
- At 1 January	0.23	3,368,616	0.03	853,867
- At 31 December	0.28	3,408,031	0.23	3,368,616
<b>Share options which were granted or converted into options of GIG Inc</b>				
- Granted	0.64	300,000	0.31	2,500,000
- Transferred to another subsidiary company within the group	-	-	0.23	14,749
- Exercised	-	(260,585)	-	-

Out of the 3,408,031 (2016: 3,368,616) outstanding options which were granted or converted into options of GIG Inc, 1,000,000 shares (2016: nil) were exercisable.

**14. Other operating expenses**

	2017 €	2016 €
Consultancy fees	1,651,567	725,113
Other operating expenses	1,217,678	708,876
	<u>2,869,245</u>	<u>1,433,989</u>

Fees charged by the auditor for services rendered during the financial period ended 31 December 2017 are shown in the table below.

	2017 €	2016 €
Annual statutory audit	17,000	10,000
Tax advisory and compliance services	1,652	1,652
Other services	7,500	3,000
	<u>26,152</u>	<u>14,652</u>

**15. Employee benefit expense**

	2017 €	2016 €
Gross wages and salaries	1,469,359	455,898
Social security costs	74,189	24,367
Share options granted to employees (Note 12)	138,380	56,953
	<u>1,681,928</u>	<u>537,218</u>

The average number of persons employed during the year:

	2017	2016
Managerial	1	1
Administrative	33	10
	<u>34</u>	<u>11</u>

**16. Finance income**

	2017 €	2016 €
Interest income on bank deposits	<u>110</u>	-

**19. Deferred taxation - continued**

The movement on the deferred income tax account is as follows:

	2017 €	2016 €
As at 1 January	(902,642)	(175,535)
Deferred taxes on temporary differences arising on:		
- depreciation of property, plant and equipment (Note 4)	22,807	4,269
- amortisation of intangible assets (Note 6)	(4,522,196)	(712,097)
- provision for impairment of debtors (Note 7)	18,516	7,929
- unabsorbed tax losses	-	(27,208)
As at 31 December	<u>(5,383,515)</u>	<u>(902,642)</u>

Deferred taxation is calculated on temporary differences under the liability method using the principal tax rate within the relevant jurisdiction. The year-end balances comprises temporary differences arising on:

	2017 €	2016 €
Temporary differences arising on property, plant and equipment	28,430	5,623
Temporary differences arising on intangible assets	(5,451,192)	(928,996)
Temporary differences arising on impairment of debtors	39,247	20,731
	<u>(5,383,515)</u>	<u>(902,642)</u>

**20. Borrowings**

	2017 €	2016 €
Borrowing from parent	46,392,544	-
Borrowing from ultimate parent	8,683,590	8,683,590
	<u>55,076,134</u>	<u>8,683,590</u>

Borrowings from the ultimate parent are unsecured, interest free and repayable on demand. Borrowings from the immediate parent are unsecured, carry an interest rate of 7.29% per annum which is revised annually and are repayable on demand.

As disclosed in note 2.1 (c), the ultimate parent and fellow subsidiaries have undertaken not to request amounts due unless alternative funds are made available to the company.

## 22. Business combinations

On 26 September 2017, the completion date, the company acquired 100% of Rebel Penguin ApS' share capital; a company incorporated in Denmark. Management performed an assessment of the application of IFRS 3 "Business combinations" in concluding that the purchase met the definition of a business.

The acquisition enhances Group value through the purchase of proprietary paid media technologies, sports book capabilities and the ability to tap into novel paid media channels.

The purchase consideration comprised a cash consideration of €9,119,996 and 7,165,000 treasury shares in Gaming Innovation Group Inc., with a fair value at completion date of €3,578,526, yielding a total fair valued consideration of €12,698,522.

The fair value of the acquired trade receivables is equivalent to their carrying amount disclosed above. None of the acquired receivables are expected to be uncollectible.

Rebel Penguin's acquisition contributed revenues of €1,577,964 and net profit of €186,232 to the Group for the period between the date of acquisition and 31 December 2017.

Details of the purchase consideration, goodwill, identifiable assets and liabilities follows:

	€	€
<b>Fair value of consideration</b>		
Cash paid	9,119,996	
Treasury shares transferred	<u>3,578,526</u>	
		12,698,522
<b>Identifiable assets and liabilities</b>		
Property, plant and equipment	120,651	
Trade and other receivables	735,708	
Trade and other payables	(458,306)	
Deferred income tax liability	(88,404)	
Corporate tax liability	(100,180)	
Lease gain over contracted rate	192,056	
Affiliate contracts	267,736	
Domains	899,175	
Technology	<u>5,665,352</u>	
		<u>7,233,788</u>
Goodwill		<u><b>5,464,734</b></u>

The technology acquired has been valued on the basis of the projected free cash flow that is expected to be generated from the use of the acquired technology in the next 5 years, together with the estimate of the terminal value. The post-tax discount rate applied to the cash flow projections including the terminal value is 16.5%.

Goodwill is not deductible for tax purposes, and primarily represents the value attributed to the entity's technical industry knowledge and expected synergies that GIG should benefit as a result of the transaction.

**25. Statutory information**

Innovation Labs Limited is a limited liability company and is incorporated in Malta.

The company's immediate parent company is Gaming Innovation Group Limited, a company registered in Malta, with its registered address at GB Buildings, Penthouse level, Water Street, Ta' Xbiex, Malta. GIG Inc is the ultimate parent company whose registered office is 10700 Strigfellow Rd, Suite 10, Bokeelia, FL 33922, USA.

Gaming Innovation Group Limited prepares consolidated financial statements which are available at the registered office of Innovation Labs Limited