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Dragonara Interactive Limited

Report & Financial Statements

30 June 2019

Company registration number: C 61707

Contents

Directors' report

The directors herewith present their report and the audited financial statements for the year ended 30 June 2019.

Principal activities

The company was incorporated on 29 August 2013 to carry on the business of organising, marketing, promoting, managing and operating all types of remote gaming activities, by means of the internet, interactive media, mobile and other electronic platforms.

Review of business development

The Dragonara Online business has experienced a general slowdown throughout the fiscal year ended 30 June 2019. This was primarily the result of regulatory pressures from international jurisdictions that have limited access to their market only to licenced operators. This has also adversely impacted our efforts to grow the business through affiliation given that certain market access barriers have taken place in markets wherein affiliation marketing had started to bear the target results. The B2B side of the business has been very stable throughout this fiscal year. The company has managed to control operating costs throughout the year and therefore turn a profit for the year. The key performance highlights for the company during the year under review were:

- Revenues for the company for 2019 of €622,032 fell by 26% compared to 2018 mainly due to the closure of some very relevant markets for the company and a lower than expected uptake in the business from the local market.
- The deployment of the B2B operation whereby the company is offering a Live Roulette located at the Dragonara Casino to third party casinos has continued to generate the intended results. The stability of the B2B operation during a time in which B2C revenues have declined has increased the dependency of our business on the B2B revenue stream.
- During the year under review, operating and administrative cost were in line with budget and significantly lower when compared to the previous year. The revenue share costs were naturally lower due to lower revenue thresholds attained but a conscious effort to reduce costs across the business has led to a reduction of €125,185 representing a reduction of 20.8% when compared to the previous year.
- EBITDA came in €83,851 representing a reduction of €102,456 when compared to the EBITDA of €186,307 generated during 2018. This decrease was mainly due to lower revenues generated throughout the fiscal year.
- The company registered a pre-tax profit of €69,446 when compared to a pre-tax profit of €172,090 a year prior.
- The company posted a profit for the year of €44,446 when compared to last year's profit for the year of €111,806.

The company must understand the changing market dynamics to be in a position to reverse the downward trend experienced in the fiscal year of 2019. The anticipation is that more markets are likely to be shut off due to the national restrictions imposed by regulatory authorities while other markets accessible in 2019 may be threatened by worse than expected access to payment gateways. Benefits derived from affiliation marketing may also be wiped out due to market restrictions, this particularly true and relevant for the UK market.

On the other hand, improvements in product through access of new Game Service Providers, most notably popular games from Greentube, will enable us to reach out to the local market. The strength of the brand coupled with games of strong demand are likely to counterattack the loss of business from market restrictions. Focus on local market penetration with the aim of improving the presence in the local market is a key determinant of the business going forward.

Directors

In accordance with the Articles of Association of the company, the present directors are to remain in office.

Mr Mark Bianchi
Mr Franco Degabriele
Mr Albert Muscat
Ms Svetlana Buckova

Disclosure of information to the auditor

- As far as each director is aware, there is no relevant information needed by the independent auditor in connection with preparing the audit report of which the independent auditor is unaware, and
- Each director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the independent auditor in connection with preparing the audit report and to establish that the independent auditor is aware of that information

Statement of directors' responsibilities

The Companies Act, Cap 386 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

- adopt the going concern basis unless it is inappropriate to presume that the company will continue in business;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- value separately the components of asset and liability items; and
- report comparative figures corresponding to those of the preceding accounting period.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements have been properly prepared in accordance with the Companies Act, Cap 386. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor

The auditor Grant Thornton has intimated its willingness to continue in office and a resolution proposing its reappointment will be put to the Annual General Meeting.

Franco Degabriele
Director

Mark Bianchi
Director

Registered address:
Dragonara Palace
Dragonara Road
St Julian's
Malta

12 May 2020

Income statement

	Notes	2019	2018
		€	€
Gross gaming revenues		622,031	839,520
Royalty income		141,498	141,402
Other income		129	1,673
Staff costs	5	(203,151)	(194,450)
Other operating expenses		(476,657)	(601,842)
Depreciation	8	(14,404)	(14,213)
Profit before tax	6	**69,446**	**172,090**
Tax expense	7	(24,780)	(60,284)
Profit for the year		**44,666**	**111,806**

Statement of financial position

	Notes	2019	2018
		€	€
Assets			
Non-current			
Plant and equipment	8	21,388	34,264
Security deposit	9	37,000	37,000
		58,388	**71,264**
Current			
Trade and other receivables	10	206,222	181,681
Cash and cash equivalents	11	50,652	34,492
		256,874	**216,173**
Total assets		**315,262**	**287,437**

Statement of financial position - continued

	Notes	2019	2018
		€	€
Equity			
Share capital	12	25,001	25,001
Retained earnings		127,329	82,663
Total equity		**152,330**	**107,664**
Liabilities			
Non-current			
Deferred tax liability	13	6,236	5,054
		6,236	**5,054**
Current			
Trade and other payables	14	97,982	82,946
Current tax liability		58,714	91,773
		156,696	**174,719**
Total liabilities		**162,932**	**179,773**
Total equity and liabilities		**315,262**	**287,437**

The financial statements on pages 5 to 22 were approved and authorised by the board of directors for issue on 12 May 2020 and signed on its behalf by:

Franco Degabriele
Director

Mark Bianchi
Director

Statement of changes in equity

	Share capital €	(Accumulated losses) retained earnings €	Total (deficit) equity €
At 1 July 2017	25,001	(29,143)	(4,142)
Profit for the year	-	111,806	111,806
At 30 June 2018	**25,001**	**82,663**	**107,664**
At 1 July 2018	25,001	82,663	107,664
Profit for the year	-	44,666	44,666
At 30 June 2019	**25,001**	**127,329**	**152,330**

(Accumulated losses) retained earnings include all current and prior year results as disclosed in the income statement.

Statement of cash flows

	Notes	2019	2018
		€	€
Operating activities			
Profit before tax		69,446	172,090
Adjustment	15	14,404	14,213
Net changes in working capital	15	(15,338)	(160,232)
Tax paid		(50,824)	(3,365)
Net cash generated from operating activities		**17,688**	**22,706**
Investing activities			
Security deposit		-	5,000
Acquisition of plant and equipment		(1,528)	(322)
Net cash (used in) generated from investing activities		**(1,528)**	**4,678**
Net change in cash and cash equivalents		16,160	27,384
Cash and cash equivalents, beginning of year		34,492	7,108
Cash and cash equivalents, end of year	11	**50,652**	**34,492**

Notes to the financial statements

1 Nature of operations

The company is incorporated to organise, market, promote, manage and operate all types of remote gaming activities, by means of the internet, interactive media, mobile and other electronic platforms.

2 General information and statement of compliance with IFRS

Dragonara Interactive Limited is incorporated with limited liability under the laws of Malta. The address of the company's registered office, which is also its principal place of business, is Dragonara Palace, Dragonara Road, St. Julian's, Malta.

The parent company is Peninsula Gaming Group Limited with registered office and principal place of business at Level 11, Portomaso Business Tower, St. Julian's, Malta. The ultimate parent company is Pinnacle Gaming Group Limited with registered office and principal place of business at Pinnacle Gaming Group, Level 11, Portomaso Business Tower, St. Julian's, Malta.

The financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the Companies Act, Cap 386.

The financial statements are presented in euros (€), which is also the functional currency of the company.

3 Changes in accounting policies

3.1 New and revised standards that are effective for annual periods beginning on or after 1 January 2018

Amendments to IFRSs that became mandatorily effective in 2018 have no material impact on the company's financial results or position. Accordingly, the company has made no changes to its accounting policies in the current year.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations.

The adoption of IFRS 15 did not have a material impact on these financial statements. There were no adjustments to the company's reserves at 1 July 2018 arising from the first-time adoption of IFRS 15. A further analysis is therefore not required.

IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

There was no impact from the adoption of IFRS 9 on these financial statements.

There have been no reclassifications of financial instruments between measurement categories arising from the first-time application of IFRS 9.

4 Summary of accounting policies

4.1 Overall considerations

The financial statements have been prepared using the significant accounting policies and measurement bases summarised below.

4.2 Revenue recognition

Revenue comprises revenue from gaming activities which is effectively the total bets less clients' winnings.

Revenue is measured by reference to the fair value of consideration received or receivable by the company for services provided, excluding sales taxes, rebates, and players' bonus.

To determine whether to recognise revenue, the company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

Revenue is recognised either at a point in time or over time, when (or as) the company satisfies performance obligations by providing services to its customers.

Revenue from contracts with customers is recognised when control of the company's services is transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those services.

The company recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the company satisfies a performance obligation before it receives the consideration, the company recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

4.3 Operating expenses

Operating expenses are recognised in the income statement upon utilisation of the service or at the date of their origin.

4.4 Income taxes

Tax income recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations so, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculations of current tax are based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognised to the extent that it is probable that they will be utilised against future taxable income.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

4.5 Plant and equipment

Items of plant and equipment are carried at acquisition cost less subsequent depreciation and impairment losses.

Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of plant and equipment as follows:

Computer equipment	4 years
Gaming equipment	5 years
Furniture and fittings	8 years

Material residual value estimates and estimates of useful life are updated as required, but at least annually, whether or not the asset is revalued.

Gain or losses arising on the disposal of plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets are recognised in the income statement within 'other income' or 'other operating expenses.'

4.6 Impairment testing of plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested 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 or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of its fair value less costs to sell and its value in use. To determine the value in use, the company's management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by the company's management.

Impairment losses are recognised immediately in profit or loss. Impairment losses for cash-generating units are charged pro rata to the assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge that has been recognised is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.7 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the company become a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the company did not have any financial assets categorised as FVTPL and FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and trade receivables.

Recognition of credit losses is no longer dependent on the company first identifying a credit loss event. Instead the company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

• financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
• financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Previous financial asset impairment under IAS 39

In the prior year, the impairment of trade receivables was based on the incurred loss model. Individually significant receivables were considered for impairment when they were past due or when other objective evidence was received that a specific counterparty will default. Receivables that were not considered to be individually impaired were reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate was then based on recent historical counterparty default rates for each identified group.

Trade and other receivables

The company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The company assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics.

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the company's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The company's financial liabilities include trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the company designates a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges are included within finance costs or finance income.

4.8 Cash and cash equivalents

Cash and cash equivalents comprise unrestricted demand deposits with financial institution.

4.9 Equity and reserves

Share capital is determined using the nominal value of shares that have been issued.

Retained earnings (accumulated losses) include all current and prior period results.

4.10 Provisions and contingent liabilities

Provisions are recognised when present obligations will probably lead to an outflow of economic resources from the group and they can be measured reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, such as product warranties, legal disputes or onerous contracts. Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate of the company's management.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised.

4.11 Significant management judgement in applying accounting policies and estimation uncertainty

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Significant management judgement

The following is a significant management judgement in applying the accounting policies of the company that has the most significant effect on the financial statements.

Recognition of deferred tax assets

The assessment of the probability of future taxable income in which deferred tax asset can be utilised is based on the company's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, that deferred tax asset is recognised in full.

Estimation uncertainty

Information about estimates and assumptions that has the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets to the company. The carrying amounts are analysed in note 8. Actual results, however, may vary due to technical obsolescence, particularly relating to the computer equipment.

5 Staff costs

	2019 €	2018 €
Wages and salaries	196,678	188,115
Social security costs	6,258	6,108
Other staff costs	215	227
	203,151	**194,450**

Wages and salaries include € 87,924 (2018: € 81,140) recharged from a fellow subsidiary.

The average number of persons employed by the company for the reporting periods presented were:

	2019 No.	2018 No.
Administration	2	2
Operations	2	2
	4	4

6 Profit before tax

Profit before tax is stated after charging:

	2019 €	2018 €
Auditor's remuneration	4,820	4,484
Depreciation	14,404	14,213

7 Tax expense

The relationship between the expected tax expense based on the effective tax rate of the company at 35% (2018: 35%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2019 €	2018 €
Profit before tax	69,446	172,090
Tax rate	35%	35%
Expected tax expense	**(24,306)**	**(60,232)**
Non-deductible expenses	(474)	(52)
Actual tax expense	**(24,780)**	**(60,284)**
Comprising:		
Current tax	(23,598)	(59,168)
Deferred tax liability	(1,182)	(1,116)
	(24,780)	**(60,284)**

Refer to note 13 for information on the company's deferred tax liabilities.

8 Plant and equipment

	Computer equipment €	Gaming equipment €	Furniture and fittings €	Total €
Gross carrying amount				
As at 1 July 2018	3,006	67,510	478	70,994
Additions	1,528	-	-	1,528
As at 30 June 2019	4,534	67,510	478	72,522
Depreciation and impairment				
As at 1 July 2018	1,677	34,983	70	36,730
Charge for the year	839	13,503	62	14,404
As at 30 June 2019	2,516	48,486	132	51,134
Carrying amount at 30 June 2019	**2,018**	**19,024**	**346**	**21,388**
Gross carrying amount				
As at 1 July 2017	2,684	67,510	478	70,672
Additions	322	-	-	322
As at 30 June 2018	3,006	67,510	478	70,994
Depreciation and impairment				
As at 1 July 2017	1,029	21,480	8	22,517
Charge for the year	648	13,503	62	14,213
As at 30 June 2018	1,677	34,983	70	36,730
Carrying amount at 30 June 2018	**1,329**	**32,527**	**408**	**34,264**

9 Security deposit

	2019	2018
	€	€
Refundable deposit	37,000	37,000

The company entered into an agreement with a third party which implements gaming services by virtue of the licence granted by different gaming service providers. The third party shall be responsible for ensuring continuous access and operation of the gaming services offered by the gaming service providers for the players. Also, the third party undertakes to maintain all necessary hardware and systems for implementation of player handling and gaming services.

By virtue of the above, in order for the company to start operations and have access to the gaming services, the company gives a refundable deposit to the third party to act as working capital for the effective management of players' fund account which is required for each player in the normal course of business activities. As operations increase or decrease, the refundable deposit increases or decreases.

10 Trade and other receivables

	2019	2018
	€	€
Trade receivables	42,062	91,636
Amount due from fellow subsidiary	163,085	88,529
Financial assets	**205,147**	**180,165**
Prepayments	1,075	1,516
Trade and other receivables	**206,222**	**181,681**

Short term financial assets are carried at their nominal value which is considered a reasonable approximation of fair value.

The amount due from fellow subsidiary is unsecured, interest free and repayable on demand.

11 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position and cash flows include the following component:

	2019	2018
	€	€
Cash at bank	**50,652**	**34,492**

The company does not have restrictions on its cash at bank at year end.

12 Share capital

The share capital of Dragonara Interactive Limited consists of ordinary shares with a par value of € 1. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of Dragonara Interactive Limited.

	2019 €	2018 €
Shares issued at 30 June		
99,999 ordinary A shares of € 1 each and 25% paid-up	25,000	25,000
1 ordinary B share of € 1 each and 100% paid-up	1	1
	25,001	**25,001**
Shares authorised at 30 June		
99,999 ordinary A shares of € 1 each	99,999	99,999
1 ordinary B share of € 1	1	1
	100,000	**100,000**

13 Deferred tax liability

Deferred taxes arising from temporary differences can be summarised as follows:

	1 July 2018 €	Recognised In profit and loss €	30 June 2019 €
Non-current assets			
Plant and equipment	(5,054)	(1,182)	(6,236)
Total	**(5,054)**	**(1,182)**	**(6,236)**

	1 July 2017 €	Recognised In profit and loss €	30 June 2018 €
Non-current assets			
Plant and equipment	(3,938)	(1,116)	(5,054)
Total	**(3,938)**	**(1,116)**	**(5,054)**

14 Trade and other payables

	2019 €	2018 €
Trade payables	12,450	12,210
Accrued expenses	83,394	63,575
Financial liabilities	**95,844**	**75,785**
Statutory liabilities	2,138	7,161
Total trade and other payables	**97,982**	**82,946**

Short term financial liabilities are carried at their nominal value which is considered a reasonable approximation of fair value.

15 Cash flow adjustment and changes in working capital

The following non-cash flow adjustment and adjustments for changes in working capital have been made to the pre-tax result for the year to arrive at operating cash flow:

	2019 €	2018 €
Adjustment:		
Depreciation of plant and equipment	14,404	14,213
	14,404	14,213
Net changes in working capital:		
Change in trade and other receivables	(30,374)	(81,497)
Change in trade and other payables	15,036	(78,735)
	(15,338)	(160,232)

16 Related party transactions

The company's related parties include its parent company and fellow subsidiaries.

	2019 €	2018 €
Wages and salaries recharged from Dragonara Gaming Limited	87,924	81,140

Unless otherwise stated, none of the transactions incorporates special terms and conditions and no guarantee was given or received.

Outstanding balances with related parties are disclosed in note 10.

17 Financial instrument risks

Risk management objectives and policies

The company is exposed to credit risk, liquidity risk and market risk through its use of financial instruments which result from both its operating and investing activities. The company's risk management is coordinated by the directors and focuses on actively securing the company's short to medium term cash flows by minimising the exposure to financial risk.

The most significant financial risks to which the company is exposed are described below. See also note 17.4 for a summary of the company's financial assets and liabilities by category.

17.1 Credit risk

The company's exposure to credit risks is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	Notes	2019 €	2018 €
Classes of financial assets – carrying amounts			
Security deposit	9	37,000	37,000
Trade and other receivables	10	205,147	180,165
Cash and cash equivalents	11	50,652	34,492
		292,799	251,657

The company continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The company's policy is to deal only with creditworthy counterparties.

The company's management considers that the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality.

The company has an overall credit policy that monitors its receivables and evaluates the amount of credit extended based on the credit worthiness of the counterparty and its history of payments. Dealings with counterparties may be suspended if counterparties default in their payments and, in some cases, legal action may be taken to recover amounts outstanding for an extended period.

None of the company's financial assets is secured by collateral or other credit enhancements.

The company does not have significant exposure with respect to receivables since the major debtors are related companies which are creditworthy.

With respect to balances with related parties (as disclosed in note 10) the company assesses the credit quality of these related parties by taking into account financial position, performance and other factors. In measuring the expected credit losses in these balances, management determined the impairment provision independently from third party receivables and as at 30 June 2019, there was no impairment in relation to related party balances. Management take cognisance of the related party relationship with these entities and settlement arrangements in place and management does not expect any losses from non-performance or default.

The company banks only with reputable local financial institutions with high quality standing or rating. At 30 June 2019, cash and cash equivalents are held with counterparties with credit rating of BBB- and are callable on demand. Management consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligation in the near term. As a result, no loss allowance has been recognized based on 12-month expected credit losses as any such impairment would be wholly insignificant to the company.

Dragonara Interactive Limited does not grant any credit facilities to its customers.

17.2 Liquidity risk

The company's exposure to liquidity risk arises from its obligations to meet its financial liabilities (see note 14). Prudent liquidity risk management includes maintaining sufficient cash and committed credit facilities to ensure the availability of an adequate amount of funding to meet the company's obligations when they become due.

The contractual maturities of the company's financial liabilities at the reporting date under review are all current.

17.3 Market risk

Foreign currency risk

The company is not exposed to currency risk as it transacts only in its functional currency.

Interest rate risk

The company has no financial instruments subject to floating interest rate, except for cash at bank, which historically has shown small change in interest rates. As such, the company's management believes that the interest rate risk is not material.

17.4 Summary of financial assets and liabilities by category

The carrying amounts of the company's financial assets and liabilities as recognised at the balance sheet date may also be categorised as follows. See note 4.7 for explanations about how the category of financial instruments affects their subsequent measurement.

	Notes	2019 €	2018 €
Loans and receivables:			
Non-current			
- Security deposits	9	37,000	37,000
Current assets			
- Trade and other receivables	10	205,147	180,165
- Cash and cash equivalents	11	50,652	34,492
		292,799	**251,657**
Financial liabilities measured at amortised cost:			
Current liabilities			
- Trade and other payables	14	**95,844**	**75,785**
-			

18 Capital management policies and procedures

The company's capital management objectives are to ensure its ability to continue as a going concern and provide an adequate return to shareholders.

19 Post reporting date events

No adjusting or significant non-adjusting events have occurred between the end of the reporting period and the date of authorisation by the directors.

Independent auditor's report

To the shareholders of Dragonara Interactive Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Dragonara Interactive Limited set out on pages 5 to 22 which comprise the statement of financial position as at 30 June 2019, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 30 June 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Companies Act, Cap. 386 (the "Act").

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

Other information

The directors are responsible for the other information. The other information comprises the directors' report shown on pages 2 to 4 which we obtained prior to the date of this auditor'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.

In connection with our audit of the financial statements, our responsibility is to read the other information 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 Act.

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 Act.

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

Responsibilities of those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and are properly prepared in accordance with the provisions of the Act, 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 relating 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.

The directors are responsible for overseeing the company's financial reporting process.

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 the 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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

We also have responsibilities under the Companies Act, Cap 386 to report to you if, in our opinion:
- adequate accounting records have not been kept
- the financial statements are not in agreement with the accounting records.
- 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.
The engagement partner on the audit resulting in this independent auditor's report is Mark Bugeja.

Mark Bugeja (Partner) for and on behalf of

GRANT THORNTON
Certified Public Accountants

Fort Business Centre
Triq L-Intornjatur, Zone 1
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Birkirkara CBD 1050
Malta

12 May 2020

Authorised User Digital Signature:	ROC Representative Digital Signature:
Signer: Stephanie MIFSUD MIZZI (Signature) Date: Tue, Jul 28, 2020 18:56:55 CEST	Signer: Charlene SAID (Signature) Date: Fri, Nov 6, 2020 12:28:00 CET