

INNOVATION LABS LIMITED

**Annual Report and Financial Statements
31 December 2018**

	Pages
Directors' report	1 - 3
Independent auditor's report	4 - 7
Statement of financial position	8
Statement of comprehensive income	9
Statement of changes in equity	10
Statement of cash flows	11
Notes to the financial statements	12 – 36

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2018.

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 2018 have been consistently applied.

Overall company's performance

During the year revenues increased by 38.8% whilst operating expenses increased by 62.9%. EBITDA increased from EUR 14.7 million in 2017 to EUR 18.6 million in 2018.

Net revenues

Net revenues in 2018 increased to EUR 28.7 million (2017: EUR 20.7 million) which is equivalent to an increase of 38.8%.

Marketing expenses

During 2018, marketing costs were EUR 3.15 million (2017: EUR 1.43 million). The increase is mainly due to higher investment which led to the increase in revenue.

Operating expenses

During 2018, total operating expenses increased when compared to previous year with total costs of EUR 20.0 million (2017: EUR 12.3 million). This includes depreciation and amortisation cost of EUR 9.9 million (2017: EUR 6.3 million) and EUR 3.1 million (2017: EUR 1.7 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 previous year.

Profit from operations

Profit before tax for the year 2018 amounted to EUR 4.6 million (2017: EUR 6.4 million).

Net finance costs

Net finance costs for 2018 were EUR 4.1 million (2017: EUR 2.0 million). The increase is due to a full year's worth of interest on a loan agreement between the Company and its parent.

Directors' report - continued

Statement of financial position

As at 31 December 2018, net current liabilities and net assets of the Company amounted to EUR 25.3 million and EUR 21.1 million respectively. The Company's net equity has strengthened following the capitalisation of intra-group loans and amounts due as further disclosed in Note 1.1.

Trade and other receivables decreased to EUR 4.4 million from EUR 21.5 million in 2017 whilst trade and other payables increased from EUR 13.5 million in 2017 to EUR 15.6 million. These movements are mainly attributable to an offsetting exercise of intercompany balances.

Significant risks and uncertainties

Legal environment

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, license withdrawal, or unexpected tax exposures, which have not duly been provided for in these financial statements.

Going concern

During 2019, the Group continued to incur losses. Although a tranche of the Group's borrowings amounting to SEK350m was re-financed in June 2019, a further portion of SEK300m matures in March 2020. The Group's directors have reported as of 30 September 2019 that a strategic review is being undertaken in connection with the re-financing of this bond, and its performance, which may also impact the future operations of the Company. Although the Group's financial statements as of that date were drawn up on the going concern basis, the Group's directors reported a material uncertainty about the Group's ability to carry on as a going concern as of 30 September 2019. Therefore, due to the dependence of this company on the ultimate support of the Group, the Company's directors consider that such material uncertainty also applies to this entity, although they continue to consider the going concern basis of preparation to be appropriate.

Pledged securities

The Company has pledged its issued share capital with a nominal value of EUR1 which is owned by the immediate parent and this has been pledged to Nordic Trustee ASA, acting as the agent on behalf of bond holders.

Results and dividends

The financial results are set out on page 9. The directors declared a dividend of EUR 1,202,949 (2017: nil). The directors propose that the balance of retained earnings amounting to EUR 8,120,074 (2017: EUR 6,287,076) to be carried forward to the next financial year.

Directors' report - continued

Financial risk management

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

Directors

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

Mr Justin Psaila has been appointed as Director of the company on 8 May 2019

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

Statement of directors' responsibilities for the financial statements

The directors are 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.

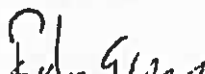
In preparing the financial statements, the director is responsible for:

- 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). The directors 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.

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


Mr Justin Psaila
Director

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

9 December 2019



Independent auditor's report

To the Shareholders of Innovation Labs Limited

Report on the audit of the financial statements

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 2018, 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 2018;
- 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 these Codes.



Independent auditor's report - continued

To the Shareholders of Innovation Labs Limited

Material uncertainty relating to going concern

We draw attention to Note 1.2 that deals with the basis of preparation of these financial statements, and indicates that the Company's current liabilities exceeded its current assets by €25,334,894 as at 31 December 2018. The basis of preparation assumes the continued support of Group. As disclosed in the same note, the Group is undergoing a strategic review in relation to its performance, and the need for re-financing, which may also impact the future operations of the Company. These conditions indicate the existence of a material uncertainty, which may cast significant doubt on the ability of the Group, and therefore the Company, to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of the directors for the financial statements

The directors are 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 directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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.



Independent auditor's report - continued

To the Shareholders of Innovation Labs Limited

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 directors 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 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

9 December 2019



Independent auditor's report

Page Intentionally Left Blank

Statement of financial position

		<u>As at 31 December</u>	
	Notes	2018 €	2017 €
ASSETS			
Non-current assets			
Intangible assets	6	40,366,125	49,800,818
Property, plant and equipment	4	162,139	218,295
Investments in subsidiaries	5	12,698,522	12,698,522
Derivative financial instruments	7	205,714	205,714
Total non-current assets		<u>53,432,500</u>	<u>62,923,349</u>
Current assets			
Trade and other receivables	8	4,368,972	21,459,579
Cash at bank and other intermediaries	9	391,154	371,265
Total current assets		<u>4,760,126</u>	<u>21,830,844</u>
Total assets		<u>58,192,626</u>	<u>84,754,193</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	10	1,200	1,200
Capital reserves	11	12,998,431	3,874,466
Foreign currency translation reserve		2,994	2,994
Retained earnings		8,120,074	6,287,076
Total equity		<u>21,122,699</u>	<u>10,165,736</u>
Non-current liabilities			
Deferred income tax liabilities	19	6,974,907	5,383,515
Current liabilities			
Trade and other payables	13	15,564,640	13,507,810
Current income tax liabilities		-	620,998
Borrowings	20	14,530,380	55,076,134
Total current liabilities		<u>30,095,020</u>	<u>69,204,942</u>
Total liabilities		<u>37,069,927</u>	<u>74,588,457</u>
Total equity and liabilities		<u>58,192,626</u>	<u>84,754,193</u>

The notes on pages 12 to 36 are an integral part of these financial statements.

The financial statements on pages 8 to 36 were authorised for issue by the directors on 9 December 2019 and were signed on its behalf by:


Mr Robin Eirik Reed
Director


Mr Justin Psaila
Director

Statement of comprehensive income

	Notes	Year ended 31 December	
		2018 €	2017 €
Net revenue		28,721,470	20,698,201
Operating expenses			
Personnel expenses	15	(3,122,318)	(1,681,928)
Depreciation and amortisation	4, 6	(9,867,475)	(6,310,563)
Marketing		(3,152,416)	(1,430,375)
Other operating expenses	14	(3,882,997)	(2,869,245)
Total operating expenses		(20,025,206)	(12,292,111)
Operating profit		8,696,264	8,406,090
Finance income	16	110	110
Finance costs	17	(4,068,734)	(2,040,493)
Profit before tax		4,627,640	6,365,707
Tax expense	18	(1,591,693)	(4,480,868)
Profit for the year		3,035,947	1,884,839

The notes on pages 12 to 36 are an integral part of these financial statements.

Statement of changes in equity

	Note	Share capital €	Foreign currency translation reserve €	Capital reserves €	Retained earnings €	Total €
Balance at 1 January 2017		1,200	2,994	157,559	4,402,237	4,563,990
Comprehensive Income						
Profit for the year - total comprehensive income		-	-	-	1,884,839	1,884,839
Transactions with owners						
Value of employee services	11	-	-	138,381	-	138,381
Capital contribution arising on shares contributed by ultimate parent company to acquire the subsidiary	11	-	-	3,578,526	-	3,578,526
Balance at 31 December 2017		1,200	2,994	3,874,466	6,287,076	10,165,736
Comprehensive Income						
Profit for the year - total comprehensive income		-	-	-	3,035,947	3,035,947
Transactions with owners						
Value of employee services	11	-	-	315,691	-	315,691
Dividends paid		-	-	-	(1,202,949)	(1,202,949)
Waiver of loans payable	11	-	-	8,808,274	-	8,808,274
Balance at 31 December 2018		1,200	2,994	12,998,431	8,120,074	21,122,699

The notes on pages 12 to 36 are an integral part of these financial statements.

Statement of cash flows

		Year ended 31 December	
	Notes	2018 €	2017 €
Cash flows from operating activities			
Cash generated from operations	21	2,247,146	473,403
Interest received		110	110
Income taxes paid		(647,792)	5
Cash generated from operations		1,599,464	473,518
Cash flows from investing activities			
Purchase of intangible assets	6	(367,783)	(46,758,623)
Purchases of property, plant and equipment	4	(8,843)	(106,524)
Net cash used in investing activities		(376,626)	(46,865,147)
Cash flows from financing activities			
Borrowings from parent company	20	-	46,392,544
Dividends paid		(1,202,949)	-
Net cash generated from investing activities		(1,202,949)	46,392,544
Net movement in cash and cash equivalents		19,889	915
Cash and cash equivalents at beginning of year		371,265	370,350
Cash and cash equivalents at end of year	9	391,154	371,265

The notes on pages 12 to 36 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). A parent (Note 25) 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, Innovation Labs 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 directors 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 2018, the Company reported net current liabilities of EUR 25,334,894 (2017: EUR 47,374,098). The financial statements have been prepared on a going concern basis, which assumes that amounts due to group undertakings will not be called upon for settlement unless funds are available to the Company. The Company is therefore dependent on the continued support of the Group.

During 2019, the Group continued to incur losses. Although a tranche of the Group's borrowings amounting to SEK350m was re-financed in June 2019, a further portion of SEK300m matures in March 2020. The Group's directors have reported as of 30 September 2019 that a strategic review is being undertaken in connection with the re-financing of this bond, and its performance, which may also impact the future operations of the Company. Although the Group's financial statements as of that date were drawn up on the going concern basis, the Group's directors reported a material uncertainty about the Group's ability to carry on as a going concern as of 30 September 2019. Therefore, due to the dependence of this company on the ultimate support of the Group, the Company's directors consider that such material uncertainty also applies to this entity, although they continue to consider the going concern basis of preparation to be appropriate.

Standards, interpretations and amendments to published standards effective in 2018

In 2018, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2018. 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.

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. The adoption of IFRS 15 although resulting in changes to accounting policies did not impact the amounts recognised as at 31 December 2017 nor was there any impact resulting from changes in presentation of line items.

1. Summary of significant accounting policies - continued

Standards, interpretations and amendments to published standards effective in 2018 - 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 profit or loss. 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 or through OCI, the irrevocable option is at inception. 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. The impact of IFRS 9 on financial assets is disclosed in note 2.1. The Company's financial liabilities continue to be measured at amortised cost under IFRS 9 consistently with IAS 39.

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 these financial statements but are mandatory for the Company's accounting periods beginning after 1 January 2018. The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's directors are of the opinion that, with the exception of the below, there are no requirements that will have a possible significant impact on the Company's financial statements in the period of initial application.

Under IFRS 16, "Leases", a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. IFRS 16 removes the distinction between operating and finance leases for lessees, and requires them to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts; the only exceptions are short-term and low-value leases. The standard is effective for annual periods beginning on or after 1 January 2019.

The Company has not entered into any material lease arrangements and thus should not be impacted by IFRS 16.

In the opinion of the Company's directors, there are no other standards that are not yet effective and that would be expected to have a material impact on the Company 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

1.3 Investment in subsidiaries

Investment 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 directors, 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 the 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

Domains comprise the value of domain names acquired by the company as well as the value derived from the search engine optimisation activity embedded in the acquired portfolios. Separately acquired domains are shown at historical cost, which represents their acquisition price and certain domains are expected to have a useful life of 8 years. Amortisation is calculated using the straight-line method to allocate the cost of domains over their estimated useful lives.

(b) Affiliate contracts

Acquired affiliate contracts are shown at historical cost and are deemed to have a useful life of 3 years, determined by reference to the expected user churn rate. Amortisation is calculated using the straight-line method to allocate the cost of affiliate contracts over their estimated useful lives.

(c) Technology platforms

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 three years.

Costs associated with maintaining these intangibles 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 Company 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.

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. Summary of significant accounting policies - continued

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
Furniture and fittings	5
Computer and office equipment	3
Improvements to premises	5

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.

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

From 1 January 2018, the company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

1. Summary of significant accounting policies - continued

1.7 Financial assets - continued

1.7.1 Classification - continued

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

1.7.2 Recognition and derecognition

Financial assets 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 the risks and rewards of ownership.

1.7.3 Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(a) Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

(b) Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

1.7.4 Impairment

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

1. Summary of significant accounting policies - continued

1.7 Financial assets - continued

1.7.4 Impairment - continued

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 2.1 for further details.

1.7.5 Accounting policies applied until 31 December 2017

The Company has applied IFRS 9 prospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

(a) Classification

Until 31 December 2017, the Company classified its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition.

(b) Reclassification

Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

(c) Subsequent measurement

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognised as follows:

- for financial assets at FVPL – in profit or loss within other gains/(losses)
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in note 2.1.

1 Summary of significant accounting policies – continued

1.7 Financial assets - continued

Accounting policies applied until 31 December 2017 - continued

(c) Subsequent measurement - continued

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains and losses from investment securities.

(d) Impairment

The Company assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

(e) Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Company could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could 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 was recognised in profit or loss.

Impairment testing of trade receivables is described in note 2.1.

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 1.7.4). 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. Summary of significant accounting policies - continued

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 IFRS 9. 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.

1. Summary of significant accounting policies - continued

1.14 Current and deferred taxation - continued

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.

1.15 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:

- 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.

1.16 Revenue recognition

For a revenue share deal, the company receives a share of the revenues that the gaming operator has generated as a result of a player playing on their iGaming site. Revenue is recognised in the month that it is earned by the respective gaming operator.

For a cost acquisition deal, 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.

For a listing deal, a client pays a fixed fee to be listed and critically reviewed on the Company's websites. Such revenue is apportioned on an accrual basis over the term of the contract.

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

1.16 **Revenue recognition - continued**

The Company's performance obligation in this respect can be viewed as a series of distinct performance obligations to stand ready to redirect players on a constant basis. Such contacts give rise to variable consideration from an IFRS 15 point of view since the revenues are not fixed at the outset. In view of the nature of the service provided as a monthly stand-ready obligation the Company recognises the income in the month in which it has a contractual right to bill the iGaming operators. This would result in a consistent approach to revenue recognition under IAS 18.

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 operates in various countries with various currency exposures, such as Norwegian krone, United States dollar, Swedish kronor, South African rand 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:

	Assets	Liabilities	Net exposure
	€	€	€
As at 31 December 2018			
GBP to EUR	229,559	(2,947)	226,612
NOK to EUR	103,115	(13,395)	89,720
SEK to EUR	90,657	-	90,657
USD to EUR	420,763	-	420,763
ZAR to EUR	2,552,684	-	2,552,684
	3,396,778	(16,342)	3,380,436

2. Financial risk management – continued

2.1 Financial risk factors - continued

(a) *Market risk - continued*

(i) *Foreign exchange risk - continued*

	Assets €	Liabilities €	Net exposure €
As at 31 December 2017			
GBP to EUR	16,158	-	16,158
NOK to EUR	219	-	219
SEK to EUR	3,191	-	3,191
USD to EUR	9,191	-	9,191
DKK to EUR	19,222	-	19,222
	47,981	-	47,981

(b) *Credit risk*

Credit risk mainly arises on cash and cash equivalents, amounts due from fellow subsidiaries and trade other receivables as follows:

	2018 €	2017 €
Financial assets at amortised cost:		
Amounts due from fellow subsidiaries (Note 8)	562,552	18,744,516
Cash at bank and other intermediaries (Note 9)	391,154	371,265
Trade and other receivables (Note 8)	3,759,300	2,669,486
Net exposure	4,713,006	21,785,267

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 with quality standing and does not consider that there was any material credit risk at the end of the reporting period.

The company assesses the credit quality of its customers taking into account financial position, past experience and other factors. It has processes in place to ensure that sales of services are effected to customers with an appropriate credit history. The company monitors the performance of these financial assets on a regular basis to identify incurred collection losses which are inherent in the company's receivables taking into account historical experience in collection of accounts receivable.

As at 31 December 2018, trade receivables of EUR 1,882,680 (2017: EUR 816,603) were past due but not impaired. The ageing analysis of these receivables is as follows.

	2018 €	2017 €
2 to 3 months	1,103,929	385,590
Over 3 months	778,751	431,013
	1,882,680	816,603

2. Financial risk management – continued

2.1 Financial risk factors – continued

(b) Credit risk - continued

Other trade receivables which are past due and impaired amount to EUR 221,123 (2017: EUR 112,149) 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 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 Company seeks to manage credit risk by only undertaking transactions with counterparties which include financial institutions or intermediaries and payment providers with quality standing. 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 2018 and 2017.

	2018	2017
	€	€
A+	114,188	-
AA-	501	501
BBB	68,470	112,580
Not rated	207,995	258,184
	391,154	371,265

(i) Impairment of financial assets

The company has the following types of financial assets that are subject to the expected credit loss model:

- trade receivables; and
- other financial assets carried at amortised cost

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Trade receivables were analysed to identify a history of default with its customers and expected payment trends, and settlement periods. Management estimates any risk of default to be minimal and the impact would thus be immaterial.

2. Financial risk management – continued

2.1 Financial risk factors – continued

(b) Credit risk - continued

(ii) Previous accounting policy for impairment of financial assets

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.

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.

(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 15,102,314 (2017: EUR 1,060,274), amounts due to immediate parent of EUR 12,002,956 in 2017, borrowings of EUR 14,530,380 (2017: EUR 55,076,134) and trade payables of EUR 53,783 (2017: EUR 54,988). The immediate parent company and fellow subsidiaries have undertaken not to request amounts due unless alternative funds are made available to the company. As disclosed in note 1.1, the Company's current liabilities exceeded current assets by EUR 25,334,894 (2017: EUR 47,374,098).

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.

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

2. Financial risk management – continued

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 directors give due consideration to the undertaking by the group parent company that it will not request amounts due until funds are available as described above.

2.3 Fair values of financial instruments

At 31 December 2018 and 2017 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 directors, 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 the matters 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 Group 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.

(ii) Going concern

As explained in Note 1.1, during 2019, the Group continued to incur losses. Although a tranche of the Group's borrowings amounting to SEK350m was re-financed in June 2019, a further portion of SEK300m matures in March 2020. The Group's directors have reported as of 30 September 2019 that a strategic review is being undertaken in connection with the re-financing of this bond, and its performance, which may also impact the future operations of the Company. Although the Group's financial statements as of that date were drawn up on the going concern basis, the Group's directors reported a material uncertainty about the Group's ability to carry on as a going concern as of 30 September 2019. Therefore, due to the dependence of this company on the ultimate support of the Group, the Company's directors consider that such material uncertainty also applies to this entity, although they continue to consider the going concern basis of preparation to be appropriate.

4. Property, plant and equipment

	Computer and office equipment €	Furniture and fittings €	Improvements to premises €	Total €
Cost				
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	<u>152,925</u>	<u>193,828</u>	<u>56,814</u>	<u>403,567</u>
As at 1 January 2018	152,925	193,828	56,814	403,567
Additions	6,401	2,442	-	8,843
As at 31 December 2018	<u>159,326</u>	<u>196,270</u>	<u>56,814</u>	<u>412,410</u>
Accumulated depreciation				
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	<u>106,309</u>	<u>50,556</u>	<u>28,407</u>	<u>185,272</u>
As at 1 January 2018	106,309	50,556	28,407	185,272
Depreciation charge	20,832	34,698	9,469	64,999
As at 31 December 2018	<u>127,141</u>	<u>85,254</u>	<u>37,876</u>	<u>250,271</u>
Net book value				
As at 1 January 2017	50,035	95,247	37,876	183,158
As at 31 December 2017	<u>46,616</u>	<u>143,272</u>	<u>28,407</u>	<u>218,295</u>
As at 31 December 2018	<u>32,185</u>	<u>111,016</u>	<u>18,938</u>	<u>162,139</u>

5. Investment in subsidiary

	2018 €	2017 €
As at 31 December	<u>12,698,522</u>	<u>12,698,522</u>

During 2017, the company acquired 100% of the share capital of Rebel Penguin ApS¹, 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 22.

6. Intangible assets

	Domains €	Affiliate contracts €	Technology platform €	Other €	Total €
Cost					
As at 1 January 2017	8,665,644	2,014,271	-	213,703	10,893,618
Additions	36,309,004	10,449,619	-	-	46,758,623
As at 31 December 2017	44,974,648	12,463,890	-	213,703	57,652,241
As at 1 January 2018	44,974,648	12,463,890	-	213,703	57,652,241
Additions	-	-	367,783	-	367,783
As at 31 December 2018	44,974,648	12,463,890	367,784	213,703	58,020,024
Accumulated depreciation					
As at 1 January 2017	899,572	641,441	-	71,234	1,612,247
Amortisation charge	3,574,761	2,557,563	-	106,852	6,239,176
As at 31 December 2017	4,474,333	3,199,004	-	178,086	7,851,423
As at 1 January 2018	4,474,333	3,199,004	-	178,086	7,851,423
Amortisation charge	5,673,520	4,054,579	38,760	35,617	9,802,476
As at 31 December 2018	10,147,853	7,253,583	38,760	213,703	17,653,899
Carrying amount					
As at 1 January 2017	7,766,072	1,372,830	-	142,469	9,281,371
As at 31 December 2017	40,500,315	9,264,886	-	35,617	49,800,818
As at 31 December 2018	34,826,795	5,210,307	329,024	-	40,366,125

During 2017, the company affected a sequence of asset acquisitions and one business combination, which is aligned to the Group Board's intended strategy of gaining a stronger foothold in regulated and soon to be regulated markets alongside the attainment of optimal growth rate trajectories and the enhancement of shareholder wealth. Assets acquired are allocated between domains and affiliate contracts. The value of affiliate contracts is determined with reference to traffic generated by players existing at the point of acquisition, and the value attributed to the domains is the residual.

On 14 February 2017, the company purchased intangibles for a total consideration of EUR 3,460,855 (\$3,700,000). The total amount was comprised of a cash consideration and was allocated to domains and affiliate contracts, such purchase became effective on 1 April 2017.

Affiliate network assets amounting to EUR 11.5 million in cash were purchased from Progrand Media Limited on 9 March 2017, with revenue streams crystallising in April 2017 upon completion of the due diligence exercise.

On 21 April 2017, sportsbook assets amounting to EUR 5.7 million in cash were purchased. This acquisition targeted the DACH region (Germany, Austria and Switzerland), strengthening the company's geographical footprint further. Recognition of revenue stream commenced in June 2017.

On 17 July 2017, affiliate assets pertaining to the largest affiliate network in Norway, which is STK Marketing Limited, was acquired for NOK 240 million in cash. The revenue rights, risks and rewards were assigned from June 2017.

7. Derivative financial assets

	2018	2017
	€	€
<i>Call option to acquire intangible assets</i>		
At 1 January	205,714	205,714
Fair value at initial recognition	-	-
As at 31 December	205,714	205,714

Valuation of call option to acquire intangible assets

At initial recognition, the fair value of the acquired option was estimated to amount to be €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 directors 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 directors estimate that as at 31 December 2018 and 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.

Adjusting the valuation by increasing/decreasing the industry multiple would result in the fair value of the option increasing/decreasing respectively. The directors envisage that a reasonable shift in the unobservable inputs used in the valuation would not have a significant impact on the amounts on consolidated profit or loss and total assets.

The Group has not exercised its option to acquire the remaining 50% of the risks and rewards of 'development domains' in March 2018. Both parties agree to extend the exercise period by a further twenty-four months. The option will now expire in 2021.

8. Trade and other receivables

	2018	2017
	€	€
Trade receivables - gross	3,980,423	2,781,635
Less: provision for impairment of trade receivables	(221,123)	(112,149)
Trade receivables - net	3,759,300	2,669,486
Amounts due from fellow subsidiaries	562,552	18,744,516
Prepayments	47,120	45,577
	4,368,972	21,459,579

Amounts due from fellow subsidiaries are unsecured, interest free and repayable on demand.

9. Cash and cash equivalents

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

	2018 €	2017 €
Cash at bank and other intermediaries	391,154	371,265

10. Share capital

	2018 €	2017 €
Authorised, issued and fully paid		
1,199 ordinary 'A' shares of EUR1 each	1,199	1,199
1 ordinary 'B' share of EUR1 each	1	1
	1,200	1,200

The ordinary 'B' shares shall not carry a right to receive dividends but in all other matters shall rank pari passu with the ordinary 'A' shares.

11. Capital contribution reserve

	2018 €	2017 €
At 1 January	3,874,466	157,559
Capital contribution arising on granting of share options by the ultimate parent company		
- fair value of employee service (Note 12)	315,691	138,381
- capital contribution arising on shares contributed by ultimate parent company to acquire the subsidiary (Note 5)	-	3,578,526
- waiver of loans payable (Note 20)	8,808,274	-
At 31 December	12,998,431	3,874,466

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 22). This is a non-distributable reserve.

During the year, the ultimate parent company has waived amounts due to them by the Company amounting to EUR8,808,274, which have been converted to a capital reserve.

12. Share based payments

Employee share option plan

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.

12. Share based payments - continued

Reverse split

On 17 December 2018, the Group has completed a 10-for-1 reverse share split ("reverse-split"). The comparative figures within this note, are updated to reflect the reverse-split.

Share options granted

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

	2018		2017	
	Average exercise price in € per option	Options	Average exercise price in € per option	Options
Share options which were outstanding in GIG Inc.:				
At 1 January	2.80	340,803	2.30	336,861
At 31 December	3.31	256,058	2.80	340,803
Movements during the year:				
Granted	-	-	6.40	30,000
Exercised	1.48	(84,745)	-	(26,058)

Out of the 256,058 (2017: 340,803) outstanding options which were granted or converted into options of GIG Inc, 106,000 shares (2017: 100,000) were exercisable.

Options which were converted into GIG Inc shares and exercised in 2018 resulted in 84,745 shares (2017: 26,058) being issued at a weighted average price of EUR 1.48 (2017: nil). The related weighted average share price at time of exercise was EUR 6.19 (2017: 4.20) per share.

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:

Grant dates	Vest dates	Expiry date	Exercise price in EUR per option (range)	Share options	
				2018	2017
2014-2016	2017-2019	31 st January 2017 - 31 st January 2019	Nil	26,058	60,803
2016-2020	2016-2020	1 st February 2018 - 1 st February 2023	0.24	100,000	150,000
2016-2018	2016-2018	20 th May 2017 - 20 th May 2021	0.45 – 0.48	100,000	100,000
2017	2017-2020	1 st June 2018 - 30 th June 2023	0.64 – 0.66	30,000	30,000
				256,058	340,803

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

12. Share based payments - continued

b. Valuation of share options for the year ended 31 December 2018

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was €1.98 (2017: €1.70) per option. The significant inputs into the model were weighted average share price of €6.02 (2017: €4.50) at the grant date, exercise price shown above, volatility of 40% (2017: 75%), dividend yield of 0% (2017: 0%), an expected option life of 6 (2017: 2.7) years and an annual risk-free interest rate of 1.40% (2017: 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 (2017: 3 years).

13. Trade and other payables

	2018	2017
	€	€
Trade payables	53,783	54,988
Other payables	87,916	101,701
Indirect taxation and social security	195,970	183,734
Amounts due to immediate parent company	-	12,002,956
Amounts due to fellow subsidiaries	15,102,314	1,060,274
Accruals and deferred income	124,657	104,157
	15,564,640	13,507,810

Amounts due to the immediate parent company and fellow subsidiaries are unsecured, interest free and repayable on demand.

14. Other operating expenses

	2018	2017
	€	€
Consultancy fees	1,420,698	1,651,567
Other operating expenses	2,462,299	1,217,678
	3,882,997	2,869,245

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

	2018	2017
	€	€
Annual statutory audit	17,000	17,000
Tax advisory and compliance services	1,652	1,652
Other services	7,500	7,500
	26,152	26,152

15. Employee benefit expense

	2018 €	2017 €
Gross wages and salaries	2,910,628	1,469,359
Less: employee costs capitalised as part of software development	(265,717)	-
Net wages and salaries, including other benefits	2,644,911	1,469,359
Social security costs	161,716	74,189
Share options granted to employees (Note 12)	315,691	138,380
	3,122,318	1,681,928

The average number of persons employed during the year:

	2018	2017
Managerial	1	1
Administrative	63	33
	64	34

16. Finance income

	2018 €	2017 €
Interest income on bank deposits	110	110

17. Finance cost

	2018 €	2017 €
Other interest expense	4,068,734	2,040,493

The interest expense is arising due to the interest on the loan agreement between the company and its immediate parent company. Interest is charged at a rate of 7.29% per annum, which is revised annually, and repayable on demand.

18. Tax expense

	2018 €	2017 €
Deferred tax	1,591,392	4,480,868
Current tax expense	301	-
	1,591,693	4,480,868

18. Tax expense - continued

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

	2018 €	2017 €
Profit for the year	<u>4,627,640</u>	<u>6,365,707</u>
Tax at 35%	1,619,674	2,227,997
Tax effect of:		
Disallowed expenses	171,884	29,333
Group loss relief	-	2,223,577
Unrecognised deferred tax in prior year	(199,865)	-
Interest taxed at source	-	(39)
	<u>1,591,693</u>	<u>4,480,868</u>

19. 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 law) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2017: 35%).

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

	2018 €	2017 €
As at 1 January	(5,383,515)	(902,642)
Deferred taxes on temporary differences arising on:		
- depreciation of property, plant and equipment (Note 4)	(18,753)	22,807
- amortisation of intangible assets (Note 6)	(3,135,964)	(4,522,196)
- provision for impairment of debtors (Note 7)	38,141	18,516
- unabsorbed tax losses	1,485,910	-
- unutilised capital allowances	39,274	-
As at 31 December	<u>(6,974,907)</u>	<u>(5,383,515)</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:

	2018 €	2017 €
Temporary differences arising on property, plant and equipment	9,677	28,430
Temporary differences arising on intangible assets	(8,587,156)	(5,451,192)
Temporary differences arising on impairment of debtors	77,393	39,247
Temporary differences arising on capital allowance and tax losses	1,525,179	-
	<u>(6,974,907)</u>	<u>(5,383,515)</u>

20. Borrowings

	2018	2017
	€	€
Borrowing from immediate parent company	14,530,380	46,392,544
Borrowing from ultimate parent company	-	8,683,590
	14,530,380	55,076,134

During the year, the Company's ultimate parent company has waived amounts due to it by the Company amounting to EUR 8,808,274 and was converted to a capital contribution reserve. Furthermore, the immediate parent company has also waived amounts due to it by the Company amounting to EUR 31,862,164.

Borrowings from the immediate parent company 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 immediate parent company and fellow subsidiaries have undertaken not to request amounts due unless alternative funds are made available to the company.

21. Cash generated from operations

(a) Reconciliation of operating profit to cash generated from operations:

	2018	2017
	€	€
Operating profit	8,696,264	8,406,090
Adjustments for:		
Amortisation of intangible assets (Note 6)	9,802,476	6,239,176
Depreciation of property, plant and equipment (Note 4)	64,999	71,387
Share-based payment (Note 11)	315,691	138,381
Movement in provision for impairment	108,974	52,918
Changes in working capital:		
Trade and other receivables	(18,922,472)	(23,033,363)
Trade and other payables	2,181,214	8,598,814
Cash generated from operations	2,247,146	473,403

(b) Reconciliation of financial liabilities:

	Loan from group parent
	€
Balance as at 1 January 2017	8,683,590
Cash inflows	46,392,544
Balance as at 31 December 2017	55,076,134
Balance as at 1 January 2018	55,076,134
Other non-cash movements	124,684
Waiver of amounts due to immediate parent company	(31,862,164)
Waiver of amounts due to ultimate parent company	(8,808,274)
Balance as at 31 December 2018	14,530,380

21. Cash generated from operations – continued

(c) Non-cash transactions

During 2017, the company, acquired Rebel Penguin ApS. 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 value consideration of €12,698,522, the latter was not paid to the parent company.

22. Related party transactions

All companies forming part of Gaming Innovation Group, the shareholders and other companies controlled or significantly influenced by the shareholders are considered by the directors to be related parties as these companies are also ultimately owned by Gaming Innovation Group Inc.

Year-end balances owed by or to related undertakings, arising in respect of the above transactions and cash advances, are disclosed in notes 8, 13 and 20.

Sale of services

	2018	2017
	€	€
fellow subsidiaries	4,697,023	3,763,026

Finance cost

	2018	2017
	€	€
immediate parent company	4,068,734	2,040,493

Other transactions

	2018	2017
	€	€
capital contributions	315,691	138,381

23. Significant risks and uncertainties

During 2019, the Group continued to incur losses. Although a tranche of the Group's borrowings amounting to SEK350m was re-financed in June 2019, a further portion of SEK300m matures in March 2020. The Group's directors have reported as of 30 September 2019 that a strategic review is being undertaken in connection with the re-financing of this bond, and its performance, which may also impact the future operations of the Company. Although the Group's financial statements as of that date were drawn up on the going concern basis, the Group's directors reported a material uncertainty about the Group's ability to carry on as a going concern as of 30 September 2019. Therefore, due to the dependence of this company on the ultimate support of the Group, the Company's directors consider that such material uncertainty also applies to this entity, although they continue to consider the going concern basis of preparation to be appropriate.

24. 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 plc, a company registered in Malta, with its registered address at @GIG Beach, Dragunara Street, St. Julians, STJ 3148 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 Innovation Labs Limited.