Exhibit 1
PART 1

SPECTRUM GAMING GROUP'S INVESTIGATIVE REPORT

Prepared for Evolution
August 5, 2022

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I. Summary and Introduction

Evolution AB ("Evolution") is a Sweden-based company that develops and produces game content for online gaming operators on a business-to-business ("B2B") basis. It is a public limited company incorporated in 2006 that trades on the NASDAQ Stockholm exchange. The company is a leading online gaming software developer whose games are played in numerous gaming jurisdictions around the world, with 62 percent of its revenue generated from locally and non-locally licensed countries. The remainder of Evolution's business is conducted in regulated jurisdictions such as New Jersey and other such jurisdictions. As discussed in more detail herein, companies like Evolution operate in both the regulated gaming world and the unregulated gaming world. This situation creates some inherent regulatory issues for companies like Evolution and the entire online gaming industry. While Evolution is the subject of this investigation, we note that the issues raised herein may very well be applicable to other content providers and the entire industry.

In its capacity as a content provider, Evolution is licensed as a B2B company in more than 20 jurisdictions, including New Jersey. In a B2B business relationship, the content provider provides its gaming software to licensed companies engaged in online gaming operations, either as a game aggregator or online gaming operator. The online gaming operator eventually interfaces with the end users who play the game content supplied by the content providers. Such B2B licenses confirm that the company's gaming software meets all of the technical requirements and standards of the respective gaming regulator, based on testing and certification by a licensed laboratory. These companies must also satisfy the license requirements and standards for suitability as gaming vendors in the different regulated jurisdictions where their products are distributed. In situations where the operators do not hold local licenses in non-locally licensed countries, they nonetheless remain subject to the regulation of the relevant home regulator.

Evolution executes contracts with its clients with specified terms and conditions, and it requires these online gaming clients to possess and maintain valid gaming licenses as a contractual obligation. Prior to entering into the contract, Evolution conducts an onboarding application process with its prospective clients, which includes a declaration by the online gaming companies regarding the gaming jurisdictions in which they are licensed and a listing of the jurisdictions where they intend to operate Evolution's games. The clients are further required to disclose beneficial ownership for owners holding greater than 25 percent, with a signed certification that the information being provided is true and accurate. As dictated by the contracts, all companies involved in the use of Evolution's games, from the aggregator to, ultimately, the online gaming operator, are required to be licensed in the jurisdictions where Evolution's games are being played. In some markets, such as the Netherlands, a local license is also required to be able to directly address that particular market.

Evolution conducts due diligence on its potential clients to verify the license information provided during the onboarding application process. This report examines the scope of the due diligence undertaken by Evolution and makes certain recommendations to enhance the process using public record information, in addition to requesting additional documents from the potential client. Evolution has declared that it will not enter into a business relationship with an unlicensed entity. The company also states that it undertakes a background check on the beneficial ownership noted in the application for owners holding greater than 25 percent. Evolution relies upon the certification submitted to the company and does not independently verify ultimate beneficial ownership, nor does it continually monitor the locations where the games are being played to ensure continuing compliance with the contracts. Evolution has not terminated any contracts for breaches relating to operations – only for a client failing to make proper payment or for failure to maintain a valid license.[1]

This report will make specific recommendations relating to steps Evolution can initiate to strengthen its due diligence and procedures used to monitor specific contract provisions that both Evolution and its clients have executed. Evolution agrees that improvements can be made in its compliance procedures.

As a content provider, Evolution does not directly interact with the end users who play the online games produced and distributed by Evolution on a B2B basis. Evolution does not handle any of the money used for wagering. Evolution receives its revenue directly from its B2B clientele. In fact, Evolution does not know the true identities of the players. Rather, the online gaming operator is the entity that interacts with these so-called end users. Accordingly, the online gaming operators are responsible for conducting appropriate due diligence on their customers, commonly referred to as Know Your Customer, or "KYC." In addition, it is the generally accepted practice in the online gaming industry that the responsibility for knowing where the games are being played rests with the online gaming operator and not the game content provider. Accordingly, Evolution's business operations in this regard appear to be consistent with how some other content providers operate.

The online gaming operators determine which end users to accept or reject. Evolution does, however, utilize its available technology in efforts to block and deny access to its games in countries sanctioned by the United States as well as other countries.

A. The Allegations of Wrongdoing

In November 2021, an anonymous source brought allegations of wrongdoing and irregularities against Evolution in a 120-page report ("the report" or "anonymous report") submitted to the New Jersey Division of Gaming Enforcement ("DGE"), entitled "Evolution's Online Casino Presence in Illegal Markets." The allegations concerned Evolution's purported knowledge and tacit approval of situations where end users were able to play Evolution's games in countries that were under sanction or where online gambling was otherwise prohibited. In addition, the anonymous source alleged that Evolution routinely commits violations of international, national and state anti-money-laundering ("AML") and counter terrorist financing ("CTF") laws and regulations. The report claimed that current and former employees of Evolution had provided incriminating information that was incorporated in the report.

Evolution has emphatically and unequivocally denied the accusations of wrongdoing. The company's Chief Executive Officer, Martin Carlesund, maintained that the report was replete with

[1] Interview with Julia Simonsson, Chief Legal Officer of Evolution.

misconceptions and incorrect and misleading statements and characterizations. He further asserted that no current or former employee of Evolution knowingly participated in the so-called investigation conducted by the anonymous third party. Carlesund asserted that the unknown third party used subterfuge to obtain statements attributable to the employees, which were misleading and taken out of context. Spectrum interviewed one of the employees identified in the report, Kfir Kugler.

The other three persons mentioned in the report, Anton Bargel, Niklas Jonsson, and Jonas Engwall, were interviewed in the UK by legal counsel retained by Evolution. Bargel and Jonsson are no longer employed by Evolution, having severed their association with the company well before they were approached with respect to the matters cited in the report.

After reviewing the content of these four interviews, Spectrum concludes that they never intended to accuse Evolution of any wrongdoing.[2] Summaries of these interviews are included in Section XIV of this report.

The company claimed that any circumvention by end users of gambling prohibitions in sanctioned countries involved fraudulent and sophisticated technical manipulation of Evolution's systems, without Evolution's knowledge or approval, and were conducted beyond its control. Evolution insisted that the allegations that its games could be readily accessed in countries under US sanction were false.

Evolution maintained that it uses technology tools to effectively block end users from playing Evolution's games in countries under sanction. Evolution's CEO, Carlesund, stated that, although Evolution would be aware of the IP addresses of its end users, there are occasions where an end user utilizes a Virtual Private Network ("VPN") to conceal the player's true location of game play.[3]

In response to these allegations, Evolution's counsel retained Spectrum Gaming Group ("Spectrum," "we" or "our") to conduct an independent investigation of the accusations raised in this anonymous report. Spectrum conducted an operational, compliance, financial and technical review and analysis of Evolution's business practices, as well as public record database research and an assessment of the company's anti-money-laundering compliance procedures and processes, as they related to the allegations contained in the anonymous report. As more fully discussed herein, based on this examination, we were able to specifically corroborate the accusations regarding the use of Evolution's games in regions such as Hong Kong, Singapore, the United Arab Emirates ("UAE") and Saudi Arabia through the use of a VPN. Conversely, we also found the allegations linked to countries under sanction such as Iran, Sudan and Syria to be unsupportable and lacking credibility and proper foundation. When we attempted to play Evolution games in those locales using VPNs, we were repeatedly denied access. The company maintains that it adheres to the guidelines set forth by the New Jersey DGE in its 2016 Director's Bulletin **(Exhibit 3)** in determining which countries are to be off-limits for online gaming, characterized as "black markets," and uses its technology tools to block access to those areas.[4]

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[2] Interviews with current and former employees Kugler, Bargel, Jonsson, and Engwall.

[3] Interview with Martin Carlesund, CEO.

4 Pursuant to the DGE Bulletin, Hong Kong, Singapore, UAE and Saudi Arabia are not considered "black markets."

Based on our investigation, we were able to refute two principal allegations in the anonymous report regarding any cash payments allegedly received by Evolution and the use of Evolution's games in sanctioned countries, otherwise characterized as "black markets." Significantly, correspondence from Evolution's banks indicated that Evolution has not received cash payments from its B2B clients. Further, through our independent review, we verified that Evolution does not allow for its game content to be used in sanctioned countries.

Based on this investigation, Spectrum does not believe that Evolution has engaged in any illegal practices.

B. Evolution's Contract Monitoring

As will be detailed in this report, our research revealed that, in several instances, despite the onboarding process, some of Evolution's clients have operated Evolution's games to derive revenues from end users located within certain jurisdictions despite the fact that targeting such end users in such jurisdictions was prohibited according to the terms of the client's contract with Evolution, without having disclosed their intentions to do so to Evolution. We found that Evolution's compliance procedures need to be improved insofar as after the execution of contracts there is no examination of an ongoing nature to determine whether the contract terms are being satisfied by Evolution's clients, particularly as they relate to operations in jurisdictions prohibited by contract.

In this regard, our investigation revealed that certain clients had allowed for Evolution's game content to be provided on their online gaming websites in clear violation of their contracts, which expressly prohibited such game play in specified regions. Such actions by Evolution's clients in contravention of express contract conditions should have alerted Evolution that the contract terms had been breached, but this conduct apparently went undetected. In our judgment, Evolution's ineffective compliance procedures have allowed these situations to develop and therefore need prompt re-evaluation and enhancement in order to comply fully with the terms of the contracts. As evidenced by the incidents noted in the anonymous report – and as reflected in our independent research – Evolution may be unwittingly susceptible to having its games played through third party operators, in violation of its contracts with its operators. We also confirmed that Evolution is receiving income from these unauthorized activities. This presents an untenable situation, which is problematic for the organization if not rectified. Such operations, albeit not purposeful, may impugn the company's reputation and potentially subject Evolution to heightened regulatory scrutiny and the imposition of sanctions. It could perhaps even attract the unwanted attention of local and international law enforcement officials.

Spectrum's investigators were able to place bets and play Evolution's games with such online operators as bitcasino.com and stake.com by using a VPN using IPs associated with the United Arab Emirates, Saudi Arabia, Hong Kong and Singapore, where gaming licenses are unavailable. These regions all have laws prohibiting online gaming, as addressed in Section XVIII. These websites are connected to Evolution's clients, the B2B aggregators Hub 88 and Babylon, respectively, yet the absence of monitoring and enforcement of Evolution's contracts has apparently allowed for this to happen. While Evolution does obtain the IP address when a game session is opened, it is our understanding that the use of a VPN that is unknown to Evolution effectively camouflages the end user's exact location.

Notably, in the contract with Hub88, the list of countries listed as being "prohibited jurisdictions under the contract" includes Hong Kong and Singapore, yet Spectrum was able to place bets using VPN on bitcasino.com, which is linked to Hub88. In addition, the contract with Babylon expressly lists jurisdictions in which distributors and approved partners are precluded from allowing participation in the online games. Both Hong Kong and Singapore are listed as prohibited countries in this contract, yet Spectrum was able to play Evolution games on the website stake.com, which is linked to Babylon. These are concrete examples of contract breaches by Evolution's clients that have escaped Evolution's attention. Evolution should consider reviewing its policies and procedures to strengthen its KYC policies regarding its clients, particularly its aggregators, and to enforce existing terms and conditions in its contracts more stringently.

We note that the online gaming world is changing as more countries are taking action to regulate and legalize online gaming and prosecute illegal online gaming in their jurisdictions. It is undeniable that international law enforcement agencies such as Interpol and the Financial Action Task Force ("FATF") have recently increased their efforts to curtail and prosecute illegal online gaming operations, with a special focus on the money laundering aspects linked to online gaming. This trend in enforcement proceedings is likely to continue, given the rapid escalation and expansion of online gaming around the world.

We have provided a roadmap in this report that will focus on due diligence and compliance procedures that would protect the company from the types of allegations made in the report. The changing nature of the regulated online gaming industry requires Evolution to implement proactive measures going forward.

This report contains our findings based on the information obtained during our investigation.

II. Scope and Methodology

The scope of Spectrum's engagement entailed an independent investigation regarding the allegations contained in the anonymous report **(Exhibit 1)** and an evaluation and analysis of Evolution's due diligence and compliance procedures as they related to the accusations. The scope of services is attached as an exhibit **(Exhibit 2)**. The framework for the investigation stemmed from the guidelines established by the DGE in 2016 through the Director's Bulletin for online gaming companies licensed in New Jersey to follow with respect to operating lawfully in foreign markets **(Exhibit 3)**.

Based on the information provided, Spectrum conducted an operational, compliance, financial and technical review and analysis of Evolution's business practices, as well as an assessment of its anti-money-laundering compliance procedures and processes. Spectrum conducted database research focused entirely on available public record information that is generally accessible to the public at large.

Spectrum also reviewed numerous documents submitted by Evolution in response to Spectrum's two comprehensive document-request letters **(Exhibit 4** and **Exhibit 5)** and conducted numerous Zoom conference call interviews with Evolution executives and upper-level employees, as well as engaging in an in-person interview with the company's Chief Executive Officer, Martin Carlesund. Spectrum and Wiggin LLP, legal counsel in Europe retained by Evolution, interviewed via Zoom the current and former employees named in the anonymous report, who allegedly provided derogatory information relating to Evolution's business practices. A list of the employees interviewed is attached as an exhibit **(Exhibit 6)**. The interviewees cooperated fully with Spectrum and were candid and forthright throughout the proceedings. We note that some of these interviewees had virtually little or no familiarity with the allegations contained in the report, as their job responsibilities fall outside the scope of these matters.

The liaison from Evolution for this investigation was Jesper von Bahr, Director of Mergers and Acquisitions. He provided invaluable assistance in gathering the requisite information and coordinating Evolution's response to the requests for documents. We note that von Bahr, along with Lloyd Levenson, Evolution's local counsel, listened in on all of the interviews conducted by Spectrum.

III. Overview of an Evolving Online Gaming Industry

Online gaming consists of any form of gambling that is conducted on the internet. It has been in existence since the mid-1990s. Online gaming's popularity has become more widespread as technology has evolved. In recent years, the industry has been growing exponentially around the world. Whereas at its outset there was little regulation and oversight, that has dramatically changed as governments have come to recognize the vast revenues being generated and the glaring need to ensure that nefarious and unscrupulous parties do not participate in this industry. Moreover, there is increased scrutiny from law enforcement agencies worldwide regarding the detection and prevention of illegal online gaming operations. Payment processors have been investigated for violations of anti-money laundering requirements.

Online gaming started in Europe, initially with little regulation and oversight. In 2001, the Malta Gaming Authority ("MGA") was founded[5] to take on the role of digital gaming regulator and licensing authority for online gaming operators. Although its main goal was to provide regulatory oversight to the Malta gaming industry, the MGA became a de facto regulator across all of Europe before many European Union ("EU") countries licensed online gaming. Many online gaming operators reside in Malta and carry a Maltese gaming license. For many years, these operators would target players across Europe as many European countries did not have a developed regulatory authority over gaming.

Online gaming became an economic driver for Malta, but there is a long history of transgressions and lack of sufficient oversight by the MGC, which led to EU countries opting to bring regulation onshore. Organized crime infiltration into some legally licensed entities approved for gaming licenses in Malta led to negative publicity and impacted public confidence in the regulator's ability to prevent such intrusion. Another area that also created regulatory concerns was the licensing of payment processors that were located in other countries. The Malta regulator relied on the investigation of these entities by that country's government. The standards of those investigations were therefore inconsistent.

Regulatory oversight and onsite visits also created regulatory compliance concerns because the daily activities of the payment processors could not be monitored effectively. In some circumstances, multiple betting transactions were being "batched" to Malta banks with no supporting documentation that those funds were generated from legalized betting activity. This manner of forwarding funds in a "batched" format raised serious anti-money-laundering ("AML") concerns. As a result, Malta was placed on the gray list in 2021 by the Financial Action Task Force ("FATF").[6] Placement on the gray list by the FATF signifies that increased monitoring is required due to deficiencies in curtailing money laundering and

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[5] The regulatory agency was originally called the Lotteries and Gaming Authority, later changed to the Malta Gaming Authority.

[6] The Philippines, which was placed on the gray list by the FATF in 2021, is another example of a country where online gaming companies have participated in gray and black markets at their peril.

combatting financing of terrorism. Spectrum notes that Malta was officially removed from the gray list on June 17, 2022.[7]

As the online gaming industry has evolved, online gaming has become a regulated sector of the gaming industry in Europe, as many European countries have licensed this activity. Online gaming companies need to possess many licenses, each with its own compliance requirements, to operate and provide their services. While in the past, either there was no regulation specifically for online gaming or only state monopolies were allowed to offer such services, today most European countries have adopted multi-license regimes, which allow several private companies to obtain licenses and provide their services in that country. The shift toward multi-licensing regimes has been positive and instrumental in establishing well-regulated and competitive online gaming markets, which are attractive to players.

The online gaming market is naturally consumer-driven and highly sensitive to competing prices. If a player cannot find the product or service they want with licensed operators, they will often look toward international websites. This could lead the player to play on websites that are licensed in other European countries – otherwise known as the "gray market" – or with websites that are neither regulated nor pay tax in Europe and do not offer players any of the consumer protections guarantees that exist in the vast majority of European countries. As a result, some companies have been sued civilly by European governments for the solicitation of citizens without being licensed in those particular jurisdictions. A lack of innovation in prices and product offerings can lead to an uncompetitive market and is one of the reasons why, for instance, monopolies are less prevalent in Europe.

The ability of European Union member nations to offer cross-border services to citizens in other EU countries adds an additional layer of complexity to online gaming. The advent of geolocation technology – where operators are required to pay for technology that pinpoints where a player is gambling from – is helping to resolve this issue for the online gaming industry. In some European countries, one license is all a company requires to offer online gaming services. But in many countries, companies are required to obtain licenses specifically for offering different product groups, such as poker or sports wagering. Across Europe, an operator might offer a single game or product (e.g., poker) that requires multiple licenses across EU member states, despite the product or game not changing in terms. This can be an administrative challenge for online gaming operators who offer multiple online gaming products across multiple jurisdictions. However, as technology for online gaming has evolved to enable omni-channel technology platforms, operators are increasingly flexible to be able to manage differentiated rules across jurisdictions. Additionally, these stringent rules and regulations around licensure are required to provide a high level of regulation that each jurisdiction elects to apply. From an operator's perspective, gaming licensure is a privilege and part of the "cost of doing business" in each particular country.

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[7] Daniel O'Boyle, "Gibraltar added, Malta removed from FATF grey list," https://igamingbusiness.com/grey-list-malta-gibraltar/ June 17, 2022.

In the United States, there has been a proliferation of regulated online gaming jurisdictions over recent years. This trend is expected to continue, and the number of US states allowing for online gaming will likely expand dramatically.

IV. Respective Roles of Different Entities Involved in Online Gaming Operations

There are three distinct types of entities that are involved in bringing online gaming to the end user: content provider, game aggregator, and online gaming operator.

1. Role of content provider

A content provider – such as Evolution – produces and distributes game content for online gaming operators. The role of the content provider is to develop the games that will be played by end users online, and to supply the software necessary for the games to distributors and online gaming operators. In this context, the content provider does not have any interaction with the end user who plays the games. The game content provider is responsible for ensuring the games comply with all requisite technical standards for online gaming. These companies develop the games and employ measures to prevent manipulation by the player to gain an unfair competitive advantage. The revenue generated from game usage is paid to the content provider by the online gaming operators who have contracted for the authorization to employ the content provider's games, with said revenue usually based on an established percentage of game play, and is not paid by the end users themselves through their wagering activity.

Content providers monitor actual game play in real time. They keep abreast of game play by individual players and the specific games being played to detect any fraudulent or suspicious behavior by the player, and for recordkeeping purposes to verify revenue that is generated from game play.

2. Role of game aggregator

The role of the game aggregator is to act as an intermediary between the content provider and online gaming operators. Aggregators serve to connect smaller gambling sites to content providers. Through the use of aggregators, a content provider is able to avoid having to individually integrate with every small online gaming operator that may wish to use its content.

In regulated markets, an aggregator will possess a B2B license, and in some cases also holds a Business-to-Customer ("B2C") license. Content providers generally contract directly with aggregators. The aggregator, in turn, then sub-licenses the services of the content provider to third-party B2C operators. The content provider does not have any direct contact or interaction with the B2C operator. Aggregators are resellers or distributors with whom the content provider contracts to supply its content; the aggregators then sub-license the product to operators. Aggregators provide services to smaller content providers, which due to their size may need the aggregators to assist with distribution of game content. Aggregators typically provide services from several content providers.

A game aggregator enables the online gaming operators to add gaming content from several content providers at once. Aggregators strike content distribution agreements with numerous content providers (sometimes called "studios") to be able to resell their games on their behalf. This allows online gaming operators access to many game-development studios following just one integration with the aggregator, instead of connecting with each game studio individually.

3. Role of Online Gaming Operator

The role of the online gaming operator is to administer the use of the games that it receives from the content provider directly or from an aggregator with whom they sign a contract. As such, the gaming operator is responsible for how and where the games are to be played. Questions by end users regarding the games are directed to the gaming operators and not to the game content providers. The online gaming operators are responsible for implementing and enforcing KYC, confirming legal age and location, and enforcing anti-money-laundering procedures and practices. They are licensed as B2C companies.

The online gaming operators add certain services – such as payment solutions and bonus tools – to the game content provided from a content provider or an aggregator and then offer and market the games to the end users. These online gaming operators handle every aspect of the end player interaction, including monetary transactions. Each operator may have multiple online casino websites/URLs through which the operator offers the games.

V. A Gaming License is a Revocable Privilege

It is important to note at the outset of the discussion in this section that Spectrum has uncovered no information which would, in Spectrum's opinion, disqualify Evolution from being found suitable to participate in the highly regulated gaming industry in the United States and elsewhere.

Spectrum recognizes that Evolution is licensed in multiple jurisdictions around the world. Notably, especially given the context in which this investigation by Spectrum has ensued, the company is licensed in New Jersey, where proactive compliance is required for gaming licensees. These licensed online gaming companies cannot simply wait to be instructed by the regulator with respect to compliance matters before taking action. This section addresses that important regulatory principle.

It is well established throughout the United States and many jurisdictions in the gaming world that participation in authorized gaming operations in a regulated market as a licensee shall be deemed a revocable privilege conditioned upon the proper and continued licensure of the individual licensee.[8] In this regard, suitability must be maintained in order for a licensee to retain the license. Failing to do so may result in the revocation of the license. As a consequence, the former licensee would be stripped of its ability to carry out gaming business operations.

It is always the affirmative responsibility of the licensee to establish suitability. Accordingly, the licensee has a responsibility to conduct its business in such a manner so as to remain suitable. Consistent with this policy, gaming jurisdictions preclude the creation of any property right or entitlement in any license, or the accrual of any value to the privilege of participation in legalized gaming, and to require that participation in legalized gaming be solely conditioned upon the individual qualifications of the person seeking such privilege.

Regular and continued monitoring and regulatory oversight of the online gaming licensee is therefore an integral component of an effective regulatory system to ensure compliance with the licensing standards embodied in the legislative framework. Gaming regulators have broad discretion in imposing discipline upon online gaming companies, including the imposition of fines and penalties for regulatory infractions, issuing letters of reprimand and censure, setting conditions for continued licensure, ordering license suspensions, and the most severe sanction – license revocation.

The importance of this principle of a revocable privilege is the maxim that regulatory compliance is always the duty and responsibility of the licensee. This is an ongoing obligation. All gaming licensees in New Jersey, therefore, have an affirmative obligation to ensure full and complete compliance with all laws, regulations and applicable procedures. It is the licensee's affirmative responsibility for compliance, and therefore, in our experience, it would be unjustifiable and inappropriate for licensees to rely entirely upon express pronouncements and directives from gaming regulatory agencies regarding enforcement. Accordingly, in a regulatory proceeding, it is not a valid defense for a licensee to claim that its operations were justified because it had not been advised otherwise by the gaming regulator. Instead, gaming licensees must always be vigilant and proactive in their organization's approach to compliance matters.

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[8] See e.g., N.J.S.A. 5:12-1(b)(8).

At most, this may be considered by the regulator as a mitigating factor in determining appropriate discipline to be imposed. Our viewpoint is based on our considerable experience.

The commitment to effective compliance should be manifest, visible and unmistakable. In furtherance of these principles, regulated gaming companies have often implemented compliance committees, and in some cases, independent audit committees, to ensure proper and comprehensive oversight and enforcement of compliance requirements.

As a licensed gaming company in New Jersey, Evolution would be required to operate within these parameters. We reviewed Evolution's business practices within this context.

VI. Summary of Allegations

The allegations made against Evolution may be placed into the following categories:

1. It is alleged in the anonymous report submitted to the DGE that Evolution consistently offers its games on multiple online gaming websites that enable gambling in jurisdictions where gambling is prohibited – and considered to be a criminal offense – such as Hong Kong, Singapore, France and the UAE.
2. It is alleged that Evolution's games are being played in countries that have been sanctioned by the United States and designated as "terror states," such as Iran, Syria, and Sudan.
3. The report accuses Evolution of being fully aware of the physical location of the end users within these prohibited territories, by virtue of knowing the IP address of the end user.
4. Evolution is also accused of breaching local regulatory requirements in countries such as Italy, Spain, and Sweden by offering its games by means of unlicensed operators, or by using physical studios that are not local to the countries where they are offered, in contravention of local laws.
5. It is further alleged that the operators accept cash and bitcoin payments from the end user, and that, in turn, Evolution accepts payment from the operators in cash. The third- party author of the report contends that such practices are in violation of Evolution's official anti-money-laundering policy as well as established anti-money-laundering laws.

Throughout its report, the accuser relies on information allegedly obtained from current or former employees of Evolution.

VII. Evolution's Business Model

Evolution produces and supplies game content for online gaming companies to utilize on a global scale. Evolution develops, produces, markets and licenses fully integrated business-to-business ("B2B") online casino gaming products to independent, third-party B2B gaming providers[9] and B2C online casino operators around the world who then incorporate Evolution's games into their own online casino platforms. The third-party B2B providers and B2C gaming operators independently market Evolution's products to end-user players in the jurisdictions they service. Those players then provide gaming revenues for the operators that is shared with Evolution through variable rate commissions and fixed fees.

Evolution's game content is not a standalone product and requires additional attributes from Evolution's clients before the games are ready to be accessed and played by end users. Revenue for Evolution is generated and derived as a specified percentage of game play. Monthly invoices are submitted to the clients for payment. Evolution has no business or financial interest in any online casino website.

The company operates as a licensed B2B supplier of online casino products. Its clients consist of two categories:

- licensed B2C online gaming operators, with whom Evolution contracts directly
- licensed aggregators who then sub-license Evolution's services to third-party licensed B2C online gaming operators

In the latter instance, Evolution does not have direct contact with the online gaming operator. According to representations by Evolution, the B2C operator either has its own B2C license or is operating in reliance upon the B2C license held by the aggregator. All sub-licensees and aggregators of the client operator are required to be approved by Evolution.

These clients execute contracts with Evolution for permission to use Evolution games. These contracts include restrictions on where and under what conditions Evolution's services can be used by the client. With respect to contracts with aggregators, there are provisions imposing the same restrictions upon any of the aggregator's sub-licensees. This necessarily includes the contractual obligation to advise Evolution on an ongoing basis of their intended markets, as well as a commitment not to use Evolution's games in any prohibited venues.

As Evolution continually emphasized – and Spectrum has verified – the company does not interact with the end users. Rather, such interaction occurs between the online gaming operators and the end users of Evolution's games. In this regard, all monetary transactions by the end users are handled exclusively by the online gaming operator. Evolution plays no role in the financial transactions between the online gaming operator and the end users. Evolution does have the capability to monitor end user game activity for risks and fraud to detect suspicious game activity within its own games as it concentrates on preserving game integrity. Whenever a game session is commenced, Evolution has the ability to track

[9] Aggregators, distributors, resellers, etc.

the IP address of the end user. Evolution maintains an ongoing record for game play according to the individual player and the specific games being played, for record-keeping purposes to verify the revenue being generated by play. Although Evolution does not know the end user's exact identity by name or otherwise, the individual end users have a unique alphanumeric identifier on a per operator level, which links the end user's gaming activity to the end user accounts maintained by the operator.

Evolution does not make its games available directly to end users anywhere in the world. Its customer relationships are exclusively with the B2B providers and B2C online casino operators who perform their own direct marketing and promotional activities and – in the case of operators – open, maintain, and manage all individual online player gaming accounts, including related financial transactions. Evolution does not maintain, have access to, or have the ability to access any end user identifying information or account financial information from the operator.

Evolution's online gaming services include live-streaming casino games broadcast from studios located in Europe, Canada and the United States where online end users can interact in real time with live dealers, as well as traditional random-number-generator ("RNG") casino games such as casino table games and slot games. At the request of online gaming operators, Evolution can also provide private tables for personalized and/or high-limit play, as well as gaming sessions tailored to specific markets and native languages. Through its third-party gaming operators, aggregators, distributors and resellers, Evolution's games and gaming products are widely available around the world in both regulated markets where online gaming is legal and cross-border into unregulated markets where online gaming is not regulated.

According to David Craelius, the company's CTO, Evolution is proactive in trying to prevent the use of Evolution's games in prohibited countries. He noted that there are security measures in place that are designed to prevent the use of its games in certain designated prohibited countries that are under sanction by the United States government, through an IP-blocking process. Thus, if an end user tries to access an Evolution game from an IP address attributed to a blocked territory, the system is designed to prevent the end user from playing the game. Accordingly, Evolution has the capability of expanding its blocking mechanisms where necessary and appropriate. Evolution maintains a list of blocked territories which as of December 15, 2021, included 11 countries, commonly referred to as IP-blocked countries. Evolution has indicated that these countries are "Jurisdictions where Evolution Group-licensed customers and their sublicensees are not allowed under any circumstances to provide any Evolution Group content."[10]

Regarding blocked territories, written questions based on the issues raised in the anonymous report were sent to Evolution on December 8, 2021. Evolution's response included the following information regarding the availability of Evolution products in any countries other than the blocked territories:

> Evolution has IP-blocked a couple of countries, including the ones which are under US sanctions. In addition, there are contractual restrictions for markets which are on Evolution's restricted territories list.

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[10] Interview with David Craelius.

> For all other markets, Evolution content is accessible, and it is up to the Operator and the Regulator to agree on what content can be provided under provision of the Operator license.
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> The Regulator for each jurisdiction has the mandate to enforce Operator license compliance.
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> Evolution has written contracts with all Evolution Clients. These contracts include, inter alia, restrictions on where and under what conditions Evolution's services can be used by the Evolution Client or, in the case of Aggregators who are Evolution Clients, contracts include provisions that the same restrictions should apply to sub-licensees.
>
> Outside of the IP-blocked countries, there are no technical restrictions from Evolution's end for access to Evolution content. There are however contractional restrictions on how Evolution's content can be used by the Evolution Client; It is up to Operator to decide where to target End-users and up to the Regulator to enforce Operator compliance for its jurisdiction.

The above language from Evolution's response essentially indicates that any operator authorized to provide Evolution products has the technical capability to offer these products in any jurisdiction, other than the blocked territories. The operator's contract terms may limit the jurisdictions where these products can be provided. However, Evolution does not take any proactive steps to ensure that the operators are complying with the terms of the contracts, including AML, KYC, and local statutes or regulations. In our judgment, this is a significant compliance issue.

While Evolution does obtain the IP address when a game session is opened, it is our understanding that the use of a VPN that is unknown to Evolution effectively camouflages the end user's exact location.

The UK Gambling Commission recently issued a report entitled "Prevention of money laundering and combating the financing of terrorism" that identifies risks and provides guidance for online gaming operators. In this report, the UK Gambling Commission states that gaming companies need to implement policies, procedures and controls to successfully detect and prevent money laundering and terrorist financing. The Commission notes that the use of VPNs in online gaming enhances the risks of money laundering and terrorist financing because players from high-risk jurisdictions use VPNs to shield their true locations. The Commission recommends implementation of effective controls to mitigate this risk. Evolution should consider whether to require in its contracts that its B2B clients implement such controls.

During Spectrum's investigation, company executives repeatedly opined that, by virtue of its business model, Evolution was not accountable for where or by whom the games were being played. Rather, they maintained that it was solely the responsibility of the licensed gaming operator to monitor the locales for improper usage of Evolution's games. Evolution's compliance procedures are not intended to monitor locations for game usage, although Evolution does, in fact, block usage from sanctioned markets.

Based on our investigation, Spectrum agrees with Evolution regarding ultimate responsibility for detecting where the games are being played. However, as a licensed gaming company, Evolution does have an inherent responsibility to enforce its contracts, which expressly prohibit clients from operating in designated restricted markets. Periodic reviews and random spot checks to verify contract enforcement would enhance compliance and help protect the company's interests.

VIII. Compliance Department

Spectrum requested that Evolution identify the structure of its Compliance Department, provide a description of the compliance program, the responsibility of the compliance committee, and a listing of the members. We further asked the company to describe the Compliance Department's responsibility to determine whether licensed operators and aggregators are complying with contract terms related to the prevention, detection and prohibition of gaming transactions in black and gray markets.

The CFO's responsibilities include the Compliance Department, which is led by the Chief Legal Officer. The department is organized into four sections:

1. Regulatory Compliance Section: This section's responsibilities include Evolution's license applications and maintenance, including license renewals and response to regulatory compliance questions for internal and external teams.
2. New Markets Section: This section's responsibilities include new markets entries and global compliance projects.
3. Studio Compliance Section: This section's responsibilities include live dealer games, studio expansion, etc.
4. Technical Compliance Section: This section's responsibilities include quality control, market analysis, product analysis and certifications.

The four sections of the Compliance Department are essentially involved in the ministerial function of obtaining and maintaining licenses for Evolution and its products, and initial due diligence reviews of operators. Significantly, none of the sections have any ongoing active responsibility to determine whether the licensed operators and aggregators are complying with contract terms related to the prevention, detection and prohibition of gaming transactions in black and gray markets. Spectrum requested that Evolution describe how these responsibilities are implemented.

Evolution said, "The Group has established a Risk Management Committee, in which representatives of various relevant parts of the organization meet quarterly to assess, discuss and mitigate potential risks. ... The risk analysis is divided into strategic, operational, compliance, legal and financial risks. ... A self-assessment of these control activities is performed annually and reported to the Risk Management Committee, which compiles and evaluates the results and reports to the Audit Committee and the Board of Directors."

Evolution provided the most recent Internal Controls – Self Assessment results for 2021. The assessment included processes related to Management, Business & Support Processes, Products, Operations, Finance, Communication, Human Resources, Property, Engineering, Compliance, and Legal. This assessment is prepared internally with support from PwC. The document provided is a high-level view of the overall assessment of nine departments, including the Compliance Department, which was evaluated on six controls and received a rating of 100%. The appendices of the self-assessment, which reported on "insights" gained during the process, did not contain any information about Compliance because there were no cited deficiencies. This document did not contain any information relative to Regulatory Compliance, AML, KYC, black markets or gray markets.

Regarding risk assessment related to the provision of gaming services, Evolution indicated, "As certain jurisdictions have laws that explicitly consider the offering of, and participation in, gaming services conditional on particular licenses or a criminal offence, the Group continuously undertakes precautionary measures, including Know Your Customer (KYC) checks of licensees and requiring, in its agreements, that operators comply with the laws and regulations applicable to them. These provisions in the agreements constitute a form of legal protection and prevent certain end users from accessing the Group's products and services. The Group's customers (i.e. the licensed operators and aggregators) are responsible for the end users' access to their online gaming platforms at the local level and in accordance with local laws and regulations."

As noted in the paragraph above, as a general rule, the steps that Evolution takes to determine whether customers, aggregators, etc., are complying with contract terms related to KYC, AML, laws and regulations, and the prevention, detection and prohibition of gaming transactions in black and gray markets – after the initial due diligence procedures – is limited to requiring these measures in its contractual agreements with operators. This was confirmed during the interview with the Chief Legal Officer, who indicated that including contractual terms related to AML, KYC and compliance matters was the approach taken by the company because the operators are responsible for these matters. This approach appears to be consistent with how some other content providers operate. Nevertheless, in our judgment, Evolution's reliance upon the operators' compliance, without conducting regular reviews of the operators' processes, may be cause for concern. This concern would apply to the industry as a whole.

IX. Discrepancies between Currency Code and Country IP Addresses

The anonymous report indicated that it would be possible for Evolution to gain insight into the accuracy of the physical location of an IP address if there is a discrepancy between the currency used in a gambling session and the country indicated by the IP addresses. In reviewing the first five pages of a 75-page spreadsheet provided by Evolution, Spectrum identified the following information.

- GEL = Georgian Larri – 11 gambling sessions with the currency code GEL and the player IP country code and IP country name of Kuwait.
- HKD = Hong Kong Dollar – 18 gambling sessions with the currency code HKD and the player IP country code and IP country name of Bangladesh, India, or United Arab Emirates.

Evolution indicated the codes represent the currency the operator/casino states that it has accepted the wager in. Invoicing is calculated on the gross gaming revenue ("GGR") amount in the invoicing currency Euro.

The discrepancy between the currency code and the country code for a gambling session may be useful in determining the validity of the IP address or if the physical location of the end user is being manipulated by a VPN. It is important to note that none of the transactions identified above conducted in GEL or HKD had an IP address in Georgia or Hong Kong/China, respectively.

Spectrum did not conduct any review of the remaining 70 pages of the spreadsheet, so other instances of a discrepancy between the currency code and IP address country may exist. However, a search was conducted to determine the number of times GEL and HKD currencies appeared as a "player currency code," which revealed 56 and 363 occurrences, respectively. It is conceivable that a more extensive review may uncover additional gambling sessions where the currency code and country code do not match.

X. Onboarding Application Process and Due Diligence Conducted

Evolution employs an onboarding application process for prospective clients before agreeing to authorize use of its game content. Evolution conducts what it terms "due diligence" before accepting new clients, through a vetting process, including a verification of license information and a background examination of the ultimate beneficial owner through a database record check and media search, as disclosed in the application. Evolution will not contract with any unlicensed entity. In addition, aggregators are required to provide updated information with respect to the operators with whom they contract. Evolution conducts the same due diligence on these operators as it does with its direct clients.

Evolution provides a due diligence questionnaire to prospective operator clients, seeking some basic background information before agreeing to enter into a contractual relationship. This information includes:

1. registered name and address;
2. place and date of incorporation;
3. registered company number;
4. the names of company directors and officers;
5. a certified copy of the certificate of incorporation;
6. certified copy of charter documents;
7. a diagram of the applicant's ownership structure, signed by a company representative, that depicts all owners holding greater than 25%, specifying their respective ownership interests;
8. information relating to current gaming licenses held;
9. a bank reference letter on bank letterhead;
10. an indication of whether the client would be operating as an operator or a B2B provider;
11. a list of jurisdictions in which they intend to operate;
12. a list of the URLs for the different gaming jurisdictions; and
13. a signed acknowledgement to comply with all online gaming laws and regulations.

Upon receipt of this information, the documents are uploaded into Evolution's computer system. In the vetting process, each client is assigned to an attorney. A search is conducted through LexisNexis regarding enforcement actions, regulatory sanctions and adverse media reports. The attorney formulates a risk-assessment analysis for the client. The file is then forwarded to the Money Laundering Reporting Officer ("MLRO") for final approval before execution of the contract.

Evolution conducts its due diligence to verify the information provided, and if satisfied with the results of this inquiry, it executes a standard form of contract for the usage of its game content with a specified revenue percentage for game play. Its review is essentially limited, however, to confirming the validity of gaming licenses and evaluating the suitability of ultimate beneficial ownership, although the latter aspect in actual practice is virtually a perfunctory examination that is not aligned with standard due diligence reasonably expected from licensed gaming companies operating in strictly regulated jurisdictions. Interviews with Evolution officials indicate that they acquire this information but other than some Watch List and Sanctions searches conducted by the Legal Department, they do not independently verify the information required and just follow a checklist to ensure they have received the information from the potential client.

Spectrum notes that although Evolution states herein that it obtains beneficial ownership information, it was clear from the interviews conducted that the company simply relies upon the certification provided without any independent verification being performed by Evolution.

Evolution requires the potential client to provide certification of the beneficial ownership of 25% or more of the company. In some instances, this certification is from the potential client and not from an independent third party. Furthermore, without obtaining stock certificates and a stock registry for the entity, there is potential for this information to be inaccurate. In short, the methodology used by Evolution in determining ultimate beneficial ownership is not a viable process in that it relies totally upon representations made by an applicant company. Even if made in good faith, such representations may be inaccurate.

Evolution's due diligence would be improved by requiring a certified criminal history record from the 25% or more stockholders of the potential client, and conducting adequate derogatory media research both worldwide and in the country where the stockholders reside. The database research currently being undertaken is inadequate in determining suitability of the client's beneficial owners and needs to be enhanced with a certified criminal history record being provided by disclosed beneficial owners, in-country media research where the clients reside (English and local language), and other public record best practices research tools readily available.

In addition, when Politically Exposed Persons ("PEPs") are identified as beneficial owners, enhanced due diligence should be implemented relative to financial information concerning the individual's net worth and the salary they earn from their political position. Research into the code of ethics should also be required to determine if they adhere to the codes in their jurisdictions regarding prohibitions against engaging in ownership of the company while in political office. Was this information required to be disclosed to their jurisdiction, and was it disclosed if required?

As heretofore noted, the background examination conducted by Evolution of beneficial ownership has a threshold of 25% ownership, which we acknowledge is the accepted practice pursuant to AML regulations for beneficial ownership in Europe. However, as a result, significant interest holders with less than 25% ownership entirely escape Evolution's review and vetting process. Three or more individuals could hold between 17%-24% of the entity and be in position to control and direct the company without going through the vetting process by Evolution.

In our judgment, this 25% threshold is too high; we recommend modifying the procedures to require owners holding a lesser percentage than 25% to be vetted. In the strictly regulated gaming industry, this would be a prudent course of action to improve overall compliance. If red flags become known to Evolution during this onboarding process, Evolution should either determine not to do business with the company or undertake enhanced due diligence to resolve the red flags before engaging in business with the company.

XI. Evolution's Contracts with Clients

Upon completion of the vetting process, Evolution executes contracts with its clients whereby the clients are afforded an opportunity to use Evolution's games. The parties mutually agree as to the payment for such authorization, usually based upon a stipulated percentage of game play. Evolution establishes terms and conditions in these contracts, requiring its clients to abide by the restrictions involving prohibited markets. The clients acquiesce to these conditions, and an agreement is reached.

The clients are obligated to require these same terms and conditions for the sub-licensees with which they engage. Notably, the clients are not required to provide an update regarding the jurisdictions where they are operating or will be operating with Evolution's game content.

Evolution's Compliance Department compiles a list of prohibited and restricted nations. The contracts delineate these restrictions, and clients are advised they cannot operate Evolution's games in any of these countries. Pursuant to these contracts, Evolution's clients are supposed to be restricted from providing Evolution's services in all territories where it is either illegal for the client to provide remote gaming to residents, or where a gaming license is required to provide remote gaming and the client does not have such gaming license.

There are four essential components in these contracts with respect to the requirements that are contractually imposed upon the clients of Evolution:

1. maintaining a valid gaming license, including having a valid license in the jurisdictions where they operate, if required to do so;
2. agreeing not to operate in the designated prohibited territories;
3. assuming responsibility for implementing and enforcing anti-money-laundering policies; and
4. performing requisite KYC upon the end users.

Moreover, pursuant to these contracts, all of Evolution's aggregator clients are expressly advised that any such restrictions on operations extend with full force and effect upon any sub-licensees of the client. These clients are expected to advise their sub-licensees of any restrictions on operations, and these sub-licensees should then be bound accordingly. In this regard we note that Evolution does not have direct contact with these sub-licensees and is apparently relying on the licensed online gaming aggregator or operator for this function. We note this appears to be common procedure in the industry.

The main agreement, also known as the Software As A Service ("SAAS") Agreement, includes the following sections:

> Schedule 6: Sub-Licensing Terms also known as the Reseller Schedule includes the following sections:
>
> Section 1.1.6 the Operator will obtain full due diligence materials from Operator Approved Partners included but not limited to details of Ultimate Beneficial Owner ("UBO"), source of funds of the UBO, details of directors and utilized signatories (together "Sub-Licensee KYC Documentation"). The Operator agrees to provide such Sub-Licensee KYC Documentation to Evolution within five (5) Business Days of any such request.

Spectrum notes that although Evolution states herein that it obtains beneficial ownership information, it was clear from the interviews conducted that the company currently relies upon the certification provided without any independent verification being performed by Evolution.

> Section 1.1.11 the Operator will ensure that all Sub-Licensees utilize appropriate software and best-in-class commercially available geolocation methods in order to identify, on a real-time basis, the genuine location of Users participating in the Games ("Geolocation Data") and shall provide full visibility of such data to Evolution on a real-time basis.

There are certain aspects of these contracts that should warrant review and potential revision and amplification. For example, and most importantly, there is no updating required by clients of the list of URLs. Thus, a client may be able to operate without any repercussions from an unknowing Evolution in jurisdictions that had not been initially disclosed. The fact remains that once a contract is signed and executed, the client can provide online gaming into any other jurisdiction they wish with any URL and would not have to notify Evolution, according to the terms of the contract. This updating requirement should be a mandatory part of the ongoing relationship between Evolution and the client, and failure to do so may result in grounds for the termination of the client. It is imperative to know where your clients are distributing your product to protect the company.

XII. Enforcement of Contracts

Based on our review, the contract terms and conditions are mostly sufficient as written to foster and protect Evolution's interests. Moreover, when adverse information concerning a B2B operator is brought to the company's attention by regulators or otherwise, the company takes affirmative action to rectify the situation with its B2B operators. However, Evolution must be much more proactive, as discussed in more detail below.

Notably, Evolution does not engage in any ongoing review of the actions of its clients, or of the sub-licensees, to monitor and assess compliance with the terms and conditions of the contracts, particularly as they relate to conducting business operations in markets designated as prohibited in the contracts. As a result, Evolution's games may be accessible in prohibited venues in violation of the contract terms.

In our judgment, the existence of these contract terms does not totally absolve Evolution from accountability and potential liability if the contract terms are not enforced and the clients operate in contravention of their contract. Evolution should be made aware of such breaches of contract through appropriate due diligence, which would allow the company to take immediate corrective action to prevent further unauthorized activity, including terminating contracts. In this regard, Evolution may bear some responsibility for the actions of its clients in the use of its gaming services, which actions can be avoided to a great extent through proper due diligence and review procedures being implemented and enforced.

Significantly, Evolution does not conduct any proactive monitoring of its clients with respect to compliance with the contract terms. The ramifications of such inaction are troublesome. Indeed, as will be shown, Spectrum, using VPNs, was able to access websites linked to Evolution's clients and play Evolution's games in jurisdictions such as Hong Kong and Singapore, notwithstanding express prohibitions in the contracts regarding operating in these markets.

We set forth specific examples of how Evolution's compliance procedures have failed to detect contract breaches involving clients Hub88 and Babylon. Upon review of the Evolution on-boarding document "List of Documentation and Information to be supplied for – Legal & Financial Due Diligence," item D Online Operations, #2 requests, "Which jurisdictions do you plan to operate in, and what products will be offered in each? Please list all jurisdictions and tick each relevant product vertical." In #3 it reads, "Do you hold gaming licenses for all these jurisdictions?

Clearly Hub88 (bitcasino.io) does not have a license to operate in Hong Kong or Singapore and failed to disclose that to Evolution on their on-boarding form; however, Evolution apparently did receive revenue from third party operators, from the playing of their games by players from these jurisdictions playing with licensed European casinos, since they have to open the games for their clients. Furthermore, Babylon (stake.com) also either failed to disclose in their Evolution on-boarding form that they would be selling Evolution games in Hong Kong, Singapore, the UAE and Saudi Arabia, or failed to update Evolution in this regard. Evolution was also able to gain revenue from those jurisdictions. While these jurisdictions are not prohibited black market territories pursuant to the DGE Bulletin, nevertheless, the fact that Evolution received gaming revenue from licensed operators providing games in those jurisdictions may place Evolution in a precarious situation with law enforcement officials in those particular regions. We note that Evolution has not taken any remedial action since the allegations of wrongdoing surfaced to block those particular sites or jurisdictions or to enforce their contracts with their clients with respect to this activity.

Spectrum's investigators, using VPNs, were able to place bets and play Evolution's games with such online operators as bitcasino.com and stake.com with IP addresses assigned to the UAE, Saudi Arabia, Hong Kong and Singapore, where gaming licenses are unavailable. These regions all have laws that do not permit online gaming and have taken law enforcement actions against people and companies involved in the solicitation of gaming activity in their countries, but not directed towards content providers, operators and aggregators. These websites are connected to Evolution's clients Hub 88 and Babylon, respectively, yet the absence of monitoring and enforcement of Evolution's contracts has apparently allowed for this to happen.

Notably, on Page 43 of the contract with the aggregator Hub88, under Annex A and Table A, countries listed as being prohibited jurisdictions under the contract include Hong Kong and Singapore, yet Spectrum was able to place bets using VPN with bitcasino.com, which is linked to Hub88. In addition, on Page 66 of the contract with Babylon, Appendix 6 (entitled Excluded Territories) lists jurisdictions in which distributors and approved partners MUST NOT allow participation in the online games. Both Hong Kong and Singapore are listed as prohibited countries in this contract, yet Spectrum was able to play Evolution games on the website stake.com, which is linked to the aggregator Babylon. These are concrete examples of contract breaches by Evolution's clients. Spectrum notes that these Countries are considered gray markets pursuant to the DGE Bulletin.

XIII. DGE Advisory Bulletin 2016-01

On April 18, 2016, the New Jersey Division of Gaming Enforcement issued an advisory memorandum regarding the impact of online gaming operations in gray markets on suitability for licensure. Notably, Evolution utilizes this memorandum in formulating its strategies concerning the gaming jurisdictions its software can lawfully infiltrate. **(Exhibit 3)**

Jurisdictions where the legality of online gaming operation is considered an open question are often referred to as "gray markets." This is in contrast to "black markets," where it is clear that online gaming is strictly prohibited and the government has taken affirmative measures to stop online gaming activity. The DGE noted that cross-border online gaming operations have caused uncertainty with gaming regulators regarding the legality of online gaming operations of their licensees in foreign jurisdictions and how those gaming activities should be considered when evaluating suitability for licensure.

In light of the apparent uncertainty in this area with the rapid escalation globally of online gaming, the DGE issued its advisory opinion to New Jersey applicants and licensees to advise them of the potential consequences that their operations in other jurisdictions would have on their suitability for licensure under the New Jersey Casino Control Act.

The DGE emphasized that online gaming companies that operated in black markets would not be able to establish the requisite good character, honesty and integrity for licensure in New Jersey. Black markets are defined by the DGE as those jurisdictions where the government has taken affirmative actions to actively enforce laws that prohibit online gaming, or have issued "unequivocal official pronouncements" that online gaming is not legal in the jurisdiction.

The DGE concluded that it would examine whether the foreign jurisdiction has implemented a law that specifically prohibits online gaming and, if so, whether the jurisdiction has taken affirmative, concrete action to enforce that law. Types of affirmative, concrete actions include the government instituting a criminal or civil action against operators in the jurisdiction or the issuance of a formal cease-and-desist order, or affirmatively notifying the DGE of its prohibition. The DGE indicated that, in instances where the gaming jurisdiction has refrained from taking affirmative measures to prevent online gaming, it would consider the market to be a gray market for purposes of evaluating suitability in New Jersey. The DGE stated that those companies that operate in gray markets but not in black markets would be considered suitable in accordance with New Jersey's licensing standards for gaming vendors.

In accordance with these guidelines, Evolution has constructed a business model designed to avoid black markets. In this regard, Evolution utilizes available technology as well as contractual restrictions to block the use of its games in black markets by end users.

XIV. Operational Review

A. Spectrum's interview with CEO Martin Carlesund

On December 16, 2021, Fredric Gushin, Bill Kisby and Steven Ingis from Spectrum met with Martin Carlesund, CEO for Evolution, and Lloyd Levenson, an attorney for Evolution, in Levenson's office in Atlantic City. For approximately three hours, Carlesund gave an oral presentation regarding the business practices of Evolution, essentially refuting the allegations contained in the anonymous report submitted to the New Jersey Division of Gaming Enforcement. He provided a 2016 DGE policy memo with respect to how the DGE would respond to online gaming companies operating in gray or black markets. Carlesund said the company complied with the DGE's stated policy to avoid black markets, and he noted that the company operated in gray markets unless advised otherwise by gaming regulators or by Evolution's own decision.

Carlesund said that Evolution had no direct contact with the end users of its games, and that its responsibility was to provide the game content to licensed operators who would then interface with the end users who played the games, or contract with third parties who interfaced with the end users. He maintained that it was solely the responsibility of the operators to conduct appropriate KYC reviews and that the operator was the only party that has the necessary information about the end user to conduct KYC. Carlesund stated that Evolution did due diligence with respect to its clients – the gaming operators – to ensure that they were contracting with a licensed operator. He indicated that Evolution received a percentage of the revenue generated from game play, directly from the operator on a monthly basis, as specified in their contracts, and insisted that the company never received cash payments or bitcoin.

Carlesund asserted that an IP address by itself did not provide an entirely accurate depiction of a patron's physical location for online gaming activity. He advised that an end user might use a Virtual Private Network ("VPN") for game play access, and thereby conceal his true whereabouts and the correct IP address. Carlesund said the company blocked end users from playing its games in countries sanctioned by the United States, such as Iran, Syria and Sudan, as well as certain other countries. He acknowledged that a majority of revenue was generated from non-locally licensed countries.

B. Interviews with Evolution Personnel

In addition to our in-person interview with Carlesund, Spectrum conducted a series of Zoom conference interviews with executives and high-ranking employees of Evolution over a two- week period in January 2022.[11] The salient points derived from those interviews are set forth below. Significantly, the employees and directors mentioned in the anonymous report denied having made any inflammatory or incriminating statements about Evolution committing illegal practices.

[11] Travel restrictions in place as a result of Covid-19 during January made in-person interviews difficult if not impossible.

1. Julia Simonsson, Chief Legal Officer

Although due diligence is conducted by Evolution through database checks through LexisNexis, the filling out of a questionnaire application, and requests for specific documents, Simonsson did not recall any applicant to be a client being refused as part of the due diligence process. She indicated that sanction lists and PEPs are checked relative to client applicants, which involves the US Sanction List and the Financial Action Task Force.

Subsequent information provided regarding database checks revealed just a LexisNexis database that contains international watch lists and PEPs only, which – based on our experience – is inadequate to perform comprehensive due diligence on an applicant in the gaming industry.

Simonsson further indicated that Evolution does not conduct any ongoing monitoring of clients after the contracts are executed, as that matter is within the province of the gaming regulator.

When asked about situations regarding what might precipitate termination of contracts, she advised that contracts have been terminated for non-payment or if a regulator notified them that the client's gaming license was no longer valid. However, no contracts have been terminated by Evolution relative to due diligence or any other reason other than those mentioned.

Simonsson stated that all KYC and AML requirements are included in the agreement with the client, and that it is the client's responsibility to monitor those specific areas relative to the end users.

2. David Craelius, IT

Craelius advised that no game can be accessed without the client contacting Evolution and upon Evolution conducting certain protocols and a "handshake" to authorize a game to be accessed by the client. The protocols required include, but are not limited to, verification of the client, jurisdiction IP of the end user, and identification information in code of the end user for tracking purposes of their play for billing purposes.

He advised that Evolution has had no data breaches in the past six years during his tenure with the company.

Craelius said Evolution has various teams that are assigned to specific technical areas like hacking into the Evolution system to look for vulnerabilities, software patches and firewalls, and a Core Team that deals with geolocation issues. He said Evolution is currently examining ways to deal with VPN-related geolocation detection.

3. Jacob Kaplan, CFO

Kaplan advised that invoicing to clients is done based on play of their end users, but not detailed down to URL used.

The initial protocol to apply was to establish whether the transaction was from a known operator and whether the end user was in a blocked jurisdiction. Evolution is only required to confirm unique alphanumeric identifiers with client and wallet balance. In questionable situations, Evolution can request the client to drill down into the data for a complete picture of the transaction. However, clients are sensitive about any disclosure of an end user's name.

Kaplan said he checks to make sure monthly remittance by the client agrees with billing. Kaplan noted that 62% of revenue came from non-locally licensed markets and 38% from locally licensed markets but these numbers change over time. He could not provide Spectrum with requested information relating to source of revenue by country other than what is shown in Evolution's annual and quarterly reports because this request was denied by Evolution's legal counsel as proprietary information. Spectrum accepts this explanation as a valid justification for the non-disclosure.

4. Kfir Kugler, CEO of Ezugi

Kugler was one of the people identified in the report submitted to the DGE who provided negative information about Evolution's operations. Kugler is the founder of Ezugi, which is a live-dealer company and former competitor that was acquired by Evolution. Kugler still runs the Ezugi brand with Evolution on a day-to-day basis. He also manages Evolution's new business in Latin America and Africa.

He stated that some of the information provided that is contained in the report was just general information in the industry and not specific to how Evolution operated. It was never his intention to provide incriminating information. Kugler explained that he felt he had been duped by this party. He also stated that the person he met "disappeared" after the report was released and most likely used fake identities. He wrote a memorandum about the meeting to document what transpired. He advised that the meeting had been arranged by a third party who did not take part in the meeting.

Kugler was asked about a situation where a B2B had a license in Malta and the aggregator or sub-licensee also had a license, but the sub-licensee solicited end users from the UAE. Could this transaction actually occur? He advised it was possible.

He stated that it was possible to do business in non-blocked countries such as Turkey, the UAE, and Saudi Arabia via B2B aggregators or sub-licensees. He said he only wanted to do deals that did not negatively impact on Evolution.

Kugler advised that IP addresses can be manipulated and that it is done at times to hide local currency to get paid in US dollars. Kugler's position is that Evolution does not supply games to Iran. He stated that "I know we have players in Dubai."

5. Olesya Ivanova, COO

Ivanova supervises 85% of Evolution's work force of approximately 10,000 people who are primarily involved in the live studios that supply Evolution games in real time. She does not deal with clients or players but is involved in the operations and marketing of the studios, including employees who handle customer support and chat rooms. Currently there are 10 studios in operation.

6. Tania Johannisson, Director of Gaming Integrity

Johannisson's duties and responsibility involved new games, analytics, operation procedures on equipment, and supervision of personnel. Her team looks for vulnerabilities of the games and fraud by players. She does not target any analysis of IP used by players. Game integrity is the primary focus of her team.

7. Thea Massa, Compliance/AML

Massa said the Compliance Department does a review of potential clients' applications and that required documents are provided by the applicant, after which LexisNexis searches are conducted by the Legal Department.

She advised that beneficial ownership of 25% or more of the applicant entity is verified through a certification provided by the applicant entity and is not independently verified through stock certificates or stock registers. When there are "hits" relative to ownership by PEP, it is forwarded to the board for approval. To date, all companies have been approved but are supposed to be monitored every six months and checked again.

Although URLs and jurisdictions are requested and declared on the client's application form, if they change after going operational upon the signing of the Agreement, there is no notification requirement or monitoring by Evolution in the event they begin to operate from other jurisdictions or URLs.

Blocked jurisdictions are determined by Legal Compliance and contained in the contract with the client. Blocking is done by Evolution in real time, and clients cannot send end users from those locations.

She did not recall any breaches of the contract or blocked-country issues to date.

8. Gionata La Torre, Managing Director

La Torre advised that he worked from Taipei with a team of about 50. He handles the Asian market in servicing clients.

He was aware of VPNs being used in general, but he advised that they could be used for many reasons and not necessarily to play from blocked countries. But he said that was not his role or area of expertise for Evolution.

9. Louise Wiwen-Nilsson, Chief Human Resources Officer

Wiwen-Nilsson was asked about employment histories for the personnel identified in the anonymous report. She had no records concerning past performance, bonuses, or documentation for reasons for leaving the employment of Evolution.

10. Bjorn Sjoberg, Head of Key Accounts/Commercial Director

Sjoberg manages a team of 15 employees who are the day-to-day account managers with about 10 clients each. They are mainly educating, upselling, reactive and lead commercials for deal renewals, but that does not include any further due diligence.

They do not get involved with operator marketing, access, demography of users, or suspicious activity unless brought to their attention. In that scenario they report internally and ultimately to the regulator as appropriate, although this is a very rare occurrence.

11. Todd Haushalter, Chief Product Officer

From a fraud/game breach perspective, Haushalter does not look at IPs but does look at game play activity and trends and will flag underperforming or even overperforming and out-of-sync game play.

12. Jeff Millar, Commercial Director North America

His team of 11 account managers handles all operational activity in North America with a 90/10 split of time in favor of client management compared to new sales.

They focus on upsell, marketing and promotional support and generally are looking to maximize the businesses they partner with. He said that to date, they have not had to shut down a licensee or seen any suspicious activity.

They have no visibility on end user locations, IPs, use of VPNs, etc., and trust that as licensed operations, all is above board. He added that in almost every aspect of the business, he and any partner or third party within the United States requires some kind of license in this sector, so he believes everything is authorized and legitimate as a result.

C. UK Interviews of Former Employees Referenced in the Allegation Report

In interviews conducted in the United Kingdom, the following information was disclosed by former employees Anton Bargel and Niklas Jonsson and board member Jonas Engwall. We reiterate that these men indicated that any statements attributable to them in the report were intended to apply to the industry as a whole. It should be noted that these interviews were conducted under false pretenses.

1. Anton Bargel, Former Director of Evolution and Consultant for Ezugi

He acknowledged that Evolution provides games to Asia but only at the operator level, and that its games are not directly sold there by Evolution. According to Bargel, Evolution would never sell to unregulated markets. That is all done by operators through aggregators to make the games available.

According to Evolution, Bargel left Evolution in 2009 and was a consultant for Ezugi in different roles from 2014 to 2018.

2. Niklas Jonsson, Former CFO of the Evolution Group Company Evolution Malta Ltd.

He said Evolution can't supply to France because it is a black market and not allowed.

3. Jonas Engwall, Evolution Board Member

He stated that VPNs present a universal problem in the industry.

Exhibit 1
PART 2

XV. Technical Review to Assess Legitimacy of Allegations

Spectrum conducted a series of tests to evaluate the legitimacy of the allegations contained in the anonymous report. In doing so, we utilized a VPN to check if that would enable an end user access to games in certain territories prohibited by contract. This is in recognition of the argument posed by Evolution that using a VPN could effectively disguise geolocation and thereby afford access where it would otherwise be a prohibited contractual violation.

The following set of tests was carried out to demonstrate the following with a VPN.

First, can an operator's website be accessed with a VPN tool, an experimental player's account be created, money be deposited into the wallet to allow an Evolution game to be played for real money, and a successful withdrawal from the wallet made, within a set of predefined countries and Evolution games.

Standard test approach: The following is the standard test approach undertaken by an experimental player, who may be defined as a person who is attempting to access the game to see if it is possible to do so.

1. The experimental player selects the appropriate country from the VPN tool.
   a. For the tests, two VPN tools were used – Nord VPN & Ghost VPN – as one VPN tool didn't have all the required country coverage.
2. The experimental player validates that the VPN tool is delivering the appropriate country IP address, by the use of the website www.Whatismyipaddress.com
   a. Confirmation valid country IP address available – YES/NO
3. The experimental player accessing an operator's website with the appropriate country IP address, allowing the experimental player to browse the website without a registered account.
   a. Confirmation operator's website can be accessed and browsed – YES/NO
4. The experimental player selects an Evolution Game to play on the operator's platform, from a predefined list, to ensure the game loads.
   a. Confirmation Evolution Game can be loaded – YES/NO
5. The experimental player accesses the operator's registration screen to create an account.
   a. Confirmation experimental player account can be registered – YES/NO
6. The experimental player is directed through a set of basic KYC procedures as part of the registration process (basic KYC assumed some validation on player identity).
   a. Confirmation experimental player is presented with basic KYC procedures – YES/NO
7. The experimental player accesses the operator's wallet to deposit bitcoin ("BTC") to fund their account for game play.
   a. Confirmation experimental player can make a BTC deposit to their wallet – YES/NO
8. The experimental player selects an Evolution Game to play on the operator's platform, using real money rather than demo mode.

   a. Confirmation Evolution Game can be played for real money – YES/NO

9. The experimental player accesses the operator's wallet to withdraw BTC from their account.
   a. Confirmation experimental player can make a BTC withdrawal from their wallet – YES/NO

10. The experimental player validates that the withdrawal has been successfully credited to their account.
    a. Confirmation experimental player receives the withdrawal to their wallet – YES/NO

Test Findings: Spectrum was able to play Evolution's games on the websites of www.bitcasino.io and www.stake.com using IP addresses that are assigned to the jurisdictions of Hong Kong, Singapore, the UAE and Saudi Arabia, when in fact the end user was not physically located in those respective regions when playing the games. Conversely, Spectrum was effectively blocked from playing Evolution's games in Iran, Sudan and Syria. A chart detailing the results is included as an exhibit. **(Exhibit 7)**

XVI. Analysis of Specific Allegations in the Report

In the following discussion, Spectrum sets forth its findings relating to the specific allegations in the report, as derived from Spectrum's technical review set forth above. The references to allegation numbers correspond with the numbered paragraphs in the report **(Exhibit 1)**.

Spectrum's investigators attempted to place bets and play Evolution's games in the jurisdictions addressed in the anonymous report submitted to the DGE. With respect to allegation number 6, Spectrum's experimental player was able to play the company's games using IP addresses that showed the experimental player to have an IP address associated with Hong Kong, Singapore, Saudi Arabia and the UAE. He was unable to do so in France. As for allegation number 5, we were unable to play Evolution's games in the jurisdictions cited, namely Iran, Sudan and Syria. Based on our investigation, this specific allegation cannot be substantiated. Our unsuccessful efforts are consistent with the representations made by Evolution that these jurisdictions are blocked.

With respect to allegation number 4 regarding performing KYC on the end users, Evolution asserted that it has no role in this aspect of the operation as it is reserved to the operator. We confirmed based on our research that content providers are not responsible for conducting KYC on the end users who use their games. That obligation rests with the online gaming operator and not the content provider. Evolution and other content providers do not have the information to conduct KYC; that information rests with the gaming operator.

Allegation number 7 refers to whether Evolution knows the end users' physical locations. While Evolution does obtain the IP address upon a game session being opened – which allows Evolution to know the end users' physical locations in some cases by seeing to which country the IP address is assigned – there may be instances where a VPN could be used to effectively camouflage exact location.

Allegation number 8 asserts that Evolution breaches local regulatory requirements in countries such as Italy, Spain and Sweden by offering its games by means of unlicensed operators, or by using physical studios that aren't local to the countries where they're offered, as required by local laws. Spectrum was unable to play Evolution's games in these three jurisdictions. We note, however, that licensing is required in all three places, whether the games are provided by Evolution or through a client B2B, an aggregator, or a sub-licensee.

Spectrum was unable to confirm the allegations set forth in allegation number 9 regarding violation of commercial agreements in Spain and France. This activity was considered to be outside the scope of our investigative services.

Allegation number 18 concerns Evolution's commitment to compliance. While Evolution maintains a compliance department, its functions do not extend to ongoing reviews of its clients' compliance with contract terms and conditions. Our investigation revealed that the company is deficient in this regard, as it makes no concerted effort to follow up with its clients regarding KYC and AML policies, procedures and programs, other than requiring their clients to have such procedures.

Allegation number 21 contends that Evolution, by its practices, enables money laundering, terrorist financing and tax evasion. Our investigation did not support this allegation. Evolution checks to see if its B2B clients have procedures in place. However, Evolution does not monitor the KYC and AML procedures of its B2B clients, and its inattentiveness in this regard is problematic.

Allegation number 22 provides a breakdown of territories under sanction or where online gaming is prohibited. As noted, Spectrum was able to play Evolution's games with gaming operators related to Evolution's clients from the United States using VPNs with IP addresses from Hong Kong, Singapore, Saudi Arabia, and the UAE. The fact that Evolution's game content is accessible in those particular regions is not in violation of the DGE's Bulletin concerning prohibited territories.

Allegation number 26 provides information concerning various online gaming websites where Evolution's games are available for play, including yakocasino.com.

Allegation number 58 involves an alleged statement from Evolution board member Jonas Engwall regarding the Asian market and studying the behavior of the end users in Hong Kong and Singapore. This statement is consistent with the information that we uncovered in our investigation, that its B2B clients have targeted the Asian market and that we were able to place wagers using VPNs creating IP addresses associated with those particular jurisdictions.

In allegation number 59, Anton Bargel, former Director for Evolution who left the company in 2009, is quoted as stating that Evolution's games have been available in Hong Kong and Singapore for over ten years. Spectrum was able to access Evolution's games via VPN with IP-addresses associated with those jurisdictions, verifying that the games are available for play there. Similarly, allegation number 61 says that Niklas Jonsson, former CFO of Evolution Malta, indicated that Evolution's games were supplied in Hong Kong and Singapore beginning between 2015 and 2018 when he was employed there. The fact that the games are supplied by websites related to Evolution's clients in those jurisdictions is supported by our research.

In allegation number 62, the report states that Anton Bargel indicated that Evolution uses aggregators/resellers such as SoftGamings or Coingaming that offer their games in what Barger defined **as** illegal markets. Our research supported the notion that aggregators are commonly used in the industry, and that they may be responsible for offering games in prohibited markets. There is no evidence that they do so with the knowledge and approval of Evolution. Our investigation did not uncover any evidence that Evolution uses aggregators for some nefarious purpose.

Allegation 68 refers to revenue reports generated from end users in Hong Kong and Singapore. Spectrum requested copies of these revenue reports, but Evolution never provided them for our review to confirm or refute the allegations as those revenue reports are proprietary to the gaming operators. Based on our findings, Evolution does not receive any cash payments from its B2B clients.

In summary, it is readily apparent, as demonstrated by Spectrum's ability to play Evolution's games using VPN with IP addresses that are assigned **to** certain territories that are prohibited in Evolution's contracts, that the accusations made in the report limited to the jurisdictions of Hong Kong, Singapore, Saudi Arabia and the UAE can be substantiated. While such activity is not in violation of the DGE bulletin, it may be in violation of the contracts with B2B clients. By the same token, the allegations regarding operating in sanctioned regions proved to be false and unsupportable, based on our experience in attempting to access Evolution's games.

The use of VPNs to disguise location of an end user is a subject that in Spectrum's opinion warrants further examination by Evolution and the entire industry.

XVII. Review of Gaming Markets

With the principles incorporated in the DGE's regulatory model in mind, and in light of the allegations in the report submitted to the DGE, Spectrum analyzed how the foreign gaming markets identified in the report approached the issue of online gaming, with respect to how companies like Evolution should make determinations regarding where it is permissible for its clients to derive revenue using its products and services and which markets should properly be designated as black markets within the confines of the DGE's express pronouncement and interpretation. Spectrum focused entirely on readily available public record information and our interviews with various Evolution personnel in its assessment of Evolution's existing compliance and due diligence procedures.

In its 2016 advisory memorandum, the DGE distinguished between gray and black markets for online gaming licensing and operational purposes. Online gaming companies are expressly prohibited in New Jersey from operating in "black" markets, whereas online gaming operations would be permissible in the so-called "gray" markets. The DGE expressly noted that operating in gray markets as defined in the advisory memorandum would not negatively impact suitability for New Jersey's licensing scheme.

We emphasize that the DGE Bulletin was intended to provide guidance and assurances for online gaming companies licensed to conduct online gaming business in New Jersey. As such, it is limited to that specific jurisdiction. Whether other gaming jurisdictions around the world where Evolution currently conducts business operations through its operator clients will follow these same guidelines is unknown. We further note that the DGE has never issued a list of those countries that are considered by the regulatory agency to be gray or black markets other than Australia specifically.

The allegations in the report cited multiple instances of Evolution's games being played through third party websites with IP addresses associated with Hong Kong, Singapore, Saudi Arabia and the UAE. Evolution has confirmed that it does not block its licensees from distributing its games in these jurisdictions. Evolution believes that these jurisdictions should be designated as permissible gray markets based upon the specific wording of the DGE advisory memorandum. Spectrum accepts Evolution's interpretation of the DGE advisory memorandum, which is fair and reasonable. However, based on our review of public media sources regarding how these four jurisdictions deal with online gaming, it appears that these are markets where online gaming is not permitted by law and that these jurisdictions initiate enforcement actions in a manner consistent with the laws of their countries. We note that under the DGE guidelines set forth in the advisory memorandum, to our knowledge, none of these jurisdictions have prosecuted individuals, content providers or online gaming operators that operate outside of their geographical boundaries.

However, we believe that new jurisdictions that legalize online gaming are likely to include content providers within the scope of the licensing system and require pro-active enhanced due diligence on the part of their licensees. The recent trend toward jurisdictions legalizing online gaming in their jurisdictions is likely to continue and accelerate in subsequent years. Each jurisdiction will decide upon the level of regulation and oversight that is needed for online gaming and enforcement efforts that will be needed to minimize illegal gaming in each jurisdiction.

The final decision to proceed or withdraw from jurisdictions must be made by Evolution based on risk as it determines whether to permit companies with which it has entered into contracts to participate in these specific jurisdictions. In the following sections, we discuss compliance and due diligence issues that Evolution should consider implementing to minimize risk in light of the changing dynamics of the online gaming industry. Any such decision should be made on an informed basis. Implementing some or all of these recommendations will put Evolution in a much better place going forward.

XVIII. Analysis and Evaluation of Evolution Gaming's Anti-Money-Laundering and Counter Terrorist Financing Policies

Spectrum analyzed the allegations from an AML perspective. Within this context, the report alleges specifically that:

- "Evolution consistently offers its games on multiple online gaming websites (operators) that enables prohibited gambling in jurisdictions where gambling is prohibited and considered as criminal offence. Furthermore, operators accept cash and bitcoin payments from end-users playing its games, and, in turn, Evolution receives direct cash payments from these operators. This is a gross violation of Evolution's official anti-money-laundering policy, as well as money laundering laws and acts." (Item 3, Page 4)
- "Evolution does not carry out a KYC ("Know Your Customer") process to implement its anti-money-laundering policy, thus in practice it does nothing to track the source of funding used by its users." (Item 4, Page 4)
- "Evolution games are being used in large-scale cash wagering and Evolution's own use of intermediaries to funnel cash from operators to Evolution." (Item 4, Page 4)

The report further alleges that Evolution allows its games to be promoted, marketed and played in countries that are subject to economic sanctions by the United States and in countries where gambling, including online gambling, is illegal. While these two specific allegations are addressed in greater detail in other parts of Spectrum's report, they also have a significant bearing on Evolution's overall AML/CTF compliance policies and procedures and are incorporated in this section within the context of AML/CTF.

Finally, although the AML/CTF violations are alleged to have occurred on a worldwide basis, the focus of the anonymous report appears to be directed primarily at regulatory authorities in the United States, most notably the State of New Jersey, where Evolution maintains a live broadcasting studio and where Evolution is licensed to provide its proprietary online games to state-licensed online casino operators.

A. Applicable AML/CTF Laws, Regulations and Guidance

Although numerous countries and international organizations have enacted laws and regulations and published guidance regarding AML/CTF compliance by the gaming industry, the primary focus of those efforts has historically been directed at land-based casinos where players are physically present. With respect to online gaming, sometimes referred to as remote gaming or e-gaming, regulations and guidance related to AML/CTF are more limited.

The United Kingdom ("UK"), the European Union ("EU"), Malta, and the State of New Jersey in the United States ("US") have issued detailed AML/CTF regulations and/or guidance specific to online gaming that generally place the primary burden for AML/CTF compliance and Customer Due Diligence ("CDD"), sometimes referred to as Know Your Customer ("KYC"), on the online casino operators who have the direct relationships with their end user players. This is consistent with the approach adopted by Evolution.

However, Evolution is also subject to those laws, regulations and guidance to the extent that such regulations apply to their business model in the jurisdictions in which they operate.

1. United States

In the United States, the federal statute requiring AML/CTF policies, procedures, internal controls and suspicious transaction reporting is the Currency and Foreign Transactions Reporting Act of 1970, as amended by Title III of the USA PATRIOT ACT of 2001, commonly referred to as the Bank Secrecy Act ("BSA"). The BSA's AML/CTF laws[12] and regulations[13] are administered and enforced by the Financial Crimes Enforcement Network ("FinCEN"), a bureau of the US Treasury Department that functions as the US Financial Intelligence Unit ("FIU").

With respect to casino gaming, those federal AML/CTF laws and regulations apply only to state-licensed casinos, tribal-licensed casinos and state-licensed card rooms. As such, Evolution is not a designated financial institution under the BSA and is not independently subject to its reporting and recordkeeping requirements. However, in states where online casino gaming can only be legally offered by or in affiliation with a state-licensed and/or tribal-licensed casino, FinCEN has determined that such online gaming operations are part of the overall casino operations and must therefore be included in the overall AML/CTF regime required of the licensed casino operator regardless of whether they are operated by the casino itself or by a third-party vendor.[14]

As the holder of a New Jersey Casino Service Industry Enterprise ("CSIE") license, Evolution is required by state law to comply with all federal requirements, "... including, but not limited to, suspicious activity reporting and W2-G Reporting."[15] Evolution is therefore required to cooperate and coordinate with its affiliated US-based licensed casinos in ensuring compliance with all BSA requirements imposed on the casino, including the requirement for establishing and implementing procedures for using all available information to detect and report suspicious transactions, or suspicious patterns of transactions, that occur through mobile applications. Failure to do so would be investigated federally by the US Internal Revenue Service and Financial Crimes Enforcement Network. Spectrum found no evidence of non-compliance.

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[12] 31 U.S.C. §5311-5314

[13] 31 C.F.R. Chapter X (Effective March 1, 2011)

[14] Prepared remarks of FinCEN Director Kenneth A. Blanco, delivered at the 12th Annual Las Vegas Anti-Money Laundering Conference, August 13, 2019.

[15] N.J.A.C. 13:690-1.2(p)

2. United Kingdom

In the United Kingdom, Evolution is subject to the UK Money Laundering and Terrorist Financing Regulations ("MLR 2017"[16] as amended by "MLR 2019"[17]), the UK Proceeds of Crime Act 2002 ("POCA")[18] and, as a licensed remote casino operator, the UK Gambling Commission's ("UKGC") detailed AML/CTF and CDD guidance for remote and non-remote casinos[19] and its License Conditions and Code of Practice ("LCCP").[20]

That guidance, which is based on EU and FATF recommendations and standards, specifically notes that in addition to the money laundering risks posed by online casino end users, remote casino licensees should also incorporate into their risk analyses the money laundering risks posed by their business-to-business relationships, including any third-parties they contract with. Such risk factors include but are not limited to arrangements with business associates and third parties, the countries in which they operate, and their products, services, transactions and delivery channels.[21]

3. European Union

As a provider of gambling sector services in the European Union, Evolution is subject to the AML/CTF and CDD requirements of the EU's 5th Anti-Money Laundering Directive[22] and 6th Anti-Money Laundering Directive.[23] Among other requirements, the 5th directive established requirements for conducting enhanced due diligence measures when establishing business relationships or carrying out transactions involving countries identified by the commission as being "high-risk" for having strategic deficiencies in their regime on anti-money-laundering and countering the financing of terrorism. The EU annually publishes a list of these high-risk countries; the list currently includes 23 countries, all of which are located outside the EU.

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[16] https://www.legislation.gov.uk/uksi/2017/692/contents/made

[17] https://www.legislation.gov.uk/uksi/2019/1511/contents/made

[18] https://www.legislation.gov.uk/ukpga/2002/29/contents

[19] https://www.gamblingcommission.gov.uk/guidance/the-prevention-of-money-laundering-and-combating-the-financing-of-terrorism

[20] https://www.gamblingcommission.gov.uk/licensees-and-businesses/lccp/online

[21] https://www.gamblingcommission.gov.uk/manual/the-prevention-of-money-laundering-and-combating-the-financing-of-terrorism/prevention-of-ml-and-combating-the-financing-of-terrorism-part-2-2-Identifying-and-assessing-the-risks

[22] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32018L0843

[23] https://eur-lex.europa.eu/resource.html?uri=cellar:0a4db7d6-eace-11eb-93a8-01aa75ed71a1.0001.02/DOC_1&format=PDF

The 6th Anti-Money Laundering Directive also expanded the scope of the regulation's definitions of criminal "money laundering"[24] and "terrorist financing"[25] to include "aiding and abetting" when committed, whether directly or indirectly, with intent and knowledge regardless of whether committed within the EU or a third country. The directive noted that intent and knowledge can be inferred from objective, factual circumstances and could include recklessness and/or serious negligence. This revised standard aligns the EU requirements with the existing US legal standard known as "willful blindness," the act of consciously avoiding knowledge, ignoring relevant information or closing one's eyes to the high probability that a fact exists.

Furthermore, the scope of criminal liability is extended by the directive beyond natural persons to include "legal persons," including companies and partnerships, which carries with it the same criminal penalties.

4. Malta

In Malta, which is a member of the European Union, Evolution is subject to the AML/CTF and CDD requirements of the EU's 5th Anti-Money Laundering Directive, the EU's 6th Anti-Money Laundering Directive and Malta's "Prevention of Money Laundering and Funding of Terrorism Regulations."[26]

Though the Malta Gaming Authority ("MGA") has developed an extensive regulatory framework for online gaming, meaningful oversight and enforcement of online gaming has been lacking. A July 2019 Mutual Evaluation Report prepared by MONEYVAL, a permanent monitoring mechanism of the Council of Europe, reported that Malta authorities are overwhelmed and lack the resources, specialized knowledge and expertise needed to adequately supervise its financial and gaming sectors for AML and CTF. Malta regulators and online gaming operators also have been implicated in multiple criminal investigations conducted by Interpol and Italian law enforcement authorities that involve allegations of corruption and money laundering by organized crime families based in Sicily.[27]

Consequently, in June of 2021 the Financial Action Task Force added Malta to its "gray list" of countries that pose strategic deficiencies for money laundering and terrorist funding that will subject it to increased monitoring. Malta is the only EU country that appeared on the FATF "gray list." As noted, Malta was removed recently from this "gray list."

5. Financial Action Task Force

The Financial Action Task Force ("FATF"), a global watchdog made up of more than 200 countries and jurisdictions, sets international standards aimed at preventing money laundering, terrorist financing and the harm they cause to society. FATF has issued numerous analyses and guidance documents –

[24] EU Directive 2018/1673, Article 3, paragraphs 1 and 5

[25] EU Directive 2017/541, Article 11

[26] https://legislation.mt/eli/sl/373.1/eng/pdf

[27] https://www.forbes.com/sites/willnicoll/2021/03/13/raisebet24com-mafia-run-sports-book--caruana-galizia-inquiry-shake-malta/?sh=47202d801cd6

including "FATF 40 plus 9 Recommendations" – on combatting money laundering and the financing of terrorism. These recommendations set forth the basic framework for detecting, preventing and suppressing money laundering and terrorist financing at banks and non-bank financial institutions throughout the world.

FATF also monitors countries to ensure they implement FATF standards and guidance fully and effectively, and holds countries to account that do not comply by publishing a "black list" and a "gray list" of high-risk countries that have strategic deficiencies for money laundering and terrorist funding. As of October 2021, two countries are listed on the "black list" of countries subject to a call for action,[28] and 23 countries are listed on the "gray list" of countries subject to increased monitoring.[29] Unlike the EU list of high-risk countries required by the 5th Anti-Money Laundering Directive, the FATF list encourages consideration of the unique AML & CFT risks presented by the countries but does not specifically require enhanced due diligence measures with respect to them.

B. Analysis of Evolution's AML/CTF and CDD Policies and Procedures

As part of reviewing and evaluating Evolution's AML and CTF policies and procedures, Spectrum reviewed the following Evolution internal documents:

- Evolution Business Risk Assessment, Version 2021.1
- Evolution Anti-Money Laundering & Counter Terrorist Financing Policy, Version 2022.1
- Evolution Due Diligence Questionnaire (US Entities), Undated
- Evolution Due Diligence Questionnaire (non-US Entities), Undated
- Evolution On-Going Due Diligence Questionnaire, December 2021
- Evolution Group Sub-Licensee Form, Undated
- Evolution Annual Reports for 2020 and 2019
- Completed Due Diligence Questionnaires for non-US Entities
- Completed Customer Risk Assessments for non-US Entities
- Completed B2B Agreements for non-US Entities
- Completed B2C Agreements for non-US Entities
- Amended Jurisdictional Guidance Document (December 2021)
- Evolution Internal Controls – Licensed Operators, Restricted Markets and Sites (January 2022)

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[28] http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/call-for-action-october-2021.html

[29] http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-october-2021.html

Spectrum also interviewed the following Evolution personnel with respect to Evolution's AML and CTF policies and procedures:

- Tania Johannisson, Director of Game Integrity & Risk
- Thea Leigh Massa, Senior Legal Manager & Money Laundering Reporting Officer
- Jesper von Bahr, Director of Mergers and Acquisitions
- Julia Simonsson, Chief Legal Officer

Evolution provided Spectrum with a copy of the money laundering and terrorist financing "Business Risk Assessment" it prepared in 2021. The risk assessment concluded that Evolution has "No direct risk regarding end-players" as its clients are all B2B providers and B2C online gaming operators and Evolution "holds no end-player data or end-player wallets." Consequently, Evolution has implemented no AML/CTF compliance policies, preventative measures or CDD policies with respect to end users. Instead, Evolution relies upon its B2B clients to implement such compliance policies, procedures and internal controls, and conduct applicable CDD, according to the AML/CTF laws and regulations of the jurisdictions in which the client providers and operators are located and/or operate. Evolution stated that all of its B2B clients are licensed and that all such licenses require that casino operators implement compliance policies, procedures and internal controls, and conduct applicable CDD, in accordance with the licensing countries' AML/CTF laws and regulations.

With respect to its own clients – the B2B providers that market and distribute Evolution products and the B2C online casino operators that interact directly with end users – the risk assessment concluded that Evolution's own risks are minimal and can be effectively mitigated through CDD conducted on prospective clients, their directors and beneficial owners when the relationship is first established and annually thereafter or when there is a change in client details such as ownership, directors, licenses held, etc.

Evolution also provided Spectrum with a copy of its written AML and CTF policies and procedures titled "Anti-Money Laundering & Counter Terrorist Financing Policy" ("AML/CTF Policy") which it prepared based on the results of the money laundering and terrorist financing "Business Risk Assessment" conducted in calendar year 2021. The stated purpose of the policy is to establish a single internal control system for the entire Evolution group to identify, manage and mitigate money laundering and terrorist financing risks across all jurisdictions in which it operates. The policy provides that the Head of Regulatory Compliance will be designated as its Money Laundering Reporting Officer ("MLRO") and will be the individual directly responsible for ensuring compliance with applicable money-laundering-prevention laws and terrorist-funding-prevention laws and exchange of information with applicable government authorities in jurisdictions in which they operate.

Evolution's AML/CTF policies and procedures, including its customer due diligence procedures for onboarding of new gaming operators, are directed solely at the B2B providers and B2C online casino operators who market and/or offer Evolution's gaming products to end users around the world. The policy contains no specific procedures, guidance or requirements relative to AML/CTF preventative measures, suspicious transaction reporting, or CDD insofar as the actual end users are concerned; Evolution believes these matters are the sole responsibility of the online casino operators who have the direct relationships with the players.

Evolution's customer due diligence procedures for onboarding new gaming providers and operators involves sending a questionnaire to the prospective B2B client requesting information and supporting documentation related to its corporate structure, the identities of directors and beneficial owners, gaming licenses held, banking and financial details, and overall business operations. Included among the documents requested are a list of all jurisdictions in which the prospective client intends to operate and copies of any "relevant AML/CTF/Responsible Gaming/KYC policies and procedures."

Thea Leigh Massa, Evolution's current MLRO, said the list of jurisdictions in which the prospective client intends to operate is used to ensure that operators will not offer Evolution games (1) in prohibited jurisdictions that are subject to international sanctions by the United States and others, (2) in regulated jurisdictions where the operator does not hold a required license to provide online casino gaming services, and (3) in jurisdictions where Evolution's own contractual obligations prohibit their games from being offered.

Evolution provided a "Jurisdictional Guidance Document," dated December 15, 2021, that listed 11 "Blocked Territories" where Evolution games cannot be offered under any circumstances, 22 "Restricted Territories" identified by FATF where Evolution asks that providers and operators "conduct business with caution" and follow effective AML, CFT and CDD policies and procedures, and 31 "Regulated Territories" where Evolution games can only be offered for real money play if the operator holds a local remote gaming license for the type of game being offered and Evolution has agreed in writing to allow the game to be offered in the specific jurisdiction.

The MLRO stated that the request for a copy of "relevant" AML/CTF policies and procedures is intended to ensure that new B2B clients have policies and procedures in place for any of their listed jurisdictions that require them, particularly countries that appear on the FATF list of restricted territories. However, while these AML/CTF documents are included and retained in the applicant's files, they are not reviewed or evaluated by Evolution for compliance to ensure they are meaningful and effective or that they actually are being carried out by the operator.

Following receipt of all required information and documents, a risk assessment of the prospective client and its submitted items is made by the legal department in Malta. Independent research and background checks are conducted as needed by the legal department before the final package is submitted to the MLRO for assessment and approval. According to the written procedures, the information is used to ensure that all parties:

- are who they claim they are;
- hold the shares they claim to hold;
- are in possession of the licenses they claim to hold;
- are not operating in prohibited territories;
- declare their involvement with cryptographic virtual currencies; and
- are financially stable to provide the services they intend to supply.

After a new B2B client has been approved and goes live, Evolution's AML/CTF Policy requires that ongoing CDD be conducted on an annual basis, as well as anytime there is a change in the B2B's corporate structure, directors, beneficial owners, gaming licenses held, etc. Initially, online casino operators usually hold gaming licenses in only a small number of regulated jurisdictions. However, with the exception of countries that appear on international sanctions lists, once new casino operators have been accepted and approved, they are free to expand globally into all other counties without prior approval of Evolution.

During ongoing CDD, B2B providers and B2C online casino operators must complete a questionnaire regarding (1) any changes in company structure, directors, ownership and/or ultimate beneficial ownership, and (2) any enforcement actions or sanctions placed on the contracting entity by any regulatory authority or judicial body. The questionnaire does not ask for information regarding AML/CFT compliance issues or any new jurisdictions in which the operator is offering Evolution's games.

C. Analysis of Allegations as they relate to AML

(Please note that the number of allegation noted below refers to the numbered paragraphs in the anonymous report.)

> Allegation #3: "Evolution consistently offers its games on multiple online gaming websites (operators) that enables prohibited gambling in jurisdictions where gambling is prohibited and considered as criminal offence. Furthermore, operators accept cash and bitcoin payments from end-users playing its games, and, in turn, Evolution receives direct cash payments from these operators. This is a gross violation of Evolution's official anti-money-laundering policy, as well as money laundering laws and acts."

Evolution does not offer its online casino games directly to end users anywhere in the world. Rather, its games are offered to players through third-party B2C online casino operators who have been licensed by one or more jurisdictions where online gaming is legal and have contracted with Evolution for use of its gaming products. Evolution sees the end user IP addresses when online gaming activity is occurring, usually knows the countries associated with these IP addresses from which its games are being accessed and is aware that gambling is illegal in some of the countries involved. However, this does not in and of itself constitute money laundering without information as to the source of the player's funds and the characteristics of the financial transactions involved – information that Evolution does not possess or have the ability to access. With respect to receiving cash payments from operators, Spectrum uncovered no evidence that Evolution is receiving cash payments from any third-party online casino operator. Statements received from Evolution's banks concerning Evolution's accounts have confirmed that no cash payments have been received.

> Allegation #4: "Evolution does not carry out a KYC ("Know Your Customer") process to implement its anti-money-laundering policy, thus in practice it does nothing to track the source of funding used by its users."

Evolution's written AML and CFT policies and procedures are somewhat general in nature and appear to have been developed primarily to comply with the standards of the UKGC's guidance document titled "*The Prevention of Money Laundering and Combatting the Financing of Terrorism – Guidance for* *remote and non-remote casinos*"[30] to which Evolution is subject due to its being licensed by the UKCG as a remote operator.

As previously noted, Evolution does not have direct business relationships with the end users themselves but rather with the B2B providers and the B2C online casino operators who independently market and provide their gaming products to end users. According to Evolution, the identities and account financial activity of end users is known only to the online casino operators, and Evolution does not possess or have access to that information. As such, Evolution believes that AML/CTF compliance and related CDD procedures for end users are the sole responsibility of the online casino operators, which is consistent with Spectrum's findings.

However, Evolution has a legal responsibility under multiple regulatory regimes to implement effective AML/CTF preventative measures and CDD procedures with regard to its own B2B online gaming clients and the related gaming activity occurring on its own proprietary systems. Those preventative measures and CDD procedures include but are not limited to:

- Implementing procedures for using all available information to detect and report suspicious transactions, or suspicious patterns of transactions, that occur or are identifiable through their systems.
- Evaluating and addressing the money laundering risks posed by its B2B or B2C clients, including any arrangements those clients have with other business associates and/or third parties, the countries in which they operate and their products, services, transactions and delivery channels.[31]

Evolution's Director of Game Integrity & Risk, Tania Johannisson, advised that no automated analyses are performed specifically for AML/CFT or suspicious transaction reporting purposes as Evolution's Business Rick Assessment had concluded that such risks were minimal. However, that risk assessment considered only the risks related to game integrity. There was no mention of external factors identifiable through Evolution's systems that are generally accepted as indicative of suspicious or unusual transactions or patterns of transactions required to be reported to authorities.

With respect to the money laundering risks posed by its B2B and B2C clients, evaluating and addressing the risks involves more than establishing and verifying director and beneficial ownership information, ensuring that clients hold appropriate gaming licenses, determining the involvement of Politically Exposed Persons, and verifying regulatory compliance in regulated jurisdictions. It also involves evaluating and addressing the money laundering risks posed by the operators themselves and their customers – especially when operating cross-border in countries identified by international authorities as high-risk for money laundering and/or where the promotion and operations of gambling is illegal.

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[30] https://assets.ctfassets.net/j16ev64qyf6l/564WHNgBoQQQXxhM0Su2ye/ab707df7d861c58136fd9e3a3d0e473f/FINAL_Prevention_of_money_laundering_5th_Ed_Rev_2.pdf

[31] https://www.gamblingcommission.gov.uk/manual/the-prevention-of-money-laundering-and-combating-the-financing-of-terrorism/prevention-of-ml-and-combating-the-financing-of-terrorism-part-2-2-Identifying-and-assessing-the-risks

Allegation #4: "Evolution games are being used in large-scale cash wagering and Evolution's own use of intermediaries to funnel cash from operators to Evolution."

As discussed earlier related to Allegation #3, there are no money laundering laws or regulations that prohibit cash wagering from taking place or prohibit companies from receiving cash from third parties in payment of monetary obligations. Some jurisdictions require that certain large cash transactions be reported to regulators and/or law enforcement, but none explicitly prohibit such transactions from occurring. Further, Spectrum uncovered no evidence that Evolution is receiving cash payments from any third-party online casino operator.

XIX. Financial Review

The objective of this section of the report is to confirm or refute the allegations made or issues raised in the Anonymous Report using financial documentation regarding gambling sessions or gambling activity.

A. Gambling Sessions (7 countries) and Alleged Gambling Activity (6 countries)

The anonymous report identified 13 countries where illegal or improper gambling activity had allegedly taken place. This section first addresses the seven countries with reported gambling sessions and then the six countries where Evolution games are allegedly made available by clients of Evolution or sites related to clients of Evolution, based upon a discussion with an Evolution executive.

1. Gambling Sessions – 7 Countries

The objective for the seven countries identified with gambling sessions is to confirm or refute that the gambling session occurred. This will be accomplished using the detail that comprises the invoices sent to the operators that – directly or indirectly – made the Evolution games available to the end user. If a gambling session is included on an invoice, it would also confirm that Evolution received revenue as a result of the transaction. For seven of the 13 countries, the report identified 24 alleged gambling sessions as follows:

Country	Gambling Sessions	Designation
Iran*	3	Blocked Territory
Hong Kong	5	None
Singapore	4	None
France	4	Regulated Territory
Spain	6	Regulated Territory
Italy	1	Regulated Territory
Sweden	1	Regulated Territory
Total	**24**	

* indicates the country is on Evolution's list of Blocked Territories

For each of these 24 gambling sessions, the report indicated that the gambling activity took place either through a VPN that generated IP addresses for the country identified or with the player being physically located in the country identified. Because actual gambling transactions were alleged, Spectrum attempted to confirm or refute these transactions through financial records.

In order to gain insight into the gambling session information available to Evolution and the related invoicing process, CFO Jacob Kaplan provided written responses to questions about these areas and participated in an interview. The following topics were covered.

Player Account Set-up – Evolution's response indicated that Evolution has no involvement with the player account set-up, deposits, withdrawals etc. All steps in player KYC are undertaken by the operator. Evolution has no information regarding the player's identity and never deals with the player's money.

Therefore, according to Evolution, prior to an end user initiating a gambling session, Evolution cannot access steps taken by players or the details of each related financial transaction to establish a player account, additional deposits, withdrawals, banking information, physical location, virtual location, currencies used, etc. Essentially, Evolution cannot see player activity until the gambling session starts on one of their operators.

Player Gambling Transactions – Evolution indicated that when an operator initiates a game session with the Evolution system, a check is performed to determine if that call is from a known operator and from an allowed IP-address (geolocation check). The actual player is not identified to Evolution, but Evolution is given a unique alphanumeric code by the operator identifying that particular player for tracking revenue purposes. Result of games played is recorded and stored in Evolution's back-office and also sent back to the operator, who maintains the player's account balance on their systems.

Evolution's response did not address identifying all information available and when it is available to Evolution, such as providing details for each gambling transaction, including: game played, game outcome, currencies used, physical location, virtual location, IP address, URL, player ID, wagering, balances, URL owner etc. in addition, Evolution's response did not address how it determines that the URL, which offers the game, is linked to one of their customers when a gambling session begins on an Evolution product. However, Evolution indicated that it does not track or monitor the websites or URLs used by operators.

Customer Invoices and Remittances – Evolution's CFO said, "Evolution invoices its direct counterparties (operators or B2B aggregators) monthly – invoices are not broken down by individual sites/URLs that an operator or B2B aggregator manages. Evolution's back-end systems record the GGR for each Evolution direct counterparty (Evolution does not control how many sites/URLs an operator maintains). Invoices are based on the net GGR from each counterparty with a percentage commission applied; there are also some fixed fees that can be added (e.g., for set-up of a dedicated table). Invoices are predominantly issued in Euro."

To illustrate the invoice and remittance process, Evolution provided the following information:

Invoice # EGML03293 for Hub88 Limited dated 10/12/21 issued by Evolution Gaming Malta Ltd in the amount of €1,315,821.98.

Bank statement in the name of Evolution Malta Holding Limited dated 2021-12-20 from J.P. Morgan which included the receipt of funds in the amount of €1,576,239.84 which included the above invoice.

Customer Ledger entries which included the invoiced amount and the related remittance identified above.

Evolution's response indicates that invoices are not broken down by individual sites/URLs, but the 75-page spreadsheet, discussed below, includes casino id and casino name, such as, hub88basia and Hub88B2b Asia.

Evolution did not provide the requested information related to the original player gaming activity, games played, game outcome, currencies used (FIAT, virtual, digital, etc.), physical location, virtual location, URL, player ID, URL owner, etc.

Because this information was not provided, Spectrum subsequently requested all underlying details of the components of the invoice mentioned above, including any information available about the gambling session. Evolution supplied an invoice sample with detailed data that listed each gambling session separately. The detailed information did not include data about each wager. The 75-page document was provided in PDF format. Each page of the document contained approximately 130 entries, so the document listed approximately 9,750 gambling sessions. Also, because the document did not contain a grand total amount, Spectrum was not able to determine whether the total of the gross gaming revenue on this document agreed with the sample invoice provided. As a result, Spectrum was not able to analyze the information in any meaningful manner.

However, the 75-page spreadsheet did include information related to individual gambling sessions, which is discussed in the Virtual Currency and Cash section below.

The data listed on the spreadsheet included the following important information:

- Casino ID
- Casino name
- Player currency code
- Full Gross Gaming Revenue in Currency used
- Full Gross Gaming Revenue in euros
- Player IP country code and country name
- Table ID, Table name, Game type, etc.

Subsequently, Spectrum requested detailed invoicing information for one gambling session for each of the seven countries identified in the anonymous report. The request included a spreadsheet as an Excel document that includes each gambling transaction listed below and all transactions that comprise the Evolution invoice issued to the operator. The spreadsheet's total should agree with the amount billed on the invoice or provide an explanation of how the amount on the spreadsheet results in the amount invoiced. As with the sample previously provided, Evolution was asked to include the sales invoice, corresponding bank statement, and the customer ledger that corresponds to and includes the invoiced amount.

Gambling Session	Invoice Detail Requested	Report Page No.
1. Iran	Example 2: A player entering casinoextra.com via an Iran IP address.	26
2. Hong Kong	Example 1: A player entering bitcasino.io via a Hong Kong IP address	37
3. Singapore	Example 8: Jumanji game on lucky-31.com via Singapore IP address	66

4. France	Example 4: Deal or No Deal game on Rocketpot.io via France IP address	87
5. Spain	Example I: An experimental player entering Stake.com via a Spain IP address	89
6. Italy	Example: An experimental player entering betfury.com via an Italian IP address	104
7. Sweden	Example: An experimental player entering Tsars.com via a Swedish IP address	112

The example numbers and page numbers in the above list correspond to the gambling sessions as listed in the anonymous report.

Evolution was not able to provide the requested invoice detail for the seven identified gambling sessions because it was not available, as it is the possession of the operator. As a result, Spectrum was not able to accomplish one of the objectives of this report, which was to confirm or refute whether the gambling sessions from the countries indicated in the anonymous report actually occurred. We do not suggest any impropriety by Evolution in this regard.

For these seven gambling sessions, Spectrum also requested that personal data information, which is listed in Schedule 3: Data Processing Addendum ("DPA") Appendix 1, be provided for each gambling session on the invoice detail. The gaming session details listed in the appendix includes:

The Gaming Session Details listed include:

- User_id;
- screen_name*;
- first_name*;
- last_name*;
- User currency;
- User language;
- Chat message text.

The note in the appendix indicates; "*Users can write/type anything there. Evolution does not perform authentication of users. Authentication is done by Operator."

Evolution's response included that "The appendix is drafted in a standard format so that Evolution can use it with all its clients and the language used is therefore general to cover a variety of situations. That a specific detail is mentioned e.g., 'first_name' doesn't mean that that information is provided by all clients. ... The Gaming session details without * above are always available to Evolution (the 'Mandatory Details'). Gaming session details with * can be made available to Evolution but are not used or verified by Evolution. What Gaming session details are made available by Evolution's clients differs depending on the integration, Evolution has over 1,500 integrations. Evolution doesn't request any details apart from the Mandatory Details from its clients.

"To clarify, Evolution has stated that Evolution don't know the identity of the end-user which is correct. That a client in an integration would provide a name of an end-user doesn't change this. The identity of an end-user consists of much more than an unverified name of the end-user e.g. 'John Smith' and it's the operator that is responsible for the identification and the KYC of the end-user."

As their response indicates, the non-mandatory details – which include screen name, first name, and last name – can be made available to Evolution. It is important to note that a customer can fabricate a first name and last name but in some circumstances the operator is contractually required to determine the true identity of certain customers. When the end-user's true identity is available to the operator this information could be useful in determining whether the IP address or physical location is being manipulated by a VPN. As discussed below and in other sections of this report, an operator that makes Evolution games available in restricted territories or that accepts virtual currencies is required by the terms and conditions of their contracts to implement enhanced AML and KYC procedures. The KYC procedures for operators that accept virtual currencies require the source of funds of users and the true identity of such individuals to be determined. Therefore, if these contract terms are adhered to, it appears that Evolution would have the ability to determine the true identity of individuals who use virtual currency or gamble from a Restricted Territory. However, we note that Evolution indicated that their clients never wanted Evolution to be able to know the actual end users' identities because this is sensitive proprietary information not unlike a casino's high-roller lists. These clients also deal with other game providers, which makes the disclosure of end user identities even more sensitive.

Evolution did not provide the requested personal data information for the seven identified gambling sessions. This contributed to Spectrum's inability to accomplish an objective of this report, which was to confirm or refute whether the gambling sessions from the countries indicated in the anonymous report actually occurred. Evolution indicated this information is not available, as it is in the possession of the operator.

Another reference point regarding the end-user information that is available to Evolution is the Live Casino Reseller Agreement with HUB88 Limited dated February 19, 2019, which includes the following:

- Definition: "Users" means end users of the Distributor Services
- Appendix A – Details of Processing indicates the types of Personal Data to be processed by Evolution on behalf of the Distributor.
- The following information in respect of the Users:
    - contact information including first name, last name, e-mail address, address, screen name, (mobile) phone number;
    - IP address, location data, user ID, cookies, device fingerprint;
    - game/financial information (including IBAN and BIC code) of a User that places a bet/plays on any Game; and
    - other relevant information of the Data Subject (the User) necessary for Evolution to fulfill its obligations under the Agreement.

Appendix A appears to indicate that some additional personal data may be available to Evolution related to the identity and location of end users. However, the Evolution Group Business Risk Assessment from 2021 indicates Evolution's customers are other B2B providers or B2C operators. Evolution holds no end player data or end-player wallets.

Customer Remittance Audits or Reviews – Evolution's response indicated that, "Payments are received into Evolution's bank accounts with a reference to an issued invoice or invoiced counterparty. The payment amount is checked against the issued invoice. Evolution only accepts FIAT currency as payment. Main invoicing currency is Euro."

"Per 2020 93% of revenues were invoiced in Euro, 2.5% each in USD and GBP respectively and 2% in CAD."

Evolution was asked to explain the process to trace and verify all revenue streams down to the player level to ensure Evolution is paid according to contract provisions. This included:

- Identifying all information that is available to Evolution and which information is audited or reviewed.
- How Evolution verifies that the remittances from customers agree with the contract terms? Explain the nature and scope of the remittance reviews.
- Do the reviews include mathematical accuracy, prohibited activities, contract term violations, regulatory concerns, jurisdictional violations, gaming laws, etc.
- How does the Evolution team that confirms the accuracy of remittances interact with the Compliance Department if any irregularities are noted?

Evolution indicated that, "Payments amounts are checked against issued invoice by the Accounting team."

This remittance review process is limited to determining the accuracy of the remittance compared to the invoice and does not address whether contractual terms are being violated and regulatory compliance is addressed. Unless any specific issues have been encountered with a client, there is normally no interaction with the Compliance Department.

Gambling Sites – Evolution was asked to identify all gaming sites that offer Evolution Group products. They were asked to provide the chain of ownership for customers, sub-customers, aggregators, etc., that provide these games down to the URL and entity that offers the game.

Evolution's response indicated that, "Evolution has approximately +600 counterparties (operators or B2B aggregators) to whom it sells its game content. In order to be played, the game content needs the context of an operator's systems (player authentication, payment handling, website interface, player account management etc.). Evolution's counterparties have a license, either B2C or B2B. In the case of a B2C license they would offer the games through one or several sites/URLs. In the case of a B2B license they would re-sell the games to a B2C licensed operator who would offer the games through one or several sites/URLs."

"Evolution does not control the URLs/sites where the games are presented."

2. Gambling Activity Alleged – Six Countries

For six of the 13 countries, listed below, the anonymous report indicated that gaming activity took place in each of these countries based upon the anonymous report's characterization of a discussion that took place with Kfir Kugler, then Evolution's Commercial Director for Africa and Latin America. The following six countries are identified in the report:

Country	Designation
United Arab Emirates	None
Turkey	Restricted Territory
Tunisia	None

Saudi Arabia	None
Sudan*	Blocked Territory
Syria*	Blocked Territory

* indicates the country is on Evolution's list of blocked territories

Because a specific gambling session was not identified in the report for these blocked or restricted countries, Spectrum did not have a basis to attempt to confirm an alleged gambling session through financial records.

The requested support data behind each of the alleged transactions was narrowed down to seven specific transactions and requested but never provided for Spectrum to analyze to see what information Evolution had available or could obtain from its clients. Evolution indicated it is not able to provide the requested invoice detail for the seven identified gambling sessions because it is not available, as it is in the possession of the operator. Spectrum accepts this explanation.

B. Revenue by Country

In order to determine if Evolution was earning fees from the countries identified in the anonymous report, Spectrum requested a summary of revenue for 2021 by country and, if available, to segregate the information by revenue from blocked territories, restricted territories and regulated territories.

This information was not provided by Evolution, which hindered Spectrum's ability to confirm or refute allegations in the report. Evolution stated in its response to Spectrum's request that it could not provide the requested information relating to source of revenue by country other than what is shown in Evolution's annual and quarterly reports because this request was denied by Evolution's legal counsel as proprietary information. This explanation is acceptable to Spectrum.

C. Virtual Currency and Cash

The anonymous report alleges that Evolution was accepting wagers in virtual currency and cash. Spectrum confirmed that wagers were made by end users using virtual currency. It is the operator, not Evolution, that accepts these wagers. Evolution invoices the operators in FIAT currency and the one bank statement provided that contained two remittances did not have payments made to Evolution in virtual currencies.

Notably, in Evolution's 2021 Business Risk Assessment, the company sets forth the inherent problems associated with accepting virtual currency, stating that the use of virtual currency "enables criminals to place their money in the legal financial system via virtual currency exchanges in countries that do not have solid procedures in place for combatting money laundering and terrorist financing."

As noted above, the 75-page spreadsheet contained information about gambling sessions that included the following information:

- Casino ID
- Casino name

- Player currency code
- Full Gross Gaming Revenue in Currency used
- Full Gross Gaming Revenue in euros
- Player IP country code and country name
- Table ID, Table name, Game type, etc.

Also, as noted above, it was not practical to review the 75-page PDF document. However, Spectrum did review the first five pages of this document and identified the following information regarding virtual currencies. Although not illegal, virtual currency use should trigger enhanced due diligence by the client, which should be brought to the attention of Evolution. This requirement should be part of the contract.

<u>Virtual Currency Transactions – Pages 1-5 of the PDF Spreadsheet</u>

- TET = Tether – 19 gambling sessions with the currency code TET and the player IP country code and IP country name of Pakistan, Vietnam, Japan, Bangladesh, and China.
- TRX = Tron – 7 gambling sessions with the currency code TRX and the player IP country code and IP country name of Russia and Serbia.
- XB2 = milli Bitcoin – 21 gambling sessions with the currency code XB2 and the player IP country code and IP country name of Japan, Portugal, Hong Kong, Brazil, Vietnam and Switzerland.
- XB3 = micro Bitcoin – 3 gambling sessions with the currency code XB3 and the player IP country code and IP country name of Ecuador and Japan.

Based upon the information above obtained from the first five pages of the 75-page PDF spreadsheet it appears that wagers are being made on Evolution games being offered by Hub88 Limited using virtual currencies as alleged in the report. As Evolution explained, "The [currency] codes represent they are being played using virtual currencies as alleged in the report. As Evolution explained, "The [currency] codes represent the currency the operator/casino states that it has accepted the wager in. Our invoicing is calculated on the GGR amount in the invoicing currency Euro."

<u>The Evolution Definitions schedule indicates:</u>

"FIAT Currency" means any currency lacking intrinsic value that is declared legal tender by a government agency, and which is not a Virtual Currency.

"Virtual Currency" means any electronic trading currency are not FIAT Currency which shall include cryptocurrencies and any other value storage tokens that are not considered to be the legal tender.

The Main Agreement, also known as the Software As A Service ("SAAS") Agreement, includes the following sections:

- Section 6.6 states that the operator agrees and undertakes to procure that any Gambling Transactions will only be made in a FIAT Currency. The operator is allowed to accept deposits and payments in Virtual Currencies, provided that any such deposits and/or payments made by Users to the operator in Virtual Currencies are converted into a FIAT Currency when reported to Evolution.

- Section 6.6 seems to contradict the information on the 75-page spreadsheet, which indicates that gambling sessions were conducted using virtual currencies. The first sentence appears to prohibit virtual currencies in gaming transactions. The second sentence appears to authorize the acceptance of virtual currencies for deposits and payment.
- Section 9.2.6 (iii) states where the operator elects to accept funds through Virtual Currency methods, the operator undertakes to ensure that it shall at all times adopt such additional processes and AML documentation requirements so as to adequately and robustly determine the source of funds of Users and the true identity of such individuals and (iv) all deposits from Users shall be processed through licensed financial institutions.

Spectrum notes that there is no ongoing compliance conducted by Evolution to ensure that this requirement is being satisfied by the operator.

- Section 9.2.6 (iii) permits the acceptance of virtual currencies provided that certain conditions related to AML, KYC, etc. are met, including determining the source of funds and the true identity of the end users. However, the Chief Legal Officer Informed Spectrum that Evolution does not take any additional steps to ensure that operators are complying with these requirements beyond including the language in the contractual terms and conditions.

The Evolution Group Business Risk Assessment from 2021 indicates Evolution only invoices on FIAT currencies; calculation of the fees is made on FIAT currencies only as well. Any bet being placed on any of Evolution's games must be in FIAT currencies only. However, the gambling sessions on the 75-page spreadsheet appears to indicate that bets are being placed in virtual currencies.

After locating four virtual currencies on the first five pages of the 75-page spreadsheet, a Ctrl-F search was conducted to determine the number of times these virtual currencies appeared as a "player currency code." The results were as follows:

Virtual Currency	Number of Occurrences
TET	473
TRX	108
XB2	524
XB3	19
Total	**1,124**

As noted above, the 75-page spreadsheet contains approximately 9,750 entries. Based upon the search results above it appears that approximately 11.5% of the gambling sessions on this spreadsheet were conducted using these four virtual currencies. Spectrum cannot determine whether this is representative of Evolution's overall business. If other virtual currencies appear in the spreadsheet, this number would be larger. Because the identities of the end users are not known, we cannot determine the number of individual players. However, it appears that a significant amount of the gambling sessions on this spreadsheet are conducted using virtual currencies for this gaming operator. According to Evolution's contractual terms and conditions, players using virtual currencies would require enhanced AML and KYC procedures by the operators.

Spectrum notes that Evolution relies upon its clients to develop and implement these additional AML and KYC procedures. Further, Evolution does not review the operator's compliance with this requirement of enhanced due diligence.

The anonymous report alleges that Evolution operators accept cash and bitcoin payments from end users playing their games, and, that Evolution receives direct cash payments from these operators. The report also says that Evolution games are being used in large-scale cash wagering and that Evolution uses intermediaries to funnel cash from operators to Evolution.

When asked about the acceptance of cash, Evolution indicated that it "has no influence over what currency an Operator accepts for a specific game, it is up to each Operator and the applicable authority requirements/legislation to decide in what currency the Operator can offer their End-users to bet."

However, Evolution clearly indicated that it does not receive cash payments from operators and is not aware of cash wagering on Evolution games. It also clearly stated that it does not use intermediaries or other methods to funnel cash from operators and sub-operators.

According to Evolution, it has access to an end user's gambling session but not the information provided when the end user establishes an account with an operator.

Regarding cash wagers, based upon the five pages of the PDF document examined, Spectrum could determine the currency wagered but could not determine the method of payment the end-user used to establish the player account. Therefore, Spectrum could not make a determination about the overall allegations regarding cash wagering by end users. However, the five pages of the spreadsheet examined indicated some wagers were made using virtual currencies and not FIAT currencies.

Regarding cash payments, pursuant to Spectrum's request, Evolution provided emails or bank statements from various financial institutions for Evolution's bank accounts during 2021 indicating that cash payments had not been received. Spectrum reviewed the emails and bank statements submitted which is summarized below.

In order to determine if Evolution received cash in any of its bank accounts Spectrum requested the following information for 2021:

1. Evolution to provide a list of every entity active during 2021 and a list of bank accounts maintained by each entity during the period. The list was to include the name and address of each entity and the name and address of each financial institution and a certification that the list represented all bank accounts maintained throughout the company at any time during 2021.

   Evolution provided a list with the name of each entity and financial institution that was certified by the Director of Mergers & Acquisitions and the CFO, as the authorized signatories for the company. The list provided did not include the addresses of the entity or the financial institutions.

2. Spectrum also requested each financial institution to provide correspondence which identifies all accounts held by any Evolution entity during 2021 and a certification that the list represents all Evolution related accounts maintained by the bank branch.

Most of the correspondence from the banks were emails and some were certifications. In many instances the banks did not provide account numbers or the name of the account holder. In some instances, Evolution provided the account numbers to the bank, the bank responded regarding the account numbers provided and did not provide an independent list of accounts held.

Evolution's list of active accounts involved 57 entities which maintained 175 accounts during 2021.

Spectrum reviewed the documents provided including emails and letters from the banks, as well as bank statements provided by Evolution when banks did not provide letters or emails.

Cash Transaction Summary

Due to the difficulty of receiving correspondence from financial institutions, Spectrum independently requested, at random selection, bank statements for the calendar year 2021 for 25 bank accounts related to 10 entities. Evolution supplied the bank statements for the calendar year or provided a reasonable explanation why statements were not available for full calendar year. For example, some accounts were open or closed during 2021. Spectrum reviewed the bank statements and did not find any evidence of cash deposits.

Based upon the review of documentation supplied by the banks in the form of emails and letters, the bank statements provided by Evolution and the bank statements independently requested by Spectrum, no evidence was found that Evolution received cash payments from its B2B clients.

XX. Summary of Findings of the Investigation

1. The allegations contained in the report regarding Evolution's games being played in sanctioned countries could not be substantiated.
2. Spectrum was able to play Evolution's games on third party websites using a VPN with IP addresses associated with Hong Kong, Singapore, Saudi Arabia and the UAE, all markets where online gaming is not permitted and where enforcement actions have been undertaken internally, although to date, not directed specifically at content providers, operators or aggregators. Evolution concedes that its games are not blocked in these regions, and asserts such activity is consistent with the guidelines established by the DGE Bulletin. Spectrum agrees with this assertion.
3. The accusations concerning Evolution's games being played in territories prohibited by contract are true and accurate, although such activity was not carried out with Evolution's knowledge or approval.
4. The employees referenced in the anonymous report say they never intended to disparage Evolution or accuse the company of illegality, but provided information about the industry in general, that in some instances may have been taken out of context and misconstrued. The

discussions in all instances took place under false pretenses. Nevertheless, the basic substance of their attributed comments was substantiated with respect to Evolution's games being available in certain venues prohibited by contract.

5. The fact that Evolution's games are able to be accessed in territories prohibited by contract is the direct result of Evolution relying exclusively upon its clients to adhere to the contract terms without any verification of them actually doing so.
6. Evolution firmly believes that the responsibility for KYC of the end users rests solely with the online gaming operator. This is a commonplace belief and practice in the industry.
7. Although the company is aware of all IP addresses being used, there may be times when a VPN is being used to shield the true IP address or location of the end user, resulting in the incorrect IP address being presented. Even though there are many legitimate reasons for using VPNs, a tool to identify VPNs should be implemented to reduce risk.
8. Evolution conducts due diligence before executing contracts, but it is limited to verification of license information. Evolution conducts a limited background examination of beneficial owners of the clients holding in excess of 25% ownership interest. There is no verification of beneficial ownership, as Evolution relies entirely upon the certification provided by the client. We believe the 25% threshold is too high and Evolution should consider lowering the percentage required as well as requesting ownership documents. We believe actual stock certificates and stock registry should be part of the required documents for all beneficial owners holding above the threshold amount.
9. Potential clients of Evolution are required to have a valid license.
10. Potential clients of Evolution are required to indicate the locations where they intend to operate Evolution's games, but there is no requirement that they update this information. As a result, an operator may conceivably operate in gaming jurisdictions not included in the onboarding application process. Evolution should have such information to know this information during the term of the contract.
11. The contract lists the locations where online gaming cannot be conducted, but Evolution does not proactively ensure compliance.
12. Once a contract is finalized, Evolution does not conduct any due diligence to determine whether its clients are complying with the contractual terms with respect to regulatory compliance. If Evolution is contacted by the gaming regulator, Evolution investigates and takes necessary action. We believe that Evolution should be more proactive and not always await contact by the regulator.
13. As a result of its current compliance procedures, Evolution is vulnerable to having its games played in territories prohibited in its contracts with operators, despite contract terms with its clients that prohibit such activity.
14. Evolution has not terminated any contract for a breach of contract based on a failure to abide by the contract regarding prohibited jurisdictions. With respect to terminations for breaches of contract, its concern has been to ensure proper and timely payment and the maintenance of a valid license.
15. The four sections of the Compliance Department are essentially involved in obtaining and maintaining licenses for Evolution and its products, and in performing initial due diligence reviews of operators. None of the sections have any ongoing active responsibility to

determine whether Evolution's 500-plus operators and aggregators are complying with contract terms related to the prevention, detection and prohibition of gaming transactions in markets restricted in the contract.

16. The database research is inadequate in determining suitability of the client's beneficial owners and needs to be enhanced with a certified criminal history record being provided by disclosed beneficial owners, in-country media research in the country where the clients reside, and other public record best practices research tools readily available.
17. As a general rule, the steps that Evolution takes after the initial due diligence procedures to determine whether customers, aggregators, etc., are complying with contract terms related to KYC, AML, laws and regulations, and the prevention, detection and prohibition of gaming transactions, is limited to requiring these measures in its contractual agreements with operators.
18. The fact that Evolution's games are able to be accessed in territories that are restricted in the contract is the direct result of Evolution relying exclusively upon its clients to adhere to the contract terms without any verification of them actually doing so.
19. Evolution firmly believes that the responsibility for KYC for the end user rests solely with the online gaming operator. This is commonplace in the industry. Evolution does not have the information necessary to conduct KYC on the end user.
20. Evolution receives revenue from its B2B clients allowing Evolution's games to be played in gray markets, which is not prohibited according to the DGE bulletin.
21. Although Evolution is aware of all IP addresses being used, there may be times when a VPN is being used to shield the true IP address or location of the end user.
22. Internal audit: the company has no separate review function (internal audit). The Board has so far not considered there to be special circumstances in operations or other conditions that would warrant such a function.
23. Spectrum identified several instances in the sole document provided which itemized gambling sessions where there was a discrepancy between the currency code and the country code for a gambling session. This discrepancy may be useful in determining the validity of the IP address or if the physical location of the end user is being manipulated by using a VPN.
24. Prior to an end user initiating a gambling session, Evolution cannot access steps taken by players nor the details of each related financial transaction to establish a player account, additional deposits, withdrawals, banking information, physical location, virtual location, currencies used, etc.
25. When an operator initiates a game session, the actual player is not identified to Evolution. The result of games played is recorded and stored in Evolution's back-office and also sent back to the operator, who maintains the player's account balance on their systems.
26. Evolution supplied an invoice sample with detailed data that listed each gambling session separately.
27. Evolution did not provide the requested invoice detail for the seven identified gambling sessions. As a result, Spectrum was not able to accomplish an objective of this report, which was to confirm or refute whether the gambling sessions from the countries indicated in the report actually occurred. Evolution indicated this information is not available, since it is

Exhibit 1
PART 3

proprietary information in the possession of the B2B operator. Spectrum finds this explanation acceptable.

28. An operator that makes Evolution games available in restricted territories or that accepts virtual currencies is required to implement enhanced AML and KYC procedures. The KYC procedures for operators that accept virtual currencies require the source of funds of end users and the true identity of such individuals to be determined. Therefore, if these contract terms were adhered to and Evolution requested this information from the operators, it appears that in certain circumstances Evolution would be able to determine the true identity of individuals who use virtual currency or gamble from a restricted territory. However, it is noteworthy that Evolution does not review the operator's compliance with this contract requirement.

29. The remittance review process is limited to determining the accuracy of the remittance compared to the invoice.

30. Evolution indicated that after the initial due diligence review of an operator, it does not monitor or track the URL/sites or countries where its games are available, so it is not aware of what sites offer their games. This presents a significant compliance issue that needs to be addressed with the implementation of enhanced compliance and due diligence procedures.

31. For the countries in which the anonymous report indicated that gaming activity took place, where a specific gambling session was not identified in the anonymous report, Spectrum did not have sufficient information to attempt to confirm an alleged gambling session through financial records.

32. Evolution essentially indicates that any operator authorized to provide Evolution products has the technical capability to offer these products in any jurisdiction, other than the blocked territories. The operator's contract terms may limit the jurisdictions where these products can be provided, but Evolution does not take any significant active steps to ensure that the operators are complying with the terms of the contracts, including AML, KYC, or local statutes or regulations.

    Spectrum notes that this is a significant compliance issue that needs to be addressed through the implementation of enhanced compliance and due diligence procedures. Reliance upon the operator is clearly insufficient.

33. A summary of revenue for 2021 by country was not provided by Evolution, which hindered Spectrum's ability to confirm or refute allegations in the anonymous report that wagers were made on Evolution games from countries identified in the report. Evolution stated in its response to Spectrum's request that it could not provide the requested information relating to source of revenue by country other than what is shown in Evolution's annual and quarterly reports because this request was denied by Evolution's legal counsel as proprietary information. Spectrum finds this explanation acceptable.

34. Based upon the information obtained from the first five pages of the 75-page PDF spreadsheet, it appears that Evolution games are being played using virtual currencies as alleged in the report. In the Main Agreement – also known as the Software As A Service ("SAAS") Agreement – Section 6.6 appears to prohibit virtual currencies in gaming transactions, but appears to authorize the acceptance of virtual currencies for deposits and payment. Section 9.2.6 (iii) permits the acceptance of virtual currencies provided that certain conditions related to AML, KYC, etc., are met – including determining the source of funds and

the true identity of the end users. However, the Chief Legal Officer informed Spectrum that Evolution does not take any additional steps to ensure that operators are complying with these requirements beyond including the language in the contractual terms and conditions.

35. The Evolution Group Business Risk Assessment from 2021 states that "Evolution only invoices on FIAT currencies; calculation of the fees is made on FIAT currencies only as well. Any bet being placed on any of Evolution's games must be in FIAT currencies only." However, the gambling sessions on the 75-page spreadsheet appear to indicate that bets are being placed in virtual currencies.

36. The 75-page spreadsheet, which contains approximately 9,750 entries and appears to have approximately 11.5% of the number of gambling sessions for this specific operator were conducted using the four virtual currencies identified. According to Evolution's contractual terms and conditions, players using virtual currencies would require enhanced AML and KYC procedures by the operators.

37. Based upon our review of the documentation supplied by the banks in the form of emails and letters, the bank statements provided by Evolution and the bank statements independently requested by Spectrum, no evidence was found that Evolution received cash payments from its B2B clients. The allegations to the contrary in the anonymous report are unfounded.

XXI. Conclusion and Recommendations

Spectrum conducted an independent investigation designed to address the validity of the allegations about Evolution contained in an anonymous report submitted to the DGE. The allegations, if proven true, reveal certain inherent deficiencies in Evolution's compliance policies and procedures.

Spectrum concludes that Evolution conducts business operations in accordance with the DGE Bulletin in terms of which countries to avoid. Based on our investigation, we found no evidence that Evolution receives cash payments from its gaming operator clients.

However, contrary to the Business Risk Assessment for the company, which specifies that wagers be placed with only FIAT currency, the evidence demonstrates that, in fact, wagers are being made using virtual currency.

We could not substantiate the validity of the allegations pertaining to blocked countries of Iran, Syria and Sudan. Based on our findings, Evolution does not conduct business in sanctioned countries.

We were able to access Evolution's games through VPN with IP addresses associated with the territories of Singapore, Hong Kong, Saudi Arabia and the UAE on the third party websites of certain clients of Evolution, despite contract terms that prohibit such gaming activity.

The responsibility for KYC and AML compliance in the online gaming industry is universally reserved to the online gaming operator. Content providers like Evolution are not generally accountable for any irregularities in this regard.

Based on our investigation, we have no reason to believe that Evolution knowingly and intentionally allowed for its games to be played in territories prohibited by its contracts. However, by virtue of its compliance deficiencies, as detailed in Spectrum's investigative report, Evolution has certainly allowed for such gaming activity to occur. The compliance procedures almost completely end upon completion of the onboarding application process and the execution of contracts. Thereafter, all regulatory compliance is seemingly reserved to the clients, without any verification methods employed by Evolution to ensure compliance with contract terms.

As evidenced by the incidents noted in the anonymous report that was submitted to the DGE, and as reflected in our independent research, Evolution may be vulnerable to having its games played in territories that are not permitted by contract, by virtue of its compliance deficiencies. There is a complete absence of any ongoing examination to determine whether the contract terms are being satisfied by Evolution's clients, particularly as they relate to operations in jurisdictions prohibited by contract. Such actions by Evolution's clients – in contravention of express contract conditions – should have apprised Evolution that the contract terms had been breached, but they apparently went undetected. We conclude that Evolution's ineffective compliance procedures have contributed greatly in allowing these situations to develop.

Accordingly, we believe that Evolution's compliance procedures should be re-evaluated and enhanced in order to deter such activity and enable the company to comply fully with regulatory requirements. If this untenable situation is not cured, Evolution may be subjected to heightened regulatory scrutiny and will certainly be subject to sanctions that reflect negatively upon its reputation. Over time, this can have an appreciable public impact upon the company.

In order to improve compliance effectiveness and efficiency, we recommend the following measures be implemented:

1. Evolution should modify its due diligence and compliance procedures consistent with the findings and recommendations made herein, including the critical requirement for ongoing monitoring of compliance with contract terms, and conducting an independent verification of ultimate beneficial ownership.
2. Evolution should not simply accept copies of "Compliance Programs" and "KYC Programs" provided by prospective B2B and B2C gaming clients during onboarding as being accurate. Evolution should review and evaluate those programs to ensure they are meaningful and effective, have been fully implemented, and are actually being followed. Where significant deficiencies are noted, Evolution should require corrective action be taken before approving the new client so as to avoid any appearance of collusion, aiding or abetting.
3. Evolution should ensure that contracts with B2C online casino operators include explicit requirements for implementation of effective AML/CFT and CDD programs and ongoing compliance according to international standards, even in countries considered as unregulated jurisdictions where local licensing does not require it.
4. Evolution should ensure that contracts with B2B providers include explicit requirements for implementation of effective AML/CFT and CDD programs and ongoing compliance by its sub-licensees according to international standards, even in countries considered as unregulated jurisdictions where local licensing does not require it.
5. Evolution should require clients to provide an updated list of all new jurisdictions and URLs they are associated with in offering Evolution products after their initial onboarding applications are filed and approved, and annually thereafter during ongoing CDD.

6. With respect to online gaming being offered cross-border by B2B providers and B2C online casino operators, Evolution should maintain, and periodically update, comprehensive lists of:

   a. Countries where its gaming products are prohibited from being marketed or made available due to government sanctions and/or contractual obligations.

   b. Countries where gambling and/or online gambling is prohibited by law and the laws are strictly enforced by local authorities against content providers.

7. Contracts with providers and online casino operators should prohibit such illegal gambling activity, and player IP addresses originating in those countries should be blocked and a report sent to the MLRO for review and appropriate follow-up.

8. For the countries that appear on the annual EU list of countries at high-risk for money laundering and terrorist financing:

   - B2B providers and B2C online casino operators that are located in these countries or make Evolution games available in these countries should be subjected to enhanced due diligence, especially with regard to their own AML/CTF compliance policies and CDD procedures for end-user players.

9. For the countries that appear on the FATF "black list" and "gray list" of countries having significant strategic deficiencies for money laundering and terrorist funding:

   - B2B providers and B2C online casino operators that are located in these countries or make Evolution games available in these countries should be subjected to enhanced due diligence, especially with regard to their own AML/CTF compliance policies and CDD procedures for end-user players.

10. Evolution should conduct automated analyses specifically to identify suspicious gaming transactions and patterns of suspicious gaming activity for coordination with online operators in filing Suspicious Transaction Reports with appropriate authorities. Within the United States, such partnering with licensed casinos and their online gaming affiliates is required by the federal Bank Secrecy Act. (31 CFR, Part X).

11. Evolution should consider augmenting its "back-office files" with summarized deposit, withdrawal, and balance information to facilitate more robust identification of suspicious gaming transactions and patterns of suspicious gaming activity for coordination with online operators in filing Suspicious Transaction Reports with appropriate authorities. Such information-sharing could be implemented without the need to disclose player identity or financial account information between the parties.

12. Evolution should modify its threshold for vetting beneficial ownership interests from 25% to a reduced percentage and perform sufficient due diligence to confirm the information provided in the certifications regarding ultimate beneficial ownership.

13. Evolution should conduct periodic and spot reviews to determine whether their contracts are being complied with by their clients, requiring updated information to be provided as necessary.

14. Evolution should obtain a product as a means for successfully identifying the use of VPNs to conceal geolocation.

15. Evolution should consider establishing a Compliance Committee. We suggest there be five members, with one independent member.

16. When Politically Exposed Persons are identified as beneficial owners, enhanced due diligence should occur relative to financial information concerning the individuals' net worth and the salary they earn from their political position. Research into the code of ethics should also be required to determine whether they adhere to in their jurisdictions regarding engaging in ownership of the company while in political office. Was it required to be disclosed to their jurisdiction, and was it disclosed if required?

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