INNOVATION LABS LIMITED

Annual Report and Financial Statements
31 December 2019

Company Registration Number: C44130

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2019.

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 2019 have been consistently applied.

Overall company's performance

During the year revenues decreased by 5.4% whilst also decreasing operating expenses by 0.6%. This resulted in an overall decrease in EBITDA from EUR 18.6 million in 2018 to EUR 16.9 million in 2019. This decrease is attributed to the impact of a year on year decrease in revenue.

Net revenues

Net revenues in 2019 decreased to EUR 27.2 million (2018: EUR 28.7 million) which is equivalent to a decrease of 5.4%.

Marketing expenses

During 2019, marketing costs were EUR 1.89 million (2018: EUR 3.15 million). The decreased spend in marketing costs had a direct impact on the revenue generated during the year.

Operating expenses

During 2019, total operating expenses decreased when compared to previous year with total cost of EUR 19.9 million (2018: EUR 20.0 million). This includes depreciation and amortisation cost of EUR 9.6 million (2018: EUR 9.9 million) and EUR 3.6 million (2018: EUR 3.1 million) of personnel expenses. Operating expenses have decreased mainly due to a significant decrease in marketing spend during the year.

Net finance costs

Net finance costs for 2019 were EUR 1.0 million (2018: EUR 4.1 million). The decrease is due to a partial waiver of loan balances in prior year on loan agreement between the Company and its parent.

Profit from operations

Profit before tax for the year 2019 amounted to EUR 6.3 million (2018: EUR 4.6 million).

Directors' report - continued

Statement of financial position

As at 31 December 2019, net current liabilities and net assets of the Company amounted to EUR 4.8 million and EUR 30.4 million respectively. The Company's net equity has strengthened following the capitalisation of intra-group loans and amounts due as further disclosed in Note 11.

Trade and other receivables decreased to EUR 2.9 million from EUR 4.4 million in 2018 and trade and other payables also decreased from EUR 15.6 million in 2018 to EUR 8.2 million. These movements are mainly attributable to an offsetting exercise of intercompany balances.

Events after the reporting date

Impact of COVID-19 on the Company's operations and financial information

The assessment of the impact on the operations was performed at a Gaming Innovation Group level.

The occurrence of extraordinary events, such as natural disasters, and the outbreak of disease epidemics, has an adverse impact on the global economy, and may lead to a global recession. In early 2020, the existence of a new virus, now known as COVID-19, was confirmed, and since this time COVID-19 has spread across the world. COVID-19 has caused disruption to businesses and economic activity, which has also adversely impacted global stock markets. The Group considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. Given the inherent uncertainties, it is difficult to ascertain the impact of COVID-19 on the Group, or to provide a quantitative estimate of this impact. Management has however considered the potential impact, based on the known circumstances as at the date of reporting, and their assessment of potential future developments.

The Group closely monitored the progress of the Coronavirus (COVID-19) outbreak and introduced contingency measures to reduce the risk for its staff, and to ensure business continuity. The Group successfully deployed its Business Contingency Plan (BCP), and systems and operations continued to perform. The Group operates from various offices in several countries, and local measures have been adopted in line with recommendations made by the respective authorities.

The Group has a robust BCP to ensure continuity of operations and working from home is an integral part of day to day operations. Proactive steps were taken to advise employees to work from home prior to any announcements by governments. As part of the BCP, production environments require an extra level of approval to protect both the Group's business and its customers. COVID-19 did not result in disruption to the Group's operating model as a result of its agility.

Potential impact on Company outlook due to COVID-19

There is a risk that the prevailing unfavourable economic conditions due to the outbreak of COVID-19 could reduce online users' disposable incomes. Therefore, negative developments in the global economy dependent on external factors outside of the Company's control could adversely affect casino activity in the longer term. However, there could also be positive developments from a potential shift of gambling activity from offline brick and mortar casinos to online casinos.

This could affect revenues generated by the Company's business to customer clients which as a consequence affect the Company's revenues. Forty percent of the Company's revenues are not generated through revenue share deals which mitigates any possible negative effect on the Company's revenue.

Historically, revenue from sports represented less than 10% of the Company's revenues, and this was negatively impacted by Covid-19 during the period where sports activities were paused. However, the increased performance in casino during the same period mitigated such negative impact and as a consequence the Company's revenues are in line with management's forecasts until signing date.

Directors' report – continued

Potential impact on asset value due to COVID-19

Management's assessment of the recoverable amount of intangible assets, including consideration of indicators of impairment relating to intangibles, was based on economic conditions, including equity market levels, that existed at 31 December 2019. Such assessment did not therefore contemplate the impact of COVID-19, which only emerged in 2020. Since the carrying value of the Company's assets from continued operations relating to Sports business is immaterial, management does not expect the impact of future impairment to be significant as a result of COVID-19, when also considering the Company's amortisation policy for these assets.

Going concern

As at 31 December 2019, the Company's current liabilities exceeded the current assets by €4,841,612. The Directors continue to deem the going concern basis of preparation to be appropriate on the basis of the Company's ongoing profitability and cash generation, including the Company's favourable financial performance in 2020. In making this statement, the directors have considered the ongoing support the Company provides to the Group, which is currently facing liquidity pressures. Up to 30 September 2020, the Company had settled its dues to the Group which amounted to €7,143,012 as at 31 December 2019. Furthermore, as of the same date, an amount in the region of €3m was due to the Company by the Group.

B2C sale

On 14 February 2020, the parent company of the Company, Gaming Innovation Group Plc., signed a Share Purchase Agreement with Betsson Group for the divestment of its B2C assets, which include the operator brands Rizk, Guts, Kaboo and Thrills. Betsson will, through this agreement, become a long term partner of GiG, generating revenues to GiG's Platform Services. Betsson commits to initially keep the brands operational on GiG's platform for a minimum of 30 months. For the first 24 months, Betsson will pay a premium platform fee based on NGR generated. On 16 April 2020, the Group completed the sale of its B2C Assets to Betsson. GiG received €33 million as consideration, including an upfront cash payment of €22.3 million relating to the acquisition, a prepaid platform fee of €8.7 million and €2 million relating to GiG's Spanish casino licence. The funds were used to repay back the bond which expired during early 2020.

The company's principal activities are unchanged after this transaction.

Significant risks and uncertainties

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

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

This evolving environment makes compliance an increasingly complex area with the risk of non-compliance with territory specific regulations, including responsible gambling and marketing restrictions. 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, or unexpected financial exposures, which have not duly been provided for in these financial statements.

Directors' report - continued

Results and dividends

The financial results are set out on page 9. The directors declared a dividend of nil (2018: EUR 1,202,949). The directors propose that the balance of retained earnings amounting to EUR 12,114,632 (2018: EUR 8,120,074) to be carried forward to the next financial year.

Financial risk management

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

Directors

The directors of the Company who held office during the year were:

- Mr Justin Psaila (appointed on 8 May 2019)
- Richard Brown (appointed on 18 December 2019)
- Mr Robin Eirik Reed (resigned on 24 December 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 directors are also responsible for designing, implementing and maintaining 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, 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. Richard Brown	Mr Justin Psaila
Director	Director

Directors' report - continued

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

5 November 2020

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 2019, 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 10 to 38, comprise:

- the statement of financial position as at 31 December 2019;
- 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.

Emphasis of matter

We draw attention to Note 1.1 to these financial statements, which indicates that the Company provides funding to the Group that it forms part of, which is currently facing liquidity pressures. This matter is considered to be of fundamental importance to the understanding of the financial statements due to its nature and significance. Our opinion is not modified in respect of this matter.

Other information

The directors are 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 directors' 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 directors' report, we also considered whether the directors' 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' 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. We have nothing to report in this regard.

Independent auditor's report - *continued*

To the Shareholders of Innovation Labs Limited

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.

- 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, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the company's trade, customers and suppliers, and the disruption to its business and the overall economy. 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.

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

PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

Romina Soler
Partner

5 November 2020

Statement of financial position

	Notes	As at 31 December 2019 €	2018 €
ASSETS			
Non-current assets			
Intangible assets	6	**31,451,335**	40,366,125
Property, plant and equipment	4	**128,752**	162,139
Investments in subsidiaries	5	**12,698,522**	12,698,522
Derivative financial instruments	7	**205,714**	205,714
Total non-current assets		**44,484,323**	53,432,500
Current assets			
Trade and other receivables	8	**2,908,214**	4,368,972
Cash at bank and other intermediaries	9	**431,744**	391,154
Total current assets		**3,339,958**	4,760,126
Total assets		**47,824,281**	58,192,626
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	10	**1,200**	1,200
Capital reserves	11	**18,264,007**	12,998,431
Foreign currency translation reserve		**2,994**	2,994
Retained earnings		**12,114,632**	8,120,074
Total equity		**30,382,833**	21,122,699
Non-current liabilities			
Deferred income tax liabilities	15	**9,259,878**	6,974,907
Current liabilities			
Trade and other payables	13	**8,181,570**	15,564,640
Borrowings	14	**-**	14,530,380
Total current liabilities		**8,181,570**	30,095,020
Total liabilities		**17,441,448**	37,069,927
Total equity and liabilities		**47,824,281**	58,192,626

The notes on pages 14 to 38 are an integral part of these financial statements.

The financial statements on pages 10 to 38 were authorised for issue by the directors on 5 November 2020 and were signed on its behalf by:

Mr Richard Brown
Director

Mr Justin Psaila
Director

Statement of comprehensive income

	Notes	2019 €	2018 €
		Year ended 31 December	
Net revenue		**27,184,195**	28,721,470
Operating expenses			
Personnel expenses	17	**(3,602,285)**	(3,122,318)
Depreciation and amortisation	4, 6	**(9,621,137)**	(9,867,475)
Marketing		**(2,790,836)**	(3,152,416)
Other operating expenses	16	**(3,892,451)**	(3,882,997)
Total operating expenses		**(19,906,709)**	(20,025,206)
Operating profit		**7,277,486**	8,696,264
Finance income	18	**-**	110
Finance costs	19	**(997,957)**	(4,068,734)
Profit before tax		**6,279,529**	4,627,640
Tax expense	20	**(2,284,971)**	(1,591,693)
Profit for the year		**3,994,558**	3,035,947

The notes on pages 14 to 38 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 2018		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
Comprehensive income						
Profit for the year - total comprehensive income		-	-	-	3,994,558	3,994,558
Transactions with owners						
Synthetic shares	11	-	-	(236,089)	-	(236,089)
Value of employee services	11	-	-	85,159	-	85,159
Waiver of loans payable	11	-	-	5,416,506	-	5,416,506
Balance at 31 December 2019		**1,200**	**2,994**	**18,264,007**	**12,114,632**	**30,382,833**

The notes on pages 14 to 38 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2019 €	2018 €
Cash flows from operating activities			
Cash generated from operations	21	**713,550**	2,247,146
Interest received		-	110
Income taxes paid		-	(647,792)
Cash generated from operations		**713,550**	1,599,464
Cash flows from investing activities			
Purchase of intangible assets	6	**(647,309)**	(367,783)
Purchases of property, plant and equipment	4	**(25,651)**	(8,843)
Net cash used in investing activities		**(672,960)**	**(376,626)**
Cash flows from financing activities			
Dividends paid		-	(1,202,949)
Net cash used in investing activities		-	(1,202,949)
Net movement in cash and cash equivalents		**40,590**	19,889
Cash and cash equivalents at beginning of year		**391,154**	371,265
Cash and cash equivalents at end of year	9	**431,744**	391,154

The notes on pages 14 to 38 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 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, 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 2019, the Company's current liabilities exceeded the current assets by €4,841,612. The Directors continue to deem the going concern basis of preparation to be appropriate on the basis of the Company's ongoing profitability and cash generation, including the Company's favourable financial performance in 2020. In making this statement, the directors have considered the ongoing support the Company provides to the Group, which is currently facing liquidity pressures. Up to 30 September 2020, the Company had settled its dues to the Group which amounted to €7,143,012 as at 30 December 2019. Furthermore, as of the same date, an amount in the region of €3m was due to the Company by the Group.

Impact of COVID-19 on the Company's operations and financial information

The assessment of the impact on the operations was performed at a Gaming Innovation Group level.

The occurrence of extraordinary events, such as natural disasters, and the outbreak of disease epidemics, has an adverse impact on the global economy, and may lead to a global recession. In early 2020, the existence of a new virus, now known as COVID-19, was confirmed, and since this time COVID-19 has spread across the world. COVID-19 has caused disruption to businesses and economic activity, which has also adversely impacted global stock markets. The Group considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. Given the inherent uncertainties, it is difficult to ascertain the impact of COVID-19 on the Group, or to provide a quantitative estimate of this impact. Management has however considered the potential impact, based on the known circumstances as at the date of reporting, and their assessment of potential future developments.

The Group closely monitored the progress of the Coronavirus (COVID-19) outbreak and introduced contingency measures to reduce the risk for its staff, and to ensure business continuity. The Group successfully deployed its Business Contingency Plan (BCP), and systems and operations continued to perform. The Group operates from various offices in several countries, and local measures have been adopted in line with recommendations made by the respective authorities.

The Group has a robust BCP to ensure continuity of operations and working from home is an integral part of day to day operations. Proactive steps were taken to advise employees to work from home prior to any announcements by governments. As part of the BCP, production environments require an extra level of approval to protect both the Group's business and its customers. COVID-19 did not result in disruption to the Group's operating model as a result of its agility.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation – continued

Potential impact on Company outlook due to COVID-19

There is a risk that the prevailing unfavourable economic conditions due to the outbreak of COVID-19 could reduce online users' disposable incomes. Therefore, negative developments in the global economy dependent on external factors outside of the Company's control could adversely affect casino activity in the longer term. However, there could also be positive developments from a potential shift of gambling activity from offline brick and mortar casinos to online casinos.

This could affect revenues generated by the Company's business to customer clients which as a consequence affect the Company's revenues. Forty percent of the Company's revenues are not generated through revenue share deals which mitigates any possible negative effect on the Company's revenue.

Historically, revenue from sports represented less than 10% of the Company's revenues, and this was negatively impacted by Covid-19 during the period where sports activities were paused. However, the increased performance in casino during the same period mitigated such negative impact and as a consequence the Company's revenues are in line with management's forecasts until signing date.

Potential impact on asset value due to COVID-19

Management's assessment of the recoverable amount of intangible assets, including consideration of indicators of impairment relating to intangibles, was based on economic conditions, including equity market levels, that existed at 31 December 2019. Such assessment did not therefore contemplate the impact of COVID-19, which only emerged in 2020. Since the carrying value of the Company's assets from continued operations relating to Sports business is immaterial, management does not expect the impact of future impairment to be significant as a result of COVID-19, when also considering the Company's amortisation policy for these assets.

Standards, interpretations and amendments to published standards effective in 2019

IFRS 16 Leases was issued in January 2016 and is effective for annual reporting periods starting on or after 1 January 2019. It replaces IAS 17 Leases and related Interpretations. The standard was not relevant for the Company and was not applied.

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 period beginning after 1 January 2019. 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 there are no requirements that will have a possible significant impact on the Company's financial statements on the period of initial application.

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 Investment in subsidiary

Investment in subsidiaries are accounted for by the cost method of accounting, i.e. at cost less impairment. Provisions are recoded where in the opinion of the directors, there is an impairment in value. Where there has been as 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.

1. Summary of significant accounting policies - continued

1.4 Intangible assets - continued

(d) Technology platforms - continued

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.

1.5 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. Summary of significant accounting policies - continued

1.6 Impairment of non-financial assets

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

1.7 Financial assets

1.7.1 Classification

The Company classifies its financial assets 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.

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.

1. Summary of significant accounting policies - continued

1.7 Financial assets - continued

1.7.3 Measurement - continued

(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 a 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

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.

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.

1.8 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. 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 loan 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.

1. Summary of significant accounting policies - continued

1.14 Current and deferred taxation - continued

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.

1.15 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. Summary of significant accounting policies - continued

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.

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 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 (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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(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 GB pound, Norwegian krone, Polish zloty, Swedish kronor, United States dollar and South African rand. 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 2019			
GBP to EUR	104,723	-	104,723
NOK to EUR	32,145	(1,988)	30,157
PLN to EUR	-	(1,762)	(1,762)
SEK to EUR	8,184	(35)	8,149
USD to EUR	205,061	(2,572)	202,489
ZAR to EUR	126,526	-	126,526
	476,639	**(6,357)**	**470,282**

	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**

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

(b) Credit risk

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

	2019	2018
	€	€
Financial assets at amortised cost:		
Amounts due from fellow subsidiaries (Note 8)	**20,000**	562,552
Cash at bank and other intermediaries (Note 9)	**431,744**	391,154
Trade and other receivables (Note 8)	**2,880,584**	3,759,300
Net exposure	**3,332,328**	4,713,006

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.

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 2019 and 2018.

	2019	2018
	€	€
A+	**124,341**	114,188
AA-	-	501
BBB	-	68,470
BBB-	**89,909**	-
Not rated	**217,494**	207,995
	431,744	391,154

(i) Impairment of financial assets

The company has the following financial assets that are subject to the expected credit loss model: trade receivables, and other financial assets carried at amortised cost. Cash and cash equivalents are also subject to the impairment requirements of IFRS 9, but due to the low credit risk, the simplified approach was used and the loss was immaterial in both the current and prior years.

2. Financial risk management – continued

2.1 Financial risk factors – continued

(b) Credit risk - continued

(i) Impairment of financial assets - continued

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected loss rates are based on the payment profiles of sales over a period of 8 months before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 31 December 2019 was determined as follows for trade receivables:

31 December 2019	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	More than 300 days past due	More than 500 days past due	More than 700 days past due	Total
Expected loss rate	1.15%	5.06%	10.60%	12.59%	15.58%	43.42%	74.69%	100%	
Trade receivables, gross	1,521,398	630,585	337,342	171,806	118,023	345,750	122,374	117,683	**3,364,961**
Loss allowance	**17,503**	**31,901**	**35,760**	**21,622**	**18,385**	**150,126**	**91,398**	**117,683**	**484,378**

The closing loss allowances for trade receivables as at 31 December 2019 reconcile to the opening loss allowances as follows:

	2019	2018
	€	€
Opening loss allowance as at 1 January	**221,123**	112,149
Increase in loss allowance recognised in profit or loss during the year	**465,789**	156,538
Receivables written off during the year as uncollectible	**(202,534)**	(47,564)
	484,378	221,123

Other than trade receivables for which provisions for impairment of EUR 484,378 (2018: EUR 221,123) have been recorded, the company did not hold any material past due but not impaired financial assets as at 31 December 2019.

The company manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from partners are within controlled parameters. Management assesses the credit quality of the operators considering its financial position past experience and other factors. The Company's receivables, which are not impaired financial assets, are principally 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. The directors consider that the Company was not exposed to significant credit risk as at the end of the current reporting period.

2. Financial risk management – continued

2.1 Financial risk factors – continued

(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 7,143,012 (2018: EUR 15,102,314), amounts due to immediate parent of EUR 20,000 (2018: nil), borrowings of EUR nil (2018: EUR 14,530,380), other payables of EUR 153,866 (2018: EUR 87,9126) and trade payables of EUR 116,832 (2018: EUR 53,783).

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

2.2 Capital risk management

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

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

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

2.3 Fair values of financial instruments

At 31 December 2019 and 2018 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 significant uncertainty associated with the legal environment that the company operates in as referred to in Note 23 to these financial statements.

4. Property, plant and equipment

	Computer and office equipment	Furniture and fittings	Improvements to premises	Total
	€	€	€	€
Cost				
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	159,326	196,270	56,814	412,410
As at 1 January 2019	159,326	196,270	56,814	412,410
Additions	25,651	-	-	25,651
As at 31 December 2019	**184,977**	**196,270**	**56,814**	**438,061**
Accumulated depreciation				
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	127,141	85,254	37,876	250,271
As at 1 January 2019	127,141	85,254	37,876	250,271
Depreciation charge	14,705	34,863	9,470	59,038
As at 31 December 2019	**141,846**	**120,117**	**47,346**	**309,309**
Net book value				
As at 1 January 2018	46,616	143,272	28,407	218,295
As at 31 December 2018	32,185	111,016	18,938	162,139
As at 31 December 2019	**43,131**	**76,153**	**9,468**	**128,752**

5. Investment in subsidiary

	2019	2018
	€	€
As at 31 December	**12,698,522**	12,698,522

Subsidiary	**Country of incorporation**	**Class of shares held**	**Percentage of voting rights held directly by parent 2019**	**2018**
			%	%
Rebel Penguin ApS	Denmark	Ordinary shares	**100**	100

6. Intangible assets

	Domains	Affiliate contracts	Technology platform	Other	Total
	€	€	€	€	€
Cost					
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	367,783	213,703	58,020,024
As at 1 January 2019	44,974,648	12,463,890	367,783	213,703	58,020,024
Additions	1	-	647,308	-	647,309
As at 31 December 2019	**44,974,649**	**12,463,890**	**1,015,091**	**213,703**	**58,667,333**
Accumulated depreciation					
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
As at 1 January 2019	10,147,853	7,253,583	38,760	213,703	17,653,899
Amortisation charge	5,615,187	3,613,238	333,674	-	9,562,099
As at 31 December 2019	**15,763,040**	**10,866,821**	**372,434**	**213,703**	**27,215,998**
Carrying amount					
As at 1 January 2018	40,500,315	9,264,886	-	35,617	49,800,818
As at 31 December 2018	34,826,795	5,210,307	329,023	-	40,366,125
As at 31 December 2019	**29,211,609**	**1,597,069**	**642,657**	-	**31,451,335**

Additions in technology platform include €415,989 of capitalised salaries (2018: €265,717), refer to note 15 in these financial statements.

7. Derivative financial assets

	2019	2018
	€	€
Call option to acquire intangible assets		
As at 1 January & 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 €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 contact), 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 believe 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 2019 and 2018, 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 2019 and the option is due to expire in June 2021.

8. Trade and other receivables

	2019	2018
	€	€
Trade receivables - gross	**3,364,962**	3,980,423
Less: loss allowance	**(484,378)**	(221,123)
Trade receivables - net	**2,880,584**	3,759,300
Amounts due from fellow subsidiaries	**20,000**	562,552
Prepayments	**7,630**	47,120
	2,908,214	4,368,972

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:

	2019 €	2018 €
Cash at bank and other intermediaries	431,744	391,154

10. Share capital

	2019 €	2018 €
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

	2019 €	2018 €
At 1 January	12,998,431	3,874,466
Capital contribution arising on granting of share options by the ultimate parent company		
- synthetic shares	(236,089)	-
- fair value of employee service (Note 12)	85,159	315,691
- waiver of loans payable (Note 21)	5,416,506	8,808,274
At 31 December	18,264,007	12,998,431

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 as well as waiver of loans payable by the Company. This is a non-distributable reserve.

During the year, the ultimate parent company and immediate parent company have waived amounts due to them by the Company amounting to EUR 123,791 (2018: EUR 8,808,274) and EUR 5,292,715 respectively, which have been converted to a capital reserve.

12. Share based payments

a. *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

a. *Employee share option plan - continued*

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

	2019 Average exercise price in € per option	Options	2018 Average Exercise price in € per option	Options
Share options which were granted or converted into options of GIG Inc.				
At 1 January	**3.31**	**256,058**	2.80	340,803
At 31 December	**4.31**	**130,000**	3.31	256,058
Share options which were granted or converted into options of GIG Inc.				
Exercised	**1.90**	**(126,058)**	1.48	(84,745)

Out of the 130,000 (2018: 256,058) outstanding options which were granted or converted into options of GIG Inc, 115,000 shares (2087: 106,000) were exercisable.

Options which were converted into GIG Inc shares and exercised in 2019 resulted in 126,058 shares (2018: 84,745) being issued at a weighted average price of EUR 2.40 (2018: EUR 1.48). The related weighted average share price at time of exercise was EUR 2.22 (2018: EUR 6.19) 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 (range)	Vest dates (range)	Expiry dates (range)	Exercise prices in option (range) €	Share options 2019	2018
2014-2015	2017-2019	31 January 2017 - 31 January 2019	Nil	-	26,058
2016-2020	2016-2020	1 February 2018 - 1 February 2023	2.40	-	100,000
2016-2018	2016-2020	20 May 2017 - 20 May 2021	3.80	100,000	100,000
2017	2016-2020	1 June 2018 - 30 June 2023	6.00	30,000	30,000
				130,000	**256,058**

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 2019

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was nil (2018: €1.98) per option. The significant inputs into the model were weighted average share price of €3.94 (2018: €6.02) at the grant date, exercise price shown above, volatility of 78% (2018: 40%), dividend yield of nil (2018: 0%), an expected option life of 2 (2018: 6) years and an annual risk-free interest rate of 0.4% (2018: 1.40%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over 3 years (2018: 3 years).

13. Trade and other payables

	2019	2018
	€	€
Trade payables	**116,832**	53,783
Other payables	**153,866**	87,916
Indirect taxation and social security	**518,334**	195,970
Amounts due to fellow subsidiaries	**7,143,012**	15,102,314
Amounts due to immediate parent	**20,000**	-
Accruals and deferred income	**229,526**	124,657
	8,181,570	15,564,640

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

14. Borrowings

	2019	2018
	€	€
Borrowing from immediate parent company	-	14,530,380
	-	14,530,380

During the year, the Company has carried out an offsetting exercise of intercompany balances, which resulted in the Company's ultimate parent company and immediate parent company wavering amounts due to them by the Company amounting to EUR 123,791 and EUR 5,292,715 respectively and were converted to a capital contribution reserve. This resulted in a nil closing balance as at year end.

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

15. 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% (2018: 35%).

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

	2019 €	2018 €
As at 1 January	(6,974,907)	(5,383,515)
Deferred taxes on temporary differences arising on:		
- depreciation of property, plant and equipment (Note 4)	1,120	(18,753)
- amortisation of intangible assets (Note 6)	(2,226,865)	(3,135,964)
- provision for impairment of debtors (Note 8)	92,139	38,141
- unabsorbed tax losses	(111,767)	1,485,910
- unutilised capital allowances	(39,598)	39,274
As at 31 December	(9,259,878)	(6,974,907)

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

	2019 €	2018 €
Temporary differences arising on property, plant and equipment	10,797	9,677
Temporary differences arising on intangible assets	(10,814,021)	(8,587,156)
Temporary differences arising on impairment of debtors	169,532	77,393
Temporary differences arising on capital allowance and tax losses	1,373,814	1,525,179
	(9,259,878)	(6,974,907)

16. Other operating expenses

	2019 €	2018 €
Consultancy fees	872,023	1,420,698
Software expenses	793,049	616,939
Other operating expenses	2,227,379	1,845,360
	3,892,451	3,882,997

16. Other operating expenses - continued

Fees charged by the auditor (exclusive of VAT) for services rendered during the financial period ended 31 December 2019 are shown in the table below.

	2019 €	2018 €
Tax advisory and compliance services	**1,500**	1,400
Other services	**150**	7,500
	1,650	8,900

In the current and preceding year, audit fees were borne by a fellow subsidiary.

17. Employee benefit expense

	2019 €	2018 €
Gross wages and salaries	**3,007,182**	2,659,318
Less: employee costs capitalised as part of software development	**(415,989)**	(265,717)
Net wages and salaries, including other benefits	**2,591,193**	2,393,601
Salary recharges	**776,383**	262,086
Social security costs	**149,550**	150,940
Share options granted to employees (Note 12)	**85,159**	315,691
	3,602,285	3,122,318

The average number of persons employed during the year:

	2019	2018
Managerial	**-**	1
Administrative	**66**	63
	66	64

18. Finance income

	2019 €	2018 €
Interest income on bank deposits	**-**	110

19. Finance cost

	2019 €	2018 €
Other interest expense	**997,957**	4,068,734

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.

20. Tax expense

	2019	2018
	€	€
Deferred tax	**2,284,971**	1,591,392
Current tax expense	-	301
	2,284,971	1,591,693

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

	2019	2018
	€	€
Profit before tax	**6,279,529**	4,627,640
Tax at 35%	**2,197,835**	1,619,674
Tax effect of:		
Disallowed expenses	**82,649**	171,884
Unrecognised deferred tax in prior year	**4,487**	(199,865)
	2,284,971	1,591,693

21. Cash generated from operations

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

	2019	2018
	€	€
Operating profit	**7,277,486**	8,696,264
Adjustments for:		
Amortisation of intangible assets (Note 6)	**9,562,099**	9,802,476
Depreciation of property, plant and equipment (Note 4)	**59,038**	64,999
Share-based payment (Note 12)	**85,159**	315,691
Movement in provision for impairment	**263,255**	108,974
Changes in working capital:		
Trade and other receivables	**1,197,503**	(18,922,472)
Trade and other payables	**(17,730,990)**	2,181,214
Cash generated from operations	**713,550**	2,247,146

21. Cash generated from operations - continued

(b) Reconciliation of financial liabilities:

	Loan from group parent €
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
Balance as at 1 January 2019	**14,530,380**
Other non-cash movements	**(9,113,874)**
Waiver of amounts due to immediate parent company	**(5,292,715)**
Waiver of amounts due to ultimate parent company	**(123,791)**
Balance as at 31 December 2019	-

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 14.

Sale of services	**2019 €**	2018 €
fellow subsidiaries	**2,912,715**	4,697,023

Purchase of services	**2019 €**	2018 €
personnel costs	**776,383**	262,086
administrative expenses	**1,898,325**	725,461

Finance cost	**2019 €**	2018 €
immediate parent company	**997,957**	4,068,734

23. Significant risks and uncertainties

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

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

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

24. Events after the reporting date

Impact of COVID-19 on the Company's operations and financial information

The assessment of the impact on the operations was performed at a Gaming Innovation Group level.

The occurrence of extraordinary events, such as natural disasters, and the outbreak of disease epidemics, has an adverse impact on the global economy, and may lead to a global recession. In early 2020, the existence of a new virus, now known as COVID-19, was confirmed, and since this time COVID-19 has spread across the world. COVID-19 has caused disruption to businesses and economic activity, which has also adversely impacted global stock markets. The Group considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. Given the inherent uncertainties, it is difficult to ascertain the impact of COVID-19 on the Group, or to provide a quantitative estimate of this impact. Management has however considered the potential impact, based on the known circumstances as at the date of reporting, and their assessment of potential future developments.

The Group closely monitored the progress of the Coronavirus (COVID-19) outbreak and introduced contingency measures to reduce the risk for its staff, and to ensure business continuity. The Group successfully deployed its Business Contingency Plan (BCP), and systems and operations continued to perform. The Group operates from various offices in several countries, and local measures have been adopted in line with recommendations made by the respective authorities.

The Group has a robust BCP to ensure continuity of operations and working from home is an integral part of day to day operations. Proactive steps were taken to advise employees to work from home prior to any announcements by governments. As part of the BCP, production environments require an extra level of approval to protect both the Group's business and its customers. COVID-19 did not result in disruption to the Group's operating model as a result of its agility.

Potential impact on Company outlook due to COVID-19

There is a risk that the prevailing unfavourable economic conditions due to the outbreak of COVID-19 could reduce online users' disposable incomes. Therefore, negative developments in the global economy dependent on external factors outside of the Company's control could adversely affect casino activity in the longer term. However, there could also be positive developments from a potential shift of gambling activity from offline brick and mortar casinos to online casinos.

24. Events after the reporting date – continued

Potential impact on Company outlook due to COVID-19 - continued

This could affect revenues generated by the Company's business to customer clients which as a consequence affect the Company's revenues. Forty percent of the Company's revenues are not generated through revenue share deals which mitigates any possible negative effect on the Company's revenue.

Historically, revenue from sports represented less than 10% of the Company's revenues, and this was negatively impacted by Covid-19 during the period where sports activities were paused. However, the increased performance in casino during the same period mitigated such negative impact and as a consequence the Company's revenues are in line with management's forecasts until signing date.

Potential impact on asset value due to COVID-19

Management's assessment of the recoverable amount of intangible assets, including consideration of indicators of impairment relating to intangibles, was based on economic conditions, including equity market levels, that existed at 31 December 2019. Such assessment did not therefore contemplate the impact of COVID-19, which only emerged in 2020. Since the carrying value of the Company's assets from continued operations relating to Sports business is immaterial, management does not expect the impact of future impairment to be significant as a result of COVID-19, when also considering the Company's amortisation policy for these assets.

B2C sale

On 14 February 2020, the parent company of the Company, Gaming Innovation Group Plc., signed a Share Purchase Agreement with Betsson Group for the divestment of its B2C assets, which include the operator brands Rizk, Guts, Kaboo and Thrills. Betsson will, through this agreement, become a long term partner of GiG, generating revenues to GiG's Platform Services. Betsson commits to initially keep the brands operational on GiG's platform for a minimum of 30 months. For the first 24 months, Betsson will pay a premium platform fee based on NGR generated. On 16 April 2020, the Group completed the sale of its B2C Assets to Betsson. GiG received €33 million as consideration, including an upfront cash payment of €22.3 million relating to the acquisition, a prepaid platform fee of €8.7 million and €2 million relating to GiG's Spanish casino licence. The funds were used to repay back the bond which expired during early 2020.

The company's principal activities are unchanged after this transaction.

25. Statutory information

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

The company's immediate parent company is Gaming Innovation Group 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.