FINANSTILSYNET
THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

Gaming Innovation Group Inc.
P.O. Box 3959 Ullevål Stadion
0806 OSLO
NORWAY

OUR REFERENCE	YOUR REFERENCE		DATE
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Review of financial reporting

Finanstilsynet has examined certain accounting topics related to the 2015 annual financial report of Gaming Innovation Group Inc. ("GIG"), as well as its interim reporting of 2015 and the first half of 2016, cf. Securities Trading Act section 15-1 subsection (3). Reference is made to previous correspondence.

1. Introduction

GIG is a US registered gambling solutions and entertainment provider, whose shares are listed on the Oslo Børs. The group's activities are related to its own B2C (business to consumer) gambling operators (e.g. Rizk.com, Guts.com), as well as its B2B (business to business) offering to third party online gambling operators of both affiliate marketing (Innovation Labs) and cloud based gambling platform solutions (iGamingCloud). Most of GIG's operations are located in Malta. In its 2015 annual report, GIG reported revenue of EUR 17.7 million and an operating loss of EUR 2.4 million, while the corresponding YTD figures for Q2-2016 were EUR 17.6 million and EUR 0.6 million respectively.

The rapid growth since its 2015 combination with Nio Securities Inc. ("Nio") is to a large part due to a succession of business combinations and asset purchases. Per the 30th of June 2016 the acquired assets recognized in these transactions accounted for more than 95% of GIG's total non-current assets. Up to that point, the inorganic growth was almost exclusively financed by the issuance of new equity. In 2017 GIG has issued bonds to finance further transactions[1].

IFRS requires that issuers shall strive to enable users to as soon as possible understand the nature and effects of business combinations and other major transactions. GIG's accounting and disclosures related to the above mentioned business combinations and major transactions are material for investors and other users' understanding of GIGs financial status and performance. Finanstilsynet's review hence focused on GIG's accounting and disclosures related to a selection of these transactions. GIG's accounting practices for these transactions were found to be of inferior

[1] A subsidiary of GIG, Gaming Innovation Group Ltd, listed bonds on Oslo Børs in 2017.

FINANSTILSYNET
Revierstredet 3
P.O. Box 1187 Sentrum
NO-0107 Oslo

Tel. +47 22 93 98 00
Fax +47 22 63 02 26

post@finanstilsynet.no
www.finanstilsynet.no

Enquiries to
Morten Barstad
Dir. line +47 22 93 97 21

quality, with numerous errors and omissions relating to recognition, measurement and disclosure as a result.

Identifying the assets acquired and determining their useful lives may take time, and in some circumstances also involve hiring external valuators. For business combinations, IFRS 3 *Business Combination* provides the acquirer with a measurement period after the acquisition date, while the same is not the case for asset purchases. The provisional purchase price allocation ("PPA") in business combinations is however required to reflect the acquirer's best knowledge of the individual assets and liabilities, as well as their fair value. After the acquisition date, reasonable steps must be initiated to obtain the necessary information and perform the valuations. In several cases Finanstilsynet found both the provisional and final accounting and disclosures to be lacking. In the case of the reverse acquisition of Nio, GIG had also made major changes to the purchase price allocation after the absolute deadline to finalize the acquisition accounting had expired.

A common feature of most of the recognition and measurement errors, was that GIG had failed to identify certain intangible assets with limited useful lives, and hence allocated too much of the consideration to either goodwill or other intangible assets with indefinite useful lives. The most material accounting effect relates to 5 purchases of groups of assets within GIG's affiliate marketing business. GIG had used a simplified rule of thumb and allocated 95 % of the total consideration of EUR 14.4 million to domains with indefinite lives. The review showed that such domains in fact did not have significant value, and that the consideration should have been allocated to other identifiable intangible assets with limited lives. The review also revealed that GIG had shifted a significant part of the consideration offered to Optimizer Invest Ltd ("Optimizer") between two linked transactions made in 2016. More precisely between GIG's acquisition of Optimizer's majority shareholding in Betit Holding Ltd. and GIG's repurchase of the minority shareholding that Optimizer held in GIG's iGamingCloud subsidiary.

In the review, Finanstilsynet identified several material deficiencies in GIG's revenue disclosures. Based on a comparison with the practices of GIGs peers in the online gambling industry, Finanstilsynet also communicated additional observations and suggested improvements in such disclosures.

GIG has corrected the accounting errors and omissions identified by Finanstilsynet, either in its 2016 annual report or in preceding interim reports. This included presentation of reworked comparatives for previous accounting periods, and significantly improved disclosures. The adjustments and error corrections will not have full year effect before in 2017. If compared to the initial accounting, GIG's amortization and costs for 2017 will increase with approximately EUR 3.2 million.

2. Affiliate marketing asset purchases

In 2015 and 2016 GIG completed a total of five transactions within its affiliate marketing business; Spaseeba (Norway, 2015, EUR 3.6 million), Adarma OÜ (Estonia, 2015, EUR 1 million), Joonas (Finland, 2015, EUR 0.6 million), Delta Markets (Benelux, 2016, EUR 4.2 million) and Magenti Media (Sweden, 2016, EUR 5.1 million). GIG accounted for these transactions as purchases of groups of assets. For one of the transactions, Finanstilsynet found that SEK 2 million of the consideration was prepayment for future consulting services from one of the sellers, and instructed GIG to account for it separately and expense it over the agreed two year period. This brought the correct total consideration to account for in these five transactions to approx. EUR 14.2 million.

Contrary to what is the case for business combinations, no goodwill is recognized in purchases of assets or groups of assets. Rather, the consideration is allocated in full to the identifiable assets based on their relative fair values. The main focus of the review was related to the identification of the intangible assets included in the transactions, their fair value and useful lives. Relevant IFRS guidance related to the mentioned issues foremost is found in IAS 38 *Intangible Assets*, IFRS 13 *Fair Value Measurement* and in some instances also certain elements of IFRS 3.

GIG had applied the following template in accounting for all five transactions: i) The only assets identified were customer database and domains, ii) The consideration was allocated with 5% to customer database and 95% to domains and iii) The former was amortized over 3 years, while domains were deemed to have indefinite lives and hence not amortized.

The main focus of the review was on identifying, valuing and assessing the useful lives of intangible assets acquired in the three largest transactions; Spaseeba, Delta Markets and Magenti Media. Finanstilsynet found that GIG in the transactions had acquired significant customer related intangible assets in the form of affiliate contracts with third party online gambling providers. Finanstilsynet deemed that the acquired internet domains were marketing related intangibles that had very limited values, and rather that the value resided in technology based intangible assets such as the website content and search engine optimization ("SEO"). Contrary to the internet domains, these technology based intangible assets have limited useful lives.

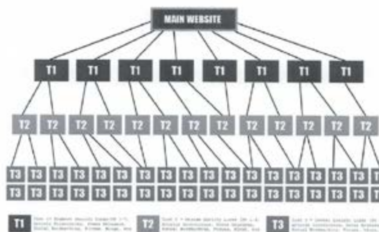
After performing a more comprehensive purchase price allocation, GIG concluded that in the five transactions the acquired affiliate contracts had a fair value varying from 14 -55 % of the total consideration paid for each of the groups of assets. These assets were deemed to have a useful life of 3 years. The technology based intangible assets had fair values ranging from 45 – 86 % of the total considerations paid, and in a revised estimate GIG settled at a 8 years expected useful life for these assets.

Some background on the affiliate marketing business is given in paragraph 2.1 below. Paragraphs 2.2 and 2.3 contain information on the facts and evaluations relating to the affiliate contracts and the SEO / website content respectively.

2.1 Introduction

Affiliate marketing is a form of online performance marketing on which the service provider receives a commission for referring new customers to its online gambling partner companies. GIG is both a seller (Innovation Labs) of such services and a buyer (B2C own operated gambling sites – Rizk.com & Guts.com). For B2C gaming operators, marketing is the largest single operating cost, with affiliate marketing and TV campaigns the largest single expense.

Entities that wish to offer affiliate marketing typically first establish a network of internet sites. In establishing these, a number of domain names must first be registered or bought. Such new domain names with a semantic mix of gaming related expressions and suffixes typically cost from the low hundred to the low thousand USD. After acquiring these domains, the affiliate marketing service provider must fill them with content. This content is tailor made using keywords and other effects to make the domain score high on online search engines like Google. This process is called Search Engine Optimization ("SEO"). There are several layers to this work: i) First of all this relates to the work performed on the content of each site which is built using some form of publishing software and html programming. High value keywords[2] are included in so called meta tags at different levels of the site content, e.g. the title line and the meta description of the site. ii) Secondly the sites are linked together in a hierarchical network – trying to optimize the number of readings (cf. illustration below).



By visiting sites in this network, a tracker cookie will be downloaded to the computer. If this visitor within a specified time period (in some cases up to 90 days) registers as a customer with one of the online gambling partners, its system will register the customer as being referred from the affiliate network.

Most online gambling operators use affiliate marketing as a key way of acquiring new players. Hence they establish so-called affiliate programs. Entities that either have individual sites or an established network may then apply to subscribe to this program. If accepted, the online gambling operator's agrees to pay the affiliate marketing provider a commission for each new customer which is referred via these sites.

Each online gambling partner has its own standard affiliate account contracts, with extensive terms and conditions that regulate the referral services delivered to it. In general there are two basic formats for referral commissions; paying an up-front cost per customer acquisition ("CPA") and agreeing to share the revenue stream from the customers future gambling in perpetuity[3]. GIG has explained that both its own original affiliate marketing portfolios, as well as the five that were acquired in 2015 and 2016, primarily had subscribed to a perpetual revenue share model[4]. A

[2] Likelihood of contributing to a high Google score.

[3] Mixed models also exist

[4] In addition to revenue sharing models and CPA, the acquired networks had also had a varying degree of their historic income from listing fees.

representative illustration of such arrangements can be found in the affiliate contract employed by LeoVegas[5], in which it is stipulated that the affiliate marketing provider will receive a revenue share of 25-40% of the net wins earned by the online gambling operator for the entire length of the period the player has an open account. All of the five transactions involved assets which had been operational and referred customers over more than one year, and hence had a backlog of previously referred customers.

In its communication on the transactions to the market, GIG typically focused on recurring revenue[6]. The press release related to the Delta Markets transaction stated that: "*The acquisition includes recurring revenues from the existing portfolio of affiliate accounts with partnering operators, and the affiliate assets has generated a revenue of around EUR 125,000 per month so far in 2016. The assets are expected to contribute with revenues of minimum EUR 2 million to Innovation Labs the next 12 months.*" In its response of the 13th of March 2017, GIG wrote that the above mentioned press release "*cannot be understood as such revenue comes from the existing portfolio of affiliate accounts, as the main part of this revenue were expected to come from new customers*".

2.2 Affiliate contracts

GIG's three largest affiliate marketing transactions included the following portfolios of affiliate contracts:

- Spaseeba: The transaction included affiliate contracts[7] with 39 online gambling partners, including such as LeoVegas (affiliates.leovegas.com), VeraJohn (plainpartners.com), and ComeOn (comeon.com/earn).
- Magenti Media: The transaction included affiliate contracts with 69 online gambling partners, including such as Betsson (Betssongroupaffiliates.com), Unibet (unibetaffiliates.com), MrGreen (mraffiliate.com) and Bet365 (Bet365affiliates.com).
- Delta Markets: The transaction included affiliate contracts with 34 online gambling partners such as Expect (affiliates.beaffiliates.com), Thrills (affiliate.thrillsaffiliates.com) and Kroon/Oranje (kroonaffiliates.com)

The affiliate contracts are agreements entered into by way of electronic signature. They are legally binding for both parties and hence satisfy the contract-legal criterion in IAS 38.12 for being separately identifiable intangible assets. The affiliate contracts regulate both the future revenue shares to be received from partnering gaming operators from past customer referrals (player database), as well as the revenue sharing arrangement for any further customers that will be referred in the future. There will be two distinct revenue streams to GIG under these contracts;

i. Future gambling revenue shares from past gamblers referred to partnering operators before the transaction date, and
ii. ii) Future gambling revenue shares from gamblers that may be referred to partnering operators in the future.

[5] http://www.leovegasaffiliates.com/terms-and-conditions/
[6] Recurring revenue is the portion of a company's that is highly likely to continue in the future. This is revenue that is predictable, stable and can be counted on in the future with a high degree of certainty.
[7] Links to terms and conditions included in parenthesis.

The cash flows under i) are generated by historic services that have already been delivered. GIG has a present right to receive these future cash flows as a result of referring them to the gambling operators. The amount of such revenue shares that will be received is uncertain, however it probable that an expected economic benefit attributable to the affiliate contract will flow to the entity (cf. IAS 38.21).

An acquired intangible asset shall be measured initially at its cost. In a separate acquisition, this will be the price that is paid, reflecting the expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity, cf. IAS 38.25.

When acquiring a group of assets, the price shall be allocated to the acquired assets based on their relative fair values. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, cf. IFRS 13.9. According to IFRS 13.61, the valuation techniques used to determine the fair value shall be appropriate in the circumstances and relevant observable data shall be used. For the acquired affiliate contracts, Finanstilsynet regards income approaches such as present value techniques as being appropriate. Inputs include estimates of future cash flows from the asset, and these should reflect assumptions that market participants would use when pricing the asset, and only take into account the factors attributable to the asset being measured, cf. IFRS 13.B14a and b.

As a minimum, the expected revenue share cash flows under i) should be used to calculate the fair value of the affiliate contract intangible asset. Historic data show that the revenue profile from past customer referrals is very front-end heavy, showing a sharp drop during the first 6 months and a smother decrease thereon. This is partly because the propensity to place bets are highest for newly referred gamblers (due to introduction bonuses) and secondly that more and more of the referred customers will go inactive/unsubscribe to the online gambling partner and are not retained as time goes on.

In its accounting for each of the five transactions, GIG had allocated 5 % of the total consideration to "player databases", to be understood as the cash flows related to i). By way of rule of thumb, GIG had determined that the projected cash flows expected to be generated from the remaining useful life of customers at the date of acquisition could be set at 5 %. In its view, some of its direct competitors in the affiliate marketing business such as Catena Media Plc and XL Media Plc[8] had also adopted a similar accounting treatment, and allocated the majority of the considerations towards domains[9]. The fair value allocated to the affiliate contracts by GIG was in size similar to the gross revenue shares received in the month preceding the transaction, and in its letter of the 13th of March 2017 GIG conceded that: "*the allocation based on a discretionary percentage allocation was too simplistic*."

Given the amount of estimated gross revenues, a reasonable fair value estimate of the affiliate contracts could only be as low as GIG had accounted for, if there were large costs attributable to the realization of the future revenue shares from past customer referrals. While these revenues are

[8] Respectively listed on the unregulated markets OMX First North and the Alternative Investment Market (London).
[9] As part of its review, Finanstilsynet identified affiliate marketing transactions in which significantly higher shares of the consideration had been allocated to affiliate contracts and website content / SEO. For example acquisitions made by Cherry AB and Playtech Plc.

earned at a future time, when these persons gamble, Finanstilsynet found that GIG's running cost primarily relates to attracting new players and only to a smaller degree relate to realizing the future revenue stream from historically referred gamblers.

GIG however argued that certain of the major gambling operators have included minimum activity level requirements in their affiliate contracts, meaning that they may legally cease to pay future revenue shares from past referrals – if GIG does not continue to refer new gamblers. While minimum activity level requirements will mean that GIG cannot delete its portfolio of domains and discontinue its affiliate marketing operations entirely, Finanstilsynet found that such minimum requirements were designed not to be at an unreasonably high level. Examples of minimum requirement were such as: minimum of one new player referred per month and another where the affiliate marketer's revenue share receivables had to exceed the gambling operator's internal costs for maintaining the account and the payout procedure. Once in place, the domains and SEO will be functional for a considerable time into the future. While links over time may become faulty and the SEO less optimal, it will attract visitors that can be referred on for several years even though little resources are spent to maintain or develop it (although visitors will decrease it will stay well above minimum levels for a long time). Given these facts, Finanstilsynet does not find it reasonable that a market participant would attribute GIG's full future operating costs related to its affiliate marketing business to the future revenue shares from past referrals under affiliate contracts.

GIG was asked to perform a new, comprehensive purchase price allocation for the five affiliate marketing transactions. In its revised fair value estimate of the affiliate contracts, GIG used an income approach. Based on discussions with Finanstilsynet on the facts and circumstances related to minimum activity level requirements in the affiliate contracts, GIG in these valuations only attributed certain domain and SEO maintenance costs and a proportional share of overheads to the valuation of the affiliate contract assets. Further, it was not deemed correct to include contributory asset charges and other operating expenses. In relation to the useful life and amortization method, GIG original accounting using a 3 year linear profile was deemed to be appropriate.

2.3 Domains, website content and SEO

GIG's three largest affiliate marketing transactions included the following portfolios of domains:

- Spaseeba: The transaction included 80 domains, including such as CasinoToppListen.com, Spilleavhengig.com and Blackjacktricks.com.
- Magenti Media: The appendix to the purchase agreement lists a total of 567 domains, including such as CasinoGuider.com, FreeSpinsBonusar.eu, Bridge-Energy.no, Festningsrittet.no and SkrapLotterGratis.net.
- Delta Markets: The transaction included a 100% interest in a single domain[10], TopCasinoBonus.no, as well as an interest in a handful of other domains under development.

[10] Delta Markets had practiced a SEO strategy that differed from the other acquired affiliate networks. Instead of building its own network, its strategy for SEO was to buy press releases and ads on websites to obtain links from these sites. Hence Delta Market had generated a greater part of its revenue from listing fees and CPA, rather than from revenue sharing arrangements under affiliate contracts.

IFRS 3.IE 22 defines domains as the "unique alphanumerical name that is used to identify a particular numeric internet address". Such assets are identifiable since the holder after purchase or subscription has a contractual or legal right to use it for a period of time (typically one year, renewable at little cost), satisfying the identification criterion in IAS 38.12b. Because renewal of such domain subscriptions typically can be made without significant cost, domains are most often deemed to be marketing related intangibles with indefinite lives.

The domain names acquired by GIG, to a large part consisted of prefixes with semantic variations of different gaming related terminology and to some degree duplicated with a number of different suffixes like ".net", ".eu", ".org" and so on. Finanstilsynet's understanding is that typical content types of the acquired domains were: Primarily directories of online gaming operators for different markets and guides and rules for different online gambling games (poker etc.). In addition, some sites containing forums for players as well as a number of what seems to be unrelated sites but which GIG has stated contribute to the power of the SEO.

In describing the rationale for allocating 95 % of the consideration to these groups of domains, GIG asserted that: *"Affiliate marketing portfolios are acquired primarily for the brand they represent at the market presence, which they offer in certain market/geographical segments. In the purchase price allocation, the brand component is captured within the value attributed to the domain.*"

GIG agreed that within the lower level domain names in the acquired portfolios, there are normally a large number of domains with slightly different semantics and suffixes. Further, that such domains can be bought at a small fee from most registrars, indicating a low fair value of these domains. In the five transactions, GIG had however not valued the individual domains received, but rather each acquired portfolio of domains as a whole. The main purpose of the network of domains is to achieve a good ranking in search engines for the top domains and GIG explained that if one of the websites further down in the hierarchy was removed, "*the network as a whole would become weaker in terms of ranking factors and overall value. When this happens, such site needs to be replaced with a new domain and website with equal SEO values (inbound links, content, age etc.).*" Although all the domains in this way contribute to the fair value of the portfolio of network as a whole, GIG was of the opinion that most of the brand value in effect essentially will be carried by the top domains. GIG specifically named the following as examples of such acquired domains with brand value: i) Sweden – CasinoToppListan, Casinon.com, Casinoroboten, ii) Norway – CasinoTopplisten, CasinoTrollet, iii) Finland – NettiKasino247, SuomenNettiCassino and iv) Holland – TopCasinoBonus.nl.

Finanstilsynet questioned whether GIG in addition to the marketing related intangible assets in the form of domains, had not also acquired certain technology based intangible assets. Finanstilsynet found the major components of such technology based intangible assets to be: i) the information content on the individual site programmed in html code using a publishing software and ii) the keyword and network architecture search engine optimization work performed by the developer related to the individual sites (as well as their interrelation in the network hierarchy). Being programming[11] and information, Finanstilsynet questioned whether this could not be copied from one domain address to another, and hence satisfy the separability criteria for recognition in IAS 38.12b.

[11] Html and other.

Furthermore, it was questioned if not most of the remaining fair value of the acquired group of assets should be allocated to these technology based intangible assets, rather than to the domains. While internet domain addresses on occasion can have significant value in itself, Finanstilsynet deems this typically to be the case when the domain address in itself is the brand or trademark of the business (an example being GIG's own B2C online gambling site rizk.com). While the acquired domains contained different variations of gambling related terminology, Finanstilsynet did not deem them to be established brand names as such. In evaluating the potential brand value of the domains, Finanstilsynet reviewed internet traffic statistics[12] for a selection of both acquired top domains and domains lower in the hierarchy. Few, if any of the acquired internet domains received much traffic. Finanstilsynet acknowledged GIG's argument, that for affiliate marketing networks, the most important driver in value is not the number of visitors to the websites as such but rather the conversion factor[13]. As described by GIG, such conversion is however contingent of the effectiveness of the SEO and website content of the entire network and only to a lesser extent the meta tags included in the unique alphanumeric name of each internet address (the domain).

Elaborating on its position, GIG informed Finanstilsynet that it had not viewed the value to reside in the actual domain names as such, since the referral potential would disappear if the SEO was removed. However, in its view the value of work that is put into a website by SEO was inseparable from the domains, and could only be seen as a combined asset.

As previously mentioned, GIG was asked to perform a more comprehensive purchase price allocation for the five affiliate marketing acquisitions. This work included an independent evaluation from a professional services firm, which supported Finanstilsynet's view of the value of the acquired domains. GIG then conceded that no domains with material brand value had been acquired and that the value in a combined domain and technology based intangible asset, would reside in the latter. Even if seen as a combined asset, it should then be the characteristics of the SEO and not the domains that determine the assets useful life. However, in its letter of the 17th of March 2017 GIG argued that "*SEO is as much a science as an art*" and that the combined assets in its opinion would have an indefinite useful life just the same.

Because of rapid changes in technology, the IFRS guidance for determining intangible assets useful lives highlights the need for prudence (cf. IAS 38.92-93). Only when there, after careful analysis of all the relevant factors, are no foreseeable limits to the period over which the asset is expected to generate net cash inflows for the entity, should the asset be deemed to have an indefinite life. Several of the factors mentioned in IAS 38.90 effectively set a limit to the useful life of the acquired affiliate marketing SEO and website content:

i. IAS 38.90c - Technical, technological, commercial and other types of obsolescence:
   The technical readability of the website in itself (links stop working etc.) will deteriorate. This is also the case with Google rankings. Each year, Google changes its search algorithm around 500–600 times. While most of these changes are minor, Google occasionally rolls out a "major" algorithmic update (such as Google Panda and Google Penguin) that affects

[12] Alexa ranking and other.
[13] Share of visitors who are actually referred and become first time depositors with online gambling partners.

search results in significant ways. Affiliate marketing program entails a substantial effort related to both developing and maintaining the content of the sites, performing search engine optimization as well as administrating the program itself. GIG has informed that approximately 30-40 full time employees work in its Innovation Labs business.

ii. IAS 38.90d - The stability of the industry in which the asset operates and the market demand for the products or services output from the asset:
The acquired assets are all related to one vertical strategy within performance marketing, which is referring customers after having visited one of their websites. Just like other marketing business models, such as printed advertisement which has experienced a drastic fall in revenues as of late, this business model may also be susceptible to disruption. An example of such a disruption to the affiliate network business model, is the increasing competition from direct referrals to online gambling operators from social media such as Facebook and the like.

iii. IAS 38.90e – The expected action by competitors or potential competitors:
As described by GIG, the competition for Google rankings are fierce, and the expected actions from competitors which will adjust their strategies, will render the SEO and keywords that GIG acquired more and more obsolete or ineffective over time.

After Finanstilsynet had reiterated the above view of the useful life of the SEO and website content, GIG in a redetermination concluded that the SEO and website content had a useful life of 8 years and should be amortized linearly over this period. Finanstilsynet accepted such a useful life estimate and amortization model.

3. Business combinations

In a business combination, including reverse acquisitions, the accounting acquirer shall recognize, separately from goodwill, the identifiable assets acquired, cf. IFRS 3.10. As with GIG's accounting for purchases of groups of assets within affiliate marketing, the purchase price allocations relating to certain of GIG's acquisitions within the scope of IFRS 3 Business combinations were also found to be of poor quality. This relates not only to the preliminary allocations. In the case of the reverse acquisition of Nio , GIG also made several adjustments to the allocations in financial statements after the 12 month measurement period without duly explaining their accounting effects and the fact that they were corrections of errors.

3.1 Recognition and measurement of identifiable assets acquired

Paragraph 3.1 deals with GIG's accounting for two business combinations, including certain disclosure issues. Errors and omissions in GIG's annual and interim reporting related to the disclosure requirements in IFRS 3, is then elaborated on in paragraph 3.2.

3.1.1 Nio Securities Inc.

In the merger between GIG and Nio Securities Inc. ("Nio"), the legal acquirer (Nio) was identified as the acquiree for accounting purposes. The consideration was deemed to have a fair value of EUR 19.7 million. The transaction was recorded as completed in the interim financial report for Q2-2015.

In the initial recognition of the reverse acquisition, the fair value of Nio's assets net of its liabilities was deemed to be negative, and preliminarily the goodwill was determined to be EUR 22.2 million.

In the Q2-2015 provisional purchase price allocation GIG had hence not allocated any of the consideration to previously unrecognized internally developed intangible assets in either of Nio's two subsidiaries i) GridManager Ltd. – A sports-betting technology development company established in August 2014 and ii) Candid Gaming Ltd ("Candid") a company incorporated in June 2014, in the process of constructing the online gambling site Betspin.com.

In GIG's interim financial statement for Q2-2016, the EUR 22.2 million in goodwill recognized in the provisional accounting of the Nio reverse acquisition, was in its entirety reclassified in the balance sheet from the line item "goodwill" to the line item "intangible assets". In the disclosures of this interim report, GIG wrote that the value had been allocated "*between various identifiable intangibles*". Neither the type nor the nature of these intangible assets was however disclosed, leaving users of the financial statements unaware of whether future periods would be affected by significant amortization costs. GIG should have disclosed such information, cf. IFRS 3.61 and IAS 34.16Ai. Finanstilsynet inquired which intangible assets had been identified and whether they had a definite useful life.

Before receiving GIG's reply letter, GIG in its Q3-2016 interim report further revised its reporting of the purchase price allocation of the Nio reverse acquisition. In note 5 of this report it was stated that "*goodwill has been allocated by management to identifiable intangibles totaling EUR 6.349.570 with the balance of EUR 15.877.635 as goodwill.*" and further that "*…the intangible was deemed by management to have an indefinite life and therefore no amortization expense was recorded retrospectively.*" In the letter to Finanstilsynet of the 10th of November 2016, GIG explained that the EUR 6.35 million was the brand name value that resided in the domain of Betspin.com. Other intangible assets had not been identified by GIG.

The further revision in Q3-2016 was performed after the 12 month measurement period allowed by IFRS 3.45 had expired, and should hence have been reflected as a correction of a prior period error. Betspin.com was launched only shortly before the Nio and GIG business combination, and with very limited pre-launch marketing. As an intangible asset with indefinite life, GIG will need to test the Betspin.com brand/domain asset for impairment at least annually, cf. IAS 38.108.

The online gambling site of Betspin.com had been developed during the last half of 2014 under a joint venture between Nio and GIG. The platform GIG developed for Betspin.com was designed to be open and after the launch of the online gambling site, GIG decided to work towards making the platform a separate B2B product; GIG's iGamingCloud. GIG has however explained that Betspin was and is a white label of GIG, and that Nio / Candid as such did not own its own operator license, technology, nor negotiate separate agreements with game/payment providers etc. For this reason, no material technology based intangible assets were identified in the purchase price allocation. However, GIG concluded that some value should have been allocated to the Betspin.com front-end design, which Candid did develop in-house. In its Q4-2016 interim report, GIG presented a slightly revised purchase price allocation where this intangible asset was recognized with EUR 190 thousand.

3.1.2 Oddsmodel AS

The transaction to acquire Oddsmodel AS was completed in April of 2016. The total consideration was approx. EUR 8.6 million. In the stock market notice of 22nd of March 2016, GIG wrote the following in its presentation of Oddsmodel: "*Oddsmodel has for several years developed software used for automated and manual pricing of global betting markets. The company produces data utilized to generate real-time pricing of Pre-Match and In-Play sports events through the use of quantitative methods and proprietary analytical models…*"…"*All systems will be fully integrated with iGamingCloud's Sportsbook engine and will significantly enhance the offering for the benefit of internal brands and B2B customers.*"

In accounting for the business combination the net fair value was deemed to be equivalent to book values, which were close to zero. A goodwill amount more or less identical to the full consideration was hence recognized in GIG's Q2-2016 interim report. No information was given indicating that the accounting was provisional or that adjustments could be expected. The accounting for the acquisition of Oddsmodel AS was one of the topics in a meeting between GIG and Finanstilsynet on the 27th of September, and additional information was requested in a letter of the 19th of October.

GIG made an adjustment to the Oddsmodel AS purchase price allocation in its Q3-2016 report, published on the 2nd of November 2016. An additional intangible asset in the form of a sports technology platform was identified and EUR 2.1 million of the consideration was allocated to it, reducing goodwill correspondingly. The interim report further stated that this intangible asset will be amortized over a 3 year period. Finanstilsynet noted these adjustments for the record and seized further review of the purchase price allocation for this 2016 transaction.

Oddsmodell AS was acquired from companies owned by Christoffer Langeland and his close associate Mats Nesset. Christoffer Langeland is a member of the board of GIG, and a related party[14] as defined in IAS 24 *Related party disclosures*. GIG has agreed that it in its Q2-2016 interim report should have disclosed that the acquisition of Oddsmodel AS was a related party transaction, but underlined that such information had been included in the stock market notice on the 22nd of March 2016. In its Q3-2016 GIG included information to the fact that the Oddsmodel AS acquisition had been a related party transaction.

3.2 IFRS 3 disclosures

Giving disclosures relating to changes made to the composition of the entity during the reporting period, will most often be material to the users' understanding of both the financial status and results of the entity. Finanstilsynet finds this to be the case for GIG both in relation to its 2015 and 2016 reporting periods, and the below mentioned omissions in its annual and interim financial reporting are deemed to be material.

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[14] Being a US registered company, the regulations for related party transactions in § 3-8 of the Norwegian Companies Act do not apply to GIG.

A. Generally, GIG should have given better disclosures of the purchase price allocation and the major classes of assets identified (IFRS 3.B64i) and disclosed the factors that make out goodwill (IFRS 3.B64e). In order for the users to understand the forward looking effects, this disclosure should highlight whether the assets allocated to have indefinite or definite lives and the disclosure of the amortization period of the individual assets should be easily available.
B. To the degree the initial accounting for the business combination is incomplete, IFRS 3.B67 requires additional disclosures related to this, and also all later adjustments.
C. The revenue and profit and loss information required by IFRS 3.B64q) has not been provided in GIG's financial statements on any of the business combinations.

In explaining the reason for the omissions in the interim reporting, GIG explained that it had been of the understanding that it according to IAS 34 *Interim financial reporting* was allowed to "*elect to provide less information at interim dates as compared with its annual financial statements*". In its response, Finanstilsynet stressed to GIG that the foremost function of interim financial reporting is to give the users an update of the performance and financial position of the entity. In general interim financial information shall focus on and highlight significant events and transactions completed since the last annual financial statement, and IAS 34 has a number of minimum disclosure requirements to this end. Specifically, IAS 34.16A i) requires disclosure of the effects of changes to the composition of the entity, and in the case of business combinations "*the entity shall disclose the information required by IFRS 3 Business Combinations.*".

GIG has in its subsequent financial reporting (the interim reporting from Q3-2016 and the 2016 annual report) included the above mentioned information that had been omitted from its historic financial reporting. Further, GIG has stated that it will correct its practices, and in the future provide the required disclosures in the interim financial reporting for the period in which the business combinations are completed. Finanstilsynet has noted this for the record.

4. Sale and Reacquisition of IGC minority interest

On the 17th of June 2015 GIG disposed of a 10 % interest in its subsidiary iGamingCloud Ltd. ("iGC") for a consideration of EUR 1 million. In GIG's consolidated financial statement, the consideration received was booked against equity. The buyer of the iGC minority was Optimizer Invest Ltd ("Optimizer").

Optimizer is a company established in 2012, whose three founders had been serial entrepreneurs within the online gambling industry[15]. Finanstilsynet understands Optimizer to be in part a venture capital company and also a startup incubator. The founders and the staff of 6 contribute with their experience and advice to its portfolio consisting of approximately 10 companies, all within the online services industry.

GIG has explained that it agreed to sell the 10% share of iGC to Optimizer in 2015 because it saw potential in having them as a partner and in particular to use their strong network in the iGaming

[15] Establishing and selling online gambling companies, the last of which was Betsafe that was sold to Betsson in 2011.

industry to market the platform offering to potential clients. At the time of this minority sale in June of 2015, the technological platform in iGC was not fully developed and only had one single external contract, which was not yet launched. At that time GIG had a market value of around EUR 65 million. The pricing of iGC on a 100% basis of EUR 10 million, or around 15% of GIG's total market value, was then considered by GIG to be fair.

Subsection 4.1 focuses on issues related to the fact that the 2015 iGC minority share sales agreement also included certain rights for both GIG and Optimizer to require that iGC shares were converted into a number of shares of the parent company (GIG) at a later time, respectively in 2017 and 2018. These derivative financial instruments should have been recognized at fair value in the balance sheet either on a gross or net basis, and re-measured at each future balance sheet date. However, GIG had neither recognized, nor disclosed information on the put and call in its 2015 annual financial statement. GIG corrected this in its Q4-2016 interim report, restating prior periods to reflect the changes in the fair value of the derivatives from inception until the 30th of August 2016[16]. The restated Q2-2016 comparatives, reflects GIG's estimate that the net positive fair values of the put and call derivatives up until the 30th of June 2016 had increased to approx. EUR 2.8 million.

GIG's reacquisition of the 10 % minority right in iGC on the 30th of August 2016 was not done by way of exercising the above mentioned call option, as this could be done in 2017 at the earliest. Rather, GIG in 2016 entered into an agreement to reacquire the minority interest in iGC for a consideration of 56.5 million shares in GIG. This transaction effectively cancelled the preexisting put and call options without any separate compensation being paid for this.

These 56.5 million GIG shares had a fair value of approximately EUR 20 million, and gave Optimizer an ownership share in GIG of 8,5 %[17]. The repurchase of the iGC minority from Optimizer was however linked to and conditional on GIG simultaneously acquiring Betit, a company where Optimizer was the largest shareholder. The agreed consideration for Betit was 153.5 million shares in GIG, with an implied value of approximately EUR 54 million.

Subsection 4.2 describes Finanstilsynet's rationale for concluding that the purchases of Betit and the minority repurchase of iGC was one single transaction, and that a significant part of the 56.5 million share consideration agreed between the parties for the iGC minority repurchase was in fact payment for something else than the shares in iGC. For the most part additional compensation paid by GIG exclusively to Optimizer, for their shares in Betit. Further, that a non-compete agreement entered into between GIG and Optimizer should have been identified and recognized separately, as an acquired intangible asset with limited useful life.

GIG conceded to the above positions of Finanstilsynet, and made corrections in its Q4-2016 interim financial report. In the restatement, the consideration determined to have been paid for the iGC minority rights was reduced by EUR 5.5 million, and the consideration for Betit increased correspondingly from EUR 56.5 million to EUR 62 million. Finanstilsynet has not reviewed the revised fair value estimate, but in its reply letter of the 13th of March 2017 GIG has informed that this redetermination of considerations "*was based on the implied value of iGC as estimated by*

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[16] When GIG reacquired the 10 % minority right

[17] Calculated after issuance of the consideration shares for the 10 % iGC minority, and before the issuance of the consideration shares for the Betit acquisition.

GIG's investment bankers and used as a basis for the acquisition of Betit and the minority purchase in iGC."

4.1 Accounting for the put and call options in IGC minority share sales agreement

The stock market notice of the 20th of May 2015 disclosed the following information about the conversion right included in the iGC minority share sales agreement: "*The parties have a mutual right to convert the investment into Nio shares in 2017 or 2018 based on the relative performance of iGC compared to Nio/GIG in 2017 and the share price at that time.*".

The iGC minority share sales agreement gave the buyer (Optimizer) the right to in 2018 convert the shares in iGC into a variable number of shares in GIG (call option to buy shares in GIG). Prior to that, the seller (GIG) could require that Optimizer already in 2017 converted the shares in iGC into either a variable number of shares in GIG or to settle in cash (put option to sell shares in GIG). The number of shares of GIG to be received for each share in iGC was to be determined by the relative performance of the business in iGC. More specifically, the formulas worked such that the higher the revenue growth in iGC proved to be, relative to the revenues[18] from GIGs two other lines of business, the higher ownership share in GIG the conversion formula calculated.

GIG did not disclose any information in its 2015 annual report on this put and call. IAS 33 "Earnings per share" includes guidance related to instruments for such potential shares. Given GIG's loss for the period, it was correct for GIG not to include these potential shares in the calculation of diluted earnings per share. However, the conversion right in the iGC sales agreement represented a significant potential dilutive effect in the future should as such have been disclosed in GIG's 2015 annual financial statement in accordance with IAS 33.70c. In the view of Finanstilsynet this was a material omission. GIG has agreed that information on the derivative financial instrument and their potential dilutive effects should have been disclosed. GIG has included certain information on the arrangement in its Q4-2016 and the 2016 annual report, although this was at a time subsequent to their cancelation in Q3-2016.

In the 2015 consolidated financial statement GIG had booked the EUR 1 million that was received in consideration against equity. GIG was communicated that Finanstilsynet was of the opinion that the additional put and call included in this agreement, should have been recognized at fair value in the balance sheet either on a gross or net basis, and re-measured at each future balance sheet dates. In reaching its conclusion on the accounting for Finanstilsynet considered the guidance in IAS 32 "*Financial Instruments: Presentation*" as well as recent discussions on the topic of such derivative financial instruments held by non-controlling shareholders in the IFRS Interpretations Committee (IFRS IC). GIG took this into consideration and has since corrected the error in subsequent financial statements, by restating the comparative financial information.

4.2 Accounting for GIG's repurchase of the iGC minority

The 2016 iGC share repurchase agreement, sections 3.1 c) and 3.2 b), states that GIG's reacquisition of the 10 % minority in iGC from Optimizer was conditional on GIG acquiring 100 % of the shares

[18] In its 2017 option GIG could choose to use either YTD Q2-2017 or YTD Q3-2017 revenue data.

in the online gambling company Betit Holdings Ltd ("Betit") on or before that time. Betit had been founded in 2013 by Optimizer. At the time of the transaction Optimizer had a direct ownership in Betit of 15.4%, plus 48 % ownership of a company owning the remaining 84.6 %. The remaining shares in Betit were held by around 40 minority shareholders, the largest of which had less than 10% ownership share[19]. Betit's board of directors consisted solely of the three founders of Opimizer.

Before applying the IFRS rules for recognition and measurement, it is important to first identify the transaction and then to evaluate whether it has any separately identifiable components. If the completion of two or more elements of a transaction are dependent upon each other, the price agreed and set between the parties for the individual elements are not necessarily reflective of the price that could be achieved when it was sold in an independent transaction by itself. Transactions should be accounted for in accordance with their substance and not merely their legal form, and judgment must hence be applied in accounting for such linked transactions.

Since the re-purchase of the iGC minority shares are linked and conditional on GIG buying Betit, Finanstilsynet views the two purchases as one single transaction. Part of this transaction is however a business combination and IFRS 3.12 requires that "*the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the aquiree (or its former owners*[20]*) exchanged in the business combination transaction rather than the result of separate transactions.*" In determining which part of the total consideration in the transaction shall be deemed to be the consideration for Betit, the total consideration must then be divided into its identifiable parts and accounted for separately. In its review of the transaction, Finanstilsynet identified the following three identifiable parts:

A. The repurchase of the 10 % minority of iGC, to be accounted for as an equity transaction in accordance with IFRS 10 *Consolidated financial statements*.
B. The acquisition of 100% of Betit, to be accounted for as a business combination in accordance with IFRS 3
C. A non-compete and non-solicitation agreement between Optimizer and GIG for a duration of two years, included in the agreement to sell Betit to GIG.

In relation to C, IFRS 3.51-52 and IFRS 3 B50-B62 provide guidance as to what components shall not be accounted for as part of the business combination. Such components will typically relate to either arrangement entered into during the negotiations or pre-existing relationships. Examples of arrangements with selling shareholders which indicate that payments are attributable to something other than consideration for the acquiree (here Betit), specifically mentions agreements not to compete. GIG had not recognized this non-compete and non-solicitation agreement in its preliminary accounting for the Betit business combination, but conceded that it was an intangible asset that should have been recognized separately. In the 2016 annual report GIG has recognized it as an intangible asset at its estimated fair value, approx. EUR 260 thousand, and that it will be amortized over two years.

[19] Source: GIG Information memorandum 14th September 2016.
[20] In the case at present Optimizer, as the owner of Betit.

Finanstilsynet's review of GIG's historic financial reporting has only focused on determining how the total consideration in the linked transaction shall be split between its separate parts. It has not included a review of GIG's preliminary purchase price allocation of the Betit business combination.
To arrive at the correct consideration to use in the accounting for the Betit business combination (B), it then remains to subtract the consideration attributable to the iGC minority repurchase (A). Finanstilsynet concluded that this consideration must be lower than what GIG originally reported. Among the arguments pro and con, evaluated in coming to this conclusion were:

i. From mid-2015 to mid-2016 GIG signed approximately 20 new clients to the iGC platform and developed the technical solutions significantly into a more mature product. This is relevant in assessing the value of the 10% minority in iGC.
ii. The increase in activity in iGC from mid-2015 to mid-2016, caused iGC revenue to increase significantly. However, GIG's revenue from its B2C and Innovation Lab digital performance marketing business has also increased considerably.
iii. Applying the revenue forecasts for 2017 which GIG used in determining the net fair value of the call and put options (cf. section 4.1of this letter), GIG's best estimate in autumn 2016 was that it after publication of the Q2-2017 financials could convert Optimizer's 10% ownership share in iGC to a 3.5% ownership share in GIG. Rather than waiting another 9-12 months to exercise this option for a significantly lower consideration, GIG signed an iGC share repurchase agreement which in exchange gave Optimizer an 8.5% ownership share in GIG.
iv. There were several reasons for why GIG decided to accelerate the conversion of the shares in iGC into shares in GIG. One of the commercial reasons was that GIG wanted to make iGC the holder of regulatory licenses and software agreements. Up until then this had been owned by the GIG subsidiary MT SecureTrade (formerly Guts Gaming ltd.) and handled contractually through a share conduct agreement with iGC. GIG saw it as challenging to accomplish such a transfer of the software agreements to iGC as long as the mutual conversion right from the 2015 agreement with Optimizer existed.
v. While understanding that GIG had commercial reasons for wanting to complete a repurchase at an earlier time, the difference in cost between a dilution effect of 8.5 % and 3.5 % is very large.
vi. A factor to consider in such a comparison is that while the GIG shares Optimizer would receive under exercise of any of the conversion options in the 2015 agreement have no restrictions, the GIG shares it received in the 2016 agreement are locked up for 18 months.
vii. Exchanging a 10% interest in iGC for 8.5 % interest in GIG implicitly indicates that in a sum of the parts valuation, the fair value of the iGC subsidiary (at 100%) would make out 85% of the total market capitalization of GIG. Such a transaction would then also imply that the two other business lines of GIG, where GIG in the year in between both had made significant acquisitions and launched new online gambling sites, were deemed to have a fair value of less than EUR 30 million. The 85% would be a considerable increase from the 15% share that GIG used as rationale for selling the iGC minority to Optimizer for EUR 1 million in 2015. Most importantly, Finanstilsynet did not find the 85% consistent with assumptions that GIG have otherwise presented as being fair at the time. Specifically this relates to the assumptions applied by GIG's valuation of the call and put conversion options.

In its Q4-2016 interim financial report, GIG made corrections to the allocation of the consideration to the separate parts of the linked transactions. In the restatement, the consideration determined to

have been paid for the iGC minority rights was reduced by EUR 5.5 million, and the consideration for Betit increased correspondingly from EUR 56.5 million to EUR 62 million[21]. These EUR 5.5 million then gave rise to an additional goodwill in accounting for the Betit business combination, rather than being booked directly towards equity as part of the accounting for the iGC minority repurchase.

5. Revenue disclosures

In its 2015 annual report GIG stated that it operated a single segment, and no further specifications or details of its revenues were given in the disclosures. Finanstilsynet presented to GIG several observations relating to IFRS revenue disclosures omissions, as well as certain suggestions for improvements and presentation formats based on a review of GIG's peers.

GIG operates several business activities. The revenue streams generated by these business activities are distinctly different: referral commissions (Innovation Labs), license fees (iGamingCloud) and net gaming operations (online gambling sites). The business activities are also directed at different types of customers, primarily along a B2B and B2C divide. Further, certain of the major business activities offer a range of products. In the management discussion and analysis of interim and annual report as well as in in other financial information, GIG accounted for its business along several of these dimensions. It also presented alternative performance measure such as the number of new contracts, first time depositors etc. Quantitative financial information along the same lines of revenue specification was however not given.

GIG has over time experienced significant revenue growth. Revenue disclosures are generally important to include, especially for the users of the financial reporting to understand which underlying activities and trends generate the growth. Finanstilsynet communicated the following observed omissions and suggested improvements to GIG:

A. Quantitative disclosures for each product or service, cf. IFRS 8.32, as well as per significant category of revenue (IAS 18.35b) are required. Based on the understanding of GIG's business and as well as a review of its peers, Finanstilsynet asked GIG to present revenue disclosures in a format that gave separate information for its B2C and B2B activities, as well as for the individual products or services offered (e.g. online casino, sports betting, affiliate marketing and iGC license revenues).
B. Improved accounting policy disclosures, giving further details on how the different types of revenue streams are recognized, cf. IAS 18.35a.

In its Q3-2016 interim report GIG changed its identification of reporting segments. From previously having viewed itself as operating one segment, GIG identified its B2B and B2C activities as separate reportable operating segments, also including a measure of cost and profit. In regard to further information on the revenues generated form each product and service, GIG included such information in the disclosures of its 2016 annual report, and also improved its accounting policy disclosures.

[21] The consideration presented in the Betit purchase price allocation disclosures has not been restated consistently with this, but in its balance sheet GIG has made the restatement from equity to goodwill.

6. Closing

Finanstilsynet has not considered whether the above matters are subject to the securities legislation's provisions regarding the requirement to disclose inside information in accordance with the Securities Trading Act section 5-2 subsection (1) and section 3-2. Finanstilsynet expects the undertaking to consider its requirement to disclose inside information on a continuous basis. Finanstilsynet has forwarded a copy of this letter to the issuer's appointed auditor and to Oslo Børs.

On behalf of Finanstilsynet

Christian Falkenberg Kjøde
Head of section

Morten K. Barstad
Senior supervisory officer

This document is electronically approved, and does not need a signature.