

Token Classification Report

Token: GAMBL Coin

Ticker: GAMBL

Date: 5th May 2022

Addressed to:

Rapital Development LTD
64, Excalibur,
B.Bontadini Street,
Birkirkara, Malta

Dear Mr Mario Fiorini,

We have been requested to provide you with our professional Token Classification Report (hereinafter referred to as the “**Report**”) in connection with the classification of a DLT Assets used within GAMBL Platform (hereinafter referred to as the “**Platform**”), namely the GAMBL Coin (hereinafter referred to as “**GAMBL**”) in accordance with Maltese law.

Our Report is being prepared on the basis that you intend on listing GAMBL on a trading platform in Malta. To that end, the purpose of this Report is to analyse whether GAMBL satisfies the elements of a Virtual Financial Asset (hereinafter referred to as “**VFA**”) in terms of Maltese law.

The Platform is a complete gaming platform that consolidates operator, sportsbook, betting exchange, casino, lottery, and poker services into a single application. The core goal of the Platform is to harvest the advantages of blockchain technology to create valuable gaming services that can be packaged in a traditional way and marketed to the public, regardless of blockchain knowledge or awareness¹.

GAMBL is the native token of the Platform and is used to i) give rewards to external operator nodes for offering the service²; ii) for staking in order to help secure the network and earn rewards in GAMBL³; iii) for engagement with gaming activities on the Platform, such as sports betting, betting exchange, casino games, lotteries, and poker, including the payment of fees⁴; and iv) additionally a percentage of GAMBLs are removed from supply / burned in the course of Platform activities⁵.

¹ Whitepaper p.6

² Email “RE: GAMBL Token Queries for classification” received on 27/04/2022

³ Email “RE: GAMBL Token Queries for classification” received on 27/04/2022

⁴ Email “RE: GAMBL Token Queries for classification” received on 27/04/2022

⁵ Whitepaper, p.36

Based on the information provided, we are of the opinion that GAMBL classifies as a VFA in terms of the Virtual Financial Assets Act, Chapter 590 of the laws of Malta (hereinafter referred to as the “**VFA Act**”), in accordance with the requirements prescribed by the Financial Instrument Test⁶ (hereinafter referred to as the “**FI Test**”) issued by the Malta Financial Services Authority (hereinafter referred to as the “**MFSA**”). Accordingly, GAMBL falls outside the scope of the Markets In Financial Instruments Directive⁷, the Electronic Money Directive⁸, the Investment Services Act, Chapter 370 of the laws of Malta (hereinafter referred to as the “**ISA**”)⁹ and the Financial Institutions Act, Chapter 376 of the laws of Malta (hereinafter referred to as the “**FIA**”)¹⁰.

We do not purport to be experts on and do not purport to be generally familiar with or qualified to express opinions based on any law other than the laws of Malta and accordingly no opinion herein is based upon any law other than the laws of Malta as currently in force.

The Report hereunder shall provide a detailed analysis as to how such a conclusion was reached.

Kindly note that the requirements considered hereunder reflect the requirements as prescribed by the publicly available legislation as well as any Guidelines and Rules, final or otherwise, published by the MFSA. Therefore, you are advised that the opinion expressed in this Report is only being written in light of the applicable legislation at the date of issuance, and shall not cover any future changes, amendments and any additional supplementary legislation that may be enacted.

In addition, our Report is being prepared on the assumption that the nature and technical standard of the DLT Asset in question allows for the interoperability outside the DLT platform on or in relation to which it was issued and therefore is capable of being traded on third-party exchanges.

⁶ https://www.mfsa.mt/wp-content/uploads/2019/05/VFAG_FITest_1.02.pdf

⁷ Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU

⁸ Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC

⁹ <https://legislation.mt/eli/cap/370/eng/pdf>

¹⁰ <https://legislation.mt/eli/cap/376/eng/pdf>

1. Documents and Basis of Report

This Report is being prepared in order to determine the exact classification of GAMBL in terms of the VFA Act, and the Virtual Financial Assets Rulebook issued by the MFSA (hereinafter referred to as the “**VFA Rulebook**”)¹¹, including the FI Test and any Guidance thereto.

In this Report, we are only providing information on matters strictly relating to the following legislative instruments:

- i. the VFA Act;
- ii. the Virtual Financial Assets Regulations (S.L. 590.01)¹²;
- iii. the VFA Rulebook Chapter 2 – Virtual Financial Assets Rules for Issuers of Virtual Financial Assets¹³
- iv. the VFA Rulebook Chapter 3 – Virtual Financial Assets Rules for VFA Service Providers¹⁴;
- v. the FI Test in light of the Guidance Note to the FI Test issued by the MFSA, coupled with carrying out the said FI Test on GAMBL;
- vi. the Markets In Financial Instruments Directive;
- vii. the Investment Services Act;
- viii. the Companies Act, Chapter 386 of the laws of Malta¹⁵;
- ix. the Electronic Money Directive;
- x. the Financial Institutions Act.

Specifically, the FI Test referred to in paragraph (v) above is the main metric used for the drawing up of this Report, and serves as the main instrument of interpretation outlined hereunder in more detail.

2. Assumptions

We understand that the GAMBL token team has developed the DLT Asset as described in more detail in the following documents:

¹¹ Made up of Chapter 1 applicable to VFA Agents, Chapter 2 applicable to Issuers of VFAs and Chapter 3 applicable to VFA Service Providers

¹² <https://legislation.mt/eli/sl/590.1/eng/pdf>

¹³ https://www.mfsa.mt/wp-content/uploads/2019/02/VFAR_Chapter2_FINAL.pdf

¹⁴ <https://www.mfsa.mt/wp-content/uploads/2021/10/Chapter-3-of-the-Virtual-Financial-Assets-Rulebook-effective-as-at-15-October-2021.pdf>

¹⁵ <https://legislation.mt/eli/cap/386/eng/pdf>

- Email “RE: GAMBL Token Queries for classification” received on 27th March 2022, as annexed herewith and marked as “Annex A”; and
- GAMBL - A BLOCKCHAIN PLATFORM FOR THE GAMING INDUSTRY Whitepaper, as annexed herewith and marked as “Annex B”
(together referred to as the “**Relevant Material**”).

Our Report is based on the following assumptions:

- i. That the Relevant Material as well as all additional information submitted to us is correct and complete in all material respects;
- ii. That the bare form for the completion of the FI Test conducted, as annexed herewith and marked as “Annex C”, has been downloaded from the website of the MFSA on the 4th of May 2022 and has been completed correctly in all material respects.

3. Scope

The scope of this Report is to determine the classification of GAMBL under the general auspices of the VFA Act, following the determination of the FI Test. This Report shall be based on the foregoing assumptions as well as those noted below and is limited to our understanding of GAMBL, based on the Relevant Material as at the date of this Report.

3.1. Main Points of Consideration

The main considerations in relation to GAMBL as obtained from the Relevant Material shall be denoted hereunder:

The Platform is a complete gaming platform that consolidates operator, sportsbook, betting exchange, casino, lottery, and poker services into a single application. The core goal of the Platform is to harvest the advantages of blockchain technology to create valuable gaming services that can be packaged in a traditional way and marketed to the public, regardless of blockchain knowledge or awareness¹⁶.

¹⁶ Whitepaper p.6

A decentralized gaming blockchain allows users to bet safely, securely, and privately on a self-regulating network. Users can retain control of their own funds and bet without limitation or restriction. Decentralization also removes all geographical barriers, meaning that it is possible for a gaming blockchain to access a global market and tap into an industry whose total size can only be estimated¹⁷. The Platform's system offers the following advantages when compared to non-blockchain gaming platforms¹⁸:

- Low Fees/Fair Odds
- Ease of use
- Control of own funds
- Instant Payouts
- Guaranteed Liquidity
- Unlimited Betting
- Unlimited global access
- Privacy
- Decentralised
- Cost efficiency

Architecture

The GAMBL blockchain is a multi-layered system that uses core **proof-of-stake** wallets in conjunction with **Operator Nodes**. The core wallet confirms blocks and earns block rewards. Users engage with the wallet to participate in GAMBL services¹⁹.

There are two types of operator nodes in the ecosystem envisaged: The first being *the official GAMBL operator* and second, *external operators*²⁰. In general, both types of operator node achieve consensus to feed events and odds data to the blockchain via APIs and execute smart contracts for bet placement and resolution. As the blockchain relies on Operator Nodes feeding correct data, they must be incentivized to accurately perform their duties. They are rewarded through a rate of profit retention on bets placed and verified through their node. As betting and gaming profits depend on blockchain usage and gaming volume, Operator Nodes must "earn" them by operating at a high level and generating a constant flow of data for the end user to seamlessly interact with. The remaining of profits is removed from the total supply or destroyed²¹.

¹⁷ Whitepaper p.13

¹⁸ Whitepaper, p.30

¹⁹ Whitepaper p.35

²⁰ Email "RE: GAMBL Token Queries for classification" received on 27/04/2022

²¹ Whitepaper, p.36

Official operator nodes are run by GAMBL. These provide game and odds data. Users interact with this game and odds data to place bets with the blockchain itself. If the user wins, the blockchain mints coins to pay them profit. If the user loses, the blockchain destroys their coins, i.e. they are removed from the supply. This official node does not generate a profit, it only provides data²².

An external operator node is one run by a party or a person external to GAMBL. These nodes are run for profit (i.e. they are the bookmaker, leveraging lower cost of operation on the platform, ability to service existing users & piggy back off of the official data etc)²³. External Operator Nodes are required to enter a monthly smart contract that locks 150,000 GAMBL coins until renewal²⁴. Data accuracy, and uptime requirements must all be met by each Operator Node to avoid incurring a penalty and continue service. An External Operator also needs to have additional coins locked if they wish to take on more liability (bets). With these external nodes, 10% of their end of month profit is removed from the supply or destroyed as referenced above. Individual operators may be subject to the laws and regulations set forth by their local jurisdiction.

Features

Sports book

The Operator Nodes populate the sportsbook with events and odds. Through the official GAMBL Operator Node pool, users can place bets directly against the blockchain with no individual limit until the blockchain reaches its maximum liability threshold. The blockchain creates new GAMBL coins to pay profits on winning bets, while the GAMBL coins from losing bets are destroyed. Liquidity is automatically generated to form 102.6% markets on major sports. An automatic trigger disallows further betting on an outcome that has surpassed the blockchain's liability threshold 2,500,000 GAMBL coins. Individual operators may their own Odds, liability also create their own sportsbook, with threshold and user interface designs²⁵.

Betting Exchange

The Operator Node pool also populate the betting exchange with events and automatically generate base liquidity to form 102.6% markets.

²² Email "RE: GAMBL Token Queries for classification" received on 27/04/2022

²³ Email "RE: GAMBL Token Queries for classification" received on 27/04/2022

²⁴ Whitepaper, p.36

²⁵ Whitepaper, p.37

It accomplishes this in the same manner as for the sportsbook. In fact, the design is intertwined so that the sportsbook provides the automated exchange liquidity and the blockchain combines potential liability across both services. Bettors may then post their own odds in the form of a "lay tx" (think of a sell order on an exchange). Each lay tx is then broken down by the blockchain in a modular fashion to allow multiple users to unite to take the other side. Bettors see a list of different odds for the event and the liquidity available at each number. Bets fill the lay tx of the user on the other side of the bet and the market Odds and liquidity are automatically updated. A 1% fee is applied to the profits of winning bets, the entirety of which is destroyed²⁶.

Casino, Lottery and Poker

Casino, lottery, and poker games are automated on the blockchain using GAMBL's built-in, provably fair outcome generation. A variable fee equivalent to a reduction of the industry standard house edge is applied to casino and poker games on the GAMBL blockchain, while 90% of lottery entry funds are designated to the prize pool and the rest are treated as a fee.

The blockchain creates new GAMBL coins to pay profits on winning bets, while the GAMBL coins from losing bets are destroyed. This allows GAMBL to offer advantageous payouts percentages and prize pools²⁷.

GAMBL token economy

This proof-of-stake blockchain has an initial supply of 500,000,000 GAMBL tokens and has an initial block reward averaging 10 GAMBL coins per minute²⁸. This causes an average inflation of 1.05% per year. GAMBL has deflationary aspects in its tokenomics, the first being the destruction of betting and gaming fees. The second deflationary aspect is the blockchain's automatic liquidity function, combined with its house edge. To ensure all markets on the GAMBL betting exchange are liquid, the blockchain automatically provides liquidity for major events, producing a 102.6% market. The 2.6% house edge works in conjunction with automated liability management to ensure "the house always wins." The house edge, in combination with the 1% fee on profits, creates a net destruction expectancy of roughly 3% of every GAMBL coin wagered against the blockchain's liquidity on the betting exchange²⁹.

²⁶ Whitepaper, p.38

²⁷ Whitepaper, p.39

²⁸ Whitepaper, p.39

²⁹ Whitepaper, p.39



The intent is for every gaming action on the blockchain to result in an expected net destruction of coins, powering the deflationary aspect of the blockchain and having enough user activity to outweigh the inflation from staking rewards³⁰.

3.2. Tokenomics, Technical Considerations and Token Utility

Name: GAMBL coin

Ticker: GAMBL

Token Standard: Native.

Initial Supply: 500,000,000 GMBL³¹

No fixed supply – approximate coin inflation set to 1.05% yearly, however deflationary mechanisms exist which burn/remove tokens from the total supply such as destruction of betting/gaming fees.

Token Allocation

- | | |
|-----------------------|-----|
| • IEO | 50% |
| • Pre order | 10% |
| • Marketing | 10% |
| • Company | 15% |
| • Team Members | 15% |

Token Use Cases:

- **Rewards.** GAMBLs are rewarded to external operator nodes for offering the service. They are rewarded through a 90% rate of profit retention on bets placed and verified through their node³².
- **Staking.** GAMBLs can be staked to receive GAMBLs as a staking reward³³.
- **Utility.** GAMBL is used for engagement with gaming activities on the Platform, sports betting, betting exchange, casino games, lotteries, and poker³⁴. This token will be the only token available on the

³⁰ Email "RE: GAMBL Token Queries for classification" received on 27/04/2022

³¹ Whitepaper, p.35

³² Whitepaper, p.36

³³ Email "RE: GAMBL Token Queries for classification" received on 27/04/2022

³⁴ Email "RE: GAMBL Token Queries for classification" received on 27/04/2022

Platform. GAMBL is also used to pay for any fees on the Platform³⁵. For external operator nodes, 150000 GAMBLs are required to be locked³⁶.

- **Burn/Remove.** A percentage of GAMBLs are removed from supply or burned, example 10% of operator profits for external operator nodes are removed or burned from the total supply³⁷.

4. Classification of the DLT Asset identified in the Scope section above

4.1 An Introduction to the Maltese Regulatory Framework

The regulatory landscape revolving around distributed ledger technology (hereinafter referred to as “*DLT*”), including but not limited to blockchain, DLT Assets and initial coin offerings, or rather, Initial Virtual Financial Asset Offerings, has quickly evolved on a national level. Malta has demonstrated its dedication towards the sector through various initiatives, mostly through the recent enactment of three separate acts namely Malta Digital Innovation Authority Act, Chapter 591 of the laws of Malta³⁸, the Innovative Technology Arrangements and Services Act, Chapter 592 of the laws of Malta³⁹, and the pivotal VFA Act.

The MFSA’s objectives for the introduction of the regulatory landscape is to devise a policy framework that supports novel technologies for financial services whilst ensuring that investors are adequately protected, the financial market retains its integrity and financial stability.

4.2 The Financial Instruments Test

On the 15th of January 2019, the MFSA published the final version FI Test. The FI Test should be read in conjunction with the corresponding Guidance Note, an updated version of which was issued by the MFSA on the 5th of April 2019. The FI Test is applicable to issuers offering DLT Assets to the public in or from within Malta and persons providing any services or activity within the context of the VFA Act or traditional financial services legislation, including the application for admitting DLT Assets to trading. The FI Test shall determine whether a DLT Asset qualifies as:

³⁵ Email “RE: GAMBL Token Queries for classification” received on 27/04/2022

³⁶ Whitepaper, p.36

³⁷ Whitepaper, p.36

³⁸ <https://legislation.mt/eli/cap/591/eng/pdf>

³⁹ <https://legislation.mt/eli/cap/592/eng/pdf>

- Electronic Money (“**E-Money**”) as defined under the Third Schedule to the FIA;
- Financial instruments, as defined in the Second Schedule to the ISA;
- Virtual Financial Assets, as defined under the VFA Act; or
- Virtual Tokens, as defined under the VFA Act.

The objective of the FI Test is to determine how a DLT Asset should be classified. The FI Test consists of three stages:

1. Stage 1 – User and DLT Asset Details
2. Stage 2 – DLT Asset Determination
3. Stage 3 – Declarations

The first stage would initiate the process for the Users, who are required to complete all the applicable sheets found within the second stage of the FI Test⁴⁰. During the second stage, users are required to sequentially assess whether a particular DLT Asset qualifies as a Virtual Token, E-Money, a Financial Instrument or VFA⁴¹.

Upon completion of the mandatory fields, the users may proceed to the third stage of the FI Test wherein of the classification is determined and implies that the user prepared the FI Test in accordance with the VFA Act and guidelines, truthfully and the user binds himself/herself to re-determine the nature of the DLT Asset should any of its features change⁴². Such declaration shall be signed by the VFA Agent in case of Issuers, the Compliance Officer in case of license holders or the legal advisor (or VFA Agent, as applicable) in case of unlicensed persons.

Once a determination has been made, a soft copy version of the Test and the entire FI Test in original, duly signed, shall be provided to the MFSA⁴³.

⁴⁰ G1-2.3.2 of the Guidance Note to the Financial Instrument Test

⁴¹ G1-2.4.3 of the Guidance Note to the Financial Instrument Test

⁴² G1-2.5.2 of the Guidance Note to the Financial Instrument Test

⁴³ G1-2.2.3.1-2 of the Guidance Note to the Financial Instrument Test

4.3 Breaking down each determination

4.3.1. Virtual Tokens

Defining Virtual Tokens

Article 2(2) VFA Act defines Virtual Tokens as *“a form of digital medium recordation whose utility, value or application is restricted solely to the acquisition of goods or services, either solely within the DLT platform on or in relation to which it was issued or within a limited network of DLT platforms:*

provided that the term “DLT platform” referred to in this definition shall exclude DLT exchanges;

provided further that a virtual token which is or may be converted into another DLT Asset type shall be treated as the DLT Asset type into which it is or may be converted”.

The definition of Virtual Tokens may be seen as capturing the essence of what, in the industry, has come to be known as a pure “utility token”, but with one important additional requirement, that is, that the DLT Asset will not be admitted to trading on an exchange. A Virtual Token therefore has no utility, value or application outside of the DLT platform on which it was issued, and with such utility, value or application being restricted solely to the acquisition of goods or services within the DLT platform on which it was issued, or in relation thereto, or a limited network of similar DLT platforms and the Issuer of the DLT Asset does not intend to admit the DLT Asset to trading on an exchange. Furthermore, if the underlying technology allows for DLT Asset to be exchanged outside of the limited network of DLT platforms, even if it is not listed on an exchange, for example through atomic swapping (also known as atomic cross-chain trading), then the DLT Asset would not qualify as a Virtual Token.

Moreover, the standard of the DLT Asset itself is taken in consideration when determining whether it classifies as a Virtual Token or not. If the token standard utilised allows for technical conversion into another token standard that may allow for classification into another DLT Asset type, then it can never be classified as a virtual token. The rationale behind this decision by the MFSA revolves around the fact that Virtual Tokens should only be utilisable on the DLT platform on or in relation to which they are issued, and should have no value, direct or indirect, outside of the same DLT platform. To put this into practice and by way of example, provided there are

no technical restrictions preventing convertibility into other DLT Asset types, an ERC-20 token cannot be classified as a virtual token, since ERC-20 allows for conversion of that token to another token subscribing to the same ERC-20 standard or other compatible standards, which may in turn have a different legal classification under the VFA framework.

Therefore, if one had to highlight the ideal elements of a Virtual Token, these would namely be non-convertibility, potential non-fungibility, and a clear, sole use, or set of utilities, strictly within the DLT platform on top of which, or in relation to which, such DLT Asset is issued.

If a DLT Asset is classified as a Virtual Token, it will fall outside the scope of the VFA Act, and hence would not be regulated by that Act.

Virtual Tokens in relation to GAMBL

The mere fact that GAMBL can be traded on secondary markets, including third-party DLT exchanges⁴⁴, and therefore has a secondary, speculative value, which is additional to its primary value, that is, to be used for engagement with gaming activities on the Platform⁴⁵, to pay for fees on the Platform⁴⁶, and to reward and incentivise those participants contributing to the usage and expansion of the Platform⁴⁷, causes GAMBL to fall outside of the definition of a Virtual Token in terms of the VFA Act, the FI Test and the Guidance Note thereto.

Therefore, GAMBL cannot be classified as a Virtual Token since it cannot satisfactorily meet the requirement of a DLT Asset whose utility, value or application is restricted solely to the acquisition of goods or services and the exchangeability and convertibility requirement of a Virtual Token under the VFA Act.

⁴⁴ Based on the assumption that the nature and technical standard of the DLT Asset in question allows for the interoperability outside the DLT platform on or in relation to which it was issued and therefore is capable of being traded on third-party exchanges and therefore GAMBL can be traded on secondary markets unrestrictedly.

⁴⁵ Email "RE: GAMBL Token Queries for classification" received on 27/04/2022

⁴⁶ Email "RE: GAMBL Token Queries for classification" received on 27/04/2022

⁴⁷ <https://docs.fantom.foundation/staking/overview> (Accessed 7th April 2022)

4.3.2. Financial Instruments

The definition of a financial instrument is one of the key elements towards determining whether a DLT Asset can be deemed to be regulated in terms of the ISA, or in terms of the VFA Act's classification. Financial instruments are defined in terms of the Second Schedule of the ISA as follows:

- a. *“Transferable Securities, as defined in sub-paragraph (A) below;*
- b. *Money Market Instruments, as defined in sub-paragraph (B) below;*
- c. *Units in Collective Investment Schemes, as defined in sub-paragraph (C) below;*
- d. *Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivative instruments, financial indices or financial measures which may be settled physically or in cash;*
- e. *Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event;*
- f. *Options, futures, swaps, and any other derivative contracts relating to commodities, that can be physically settled provided that they are traded on a regulated market, within the meaning of the Financial Markets Act a Multilateral Trading Facility, or an Organised Trading Facility, except for wholesale energy products traded on an Organised Trading Facility that must be physically settled;*
- g. *Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled, are not for commercial purposes, are not included in point (f) above, and, which have the characteristics of other derivative instruments;*
- h. *Derivative instruments for the transfer of credit risk;*
- i. *Rights under a contract for differences or under any other contract the purpose or intended purpose of which is to secure a profit or avoid a loss by reference to fluctuations in the value or price for property of any description or in an index or other factor designated for that purpose in the contract;*
- j. *Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Schedule, which have the characteristics of other*

derivative financial instruments ,having regard to whether, inter alia, they are traded on a regulated market, an Organised Trading Facility or a Multilateral Trading Facility;

- k. Certificates or other instruments which confer property rights in respect of any instrument falling within the definition of a Financial Instrument as defined herein;*
- l. Foreign exchange acquired or held for investment purposes;*
- m. Emission allowances consisting of any units recognised for compliance with the requirements of applicable law”.*

A. Transferable Securities

Defining Transferable Securities

Transferable Securities include shares, bonds and any other financial instrument that are issued in identical units and can be traded openly, such as a securitised derivative. In itself, a security is, therefore, a transferable right and item of property.

The Second Schedule to the ISA defines Transferable Securities as “*those classes of securities which are negotiable on the capital market and include:*

- (a) shares in companies and other securities equivalent to shares in companies, partnerships or other entities, and depository receipts in respect of shares;*
- (b) bonds or other forms of securitised debt, including depository receipts in respect of such securities;*
- (c) any other securities giving the right to acquire or sell any such transferable securities or giving rise to a cash settlement determined by reference to transferable securities, currencies, interest rates or yields, commodities or other indices or measures”.*

A security must be capable of being traded on a secondary market, either on an exchange or between private parties and the offers of securities must be made by public companies thus making such securities offered to the public. While a share refers to a single transferable unit issued in connection to a company and which allows such holder to the right to sell the share and receive dividends based on the company’s performance, a bond is considered ‘debt security’.

A bond is based upon and represents a loan made by the investor to the company in contemplation of interest on the capital amount of the loan upon its maturity is reached.

The first criterion to be assessed is the negotiability of a DLT Asset on the capital markets, a *sine qua non* feature of a DLT Asset's classification as a Transferable Security. The FI Test also considers whether the transferability of the DLT Asset is restricted solely to the issuer, given that only under such a scenario would the DLT Asset be considered as non-transferable. For the purposes of this determination, the negotiability feature shall also apply to DLT Assets which have not yet been issued, should such assets be designed to be negotiable on the capital market upon issuance.

In addition, there are also certain rights which attach to Transferable Securities, which *inter alia*, include the right to participate in the capital of the issuer, the entry in the register of shareholders or debenture holders, as the case may be, and the right to receive proceeds from the liquidation of the issuer in excess of the nominal value.

Transferable Securities in relation to GAMBL

As denoted in Section 3, GAMBL is the native token of the Platform and is used to i) give rewards to external operator nodes for offering the service⁴⁸; ii) for staking in order to help secure the network and earn rewards in GAMBL⁴⁹; iii) for engagement with gaming activities on the Platform, including the payment of fees⁵⁰; and iv) additionally a percentage of GAMBL tokens are removed from supply / burned in the course of Platform activities⁵¹.

Firstly, with respect to GAMBL's use as a reward for external operators who participate actively in the consensus process, and who must stake GAMBL in order to do so, it is our understanding that users will only be rewarded if they stake their GAMBL. This means that rewards are directly linked to certain participatory acts, i.e. validating transactions on the Platform, and not to the mere holding of GAMBL.

⁴⁸ Email "RE: GAMBL Token Queries for classification" received on 27/04/2022

⁴⁹ Email "RE: GAMBL Token Queries for classification" received on 27/04/2022

⁵⁰ Email "RE: GAMBL Token Queries for classification" received on 27/04/2022

⁵¹ Whitepaper, p.36

The same reasoning applies to those users who stake their GAMBL with the aim to help secure the network and earn rewards in GAMBL – they will only be rewarded if they stake their GAMBL, meaning that the rewards are again directly linked to certain participatory acts (staking GAMBL and validating transactions on the Platform), and not to the mere holding of GAMBL.

We believe that such rewards are intended solely to incentivise the use of the Platform by operating nodes and participating in the consensus mechanism. This is not tantamount in any way to transferable securities or financial instruments, since the rewards are directly linked to the act of staking, and are not being given passively by merely holding GAMBL.

In the case of transferable securities such as shares or bonds, the mere holding thereof entitles the holder to certain benefits such as dividends and voting rights within the enterprise in the case of shares, or a coupon in the case of bonds. With regard to GAMBL however, the mere holding of GAMBL does not entitle the holder to any dividend, coupon or reward. Thus, rewards are only distributed to users who actively participate in the Platform, and not to those merely holding the GAMBL.

With respect to GAMBL's use as a means of payment on the Platform, for users to engage with gaming activities on the Platform, including the payment of fees, as well as the fact that GAMBL is being burned in the course of the Platform's operations, we believe that this utility is not analogous in any way to transferable securities or financial instruments in general.

Moreover, despite GAMBL not having a maturity date as such⁵², and despite GAMBL's capability of being negotiated on secondary markets, it does not appear to attach any of the rights generally associated with transferable securities⁵³, such as:

- i. rights to profits, profits-sharing, revenue, revenue-sharing, interest, dividend, or other fixed, variable or discretionary financial return that is linked to the performance of the business, operational and, or financial performance and results of the issuing entity;
- ii. rights to redemption by the issuing entity;
- iii. rights to be included in the register of members of the issuing entity;

⁵² For more details on the maturity date, please see section B – Money Market Instruments.

⁵³ G1-3.4.4 of the Guidance Note of the Financial Instrument which includes, inter alia, the right for a holder of the token to participate in the capital of the issuer, the right for the holder of the token to receive proceeds from the liquidation of the issuer in excess of nominal value and the entry of such token holder in the register of shareholders.

- iv. right to preference or return on liquidation of the issuing entity; and/or
- v. rights, interests in, or other entitlement in the equity capital, debt capital or hybrid capital of the issuing entity, including any rights to convert GAMBL into such capital rights in the issuing entity or any options, warrants or other pre-emption rights over such capital.

Finally, GAMBL does not represent assets such as a debt or equity claim on the issuing entity, it does not promise a share in future company earnings or future capital flows, and it cannot be considered as analogous to equities or bonds.

The absence of such essential characteristics causes GAMBL to fall outside of the scope of the definition of 'transferable securities' set forth above, and consequently shall not be deemed to be a financial instrument in terms of the ISA.

B. Money Market Instruments

Defining Money Market Instruments

The Second Schedule to the ISA defines Money Market Instruments as "*those classes of instruments which are normally dealt in on the money market, such as treasury bills, certificates of deposit and commercial papers and excluding instruments of payment*".

In order to determine whether a DLT Asset qualifies as a Money Market Instrument, one has to consider whether, *inter alia*, the DLT Asset has a maturity at issuance of 397 days or less and whether the DLT Asset has features that are similar to those of other instruments falling within deposit and commercial papers and other instruments with substantively equivalent features and that. Such instruments should also have a value that can be determined at any point in time and should not be an instrument of payment.

Money Market Instruments in relation to GAMBL

All examples of money market instruments mentioned in the definition cited above, i.e. treasury bills, certificates of deposit and commercial papers, give its owner a claim against the issuer. They are distinguished from other

debt instruments by having a relatively short maturity at issuance, of 397 days or less. The relatively short maturity is the practical reason why these types of securities are used on the money market.

As per the Relevant Material, GAMBL does not give its owner any claim against the issuer that would allow the owner to redeem GAMBL at a predetermined time or during a predetermined period, hence GAMBL does not have a maturity date at all.

However, even if one would argue that rewards and the ability to use the Platform represent a claim against the issuer similar to those of instruments normally dealt on the money market (which would be a rather unconvincing argument), it appears from the Relevant Material that such claim would have an indeterminate maturity date, which would be greater than 397 days – and possibly perpetual. For this reason, GAMBL does not have characteristics attributed to instruments normally dealt in on the money market.

Moreover, GAMBL is used for engagement with gaming activities on the Platform, including the payment of fees. Thus, GAMBL satisfies the criteria of instrument of payment.

In view of the above, GAMBL shall not be deemed to be a 'money market instrument' or a financial instrument in terms of the ISA.

C. Units in Collective Schemes

Defining Units in Collective Schemes

Article 2(1) of the ISA defines Collective Investment Scheme as “*any scheme or arrangement which has as its object or as one of its objects the collective investment of capital acquired by means of an offer of units for subscription, sale or exchange and which has the following characteristics:*

- (a) the scheme or arrangement operates according to the principle of risk spreading; and either*
- (b) the contributions of the participants and the profits or income out of which payments are to be made to them are pooled; or*
- (c) at the request of the holders, units are or are to be re-purchased or redeemed out of the assets of the scheme or arrangement, continuously or in blocks at short intervals; or*
- (d) units are, or have been, or will be issued continuously or in blocks at short intervals:*

Provided that an alternative investment fund that is not promoted to retail investors and that does not have the characteristic listed in paragraph (a) hereof shall only be deemed to be a collective investment scheme if the scheme, in specific circumstances as established by regulations under the ISA, is exempt from such requirement and satisfies any conditions that may be prescribed”.

Units in Collective Schemes in relation to GAMBL

As denoted in Section 3, GAMBL is the native token of the Platform and is used to i) give rewards to external operator nodes for offering the service⁵⁴; ii) for staking in order to help secure the network and earn rewards in GAMBL⁵⁵; iii) for engagement with gaming activities on the Platform, including the payment of fees⁵⁶; and iv) additionally a percentage of GAMBLs are removed from supply / burned in the course of Platform activities⁵⁷.

When analysing the above in light of the definition of Units in Collective Investment Schemes set forth above, we note that, unlike ‘units’ in a fund, GAMBL is not the assets which represent the “... *capital acquired by means of an offer of units for subscription, sale or exchange ...*”⁵⁸, but rather, an asset with a primary purpose to facilitate the use of the Platform. Moreover, GAMBL is the reward or benefit which is awarded to external operator nodes and stakers, and does not represent the staked amount.

In view of the above, GAMBL shall not be deemed to be a ‘unit in a collective investment scheme’ or a financial instrument in terms of the ISA.

D. Derivative Instruments

Defining Derivative Instruments

In terms of the FI Test, should the specific DLT Asset be designed and/or used for the sole purpose of and/or result in the transferring of credit risk from one part to another, then such DLT Asset would be classified as a financial instrument. Additionally, should the specific DLT Asset fall under the definition of a ‘Contract for

⁵⁴ Email “RE: GAMBL Token Queries for classification” received on 27/04/2022

⁵⁵ Email “RE: GAMBL Token Queries for classification” received on 27/04/2022

⁵⁶ Email “RE: GAMBL Token Queries for classification” received on 27/04/2022

⁵⁷ Whitepaper, p.36

⁵⁸ Article 2(1) of the ISA, definition of ‘Collective Investment Scheme’.

Difference' or be capable of giving the holder of the specific DLT asset an economic exposure to (i) the difference in price between the price of an underlying asset at the start of the contract and the price when the specific contract is closed or (ii) the difference in the price of two different underlying assets, then such DLT Asset would be classified as a financial instrument in terms of the FI Test.

The agreement through which the specific DLT Asset is purchased and/or allocated also has a bearing on the classification of the specific DLT Asset in question. For instance, should the DLT Asset in question bear similarities to an option, forward and/or swap agreement, then it would classify as a financial instrument accordingly, provided that:

- (a) the specific DLT asset gives rise to an economic exposure based on an underlying asset which would be classified as a financial instrument in terms of the ISA⁵⁹; and
- (b) The specific DLT asset can be settled physically or in cash.

Derivative Instruments in relation to GAMBL

After examining the main and technical points of consideration in relation to GAMBL, as set out in Section 3 above, we understand that that GAMBL:

- does not have any similarities to an option, future, swap, forward rate agreement or any other derivative contracts currently available in the markets;
- is not designed and/or used for the sole purpose of, or results in the transferring of credit risk from one party to another;
- does not give the holder an economic exposure, which can be long or short, to (i) the difference between the price of an underlying asset at the start of the contract and the price when the contract is closed or (ii) the difference in the price of two different underlying assets;
- does not constitute 'emission allowances' issued by the national competent authority in terms of any applicable laws;
- is not a spot contact such that the terms of delivery of the underlying, commodity, asset or right is scheduled to be made within the longer of 2 trading days or a period which is generally accepted in the market for that commodity, asset or right as the standard delivery period; and

⁵⁹ Examples of such include, inter alia, transferable securities, climatic variables and commodities

- is not a spot contact which is designated/ used for the purposes of exchanging one fiat currency to another fiat currency.

In view of the above, GAMBL shall not be deemed to be a 'derivative instrument' or a financial instrument in terms of the ISA.

4.3.3. Electronic Money

Defining E-Money

The Third Schedule of the FIA defines Electronic Money as *“electronically, including magnetically, stored monetary value as represented by a claim on the issuer which is issued on receipt of funds for the purpose of making payment transactions as defined in paragraph 1 of the Second Schedule and which is accepted by a natural or legal person other than the financial institutions that issued the electronic money”*.

E-Money is commonly defined as a digital alternative to cash allowing users to make cashless payments with money stored over the internet, such is regulated by the FIA which aims to facilitate the emergence of innovative e-money services and encourages effective competition between all market participants.

When considering whether a DLT Asset qualifies as E-Money, one should evaluate whether the DLT Asset is or was issued at par value on the receipt of funds by an Issuer and whether it is or can be redeemable by the said issuer. Redemption should be possible at any time at par value without the possibility of agreeing on a minimum threshold for the said redemption. Additionally, the DLT Asset ought to represent a claim on the Issuer arising from the funds initially placed against the issuance of such DLT Assets, having the purpose of making payment transactions. Such transactions are defined in point 5 of Article 4 of EU Directive 2015/2366⁶⁰ and would be accepted by a natural or legal person other than the Issuer of the DLT Asset acting as a payment⁶¹. Moreover, the DLT Asset and the payment transaction should not fall within the exemption specified in Article 3(k) of the Directive 2015/2366.

⁶⁰ Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC

⁶¹ G1-3.9.1 of the Guidance Note of the Financial Instrument Test.

E-Money in relation to GAMBL

As denoted in Section 3, GAMBL is the native token of the Platform and is used to i) give rewards to external operator nodes for offering the service⁶²; ii) for staking in order to help secure the network and earn rewards in GAMBL⁶³; iii) for engagement with gaming activities on the Platform, including the payment of fees⁶⁴; and iv) additionally a percentage of GAMBLs are removed from supply / burned in the course of Platform activities⁶⁵.

Given the described use cases, nothing in the Relevant Materials indicates that GAMBL holders have a claim against the issuing entity's assets arising from funds that were initially placed against such issuance of GAMBL or that such token holders can redeem their funds at par value.

Therefore, since not all of the required conditions and elements of electronic money are satisfied, GAMBL cannot be considered as falling within the scope of the FIA.

4.3.4. Virtual Financial Assets

Defining VFAs

VFAs have been defined in the VFA Act as *"means any form of digital medium recordation that is used as a digital medium of exchange, a unit of account, or store of value and that is not -*

(a) electronic money;

(b) a financial instrument; or

(c) a virtual token.⁶⁶"

In essence, Virtual Financial Assets are classified by elimination. The above definition purports to be an "umbrella category" which captures those DLT Assets which cannot be squarely slotted in either of the three main categories and caters to most DLT Assets that do not solely exhibit pure utility qualities.

⁶² Email "RE: GAMBL Token Queries for classification" received on 27/04/2022

⁶³ Email "RE: GAMBL Token Queries for classification" received on 27/04/2022

⁶⁴ Email "RE: GAMBL Token Queries for classification" received on 27/04/2022

⁶⁵ Whitepaper, p.36

⁶⁶ Article 2 (2) of the VFA Act

Should the DLT Asset in question be classified as a VFA, as denoted above, said DLT Asset must comply with all the applicable provisions enshrined in the VFA Act and the various rules and regulations issued by the MFSA.

VFAs in relation to GAMBL

In consideration of the assumptions made and the assessment carried out on GAMBL, it is our professional opinion that GAMBL does not classify as:

- i. virtual tokens;
- ii. financial instruments; or
- iii. e-money;

and therefore, by elimination, **GAMBL classifies as a virtual financial asset**. GAMBL can, therefore, be listed as a VFA on VFA Exchanges.

5. Concluding Comments

If the one intends on listing DLT Assets on VFA Exchanges, such DLT Assets would need to be classified as VFAs after undergoing the FI Test. Additionally, listing such VFAs on a VFA Exchange would be subject to, *inter alia*, a rigorous fitness and properness test which the VFA Exchange, in its capacity as a licensed VFA Service Provider under the VFA Act, is under the obligation to carry out such checks.

The MFSA's intent has been to regulate DLT Assets that have a real-world value, including, but not limited to, having a speculative value. Such principles are stemming from traditional financial services principles, which have the scope of protecting investors, users, and suppliers alike.

Pursuant to our professional legal assessment and the carrying out of the FI Test, as well as our own technical analysis of the Relevant Materials, we may confirm that GAMBL is classified as VFA under the VFA Act as seen through the FI Test.

6. Qualification

This Report is subject to the following qualifications:

This Report is limited to the DLT Asset classification only. No assessment or deliberation was made on the business model *per se* and whether such model could potentially fall within the scope of regulation, and hence be subject to any authorisation and/ or licensing by any national competent authority.

Where obligations are to be performed in a jurisdiction outside Malta, they may not be enforceable in Malta to the extent that performance would be illegal under the laws of that other jurisdiction.

This Report is limited to the laws of Malta as at the date hereof and is given on the basis of our knowledge of that law to date. We do not assume any obligation to advise any person entitled to rely on this Report of any subsequent change in, or in the interpretation of, the law of Malta. We express no opinion on the law of any jurisdiction other than Malta.

What herein is envisaged as remote or unlikely should not be perceived as factual, and any matter herein featured as an opinion or evaluation is to be construed as such and should not be understood to be a point of fact or replacing any ruling, policy or stance taken or to be taken by an applicable regulatory body. This Report is based on current available documentation, laws and perceptions. Authorities and courts may not necessarily agree with our opinion, and hence with the contents in this Report.

There is no doctrine of judicial precedent in Malta and therefore a court in Malta will not necessarily follow and uphold a previous interpretation of the law by that court or any other court in Malta.

This Report is not to be construed or interpreted as financial analysis, as a business plan or as a proposed business model. The evaluations, as contained herein, have been drawn from an analysis of known legal concepts and their application at this current day and age.

The opinions expressed herein are solely intended for the benefit of the Addressee and the undersigned shall not be held liable for the usage of such document by any third party and/or damages incurred by any third party, whether such usage or liability is direct and indirect.

This Report is not to be disclosed, circulated, published, communicated to, used, quoted, or relied upon by any other person or for any other purpose or in connection with any other agreement, document, transaction or matter, without our prior written consent, save (but in such case on a non-reliance basis):

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- ii. to persons who would require disclosure, circulation, publication, communication of, usage, quoting, or reliance upon of this Report for the purpose of listing tokens on a cryptocurrency/crypto-asset exchange platform;
- iii. if required by law or in accordance with an official directive or request (whether or not having the force of law) with which responsible financiers generally comply in carrying on their business; or
- iv. by the persons to whom this Report is addressed in connection with any litigation or proposed litigation in relation to this Report.

Moreover, BCAS Malta Ltd and/or the undersigned shall not, in any manner, be held liable for any different regulatory position undertaken by any relevant body and/or authority and the Addressee hereby acknowledges and accepts that the contents of this professional Report are heavily based on the applicable laws, rules and regulations, including the FI Test and the Guidance note thereto, which laws, rules and regulations may be subject to change.

The undersigned is an advocate warranted to practice law in Malta by the President of the Republic of Malta and is hence duly authorised to act as a lawyer.

DocuSigned by:

A handwritten signature in blue ink, appearing to be 'Jonathan Galea', enclosed within a blue DocuSign signature box.

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Dr Jonathan Galea, LL.D.

CEO, BCAS Malta Ltd

j.galea@bcas.io

BCA Solutions

BCAS Malta Limited

Floor 1, Mompalao Buildings, Tower Street, Msida, MSD 1825, Malta

Contact person: Jonathan Galea | +356 79770076 | j.galea@bcas.io

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