MT SECURETRADE LIMITED

Annual Report and Financial Statements
31 December 2017

Company Registration Number: C56545

Director's report

The director presents his report and the audited financial statements for the year ended 31 December 2017.

Principal activities and future prospects

The company's principal activity is the provision of online gaming services, primarily casino and sports.

Financial statement 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 1995, as modified by Cap.386 of the said Act. The accounting policies as adopted in the published results for the year ended 31 December 2017 have been consistently applied.

Overall company's performance

During the year, the company reported a decline in net revenues of 7.5% and an increase in operating expenses of 24%. EBITDA decreased from EUR 0.7 million in 2016 to an EBITDA loss of EUR 2.4 million.

Guts.com reported an increase in revenue of 5% year on year. However as a result of increased marketing activity, the revenue share payable in terms of the joint venture operation grew by a higher amount. The increase in direct costs is mainly derived from higher gaming taxes due to gaining higher market share in regulated markets, and also due to a cost of an intragroup agreement with the platform provider.

Revenues

Revenues in 2017 decreased to EUR 9.1 million (2016: EUR 9.9 million) which is equivalent to a decrease of 7.5%.

Operating expenses

Cost of services provided refers to the expenditure for gaming operations which include gaming taxes and licensing fees payable to game providers and payment service providers.

Gaming taxes for the full year 2017 amounted to EUR 1.1 million (2016: EUR 0.5 million). The increase in gaming taxes is driven by a growth in net gaming revenue from regulated markets. The company holds gaming licenses in the UK as well as international gambling licenses in Malta and Alderney, and pays betting duties in all markets in accordance with applicable local laws.

Platform and service provider fees amounted to EUR 4.8 million (2016: EUR 3.0 million) for the full year 2017.

During 2017, other operating expenses increased when compared with the previous year to a total cost of EUR 11.7 million (2016: EUR 9.4 million). This, includes depreciation and amortisation cost of EUR 0.1 million (2016: EUR 0.2 million) and EUR 3.2 million (2016: EUR 2.6 million) of personnel expenses.

Loss from operations

Loss before tax for the year 2017 was EUR 2.5 million (2016: profit of EUR 0.5 million).

Director's report - continued

Balance sheet

The company's balance sheet position is reflective of the losses incurred during the year. The company is in a net current liability position in 2017 as opposed to a net current asset position in 2016. Trade and other receivables increased to EUR 75 million from EUR 26 million in 2016 mainly due to higher amounts receivable from the group companies which stood at EUR 66.3 million in 2017 (2016: EUR 20.8 million). Amounts due from payment providers amount to EUR 8.4 million in 2017 when compared to EUR 4.8 million in 2016 due to increased activity.

Cash at bank and other intermediaries increased from EUR 4.4 million in 2016 to EUR 5.7 million in 2017. Trade and other payables have increased during the year to EUR 77.6 million (2016: EUR 28.2 million). Significant liabilities on the balance sheet include players accounts amounting to EUR 2.9 million (2016: EUR 1.5 million) and amounts due to group companies amounting to EUR 70.0 million (2016: EUR 24 million).

Significant risks and uncertainties

The Company operates on the basis of its international license in Malta and other territory specific licenses.

For internet-based betting operations, there is uncertainty as to which country's law ought to be applied, as the internet operations can be linked to several jurisdictions and there are legal doubts on whether the availability of a site within foreign markets constitutes a solicitation to persons residing within that market. Legislation concerning online gaming is under review in certain jurisdictions, and in some circumstances, previous opportunities to offer gaming products to certain customers based in some markets on principles of freedom to provide services, would be closed due to legal restrictions being imposed. In some other cases, previously unregulated jurisdictions pass legislation regulating the market creating new opportunities to offer products and services to those markets with legal certainty.

The majority of the company's revenue is derived from markets within the European Union, meaning that their domestic regulations are subject to EU law principles, such as free movement of services. Member States are permitted to impose local license requirements as a condition for companies offering online gaming services to consumers residing in respective states only insofar as the licenses are granted based on objective, transparent, non-discriminatory and proportionate criteria. Whereas national regulation liberalising the gaming market is generally compliant with EU law, the imposition of restrictions, especially protectionist approaches, is often challenged in European courts causing doubt until a final decision is published.

In 2017, 14% of the Company's revenue was derived from a particular jurisdiction outside the European Union/European Economic Area (hereinafter referred to as "EU/EEA". In view of legal restrictions put in place in such jurisdiction, which had the legal prerogative to regulate its own territory, the Company's management resolved to cease to offer B2C gaming services to customers in this jurisdiction.

Where such local licensing regime is in place, it is the Company's policy not to offer gaming services to consumers residing in such state, unless it is in possession of a valid license. Regulation of online gaming in European markets is generally a positive development, as it reduces uncertainty and enables long term business planning and usually also increases the marketing channels available for the Company in such countries.

Outside the European Union the regulatory frameworks are more fragmented. Regulatory developments in the online gaming sector and their implications for the Company are uncertain and government authorities could make assessments and decisions that differ from the Company'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 Company to exit markets, or even result in financial sanctions, litigation, license withdrawal or unexpected tax exposures, which have not duly been provided for in the financial statements.

Director's report - continued

Significant risks and uncertainties - continued

Following the proposition by the Swedish government to regulate the iGaming market, the Company's plan is to seek a license from the local regulators.

Results and dividends

The financial results are set out on page 10. The director does not recommend the payment of a dividend (2016: nil).

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 by rotation.

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.

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). They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Director's report - continued

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.

On behalf of the board

Robin E Reed

Mr Robin Eirik Reed

GB Buildings, Penthouse,
Watar Street,
Ta' Xbiex,
XBX1301

28 June 2018

Independent auditor's report

To the Shareholders of MT SecureTrade Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- MT SecureTrade Limited'sfinancial 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, as modified by Cap. 386 of the Maltese Companies Act; and
- The financial statements have been prepared in accordance with the requirements of the said Act.

What we have audited

MT SecureTrade Limited 's financial statements, set out on pages 9 to 37, 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.

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 the IESBA Code.

pwc

Independent auditor's report - *continued*

To the Shareholders of MT SecureTrade Limited

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 directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

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.

Independent auditor's report - *continued*

To the Shareholders of MT SecureTrade Limited

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 directors.
- 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.

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.

Independent auditor's report - *continued*

To the Shareholders of MT SecureTrade Limited

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 directors' 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

Romina Soler
Partner

28 June 2018

Statement of financial position

	Notes	2017 €	2016 €
		As at 31 December	
ASSETS			
Non-current assets			
Intangible assets	4	**166,163**	95,969
Property, plant and equipment	5	**135,408**	190,480
Investments in subsidiaries	6	**6,000**	6,000
Deferred income tax assets	20	**12,919**	12,919
Total non-current assets		**320,490**	305,368
Current assets			
Trade and other receivables	7	**75,265,578**	26,117,498
Cash at bank and other intermediaries	8	**5,654,483**	4,436,976
Total current assets		**80,920,061**	30,554,474
Total assets		**81,240,551**	30,859,842
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	9	**1,739**	1,739
Share premium	9	**1,461,551**	1,461,551
Capital reserves	10	**1,656,555**	1,444,071
Other reserves	11	**3,653**	3,653
Accumulated losses		**(3,827,817)**	(1,298,515)
Total equity		**(704,319)**	1,612,499
Current liabilities			
Trade and other payables	13	**77,640,642**	28,163,750
Borrowings	14	**4,304,228**	1,083,593
Total liabilities		**81,944,870**	29,247,343
Total equity and liabilities		**81,240,551**	**30,859,842**

The notes on pages 13 to 37 are an integral part of these financial statements.

The financial statements on pages 9 to 37 were authorised for issue by the Director on 28 June 2018 and were signed on its behalf by:

Robin E Reed

Mr Robin Eirik Reed
Director

Statement of comprehensive income

	Notes	2017 €	2016 €
		Year ended 31 December	
Net revenue		**9,145,303**	9,892,156
Operating expenses			
Personnel expenses	16	**(3,225,543)**	(2,599,786)
Depreciation and amortisation	4, 5	**(114,838)**	(181,607)
Other operating expenses	15	**(8,335,200)**	(6,636,096)
Total operating expenses		**(11,675,581)**	(9,417,489)
Operating (loss)/profit		**(2,530,278)**	474,667
Finance income	18	**1,148**	273
(Loss)/profit before tax		**(2,529,130)**	474,940
Tax expense	19	**(172)**	-
(Loss)/profit for the year		**(2,529,302)**	474,940

The notes on pages 13 to 37 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital €	Share premium €	Capital reserves €	Other reserves €	Retained earnings €	Total €
Balance at 1 January 2016		1,739	1,461,551	1,275,843	3,653	(1,773,455)	969,331
Comprehensive income							
Profit for the year - total comprehensive income		-	-	-	-	474,940	474,940
Transactions with owners							
Value of employee services	10	-	-	168,228			168,228
Balance at 31 December 2016		1,739	1,461,551	1,444,071	3,653	(1,298,515)	1,612,499
Comprehensive income							
Loss for the year - total comprehensive income		-	-	-	-	(2,529,302)	(2,529,302)
Transactions with owners							
Value of employee services	10	-	-	212,484	-	-	212,484
Balance at 31 December 2017		**1,739**	**1,461,551**	**1,656,555**	**3,653**	**(3,827,817)**	**(704,319)**

The notes on pages 13 to 37 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2017 €	2016 €
Cash flows from operating activities			
Cash (used in)/generated from operations	21	**(3,633,149)**	973,451
Interest received		**1,148**	273
Tax paid		**(172)**	-
Net cash (used in)/generated from operating activities		**(3,632,173)**	973,724
Cash flows from investing activities			
Purchases of property, plant and equipment	5	**(28,135)**	(89,752)
Purchases of intangible assets	4	**(101,826)**	(42,549)
Net cash used in investing activities		**(129,961)**	(132,301)
Cash flows from financing activities			
Borrowings from parent company	14	**3,220,635**	261,593
Net cash generated from financing activities		**3,220,635**	261,593
Net movement in cash and cash equivalents		**(541,499)**	1,103,016
Cash and cash equivalents at beginning of year		**1,925,579**	822,563
Cash and cash equivalents at end of year	8	**1,384,080**	1,925,579

The notes on pages 13 to 37 are an integral part of these financial statements.

Notes to the financial statements

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Maltese Companies Act (Cap. 386), and in accordance with the requirements of the said Act. A parent (Note 24) prepares consolidated financial statements in a manner equivalent to that required by the Maltese Companies Act (Cap. 386), and these are delivered to the Registrar of Companies in Malta. Accordingly, MT SecureTrade Limited is exempt from the preparation of consolidation financial statements by virtue of Section 174 of the Maltese Companies Act (Cap. 386). They have been prepared under the historical cost convention, as modified by the revaluation of financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain accounting estimates. It also requires the director to exercise their judgement in the process of applying the company's accounting policies (see Note 3 – Critical accounting estimates and judgements).

Going concern

As at 31 December 2017, the company's total liabilities exceeded total assets by EUR 704,319 (2016: total assets exceeded total liabilities by EUR 1,612,499) and the company's current liabilities exceeded its current assets by EUR 1,024,809 (2016: current assets exceeded current liabilities by EUR 1,307,131). The financial statements have been prepared on a going concern basis, which assumes the continued support of the company's immediate and ultimate parent to settle the company's obligations as and when they fall due. The ultimate parent has undertaken not to request the borrowings advanced amounting to EUR 4,304,228 (2016: EUR 1,083,593) unless alternative funds are available. The immediate parent company and fellow subsidiaries have also undertaken not to request amounts due of EUR 69,961,943 (2016: EUR 24,099,602) unless alternative funds are made available to the Company. The directors are confident that the financial position of the Company will improve in the foreseeable future, and that the going concern basis of preparation of these financial statements remains appropriate. The company expects to improve its financial position by implementing the following;

- Optimisation of commercial rates with platform and game providers;
- Optimisation of products by launching an updated version of www.guts.com;
- Restructuring within the group to improve cost management.

Standards, interpretations and amendments to published standards effective in 2017

In 2017, the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2017. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the company's accounting policies.

The amendments to IAS 7, 'Statement of cash flows' require disclosure of changes in liabilities arising from financing activities (see Note 21).

1 Summary of significant accounting policies – continued

1.1 Basis of preparation – continued

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of the financial statements, but are mandatory for the company's accounting periods beginning after 1 January 2017. The company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the company's director is of the opinion that with exception of the below, there are no other requirements that will have a possible significant impact on the company's financial statements in the period of initial application.

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.

1 **Summary of significant accounting policies** – continued

1.2 Foreign currency translation – continued

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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. The company's accounting policy is to present all exchange differences within finance income or finance costs including exchange differences arising on cash and cash equivalents and amounts due from payment providers.

1.3 Investments in subsidiaries

Investments in subsidiaries are accounted for by the cost method of accounting, i.e. at cost less impairment. Provisions are recorded where, in the opinion of the director, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified.

The results of the subsidiaries are reflected in the financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

1.4 Intangible assets

(a) Domains and licenses

Separately acquired domains and licenses are shown at historical cost. The majority of separately acquired domains have an indefinite useful life. The useful life of domains that had a finite useful life, which comprise a small number of domains acquired in the past, was 3 years. The useful life of licenses is determined in relation to the term of the license agreement, which is three years. Amortisation is calculated using the straight-line method to allocate the cost of domains over their estimated useful lives.

(b) Computer software

Acquired computer software and platforms are capitalised on the basis of the costs incurred to acquire and bring to use these assets. These costs are amortised over their estimated useful lives of 3 years or, in the case of computer software, over the term of the license agreement if different.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Development costs that are directly attributable to the design of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

1 Summary of significant accounting policies – continued

1.4 Intangible assets - continued

(b) Computer software

Directly attributable costs that are capitalised as part of these intangible assets include the development employee costs.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

1.5 Property, plant and equipment

All property, plant and equipment are initially recorded at cost and are subsequently stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Computer equipment	3
Plant and office equipment	6
Installations and improvement to leasehold premises	6

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 (Note 1.6).

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 Summary of significant accounting policies – continued

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.

1.7.3 Impairment

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The company first assesses whether objective evidence of impairment exists.

The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; and
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset.

1 Summary of significant accounting policies – continued

1.7 Financial assets - continued

1.7.3 Impairment - continued

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

1.8 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (Note 1.7.3). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

1.9 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents includes cash in hand and deposits held at call with banks and e-wallets.

Cash and cash equivalents exclude balances held on behalf of customers, which are held separately and distinct from the funds of the company, and whose use is restricted.

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 Summary of significant accounting policies – continued

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 unless 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 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

1.15 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.16 Share-based payments

The company’s ultimate parent operates a number of equity-settled, share-based compensation plans, under which the company receives services from employees and consultants as consideration for equity instruments (options) of the ultimate parent company. The fair value of the employee services received in exchange for the grant of the options is recognised by the company as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

1 Summary of significant accounting policies – continued

1.16 Share-based payments - continued

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to hold shares for a specific period of time).

At the end of each reporting period, the ultimate parent company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the ultimate parent company, or another entity at the request of the ultimate parent company, transfers shares to the employees.

The grant by the ultimate parent company of options over its equity instruments to the employees of the company is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an expense, with a corresponding credit to equity.

1.17 Revenue recognition

Revenue comprises the fair value of the consideration received for the provision of internet gaming in the ordinary course of the company's activities. The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met, as described below.

Gaming transactions that are not deemed to be financial instruments, where the company revenues stem from commissions, are recorded in accordance with IAS 18 'Revenue'. The revenue recognised in this manner relates to Poker.

Revenue from gaming transactions that are deemed to be financial instruments, where the company takes open positions against players, are recognised as a net fair value gain or loss after the deduction of players' winnings, bonuses and gaming taxes. The revenue recognised in this manner relates to sports betting and casino.

Revenue from transactions where the company is taking positions against players, such as sports betting and online casino, is recognised when the outcome of an event is known. Revenue from commission arising on transactions where the company does not take open position against players, such as poker, is recognised when players place wagers in a pool.

Shared conduct of business arrangements are all contractual agreements whereby two or more parties jointly undertake an economic activity. In respect of its interest in such arrangements, the company recognises the assets that it controls, the expenses and liabilities that it incurs and its share of the income that it earns from the sale of goods or services through the shared conduct of business arrangements.

Costs that are not reported as part of revenue include inter alia, bank charges, fees paid to platform and payment providers and certain gaming taxes.

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

Interest income is recognised in profit or loss for interest-bearing instruments as it accrues, on a time-proportion basis, using the effective interest method, unless collectability is in doubt.

1 Summary of significant accounting policies – continued

1.18 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.

1.19 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the Group's financial statements in the period in which the 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 (including foreign exchange risk and price 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 operates in various countries with various currency exposures, such as Australian dollar, Canadian dollar, Swedish kronor and GB pound. The company's operations partially result in a natural hedge of operating currency risks since customer deposits and customer withdrawals, as far as practicable, are transacted in the original currency.

The table below summarises the company's main exposure to foreign currencies other than the functional currency:

	2017	2016
	€	€
AUD to EUR	**(204,798)**	1,814,319
CAD to EUR	**821,791**	383,061
GBP to EUR	**1,411,432**	1,701,049
SEK to EUR	**1,766,955**	1,276,641
NOK to EUR	**163,831**	307,440

A sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been effected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period is not deemed necessary since the exposure is not deemed to be significant.

2 Financial risk management - continued

2.1 Financial risk factors – continued

(a) Market risk - continued

(ii) Price risk

Management does not consider the company to be exposed to significant market risk in terms of its online Casino since the outcome of wagers is based on a fixed winnings percentage.

The company is exposed to market risk due to the possibility of an unfavourable outcome on events on which the company has accepted bets. The company has adopted risk management policies to mitigate this risk. Management monitors the odds real time to determine the appropriate risk levels for certain events and where possible reacts to large risks by, inter-alia, not accepting bets that exceed the maximum risk limit on an individual bet or by closing the event that was offered as a bet. The risk is spread across a larger number of events and sports. The company's exposure to open bets was not significant at 31 December 2017 and 2016 and on this basis, management considers the potential impact on profit or loss of a shift in odds that is reasonably possible at the end of the reporting period to be immaterial.

(b) Credit risk

Credit risk mainly arises on cash and cash equivalents, trade receivables, money held by payment providers, amounts due from fellow subsidiaries, related parties and other receivables as follows:

	2017	2016
	€	€
Loans and receivables:		
Cash at bank and other intermediaries (Note 8)	**5,654,483**	4,436,976
Receivables from payment providers (Note 7)	**8,402,377**	4,779,748
Amounts due from related parties (Note 7)	**66,301,767**	20,779,419
Other receivables (Note 7)	**379,263**	378,514
Net exposure	**80,737,890**	30,374,657

The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The company does not hold any collateral as security in this respect. The company deals only with financial institutions or payment intermediaries with quality standing and does not consider that there was any material credit risk at the end of the reporting period.

Furthermore, the company considers credit risk in relation to amounts due from fellow subsidiaries to be limited taking into account their financial position and the support of the Gaming Innovation Group. As a consequence, the directors consider 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. The following table provides information regarding the aggregated credit risk exposure, for deposits with bank and financial institutions or intermediaries with external credit ratings as at 31 December 2017 and 2016:

2 Financial risk management - continued

2.1 Financial risk factors – continued

(b) Credit risk - continued

	2017 €	2016 €
AA-	-	-
A-2	1,263	-
BBB+	951,494	1,918,731
BB+	3	71,609
BB	1,098,163	1,198,631
Below BB or not rated	3,603,561	1,248,005
	5,654,483	4,436,976

(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 group companies of EUR 69,961,943 (2016: EUR 24,099,602), players' accounts of EUR 2,872,038 (2016: EUR 1,540,850), trade payables of EUR 814,160 (2016: EUR 67,965), other payables of EUR 32,221 (2016: EUR 152,761) and indirect taxation of EUR 1,328,069 (2016: EUR 329,579).

Liquidity risk is monitored at a group level by ensuring that sufficient funds are available to each subsidiary within the Group. Group management monitors liquidity risk by means of continuous observation of cash inflows and cash outflows. To improve the net cash inflows and to maintain cash balances at a certain level, management ensures that no additional financing facilities are expected to be required over the coming year.

As disclosed in Note 1.1, as at 31 December 2017, the company's current liabilities exceeded its current assets by EUR 1,024,809 (2016: current assets exceeded current liabilities by EUR 1,307,131). 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 unless alternative funds are made available to the 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.

2 Financial risk management - continued

2.3 Fair values of financial instruments

At 31 December 2017 and 2016 the carrying amounts of cash at bank, receivables, payables and accrued expenses, reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

3 Critical accounting estimates and judgements

(a) Significant estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the director, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1, other than significant uncertainty associated with the legal environment that the company operates in as referred to in Note 23 to these financial statements and the matter addressed below.

(i) Valuation of share options

As explained in Note 12, the Company's ultimate parent operates equity-settled share-based compensation plans under which the company receives services from employees as consideration for equity instruments of GIG Inc. In order to determine the fair value of services provided, the company estimates the fair value of the ordinary shares as of each grant date using the Black-Scholes valuation model. Refer to Note 12 for a summary of the inputs used and other assumptions made on calculating the fair value of share options granted as part of the share-based payment scheme.

4. Intangible assets

	Domains	Licences	Computer software	Total
	€	€	€	€
Cost				
As at 1 January 2016	109,202	114,181	47,935	271,318
Additions	8,908	20,500	13,146	42,554
As at 31 December 2016	118,110	134,681	61,081	313,872
As at 1 January 2017	118,110	134,681	61,081	313,872
Reclassification	-	(484)	484	-
Additions	-	97,826	4,000	101,826
As at 31 December 2017	**118,110**	**232,023**	**65,565**	**415,698**
Accumulated depreciation				
As at 1 January 2016	38,566	43,612	39,136	121,314
Depreciation charge	2,131	90,770	3,689	96,590
As at 31 December 2016	40,697	134,382	42,825	217,904
As at 1 January 2017	40,697	134,382	42,825	217,904
Reclassification	73,952	(43,612)	(30,340)	-
Depreciation charge	2,371	22,251	7,009	31,631
As at 31 December 2017	**117,020**	**113,021**	**19,494**	**249,535**
Carrying amount				
As at 1 January 2016	70,636	70,569	8,799	150,004
As at 31 December 2016	77,413	299	18,256	95,968
As at 31 December 2017	**1,090**	**119,002**	**46,071**	**166,163**

5. Plant and equipment

	Installations and improvements to leasehold premises €	Plant and office equipment €	Computer equipment €	Total €
Cost				
As at 1 January 2016	7,431	155,894	154,727	318,052
Additions	-	37,102	52,650	89,752
As at 31 December 2016	7,431	192,996	207,377	407,804
As at 1 January 2017	7,431	192,996	207,377	407,804
Reclassification	15,814	(15,814)	-	-
Additions	-	-	28,135	28,135
As at 31 December 2017	**23,245**	**177,182**	**235,512**	**435,939**
Accumulated depreciation				
As at 1 January 2016	2,478	52,697	77,126	132,301
Depreciation charge	3,874	27,371	53,778	85,023
As at 31 December 2016	6,352	80,068	130,904	217,324
As at 1 January 2017	6,352	80,068	130,904	217,324
Reclassification	5,270	(5,270)	-	-
Depreciation charge	3,875	29,745	49,587	83,207
As at 31 December 2017	**15,497**	**104,543**	**180,491**	**300,531**
Net book value				
As at 1 January 2016	4,953	103,197	77,601	185,751
As at 31 December 2016	1,079	112,928	76,473	190,480
As at 31 December 2017	**7,748**	**72,639**	**55,021**	**135,408**

6. Investments in subsidiaries

	€
Year ended 31 December	
Opening and closing net book amount	6,000

Subsidiary	Registered office	Class of shares held	Percentage of voting rights held directly by parent 2017 %	2016 %
NV SecureTrade	Dr. M J Hugenholtzweg Z/N, UTS Gebouw, Curacao	Ordinary shares	**100**	100

7. Trade and other receivables

	2017 €	2016 €
Amounts due from payment providers	**8,402,377**	4,779,748
Amounts due from group companies	**66,301,767**	20,779,419
Other receivables	**379,263**	378,514
Prepayments and accrued income	**182,171**	179,817
	75,265,578	26,117,498

Amounts due from group companies, are unsecured, interest free and repayable on demand.

8. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2017 €	2016 €
Cash at bank and other intermediaries	**5,654,483**	4,436,976
Less: restricted cash	**(4,270,403)**	(2,511,397)
Cash and cash equivalents	**1,384,080**	1,925,579

At 31 December 2017 EUR 4,270,403 (2016: EUR 2,511,397) was held in a fiduciary capacity and represented customer monies whose use is restricted in terms of the Remote Gaming Regulations, 2004.

9. Share capital and share premium

	Number of ordinary shares	Ordinary shares €	Share premium €	Total €
Authorised share capital				
Ordinary A shares				
At 1 January and 31 December 2016	176,680	1,767	-	1,767
At 1 January and 31 December 2017	**176,680**	**1,767**	**-**	**1,767**
Ordinary B shares				
At 1 January and 31 December 2016	100	1	-	1
At 1 January and 31 December 2017	**100**	**1**	**-**	**1**

The ordinary 'B' shares shall not carry a right to receive dividends and are not entitled to any assets upon dissolution or winding up of the company, but in all other matters shall rank pari passu with the ordinary 'A' shares.

	Number of ordinary shares	Ordinary shares €	Share premium €	Total €
Issued and fully paid				
Ordinary A shares				
As at 1 January and 31 December 2016	173,847	1,738	1,461,551	1,463,289
As at 1 January and 31 December 2017	**173,847**	**1,738**	**1,461,551**	**1,463,289**
Ordinary B shares				
At 1 January 2016 and 31 December 2016	100	1	-	1
At 1 January 2017 and 31 December 2017	**100**	**1**	**-**	**1**

10. Capital contribution reserve

	2017	2016
	€	€
At 1 January	**1,444,071**	1,275,843
Capital contribution arising on granting of share options by the ultimate parent company	**212,484**	168,228
At 31 December	**1,656,555**	1,444,071

The capital contribution reserve is a non-distributable reserve.

11. Other reserves

	Currency translation reserve
	€
At 1 January 2016	3,653
Currency translation differences	-
At 31 December 2016	3,653
At 1 January 2017	3,653
Currency translation differences	-
At 31 December 2017	**3,653**

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 of 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:

12. Share based payments - continued

	2017 Average exercise price in € per option	2017 Options	2016 Average Exercise price in € per option	2016 Options
Share options which were granted or converted into options of GIG Inc.				
At 1 January	**0.04**	**8,909,805**	0.03	13,718,800
At 31 December	**0.11**	**6,115,509**	0.04	8,909,805
Share options which were granted or converted into options of GIG Inc.				
Granted	**0.45 - 0.48**	**1,400,000**	0.43	720,000
Exercised	**0.01**	**(2,078,076)**	0.17	(100,000)
Tranferred to another subsidiary company within group	**0.41**	**(360,000)**	-	(5,428,995)
Forfeited during the year	**0.09**	**(1,756,220)**	-	-

Out of the 6,115,510 (2016: 8,909,805) outstanding option which were granted or converted into options of GIG Inc., none (2016: none) were exercisable.

Options which were converted into GIG Inc. shares, and exercised in 2017 resulted in 2,078,076 shares (2016: 100,000) being issued at a weighted average price of EUR 0.01 (2016: EUR 0.17). The related weighted average share price at the time of exercise was EUR 0.43 (2016: EUR 0.38) per share.

During the year ended 31 December 2017, 360,000 (2016: 5,428,995) share options were transferred to related group companies due to a change in the company which contracts the employee for services rendered.

Share options which were granted or converted into options of GIG Inc, outstanding at the end of the year, have the following expiry dates and exercise prices:

12. Share based payments - continued

Grant dates (range)	Vest dates (range)	Expiry dates (range)	Exercise prices in option (range) €	Share options 2017	2016
2014-2015	2016-2019	31st January 2017-31st January 2019	Nil	4,615,509	7,989,805
2015	2016-2018	17th August 2016 - 17th August 2018	0.16-0.17	100,000	200,000
2016-2020	2016-2020	31st May 2018 - 31st May 2020	0.43	-	720,000
2017	2018-2020	December 2022	0.45 - 0.48	1,400,000	-
				6,115,509	**8,909,805**

There were no share options which were not converted into options of GIG Inc, outstanding at the end of the current and prior periods.

Valuation of share options for the year ended 31 December 2017

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was EUR 0.16 (2016: EUR 0.14) per option. The significant inputs into the model were weighted average share price of EUR 0.43 (2016: EUR 0.32) at the grant date, exercise price shown above, volatility of 75% (2016: 80%), dividend yield of 0% (2016: 0%), an expected option life of 2.9 (2016: 2.7) years and an annual risk-free interest rate of 0.55% (2016: 0.55%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last 3 years.

13. Trade and other payables

	2017 €	2016 €
Trade payables	**814,160**	67,965
Players' accounts	**2,872,038**	1,540,850
Amounts due to group companies	**69,961,943**	24,099,602
Other payables	**32,221**	152,761
Indirect taxation and social security	**1,328,069**	329,579
Accruals and deferred income	**2,632,211**	1,972,993
	77,640,642	28,163,750

Amounts due to group companies are unsecured, interest free and repayable on demand.

14. Borrowings

	2017 €	2016 €
Loans from ultimate parent company	**4,304,228**	1,083,593

Borrowings from the ultimate parent company are unsecured, interest free and repayable on demand.

15. Other operating expenses

	2017	2016
	€	€
Platform and service provider fees	**4,842,560**	3,037,729
Gaming taxes	**1,073,354**	515,524
Consultancy and professional fees	**161,500**	366,830
Operating leases	**251,052**	301,900
Foreign exchange differences	**879,144**	942,258
Other operating expenses	**1,127,590**	1,471,855
	8,335,200	6,636,096

Fees charged by the auditor for services rendered during the financial period ended 31 December 2017 and 2016 are shown in the table below.

	2017	2016
	€	€
Annual statutory audit	**43,000**	25,000
Tax advisory and compliance services	**1,652**	1,652
	44,652	26,652

Employee benefit expense

	2017	2016
	€	€
Gross wages and salaries	**2,874,901**	2,306,792
Less: employee costs capitalised as part of software development	**-**	-
Net wages and salaries, including other benefits	**2,874,901**	2,306,792
Social security costs	**138,158**	124,766
Share options granted to employees	**212,484**	168,228
	3,225,543	2,599,786

The average number of persons employed during the year:

	2017	2016
Managerial	**1**	1
Administrative	**63**	56
	64	57

17. Director’s remuneration

	2017	2016
	€	€
Remuneration and other emoluments	**128,145**	110,493

18. Finance income

	2017	2016
	€	€
Interest income on bank deposits	**1,059**	273
Other interest income	**89**	-
	1,148	273

19. Tax expense

	2017	2016
	€	€
Current tax expense	**(172)**	-

The tax on the company's (loss)/profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2017	2016
	€	€
(Loss)/profit before tax	**(2,529,130)**	474,940
Tax at 35%	**(885,195)**	166,229
Tax effect of:		
Group loss relief	**778,556**	(79,998)
Disallowed expenses	**83,622**	65,739
Unrecognised deferred tax movement	**23,075**	(151,970)
Income subject to reduced rates of tax	**(230)**	-
Tax expense	**(172)**	-

As at 31 December 2017, the company had unutilised capital allowances amounting to EUR 78,996 (2016: nil) and net taxable temporary difference arising on intangible assets and plant and equipment amounting to EUR 14,803 (2016: EUR 607). The related net deferred tax asset was not recognised.

20. Deferred taxation

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2016: 35%). The movement on the deferred tax is as follows:

	2017 €	2016 €
As at 1 January	**12,919**	12,919
Deferred tax liability to be recovered after more than 12 months - recognised in profit or loss	-	-
As at 31 December	**12,919**	12,919

The amounts disclosed in the table above are recognised in the income statement.

The balance as at 31 December represents:

	2017 €	2016 €
Exchange variances	**(5,299)**	(5,299)
Difference between the tax base and carrying amounts of intangible and tangible assets	**5,138**	5,138
Capital allowances and tax losses	**13,080**	13,080
	12,919	12,919

The recognised deferred tax asset is expected to be realised principally after more than twelve months. Unrecognised temporary differences are disclosed in Note 19 to the financial statements.

21. Cash used in operations

(a) Reconciliation of operating loss to cash used in operations:

	2017 €	2016 €
Operating (loss)/profit	**(2,530,278)**	474,667
Adjustments for:		
Amortisation of intangible assets (Note 4)	**31,631**	96,584
Depreciation of property, plant and equipment (Note 5)	**83,207**	85,023
Share-based payment	**212,484**	168,228
Changes in working capital:		
Trade and other receivables	**(49,148,079)**	(21,147,964)
Trade and other payables	**49,476,892**	22,799,002
Restricted cash	**(1,759,006)**	(1,502,089)
Cash (used in)/generated from operations	**(3,633,149)**	973,451

21. Cash used in operations – continued

(b) Reconciliation of financial liabilities

	Loan from group parent €
Balance as at 1 January 2017	1,083,593
Cash inflows	3,220,635
Balance as at 31 December 2017	**4,304,228**

22. Related party transactions

All companies forming part of the Gaming Innovation Group are considered by the directors to be related parties as these companies are also ultimately owned by Gaming Innovation Group Inc.

MT SecureTrade Limited and a fellow subsidiary entered into an agreement for the purpose of sharing the conduct of their business for the pursuit of common business goals whereby MT SecureTrade Limited is engaged in the operation of the licensed activity whilst the fellow subsidiary provides ancillary services. The revenue share payable in terms of the joint venture operations is EUR 6,106,855 (2016: EUR 4,671,479).

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in Note 17.

(a) Year-end balances arising from amounts due and loans from related parties and other transactions, including cash advances.

	2017 €	2016 €
Other receivables from related parties (Note 7)		
parent company (receivable)	**3,847,033**	-
subsidiaries (receivable)	**1,568**	-
other group companies (receivable)	**62,453,166**	20,779,419
Other payables to related parties (Note 13)		
subsidiaries (payable)	**42,557,011**	12,967,315
parent company (payable)	-	77,632
other group companies (payable)	**27,404,932**	11,054,655
Loans from ultimate parent entity (Note 14)	**4,304,228**	**1,083,593**

23. Significant risks and uncertainties

The Company operates on the basis of its international license in Malta and other territory specific licenses.

For internet-based betting operations, there is uncertainty as to which country's law ought to be applied, as the internet operations can be linked to several jurisdictions and there are legal doubts on whether the availability of a site within foreign markets constitutes a solicitation to persons residing within that market. Legislation concerning online gaming is under review in certain jurisdictions, and in some circumstances, previous opportunities to offer gaming products to certain customers based in some markets on principles of freedom to provide services, would be closed due to legal restrictions being imposed. In some other cases, previously unregulated jurisdictions pass legislation regulating the market creating new opportunities to offer products and services to those markets with legal certainty.

The majority of the company's revenue is derived from markets within the European Union, meaning that their domestic regulations are subject to EU law principles, such as free movement of services. Member States are permitted to impose local license requirements as a condition for companies offering online gaming services to consumers residing in respective states only insofar as the licenses are granted based on objective, transparent, non-discriminatory and proportionate criteria. Whereas national regulation liberalising the gaming market is generally compliant with EU law, the imposition of restrictions, especially protectionist approaches, is often challenged in European courts causing doubt until a final decision is published.

In 2017, 14% of the Company's revenue was derived from a particular jurisdiction outside the European Union/European Economic Area (hereinafter referred to as "EU/EEA". In view of legal restrictions put in place in such jurisdiction, which had the legal prerogative to regulate its own territory, the Company's management resolved to cease to offer B2C gaming services to customers in this jurisdiction.

Where such local licensing regime is in place, it is the Company's policy not to offer gaming services to consumers residing in such state, unless it is in possession of a valid license. Regulation of online gaming in European markets is generally a positive development, as it reduces uncertainty and enables long term business planning and usually also increases the marketing channels available for the Company in such countries.

Outside the European Union the regulatory frameworks are more fragmented. Regulatory developments in the online gaming sector and their implications for the Company are uncertain and government authorities could make assessments and decisions that differ from the Company'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 Company to exit markets, or even result in financial sanctions, litigation, license withdrawal or unexpected tax exposures, which have not duly been provided for in the financial statements.

Following the proposition by the Swedish government to regulate the iGaming market, the Company's plan is to seek a license from the local regulators.

24. Statutory information

MT SecureTrade Limited is a limited liability company and is incorporated in Malta.

The company's immediate parent company is Gaming Innovation Group plc, a company registered in Malta, with its registered address at GB Buildings, Penthouse level, Watar 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 plc prepares consolidated financial statements which are available at the registered office of MT SecureTrade Limited.