Jackpotjoy plc

Consolidated Financial Statements

[in pounds sterling, except where otherwise noted]

For the Year Ended 31 December 2017

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the International Accounting Standards Board and the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss for the group and company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the International Accounting Standards Board and the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business;
- prepare a director's report, a strategic report and director's remuneration report which comply with the requirements of the Companies Act 2006.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

- The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the International Accounting Standards Board, the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the group.

- The annual report includes a fair review of the development and performance of the business and the financial position of the group and the parent company, together with a description of the principal risks and uncertainties that they face.

(signed) " Neil Goulden " (signed) " Keith Laslop "

Neil Goulden, Executive Chairman Keith Laslop, Chief Financial Officer

20 March 2018

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Independent Auditor's Report

To the Shareholders of Jackpotjoy plc

We have audited the accompanying consolidated financial statements of Jackpotjoy plc, which comprise the consolidated balance sheets as at December 31, 2017 and 2016 and the consolidated statements of changes in equity, comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Jackpotjoy plc as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

BDO LLP
London
United Kingdom
March 20, 2018

Jackpotjoy plc

Consolidated Statements of Comprehensive Income

For the year ended 31 December 2017

(GBP)

	Note	Year ended 31 December 2017 (£000's)	Year ended 31 December 2016 (£000's)
Revenue and other income			
Gaming revenue		304,646	266,938
Other income earned from revenue guarantee		–	1,181
Other income earned from platform migration		–	925
Total revenue and other income	5	304,646	269,044
Costs and expenses			
Distribution costs	5, 6	147,483	130,735
Administrative costs	6	113,039	96,200
Severance costs	5	700	5,695
Transaction related costs	5	6,710	22,767
Foreign exchange loss	5	10,051	3,098
Total costs and expenses		277,983	258,495
Gain on sale of intangible assets	5, 13	(1,271)	–
Fair value adjustments on contingent consideration	18	27,562	49,382
Loss/(gain) on cross currency swap	12	12,512	(34,070)
Interest income	7	(182)	(156)
Interest expense	7	30,189	18,243
Accretion on financial liabilities	7	25,049	17,857
Financing expenses	5	95,130	51,256
Net loss for the year before taxes		(67,196)	(40,707)
Current tax provision	22	1,128	347
Deferred tax recovery	22	(427)	(411)
Net loss for the year attributable to owners of the parent		(67,897)	(40,643)
Other comprehensive income/(loss): Items that will or may be reclassified to profit or loss in subsequent periods			
Foreign currency translation gain/(loss)		27,607	(18,382)
Loss on cross currency swap	12	(7,737)	–
Reclassification of loss on cross currency swap	12	7,737	–
Total comprehensive loss for the year attributable to owners of the parent		(40,290)	(59,025)
Net loss for the year per share			
Basic	8	£(0.92)	£(0.57)
Diluted	8	£(0.92)	£(0.57)

The accompanying notes form an integral part of the financial statements.

Jackpotjoy plc
Consolidated Balance Sheets
31 December 2017
(GBP)

ASSETS	Note	As at 31 December 2017 (£000's)	As at 31 December 2016 (£000's)	As at 1 January 2016 (£000's)
Current assets				
Cash	9	59,033	68,485	31,762
Restricted cash	9	208	253	175
Customer deposits		8,180	8,573	6,522
Trade and other receivables	10	19,379	16,763	17,269
Current portion of cross currency swap	12, 18	–	38,171	762
Taxes receivable		6,432	6,832	7,375
Total current assets		93,232	139,077	63,865
Tangible assets		1,339	852	233
Intangible assets	13	292,223	352,473	380,443
Goodwill	13	296,781	296,352	288,326
Cross currency swap	12, 18	–	–	3,972
Other long-term receivables	11, 18	3,528	2,624	1,317
Other long-term assets	11, 18	2,076	–	–
Total non-current assets		595,947	652,301	674,291
Total assets		689,179	791,378	738,156
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	14	17,821	8,992	6,235
Other short-term payables	15	12,151	15,321	530
Interest payable		924	633	–
Payable to customers		8,180	8,573	6,522
Convertible debentures	20	254	–	–
Current portion of long-term debt	17	–	26,695	25,160
Current portion of contingent consideration	18	51,866	86,903	5,996
Provision for taxes		7,273	7,743	9,834
Total current liabilities		98,469	154,860	54,277
Contingent consideration	18	7,717	33,284	203,629
Other long-term payables	19	8,245	14,505	–
Deferred tax liability		1,204	1,897	1,953
Convertible debentures	20	–	3,266	7,266
Long-term debt	17	369,487	344,098	181,998
Total non-current liabilities		386,653	397,050	394,846
Total liabilities		485,122	551,910	449,123
Equity				
Retained earnings		(238,133)	(170,361)	(130,094)
Share capital	20	7,407	7,298	7,051
Share premium		407,274	403,883	396,984
Other reserves		27,509	(1,352)	15,092
Total equity		204,057	239,468	289,033
Total liabilities and equity		689,179	791,378	738,156

The accompanying notes form an integral part of the financial statements.

On behalf of the Board:

(signed) " Neil Goulden "   (signed) " Keith Laslop "

Neil Goulden, Executive Chairman   Keith Laslop, Chief Financial Officer

Jackpotjoy plc
Consolidated Statements of Changes in Equity
For the year ended 31 December 2017
(GBP)

	Note	Share Capital (£000's)	Share Premium (£000's)	Merger Reserve (£000's)	Redeemable Shares (£000's)	Share-Based Payment Reserve (£000's)	Translation Reserve (£000's)	Cross Currency Hedge Reserve (£000's)	Retained (Deficit)/ Earnings (£000's)	Total (£000's)
Balance at 1 January 2016		7,051	396,984	(6,111)	–	6,779	14,424	–	(130,094)	289,033
Comprehensive loss for the year:										
Net loss for the year		–	–	–	–	–	–	–	(40,643)	(40,643)
Other comprehensive loss		–	–	–	–	–	(18,382)	–	–	(18,382)
Total comprehensive loss for the year:		–	–	–	–	–	(18,382)	–	(40,643)	(59,025)
Contributions by and distributions to shareholders:										
Conversion of debentures	20	185	5,484	–	–	–	–	–	–	5,669
Exercise of common share warrants	20	4	187	–	–	–	–	–	–	191
Exercise of options	20	58	1,228	–	–	(376)	–	–	376	1,286
Redeemable shares		–	–	–	50	–	–	–	–	50
Share-based compensation	20	–	–	–	–	2,264	–	–	–	2,264
Total contributions by and distributions to shareholders:		247	6,899	–	50	1,888	–	–	376	9,460
Balance at 1 January 2017		7,298	403,883	(6,111)	50	8,667	(3,958)	–	(170,361)	239,468
Comprehensive income/(loss) for the year:										
Net loss for the year		–	–	–	–	–	–	–	(67,897)	(67,897)
Loss on cross currency swap		–	–	–	–	–	–	(7,737)	–	(7,737)
Reclassification of loss on cross currency swap		–	–	–	–	–	–	7,737	–	7,737
Other comprehensive income		–	–	–	–	–	27,607	–	–	27,607
Total comprehensive income/(loss) for the year:		–	–	–	–	–	27,607	–	(67,897)	(40,290)
Contributions by and distributions to shareholders:										
Conversion of debentures	20	92	2,986	–	–	–	–	–	–	3,078
Exercise of options	20	17	405	–	–	(125)	–	–	125	422
Cancellation of redeemable shares		–	–	–	(50)	–	–	–	–	(50)
Share-based compensation	20	–	–	–	–	1,429	–	–	–	1,429
Total contributions by and distributions to shareholders:		109	3,391	–	(50)	1,304	–	–	125	4,879
Balance at 31 December 2017		7,407	407,274	(6,111)	–	9,971	23,649	–	(238,133)	204,057

The accompanying notes form an integral part of the financial statements.

Jackpotjoy plc
Consolidated Statements of Cash Flows
For year ended 31 December 2017
(GBP)

	Note	**Year ended 31 December 2017 (£000's)**	Year ended 31 December 2016 (£000's)
Operating activities			
Net loss for the year		**(67,897)**	(40,643)
Add (deduct) items not involving cash			
Amortisation and depreciation		**63,042**	56,133
Share-based compensation expense	20	**1,429**	2,264
Current tax provision	22	**1,128**	347
Deferred tax recovery	22	**(427)**	(411)
Interest expense, net	7	**55,056**	35,944
Gain on sale of intangible assets		**(1,271)**	–
Fair value adjustments on contingent consideration	18	**27,562**	49,382
Realised/unrealised loss/(gain) on cross currency swap	12	**12,512**	(34,070)
Foreign exchange loss		**10,051**	3,098
		101,185	72,044
Change in non-cash operating items			
Trade and other receivables		**(3,009)**	3,434
Other long-term receivables		**640**	(1,161)
Accounts payable and accrued liabilities		**6,363**	1,851
Other short-term payables		**(3,170)**	7,987
Cash provided by operating activities		**102,009**	84,155
Income taxes paid		**(6,899)**	(6,680)
Income taxes received		**5,860**	5,530
Total cash provided by operating activities		**100,970**	83,005
Financing activities			
Restriction of cash balances		**(72)**	–
Proceeds from exercise of warrants		**–**	209
Proceeds from exercise of options		**422**	1,286
Proceeds from long-term debt, net of debt issue costs	17	**367,743**	150,726
Proceeds from cross currency swap settlements	12	**26,094**	3,645
Payment of non-compete liability	19	**(5,333)**	–
Interest repayment		**(30,874)**	(17,526)
Payment of contingent consideration	18	**(94,218)**	(156,308)
Principal payments made on long-term debt	17	**(373,962)**	(26,906)
Total cash used in financing activities		**(110,200)**	(44,874)
Investing activities			
Purchase of tangible assets		**(981)**	(638)
Purchase of intangible assets		**(3,212)**	(1,862)
Proceeds from sale of intangible assets		**1,002**	–
Secured convertible loan	11	**(3,500)**	–
Total cash used in investing activities		**(6,691)**	(2,500)
Net (decrease)/increase in cash during the year		**(15,921)**	35,631
Cash, beginning of year		**68,485**	31,762
Exchange gain on cash and cash equivalents		**6,469**	1,092
Cash, end of year		**59,033**	68,485

The accompanying notes form an integral part of the financial statements.

1. Corporate Information

Jackpotjoy plc is an online gaming holding company and the Parent Company of The Intertain Group Limited ("Intertain"). Jackpotjoy plc was incorporated pursuant to the *Companies Act 2006* (England and Wales) on 29 July 2016. Jackpotjoy plc's registered office is located at 35 Great St. Helen's, London, United Kingdom. Jackpotjoy plc became the Parent Company of Intertain on 25 January 2017, following a plan of arrangement transaction involving a one-for-one share exchange of all and the then outstanding common shares of Intertain shares for, at each shareholder's election, ordinary shares of Jackpotjoy plc or exchangeable shares of Intertain. Unless the context requires otherwise, use of "Group" in these accompanying notes means Jackpotjoy plc and its subsidiaries, as applicable, and use of "Parent Company" refers to Jackpotjoy plc.

The Group currently offers bingo, casino and other games to its customers using the Jackpotjoy, Starspins, Botemania, Vera&John, Costa Bingo, InterCasino, and other brands. The Jackpotjoy, Starspins, and Botemania brands operate off proprietary software owned by the Gamesys group, the Group's B2B software and support provider. The Vera&John and InterCasino brands operate off proprietary software owned by the Group. The Mandalay segment's bingo offerings operate off the Dragonfish platform, a software service provided by the 888 group.

These Consolidated Financial Statements were authorised for issue by the Board of Directors of Jackpotjoy plc (the "Board of Directors") on 20 March 2018.

2. Basis of Preparation

Basis of presentation

These Consolidated Financial Statements have been prepared under the historical cost convention, other than for the measurement at fair value of the Group's cross currency swap, contingent consideration, and certain hedged loan instruments.

These Consolidated Financial Statements have been prepared by management on a going concern basis, are presented in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Following Jackpotjoy plc becoming the Parent Company of the group (as detailed in note 1), these Consolidated Financial Statements have been prepared under the merger method of accounting as a continuation of the Intertain business. This method is commonly applied in such situations as the accounting for such transactions is not prescribed by IFRS 3 – *Business Combinations,* or other applicable IFRS, which instead prompts IFRS-reporting entities to look to alternative generally accepted accounting principles for guidance. The result of the application is to present the Consolidated Financial Statements as if Jackpotjoy plc has always been the Parent Company and owned all of the subsidiaries, and the comparatives have also been prepared on that basis. The balance on the Group's merger reserve of £6,111,000 arises on recognition of the Parent Company's investment in Intertain recorded at the Intertain net asset value on 25 January 2017 as explained in note 1 above. The adoption of the merger method of accounting had no impact on reported earnings per share.

The financial information for the period ended 31 December 2017 and the period ended 31 December 2016 does not constitute the company's UK statutory accounts for those years.

Statutory accounts for the period ended 31 December 2016 have been delivered to the UK Registrar of Companies. The statutory accounts for the period ended 31 December 2017 will be delivered to the Registrar of Companies in due course.

The auditors' reports to the accounts for the year ended 31 December 2017 and period ended 31 December 2016 were unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under s498(2) or s498(3) of the *Companies Act 2006*.

As at 31 December 2017, the Group has consolidated current assets and current liabilities of £93.2 million and £98.5 million, respectively, giving rise to a net current liability of £5.3 million. Cash generated through future operating activities is sufficient to cover the net current liability.

Basis of consolidation

Jackpotjoy plc's Consolidated Financial Statements consolidate the Parent Company and all of its subsidiaries. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All transactions and balances between companies are eliminated on consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Jackpotjoy plc obtains control, and continue to be consolidated until the date that such control ceases.

Intercompany transactions, balances, income and expenses on transactions between Jackpotjoy plc's subsidiaries are eliminated. Profit and losses resulting from intercompany transactions that are recognised in assets are also eliminated.

The subsidiaries of Jackpotjoy plc, all of which have been included in these Consolidated Financial Statements, are wholly owned by the Group and constitute investment in subsidiaries on the Parent Company's Balance Sheets, are as follows:

Name of Business	**Country of Incorporation and Principal Place of Business**
Intertain CallCo ULC	Canada
The Intertain Group Limited	Canada
Plain Management Bahamas Ltd.	Bahamas
Libita Group Ltd.	Bahamas
Ludus Group Ltd.	Bahamas
Jackpotjoy Operations Ltd.	Bahamas
Wagerlogic Bahamas Ltd.	Bahamas
Mandalay Media Ltd.	Bahamas
Jet Management Group Ltd.	Bahamas
Golden Hero Group Ltd.	Bahamas
JPJ Group Jersey Finance Ltd.	Jersey
JPJ Holdings II Ltd.	Jersey
JPJ Group Holdings Ltd.	Jersey
JPJ Holding Jersey Ltd.	Jersey
JPJ Jersey Ltd.	Jersey
Dumarca Holdings Ltd.	Malta
Dumarca Services Ltd.	Malta
Dumarca Gaming Ltd.	Malta
Wagerlogic Malta Holdings Ltd.	Malta
Cryptologic Operations Ltd.	Malta
Cryptologic Trading Ltd.	Malta
Wagerlogic Alderney Ltd.	Alderney

Wagerlogic Israel Ltd.	Israel
Jet Media Ltd.	Gibraltar
Fifty States (Gibraltar) Ltd.	Gibraltar
Ramona Investments Ltd.	Turks and Caicos
Intertain Management (UK) Ltd.	United Kingdom
Plain Support SA	Costa Rica
Dumarca Asia Ltd.	Hong Kong
Simplicity V8 Hong Kong Ltd.	Hong Kong
Intertainment Asia Inc.	British Virgin Islands
Entserv Asia Ltd.	British Virgin Islands
Silverspin AB	Sweden
Intertain Financial Services AB	Sweden
Fifty States Ltd.	Isle of Man
Intertain Group Finance LLC	United States of America
Bei Jing Lang Chen Rui Bo Technology Co, Ltd.	China
Luxembourg Investment Company 192 S.a.r.l.	Luxembourg

3. Summary of Significant Accounting Policies

Business combinations and goodwill

The acquisition method of accounting is used to account for the acquisition of subsidiaries by Jackpotjoy plc, whereby the purchase consideration is allocated to the identifiable assets and liabilities on the basis of fair value at the date of acquisition. Provisional fair values allocated at a reporting date are finalised as soon as the relevant information is available, within a period not to exceed a year from the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred, and equity interests issued by Jackpotjoy plc. Consideration also includes the fair value of any contingent consideration. Subsequent to the acquisition, contingent consideration that is based on an earnings target and classified as a liability is measured at fair value with any resulting gain or loss recognised in net income. Transaction related costs are expensed as incurred.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to Jackpotjoy plc's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The Chief Operating Decision Makers, who are responsible for allocating resources and assessing the performance of the operating segments, have been identified as the Executive Chairman and the Chief Financial Officer.

Revenue recognition

Jackpotjoy plc earns its revenue from operating online bingo and casino websites, social gaming, and affiliate services. Revenue from online bingo and casino consists of the difference between total amount wagered by players less all winnings payable to players, bonuses allocated, and jackpot contributions ("Net

Revenue"). Social gaming revenues are recognised at the consideration receivable from players at the point of the transaction, gross of platform fees deducted by platform operators. Affiliate revenue is calculated in line with the contracts, typically based on fixed price per player and is recognised to the extent that its probable economic benefits will flow to Jackpotjoy plc and the revenue can be reliably measured. Revenue is recognised in the accounting periods in which the transactions occur.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market accessible by the Group for the asset or liability.

Jackpotjoy plc uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the Consolidated Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

Foreign currency translation

Functional and presentation currency

Effective from 1 January 2017, the Group changed its presentation currency from Canadian dollars ("CAD" or "$") to pounds sterling ("GBP" or "£"). Comparative information has been restated in pounds sterling in accordance with the guidance defined in IAS 21 – *The Effects of Changes in Foreign Exchange Rates* and a statement of financial position as at the beginning of the previous financial year has been presented. The 2016 Consolidated Financial Statements have been retranslated from Canadian dollars to pounds sterling using the procedures outlined below:

- income and expenses were translated into pounds sterling at average quarterly rates of exchange ($:£ – 0.6036). Differences resulting from the retranslation on the opening net assets and the results for the year have been taken to reserves;
- assets and liabilities were translated at spot rates in effect at the balance sheet closing dates ($:£ 2016 – 0.6037 and 2015 – 0.4900);
- share capital and other reserves were translated at historic rates prevailing at the dates of transactions;

- quarterly average exchange rates were used to convert changes in items not involving cash and cash provided by/(used in) operating activities, financing activities, and investing activities. Spot rates were used to convert cash balances, beginning of year and cash balances, end of year.

As a result of this change, no retranslation movement will be recorded in the Statements of Comprehensive Income for subsidiaries whose functional currency is GBP.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective entity of Jackpotjoy plc, using the exchange rates prevailing at the dates of the transactions (spot rates). Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates as at the reporting date. Foreign exchange gains and losses resulting from the settlement or translation of monetary items are recognised in profit and loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

Financial instruments

Financial assets and financial liabilities are recognised when Jackpotjoy plc becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled, or when it expires.

The Group classifies its financial assets and liabilities under the following categories: fair value through profit or loss ("FVTPL"), loans and receivables, and financial liabilities at amortised cost. All financial instruments are recognised initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of a financial instrument classified as other than at FVTPL are added to the carrying amount of the asset or liability.

The accretion of these costs is recognised over the life of the instrument in accretion on financial liabilities under the effective interest rate method described below.

Fair value through profit or loss

Financial instruments classified as FVTPL include contingent consideration and a cross currency swap derivative financial instrument. Any gains or losses are recorded in net income in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. After initial measurement, such instruments are subsequently measured at amortised cost using the effective interest rate ("EIR") method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income or expense in the Consolidated

Statements of Comprehensive Income. This category generally applies to cash, restricted cash, customer deposits, trade and other receivables, and other long-term receivables.

Financial liabilities at amortised cost

With the exception of contingent consideration and derivatives, all financial liabilities are measured at amortised cost using the effective interest rate method. This category generally applies to interest payable, accounts payable and accrued liabilities, other short-term payables, payable to customers, convertible debentures, long-term debt, and other long-term payables. All interest-related charges are reported in profit or loss within interest expense.

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- a breach of contract such as a default of interest or principal payment; or
- increased probability that the borrower will enter into a bankruptcy or financial reorganisation.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of receivables is presented in the Consolidated Statements of Comprehensive Income within administrative costs, if applicable.

Compound financial instruments

The Group's compound financial instruments comprise of convertible debentures that can be converted to equity at the option of the holder, and the number of shares to be issued does not vary with changes in fair value. As a result, the instrument is composed of a liability component and an equity component. The liability component is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The residual amount between the total fair value of the convertible debenture and the fair value of the liability component is allocated on initial recognition to equity and recognised as a reserve in equity. Any directly attributable transaction costs are allocated to the liability and the equity component in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the convertible debentures is measured at amortised cost using the effective interest method. The equity component of the convertible debentures is not remeasured subsequent to initial recognition.

The Group's compound financial instruments further comprise of a convertible loan receivable that can be converted to equity of the loan party after 12 months following the date of the loan agreement. As a result, the instrument is composed of an asset component and an embedded derivative component. The asset component is recognised initially at the fair value of a similar asset that does not have an equity conversion option. The embedded derivative component is separated from the host contract and is recognised initially at the fair value established using a risk-neutral simulation model.

Subsequent to initial recognition, both, the asset component and the embedded derivative component of the convertible loan receivable, are measured at amortised cost using the effective interest method.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Balance Sheets if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

From time to time Jackpotjoy plc uses derivative instruments for risk management purposes. Jackpotjoy plc does not use derivative instruments for speculative trading purposes. All derivatives are recorded at fair value on the Consolidated Balance Sheets. The method of recognising unrealised and realised fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives not designated as hedging instruments, unrealised gains and losses are recorded in interest income/expense on the Consolidated Statements of Comprehensive Income. For derivatives designated as hedging instruments, unrealised and realised gains and losses are recognised according to the nature of the hedged item and where the hedged item is a non-financial asset, amounts recognised in the hedging reserve are reclassified and the non-financial asset is adjusted accordingly.

Hedge accounting

The Group uses derivative financial instruments, such as forward currency and interest rate swaps to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value at each reporting period end. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in the Statements of Other Comprehensive Income and later reclassified to profit or loss when the hedge item affects profit or loss.

IAS 39 – *Financial Instruments: Recognition and Measurement* permits hedge accounting under certain circumstances provided that the hedging relationship is:

- formally designated and documented, including the entity's risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness;

- expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk as designated and documented, and effectiveness can be reliably measured; and

- assessed on an ongoing basis and determined to have been highly effective.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a risk associated with a recognised asset or liability or a highly probable forecast transaction; and

- hedges of a net investment in a foreign operation.

Fair value hedge

The change in the fair value of a hedging instrument is recognised in the Consolidated Statements of Comprehensive Income as a finance cost. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the Consolidated Statements of Comprehensive Income as a finance cost. For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

At 31 December 2017, the Group had no hedges designated as fair value hedges. Subsequent to year-end, the Group entered into an interest rate swap agreement and designated it as a fair value hedge.

Cash flow hedges

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The effective portion of the gain or loss on the hedging instrument is recognised in the Statements of Other Comprehensive Income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss. The ineffective portion relating to foreign currency contracts is recognised in finance costs. Amounts recognised in the Statements of Other Comprehensive Income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

If the hedging instrument or hedged item expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if the designation of the arrangement as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in the Statements of Other Comprehensive Income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

Effective from 31 March 2017, the Group designated its New Currency Swap (as defined in note 12) as a cash flow hedge.

Hedge of net investments in foreign operations

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in the Statements of Other Comprehensive Income, while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

Effective from 14 December 2017, the Group elected to use its EUR Term Facility as a hedge of its exposure to foreign exchange risk on its investments in EUR foreign subsidiaries. Gains or losses on the retranslation of this borrowing are transferred to the Statements of Other Comprehensive Income to offset any gains or losses on translation of the net investments in the subsidiaries.

At 31 December 2017, no material ineffectiveness arising on net investment hedge was included in the Consolidated Statement of Comprehensive Income.

Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognised in the Consolidated Statements of Comprehensive Income. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities are recognised for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred taxes are not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realised or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the Consolidated Statements of Comprehensive Income in the period that substantive enactment occurs.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. To the extent that the Group does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks and excludes restricted cash.

The effect on the Consolidated Statements of Cash Flows of restrictions either taking effect on, or being lifted from, cash balances is reported with regard to the linkage principle, under which changes in cash are classified based on the purpose for which the restricted cash is used. Under this principle, changes in cash (such as cash, which is obtained for the financing of business combinations becoming restricted) are treated as a financing cash outflow.

Tangible assets

Tangible assets are recorded at cost less accumulated depreciation. These assets are depreciated over their estimated useful lives as follows:

Computer hardware	33% per annum
Office furniture	20% per annum
Leasehold improvements	Over the term of the lease

Depreciation is recorded under administrative costs in the Consolidated Statements of Comprehensive Income.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Amortisation expense is reflected in the Consolidated Statements of Comprehensive Income. Amortisation for the material categories of finite life intangible assets is recorded under administrative costs and is calculated at the following rates:

Brand	5% per annum
Gaming licenses	5% per annum
Software	20% per annum
Customer relationships and partnership agreements	8% - 25% per annum (variable, according to the expected pattern of consumption)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit ("CGU") level. If any indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows independently of other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less cost to sell (measured according to level 3 in the fair value hierarchy) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Investments in subsidiaries

Investments comprise direct shareholdings of the ordinary share capital in the Group's subsidiaries, all of which are included in the Consolidated Financial Statements. For a list of all the subsidiaries which are wholly owned by the Group, including name and country of incorporation, refer to note 2 of these Consolidated Financial Statements.

Share-based compensation and long-term incentive plan

Compensation expense for equity-settled stock options awarded under the Share Option Plan (as defined in note 20) is measured at the fair value at the grant date using the Black-Scholes valuation model and is recognised using the graded vesting method over the vesting period of the options granted. Compensation expense for equity-settled stock options awarded under the LTIP (as defined in note 20) is measured at the fair value at the grant date using the Black-Scholes valuation model for the EPS Tranche (as defined in note 20) and the Monte Carlo model for the TSR Tranche (as defined in note 20).

Compensation expense recognised is adjusted to reflect the number of options that has been estimated by management for which conditions attaching to service will be fulfilled as of the grant date until the vesting date so that the ultimately recognised expense corresponds to the options that have actually vested. The compensation expense credit is attributed to contributed surplus when the expense is recognised in the Consolidated Statements of Comprehensive Income.

Earnings per share

Basic earnings per share are calculated by dividing the net income or loss for the period attributed to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated using the same method as for basic earnings per share and adjusting the weighted average of common shares outstanding during the period to reflect the dilutive impact, if any, of options and warrants assuming they were exercised for that number of common shares calculated by applying the treasury stock method. The treasury stock method assumes that all proceeds received by Jackpotjoy plc when options and warrants are exercised will be used to purchase common shares at the average market price during the reporting period. Convertible debt is considered in the calculation of diluted earnings per share to the extent that it is dilutive.

Provisions

Provisions are recognised when the Group has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale.
- its intention to complete and its ability to use or sell the asset.
- how the asset will generate future economic benefits.
- the availability of resources to complete the asset.
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins the same month the asset is recognised and is amortised over the period of expected future economic benefit to the Group. During the period of development, the asset is tested for impairment annually.

Leases

Jackpotjoy plc has classified its rental leases as operating leases. Operating lease payments are recognised on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed, in which case that systematic basis is used. Operating lease payments are recorded under administrative costs in the Consolidated Statements of Comprehensive Income unless they are attributable to qualifying assets, in which case they are capitalised.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

4. Summary of Significant Accounting Estimates and Assumptions

The preparation of Jackpotjoy plc's Consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The effect of a change in an accounting estimate is recognised prospectively by including it in the Consolidated Statements of Comprehensive Income in the period of the change, if the change affects that period only; or in the period of the change and future periods if the change affects both.

The estimates and judgements that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Business combinations and contingent consideration

Business combinations require management to exercise judgement in measuring the fair value of the assets acquired, equity instruments issued, and liabilities, and contingent consideration incurred or assumed. In particular, a high degree of judgement is applied in determining the fair value of the separable intangible assets acquired, their useful economic lives and which assets and liabilities are included in a business combination.

In certain acquisitions, the Group may include contingent consideration which is subject to the acquired company achieving certain performance targets. At each reporting period, Jackpotjoy plc estimates the future earnings of acquired companies, which are subject to contingent consideration in order to assess the probability that the acquired company will achieve their performance targets and thus earn their contingent consideration. Any changes in the fair value of the contingent consideration between reporting periods are included in the determination of net income. Changes in fair value arise as a result of changes in the estimated probability of the acquired business achieving its earnings targets and the consequential impact of amounts payable under these arrangements.

Goodwill and intangible assets

Goodwill and intangible assets are reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. Management uses judgement in estimating the recoverable values of the Group's CGUs and uses internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. The use of different assumptions and estimates could influence the determination of the existence of impairment and the valuation of goodwill.

Taxes

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Group companies may be subject to indirect taxation on transactions, which have been treated as exempt supplies of gambling, or on supplies which have been zero rated where legislation provides that the services are received or used and enjoyed in the country where the service provider is located. Revenue earned from customers located in any particular jurisdiction may give rise to further taxes in that jurisdiction. If such taxes are levied, either on the basis of current law or the current practice of any tax authority, or by reason of a change in the law or practice, then this may have a material adverse effect on the amount of tax payable by the Group or on its financial position. Where it is considered probable that a previously identified contingent liability will give rise to an actual outflow of funds, then a provision is made in respect of the relevant jurisdiction and period impacted. Where the likelihood of a liability arising is considered remote, or the possible contingency is not material to the financial position of the Group, the contingency is not recognised as a liability at the balance sheet date.

5. Segment Information

Segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker has been identified as the management team comprising of the Executive Chairman and the Chief Financial Officer.

The Vera&John segment consists of the online casino operating results of various brands, including Vera&John and InterCasino. The Jackpotjoy segment consist of the real money and social gaming operating results of the Jackpotjoy, Starspins, and Botemania brands. The Mandalay segment consists of the operating results of various online bingo websites operated off the Dragonfish platform and the operating results of affiliate portal websites.

The following tables present selected financial results for each segment and the unallocated corporate costs:

Year ended 31 December 2017:

	Jackpotjoy (£000's)	Vera&John (£000's)	Mandalay (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Gaming revenue	**211,302***	**73,167**	**20,177**	**—**	**304,646**
Distribution costs	99,095	36,582	11,660	146	147,483
Amortisation and depreciation	46,420	9,956	6,286	380	63,042
Compensation, professional, and general and administrative expenses	17,112	18,558	1,383	12,944	49,997
Severance costs	—	—	—	700	700
Transaction related costs	—	—	—	6,710	6,710
Foreign exchange	75	599	24	9,353	10,051
Gain on sale of intangible assets	—	(1,002)	(269)	—	(1,271)
Financing, net	—	(166)	4	95,292	95,130
Income/(loss) for the year before taxes	**48,600**	**8,640**	**1,089**	**(125,525)**	**(67,196)**
Taxes	—	701	—	—	701
Net income/(loss) for the year	**48,600**	**7,939**	**1,089**	**(125,525)**	**(67,897)**
Net income/(loss) for the year	**48,600**	**7,939**	**1,089**	**(125,525)**	**(67,897)**
Interest (income)/expense, net	—	(166)	4	30,169	30,007
Accretion on financial liabilities	—	—	—	25,049	25,049
Taxes	—	701	—	—	701
Amortisation and depreciation	46,420	9,956	6,286	380	63,042
EBITDA	**95,020**	**18,430**	**7,379**	**(69,927)**	**50,902**
Share-based compensation	—	—	—	1,429	1,429
Severance costs	—	—	—	700	700
Fair value adjustment on contingent consideration	—	—	—	27,562	27,562
Loss on cross currency swap	—	—	—	12,512	12,512
Transaction related costs	—	—	—	6,710	6,710
Gain on sale of intangible assets	—	(1,002)	(269)	—	(1,271)
Foreign exchange	75	599	24	9,353	10,051
Adjusted EBITDA	**95,095**	**18,027**	**7,134**	**(11,661)**	**108,595**
Net income/(loss) for the year	**48,600**	**7,939**	**1,089**	**(125,525)**	**(67,897)**
Share-based compensation	—	—	—	1,429	1,429
Severance costs	—	—	—	700	700
Fair value adjustment on contingent consideration	—	—	—	27,562	27,562
Loss on cross currency swap	—	—	—	12,512	12,512
Transaction related costs	—	—	—	6,710	6,710
Gain on sale of intangible assets	—	(1,002)	(269)	—	(1,271)
Foreign exchange	75	599	24	9,353	10,051
Amortisation of acquisition related purchase price intangibles and non-compete clauses	46,420	8,568	6,239	—	61,227
Accretion on financial liabilities	—	—	—	25,049	25,049
Adjusted net income/(loss)	**95,095**	**16,104**	**7,083**	**(42,210)**	**76,072**

**Jackpotjoy gaming revenue figure includes social gaming revenue of £15,394,000 for 2017.*

Year ended 31 December 2016:

	Jackpotjoy (£000's)	Vera&John (£000's)	Mandalay (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Gaming revenue	**188,177***	**57,013**	**21,748**	**—**	**266,938**
Other income	**—**	**2,106**	**—**	**—**	**2,106**
Distribution costs	88,080	28,349	14,039	267	130,735
Amortisation and depreciation	41,341	8,863	5,913	16	56,133
Compensation, professional, and general and administrative expenses	15,519	12,750	1,099	10,699	40,067
Severance costs	—	—	—	5,695	5,695
Transaction related costs	—	862	—	21,905	22,767
Foreign exchange	(248)	593	(132)	2,885	3,098
Financing, net	—	(83)	6	51,333	51,256
Income/(loss) for the year before taxes	**43,485**	**7,785**	**823**	**(92,800)**	**(40,707)**
Taxes	—	(64)	—	—	(64)
Net income/(loss) for the year	**43,485**	**7,849**	**823**	**(92,800)**	**(40,643)**
Net income/(loss) for the year	**43,485**	**7,849**	**823**	**(92,800)**	**(40,643)**
Interest (income)/expense, net	—	(83)	6	18,164	18,087
Accretion on financial liabilities	—	—	—	17,857	17,857
Taxes	—	(64)	—	—	(64)
Amortisation and depreciation	41,341	8,863	5,913	16	56,133
EBITDA	**84,826**	**16,565**	**6,742**	**(56,763)**	**51,370**
Share-based compensation	—	—	—	2,264	2,264
Severance costs	—	—	—	5,695	5,695
Independent Committee related expenses	—	—	—	1,693	1,693
Fair value adjustment on contingent consideration	—	—	—	49,382	49,382
Gain on cross currency swap	—	—	—	(34,070)	(34,070)
Transaction related costs	—	862	—	21,905	22,767
Foreign exchange	(248)	593	(132)	2,885	3,098
Adjusted EBITDA	**84,578**	**18,020**	**6,610**	**(7,009)**	**102,199**
Net income/(loss) for the year	**43,485**	**7,849**	**823**	**(92,800)**	**(40,643)**
Share-based compensation	—	—	—	2,264	2,264
Severance costs	—	—	—	5,695	5,695
Independent Committee related expenses	—	—	—	1,693	1,693
Fair value adjustment on contingent consideration	—	—	—	49,382	49,382
Gain on cross currency swap	—	—	—	(34,070)	(34,070)
Transaction related costs	—	862	—	21,905	22,767
Foreign exchange	(248)	593	(132)	2,885	3,098
Amortisation of acquisition related purchase price intangibles	41,341	8,251	5,913	—	55,505
Accretion on financial liabilities	—	—	—	17,857	17,857
Adjusted net income/(loss)	**84,578**	**17,555**	**6,604**	**(25,189)**	**83,548**

**Jackpotjoy gaming revenue figure includes social gaming revenue £18,137,000 for 2016.*

The following table presents net assets per segment and unallocated corporate costs as at 31 December 2017:

	Jackpotjoy (£000's)	Vera&John (£000's)	Mandalay (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Current assets	14,573	41,970	6,387	30,302	93,232
Goodwill	224,348	55,821	16,612	—	296,781
Long-term assets	238,943	31,878	10,760	17,585	299,166
Total assets	**477,864**	**129,669**	**33,759**	**47,887**	**689,179**
Current liabilities	7,666	19,877	3,292	67,634	98,469
Long-term liabilities	—	1,204	—	385,449	386,653
Total liabilities	**7,666**	**21,081**	**3,292**	**453,083**	**485,122**
Net assets	**470,198**	**108,588**	**30,467**	**(405,196)**	**204,057**

The following table presents net assets per segment and unallocated corporate costs as at 31 December 2016:

	Jackpotjoy (£000's)	Vera&John (£000's)	Mandalay (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Current assets	15,033	38,870	6,509	78,665	139,077
Goodwill	224,348	55,392	16,612	—	296,352
Long-term assets	277,702	38,163	18,020	22,064	355,949
Total assets	**517,083**	**132,425**	**41,141**	**100,729**	**791,378**
Current liabilities	5,790	16,711	1,483	130,876	154,860
Long-term liabilities	—	1,897	—	395,153	397,050
Total liabilities	**5,790**	**18,608**	**1,483**	**526,029**	**551,910**
Net assets	**511,293**	**113,817**	**39,658**	**(425,300)**	**239,468**

During the years ended 31 December 2017 and 2016, substantially all of the revenue earned by the Group was in Europe. Revenues were earned from customers located in the following locations: United Kingdom – 63% (2016 – 65%), Sweden – 10% (2016 – 10%), rest of Europe – 14% (2016 – 12%), rest of world – 13% (2016 – 13%). Non-current assets by geographical location as at 31 December 2017 were as follows: Europe £87.7 million (31 December 2016 – £93.6 million) and the Americas £508.2 million (31 December 2016 – £558.7 million).

6. Costs and Expenses

	Year Ended 31 December 2017 (£000's)	Year Ended 31 December 2016 (£000's)
Distribution costs:		
Selling and marketing	**49,760**	46,744
Licensing fees	**47,067**	42,653
Gaming taxes	**37,851**	29,769
Processing fees	**12,805**	11,569
	147,483	130,735
Administrative costs:		
Compensation and benefits	**34,848**	29,490
Professional fees	**3,749**	3,741
General and administrative	**11,400**	6,836
Tangible asset depreciation	**424**	338
Intangible asset amortisation	**62,618**	55,795
	113,039	96,200

7. Interest Income/Expense

	Year Ended 31 December 2017 (£000's)	Year Ended 31 December 2016 (£000's)
Interest earned on cash held during the year	**182**	156
Total interest income	**182**	156
Interest paid and accrued on long-term debt	**30,144**	17,825
Interest paid and accrued on convertible debentures	**45**	418
Total interest expense	**30,189**	18,243
Accretion of discount recognised on contingent consideration	**6,052**	15,545
Debt issue costs and accretion recognised on long-term debt*	**17,095**	1,919
Accretion recognised on non-compete clauses	**1,860**	77
Accretion recognised on convertible debentures	**42**	316
Total accretion on financial liabilities	**25,049**	17,857

**Includes accelerated accretion of costs of £14.1 million as a result of debt refinancing that took place in December 2017.*

8. Earnings per Share

	Year Ended 31 December 2017 (£000's)	Year Ended 31 December 2016 (£000's)
Numerator:		
Net loss – basic	**(67,897)**	(40,643)
Net loss – diluted[1]	**(67,897)**	(40,643)
Denominator:		
Weighted average number of shares outstanding – basic	**73,865**	71,239
Instruments, which are anti-dilutive:		
Weighted average effect of dilutive share options	**453**	726
Weighted average effect of convertible debentures[2]	**238**	2,312
Net loss per share[3,4]		
Basic	**£(0.92)**	£(0.57)
Diluted[1]	**£(0.92)**	£(0.57)

[1] *In the case of a net loss, the effect of share options potentially exercisable on diluted loss per share will be anti-dilutive; therefore, basic and diluted net loss per share will be the same.*

[2] *An assumed conversion of convertible debentures had an anti-dilutive effect on loss per share for the years ended 31 December 2017 and 31 December 2016.*

[3] *Basic loss per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of shares outstanding during the year.*

[4] *Diluted loss per share is calculated by dividing the net loss attributable to ordinary shareholders by the weighted average number of shares outstanding during the period and adjusted for the number of potentially dilutive share options and contingently issuable instruments.*

9. Cash and Restricted Cash

	31 December 2017 (£000's)	**31 December 2016 (£000's)**
Cash	58,725	33,558
Segregated cash*	308	34,927
Cash and cash equivalents	59,033	68,485
Restricted cash – other	208	253
Total cash balances	**59,241**	**68,738**

* This balance consists of cash on deposit with payment service providers, as well as segregated funds held in accordance with the terms of the Jackpotjoy earn-out payment, where the Group was required to segregate 90% of its excess cash flow, less mandatory repayments of the Group's long-term debt and earn-out payments, in a non-operational bank account. Since the Group made a payment of £94.2 million for the final earn-out on the non-Spanish assets and the first earn-out instalment on the Spanish

assets of the Jackpotjoy segment on 21 June 2017, no cash was required to be segregated for this purpose at 31 December 2017 (£34.7 million as at 31 December 2016). Segregated cash does not qualify as restricted cash and, as such, it is included in cash.

10. Trade and Other Receivables

	31 December 2017 (£000's)	31 December 2016 (£000's)
Due from the Gamesys group	8,634	9,242
Due from the 888 group	3,101	1,625
Affiliate revenue receivable	2,481	1,766
Receivable for intangible assets sold	1,450	—
Swap-related receivable	—	1,948
Prepaid expenses	2,375	967
Other	1,338	1,215
	19,379	**16,763**

11. Other Long-Term Receivables and Other Long-Term Assets

On 29 November 2017, the Group entered into a secured convertible loan and services agreement with Gaming Realms plc ("Gaming Realms") (the "Gaming Realms Transaction").

Key terms of the Gaming Realms Transaction include: (a) five-year secured convertible loan to Gaming Realms in the principal amount of £3.5 million with an interest rate of 3 month UK LIBOR plus 5.5% per annum; (b) conversion option (the "Conversion Component") that allows the Group to convert some or all of the loan (in tranches of £0.5 million) into ordinary shares of Gaming Realms after 12 months; (c) a ten-year services agreement ("Services Agreement") for the supply by Gaming Realms of some of its content to websites of the Group's choosing free-of-charge. The value of the free-of-charge services provided under this Services Agreement will be capped at £3.5 million over the first five years of the agreement.

In connection with this transaction, the Group recognised a long-term receivable of £1.4 million for the loan component of the convertible loan and a long-term asset of £2.1 for the Conversion Component of the convertible loan.

12. Cross Currency Swap

On 23 November 2015, the Group entered into a cross currency swap agreement (the "Currency Swap") in order to minimise the Group's exposure to exchange rate fluctuations between GBP and the US dollar ("USD") as cash generated from the Group's operations is largely in GBP, while a portion of the principal and interest payments on the credit facilities held by the Group at the time were denominated in USD. Under the Currency Swap, 90% of the Group's USD term loan interest and principal payments were swapped into GBP. The Group paid a fixed 7.81% interest in place of floating USD interest payments of LIBOR plus 6.5% (LIBOR floor of 1%). The interest and principal payments were made at a GBP/USD foreign exchange rate of 1.5135 on a USD notional amount of $294.0 million.

On 28 March 2017, the Group terminated the Currency Swap and realised total proceeds of approximately USD 42.6 million (£34.4 million) and subsequently entered into a new cross currency swap agreement (the "New Currency Swap"). Under the New Currency Swap, 50% of the Group's term loan interest and principal payments were swapped into GBP. The Group paid a fixed 7.4% interest in place of floating USD interest payments of LIBOR plus 6.5% (LIBOR floor of 1%). The interest and principal payments were made at a GBP/USD foreign exchange rate of 1.2584 on a USD notional amount of $136.8 million.

On 4 December 2017, the Group made a payment of £8.3 million to settle the New Currency Swap in full. As a result, the fair value of the Group's currency swap agreements as at 31 December 2017 is £nil (31 December 2016 – asset of £38.2 million).

Excluding the termination settlements referred to above, the net cash flows arising on the cross currency swaps during the period were an outflow of £0.3 million. All other changes in the values of the cross currency swaps related to changes in the assessment of fair value.

Jackpotjoy plc elected to use hedge accounting (as described in note 3) for the purposes of recognising realised and unrealised gains and losses associated with the New Currency Swap. As a result, upon settlement of the hedged item, being the future foreign currency term loan cash payments as explained in note 17, the entire loss on the New Currency Swap in the amount of £12.5 million was reclassified to profit and loss, in accordance with IAS 39.

13. Intangible Assets and Goodwill

As at 31 December 2017

	Gaming Licenses (£000's)	Customer Relationships (£000's)	Software (£000's)	Brand (£000's)	Partnership Agreements (£000's)	Non-Compete Clauses (£000's)	Goodwill (£000's)	Total (£000's)
Cost								
Balance, 1 January 2017	94	340,927	21,670	70,054	12,900	20,434	317,829	783,908
Additions	—	—	2,708	—	—	—	—	2,708
Disposals*	—	(3,822)	—	—	—	—	—	(3,822)
Translation	(1)	550	833	(35)	—	—	(1,443)	(96)
Balance, 31 December 2017	**93**	**337,655**	**25,211**	**70,019**	**12,900**	**20,434**	**316,386**	**782,698**
Accumulated amortisation/impairment								
Balance, 1 January 2017	34	96,811	7,414	6,523	2,824	—	21,477	135,083
Amortisation	41	44,958	4,820	3,504	1,634	7,661	—	62,618
Disposals*	—	(2,638)	—	—	—	—	—	(2,638)
Translation	6	202	317	(22)	—	—	(1,872)	(1,369)
Balance, 31 December 2017	**81**	**139,333**	**12,551**	**10,005**	**4,458**	**7,661**	**19,605**	**193,694**
Carrying value								
Balance, 31 December 2017	**12**	**198,322**	**12,660**	**60,014**	**8,442**	**12,773**	**296,781**	**589,004**

**On 6 December 2017, the Group entered into an agreement to sell certain affiliate contracts for £1.5 million.*

As at 31 December 2016

	Gaming Licenses (£000's)	Customer Relationships (£000's)	Software (£000's)	Revenue Guarantee (£000's)	Brand (£000's)	Partnership Agreements (£000's)	Non-Compete Clauses (£000's)	Goodwill (£000's)	Total (£000's)
Cost									
Balance, 1 January 2016	76	337,502	17,175	4,010	68,284	12,900	—	306,295	746,242
Additions	—	—	1,836	—	—	—	20,434	—	22,270
Translation	18	3,425	2,659	783	1,770	—	—	11,534	20,189
Expiry	—	—	—	(4,793)	—	—	—	—	(4,793)
Balance, 31 December 2016	**94**	**340,927**	**21,670**	**—**	**70,054**	**12,900**	**20,434**	**317,829**	**783,908**
Accumulated amortisation									
Balance, 1 January 2016	23	47,956	3,279	—	2,681	1,558	—	17,969	73,466
Amortisation	9	47,405	3,683	—	3,466	1,232	—	—	55,795
Translation	2	1,450	452	—	376	34	—	3,508	5,822
Balance, 31 December 2016	**34**	**96,811**	**7,414**	**—**	**6,523**	**2,824**	**—**	**21,477**	**135,083**
Carrying value									
Balance, 31 December 2016	**60**	**244,116**	**14,256**	**—**	**63,531**	**10,076**	**20,434**	**296,352**	**648,825**

Goodwill impairment testing

For the purpose of the annual impairment test, goodwill has been allocated to each operating segment of the business, which also represent the Group CGUs.

The recoverable amount of the Vera&John CGU has been determined based on a fair value less selling costs calculation using cash flow projections from financial forecasts approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 22% (2016 – 22%) and cash flows beyond the five-year period are extrapolated using a 2.5% (2016 – 2.5%) growth rate.

The recoverable amount of the Mandalay CGU has been determined based on a fair value less selling costs calculation using cash flow projections from financial forecasts approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 16% (2016 – 16%) and cash flows beyond the five-year period are extrapolated using a 2.5% (2016 – 2.5%) growth rate.

The recoverable amount of the Jackpotjoy CGU has been determined based on a fair value less selling costs calculation using cash flow projections from financial forecasts approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 14% (2016 – 18%) and cash flows beyond the five-year period are extrapolated using a 2.5% (2016 – 2.5%) growth rate.

The fair value less selling costs calculations are based on level 3 in the fair value hierarchy.

As at 31 December 2017, there was no indication of impairment of goodwill, nor do the Directors expect any reasonably possible change in a key assumption that may give rise to an impairment.

14. Accounts Payable and Accrued Liabilities

	31 December 2017 (£000's)	31 December 2016 (£000's)
Affiliate/marketing expenses payable	6,547	3,058
Payable to game suppliers	1,899	950
Compensation payable	4,868	2,989
Loyalty program payable	252	260
Professional fees	875	349
Gaming tax payable	2,101	526
Other	1,279	860
	17,821	**8,992**

15. Other Short-Term Payables

	31 December 2017 (£000's)	31 December 2016 (£000's)
Transaction related payables	3,484	9,321
Current portion of other long-term payables *(Note 19)*	8,667	6,000
	12,151	**15,321**

16. Financial Risk Management

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. As at 31 December 2017, the Group is largely exposed to credit risk through its relationship with its service providers, the Gamesys group, the 888 group, as well as its cash balances. Credit risk also arises from payment services providers ("PSPs"). Prior to accepting new PSPs, credit checks are performed using a reputable external source. Management monitors PSP balances on a weekly basis and promptly takes corrective action if pre-agreed limits are exceeded. As at 31 December 2017, none of the Group's receivables are considered past due or impaired. Quantitative analysis of the Group's exposure to credit risk arising from its receivables is included in note 10 and analysis of the Group's exposure to its credit risk arising from cash is presented below.

A significant amount of cash is held with the following institutions:

Financial Institution Rating	As at 31 December 2017 (£000's)	As at 31 December 2016 (£000's)*
A+	7,677	6,931
A	7,307	39,124
A-	60	154
AA-	18,209	9,692
BBB+	289	42
BBB	7,893	6,026
BB	9,122	5,018

The Group monitors the credit ratings of counterparties regularly and at the reporting date does not expect any losses from non-performance by the counterparties. The Group's policy is to transfer significant concentrations of cash held at lower-rated financial institutions to higher rated financial institutions as swiftly as possible.

**2016 ratings have been restated to match ratings of respective banks at 31 December 2017.*

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Jackpotjoy plc is exposed to cash flow interest rate risk on its credit facilities, described in note 17, which bear interest at variable rates. A one percentage point increase (decrease) in interest rates would have decreased (increased) net earnings before income taxes by approximately £3.5 million for the year ended 31 December 2017 (31 December 2016 – £3.7 million), with all other variables held constant. Management monitors movements in the interest rates by reviewing the LIBOR on a frequent basis.

Subsequent to 31 December 2017, Jackpotjoy plc entered into an Interest Rate Swap (as defined in note 29) to mitigate its exposure to interest rate volatility.

Foreign exchange risk

Foreign exchange risk arises when individual group entities enter into transactions denominated in a currency other than their functional currency. Jackpotjoy plc's policy is, where possible, to allow the Group's entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where Jackpotjoy plc's entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within Jackpotjoy plc.

Apart from these particular cash flows, the Group aims to fund expenses and investments in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred, as well as by matching the currency of its debt structure with the currency cash is generated in.

The following table summarises the Group's discounted net financial assets/liabilities by currency and the effects on total comprehensive income, and therefore total equity as a result of a 10% change in the value of the foreign currencies against pounds sterling where the Group has significant exposure. The analysis assumes that all other variables remain constant.

At 31 December 2017	**Net foreign currency financial assets/(liabilities) (£000's)**	**Effect of 10% strengthening in foreign exchange rates on comprehensive income (£000's)**	**Effect of 10% weakening in foreign exchange rates on comprehensive income (£000's)**
Canadian dollar	(816)	(82)	82
EURO	(109,095)	(10,910)	10,910
United States dollar	7,320	732	(732)

At 31 December 2016	Net foreign currency financial assets/(liabilities) (£000's)	Effect of 10% strengthening in foreign exchange rates on comprehensive income (£000's)	Effect of 10% weakening in foreign exchange rates on comprehensive income (£000's)
Canadian dollar	(7,522)	(752)	752
EURO	11,848	1,185	(1,185)
United States dollar	(202,757)	(20,276)	20,276

Liquidity risk

The Group requires capital and liquidity to fund existing and future operations and future cash payments. The Group's policy is to maintain sufficient capital levels to fund the Group's financial position and meet future commitments and obligations in a cost-effective manner.

Liquidity risk arises from the Group's ability to meet its financial obligations as they become due. The following tables summarise the Group's undiscounted financial and other liabilities as at 31 December 2017 and 31 December 2016:

At 31 December 2017	On demand (£000's)	Less than 1 year (£000's)	1-2 years (£000's)	3-5 years (£000's)	After 5 years (£000's)
Accounts payable and accrued liabilities	17,821	—	—	—	—
Other short-term/long-term payables	4,151	8,000	10,000	—	—
Payable to customers	8,180	—	—	—	—
Contingent consideration	—	53,348	8,750	—	—
Convertible debentures	—	258	—	—	—
Long-term debt	—	—	—	—	374,292
Interest payable on long-term debt	—	20,621	39,461	39,407	39,461
	30,152	**82,227**	**58,211**	**39,407**	**413,753**

At 31 December 2016	On demand (£000's)	Less than 1 year (£000's)	1-2 years (£000's)	3-5 years (£000's)	After 5 years (£000's)
Accounts payable and accrued liabilities	8,992	—	—	—	—
Other short-term/long-term payables	9,321	6,000	16,000	2,000	—
Payable to customers	8,573	—	—	—	—
Contingent consideration	—	89,386	33,602	3,750	—
Convertible debentures	—	—	3,585	—	—
Long-term debt	—	26,695	53,390	53,390	254,929
Interest payable on long-term debt	—	31,680	56,005	47,957	12,081
	26,886	**153,761**	**162,582**	**107,097**	**267,010**

The Group manages liquidity risk by monitoring actual and forecasted cash flows in comparison with the maturity profiles of financial assets and liabilities. The Group does not anticipate fluctuations in its financial obligations (with the exception of the Jackpotjoy earn-out payment, as it is dependent on the future performance of the Jackpotjoy segment), as they largely stem from interest payments related to the EUR Term Facility (as defined below) and the GBP Term Facility (as defined below). Management believes that the cash generated from the Group's operating segments is sufficient to fund the working capital and capital expenditure needs of each operating segment in the short and long term, assuming there are no significant adverse changes in the markets in which the Group operates. The Group is actively managing its capital resources to ensure sufficient resources will be in place when the remaining Jackpotjoy earn-out payment and Term Facilities (as defined below) payments and interest repayments become due.

As at 31 December 2017, the Group believes it will be able to fund remaining obligations under the Jackpotjoy earn-out payment through internally generated cash. Subject to meeting certain financial covenants, the Group may have the ability to draw on the £13.5 million RCF (as defined below) as a further capital resource.

17. Credit Facilities

	Term Loan (£000's)	Incremental First Lien Facility (£000's)	Second Lien Facility (£000's)	EUR Term Facility (£000's)	GBP Term Facility (£000's)	Total (£000's)
Balance, 1 January 2016	207,158	—	—	—	—	207,158
Principal	—	70,000	90,000	—	—	160,000
Repayment	(26,906)	—	—	—	—	(26,906)
Debt financing costs	—	(2,482)	(6,792)	—	—	(9,274)
Accretion[1]	1,868	16	35	—	—	1,919
Foreign exchange translation	37,896	—	—	—	—	37,896
Balance, 31 December 2016	220,016	67,534	83,243	—	—	370,793
Principal	—	—	—	122,574	250,000	372,574
Repayment	(218,793)	(70,000)	(90,000)	—	—	(378,793)
Debt financing costs	—	—	—	(1,397)	(3,434)	(4,831)
Accretion[1]	7,846	2,466	6,757	8	18	17,095
Foreign exchange translation	(9,069)	—	—	1,718	—	(7,351)
Balance, 31 December 2017	**—**	**—**	**—**	**122,903**	**246,584**	**369,487**
Current portion	—	—	—	—	—	—
Non-current portion	—	—	—	**122,903**	**246,584**	**369,487**

[1]*Effective interest rates are as follows: Term Loan – 8.69%, Incremental First Lien Facility – 8.32%, Second Lien Facility – 11.75%, EUR Term Facility – 4.44%, GBP Term Facility – 6.01%.*

On 8 April 2015, the Group entered into a credit agreement (as amended and restated from time to time, including on 27 October 2016 and 16 December 2016, the "Credit Agreement") in respect of: (i) a seven-year USD 335.0 million first lien term loan credit facility (the "Term Loan"); and (ii) a USD 17.5 million revolving credit facility (the "Revolving Facility", and together with the Term Loan, the "Credit Facilities").

On 27 October 2016, the Credit Agreement was amended to, among other things, permit the plan of arrangement. On 16 December 2016, the Credit Agreement was further amended and restated to, among other things, establish a £53,276,000 incremental first lien term loan facility and the €20,000,000 first lien term loan facility under the Credit Agreement (collectively, the "Incremental First Lien Facility" and together with the Credit Facilities, the "First Lien Facilities"), permit the incurrence of a £90.0 million second lien term loan facility (the "Second Lien Facility") pursuant to a second lien credit agreement (the "Second Lien Credit Agreement"), and permit the Jackpotjoy and Starspins contingent consideration pre-payment of £150.0 million.

On 6 December 2017, Jackpotjoy plc entered into a senior facilities agreement ("Senior Facilities Agreement") pursuant to which debt facilities were made available to Jackpotjoy plc and certain of its subsidiaries in an aggregate sterling equivalent amount of approximately £388,492,000, comprised of (i) a €140,000,000 term facility (the "EUR Term Facility", (ii) a £250,000,000 term facility (the "GBP Term Facility and, together with the EUR Term Facility, the “Term Facilities”) and (iii) a £13,500,000 revolving credit facility (the “RCF” and, together with the Term Facilities, the “Facilities”). Proceeds from the Term Facilities were used in part to repay the Group’s existing First and Second Lien Facilities on 14 December 2017, at which point, the accretion of the remaining debt issue costs on the First and Second Lien facilities was accelerated. Proceeds from the RCF can be applied to, among other things, working capital and general corporate purposes and financing or refinancing capital expenditure.

The Term Facilities are non-amortising and mature in December 2024. The RCF matures in December 2023.

The EUR Term Facility has an interest rate of EURIBOR (with a 0% floor) plus an opening margin of 4.25% per annum, subject to a margin ratchet with step downs of 0.25% to 3.50% based on reductions in the senior secured net leverage ratio (“SSLR”) and meeting certain ratings requirements. The GBP Term Facility has an interest rate of LIBOR (with a 0% floor) plus an opening margin of 5.25% per annum, subject to a margin ratchet with step downs of 0.25% to 4.50% based on reductions in the SSLR and meeting certain ratings requirements. The RCF has an interest rate of EURIBOR (for Euro loans, with a 0% floor) or LIBOR (for GBP and USD loans, with a 0% floor) plus, in each case, an opening margin of 4.25% per annum, subject to a margin ratchet with step downs of 0.50% to 3.25% based on reductions in the SSLR.

The Senior Facilities Agreement contains certain restrictions on, amongst other things, asset disposals, debt incurrence, loans and guarantees, joint ventures and acquisitions, subject in each case to various permissions. The Senior Facilities Agreement also contains a senior secured leverage ratio maintenance covenant and an interest cover maintenance covenant.

Jackpotjoy plc was in compliance with the terms of the Senior Facilities Agreement as at 31 December 2017.

18. Financial Instruments

Financial assets

	Loans and receivables	
	31 December 2017 (£000’s)	31 December 2016 (£000’s)
Cash and restricted cash	59,241	68,738
Trade and other receivables	19,379	16,763
Other long-term receivables	3,528	2,624
Customer deposits	8,180	8,573
	90,328	**96,698**

Financial liabilities

	Financial liabilities at amortised cost	
	31 December 2017 (£000's)	31 December 2016 (£000's)
Accounts payable and accrued liabilities	17,821	8,992
Other short-term payables	12,151	15,321
Other long-term payables	8,245	14,505
Interest payable	924	633
Payable to customers	8,180	8,573
Convertible debentures	254	3,266
Long-term debt	369,487	370,793
	417,062	**422,083**

The carrying values of the financial instruments noted above, with the exception of convertible debentures, approximate their fair values.

Other financial instruments

	Financial instruments recognised at fair value through profit or loss – assets (liabilities)	
	31 December 2017 (£000's)	31 December 2016 (£000's)
Cross currency swap	—	38,171
Contingent consideration	(59,583)	(120,187)
Other long-term assets	2,076	—
	(57,507)	**(82,016)**

Fair value hierarchy

The hierarchy of the Group's financial instruments carried at fair value is as follows:

	Level 2		Level 3	
	31 December 2017 (£000's)	31 December 2016 (£000's)	31 December 2017 (£000's)	31 December 2016 (£000's)
Cross currency swap	—	38,171	—	—
Other long-term assets	2,076	—	—	—
Contingent consideration	—	—	(59,583)	(120,187)

Other long-term assets represent the fair value of the Conversion Component of the secured convertible loan receivable from Gaming Realms. The key inputs into the fair value estimation of this balance include the share price of Gaming Realms on the date of cash transfer, a five-year risk-free interest rate of 1.035%, and an estimated share price return volatility rate of Gaming Realms of 46.5%.

Contingent consideration represents the fair value of the cash outflows under earn-out agreements that would result from the performance of acquired businesses. The key inputs into the fair value estimation of these liabilities include the forecast performance of the underlying businesses, the probability of achieving forecasted results and the discount rate applied in deriving a present value from those forecasts. Significant increase (decrease) in the business' performance would result in a higher (lower) fair value of the contingent consideration, while significant increase (decrease) in the discount rate would result in a lower (higher) fair value of the contingent consideration. Additionally, as earn-out periods draw closer to their completion, the range of probability factors will decrease.

A discounted cash flow valuation model was used to determine the value of the contingent consideration. The model considers the present value of the expected payments, discounted using a risk-adjusted discount rate of 7%. The expected payments are determined by considering the possible scenarios of forecast EBITDA, the amount to be paid under each scenario and the probability of each scenario.

Without probability and discount factors, the fair value of the contingent consideration would be approximately 12% higher (£7.4 million), than its value at 31 December 2017, increasing the current portion of the contingent consideration, which is composed of the Botemania earn-out payment and the first Jackpotjoy milestone payment, by £5.1 million and increasing the long-term contingent consideration, which is composed of the final Jackpotjoy milestone payments due in 2019 and 2020, by £2.3 million. This assumes that the financial performance of the Jackpotjoy operating segment remains in line with management's expectations.

On 21 June 2017, Jackpotjoy plc made a payment in the amount of £94.2 million for the final earn-out on non-Spanish assets and a first earn-out instalment on the Spanish assets within its Jackpotjoy segment.

As at 31 December 2017, the contingent consideration balance related to the earn-out payment remaining on the Spanish assets included in the Jackpotjoy segment and milestone payments related to the Jackpotjoy segment.

The movement in level 3 financial instruments is detailed below:

	(£000's)
Contingent consideration, 1 January 2016	209,625
Addition	—
Fair value adjustments	49,382
Payments	(156,308)
Accretion of discount	15,545
Foreign exchange translation	1,943
Contingent consideration, 31 December 2016	120,187
Fair value adjustments	27,562
Payments	(94,218)
Accretion of discount	6,052
Contingent consideration, 31 December 2017	**59,583**
Current portion	51,866
Non-current portion	7,717

19. Other Long-Term Payables

The Group is required to pay the Gamesys group £24.0 million in equal monthly instalments in arrears over the period from April 2017 to April 2020, for additional non-compete clauses that came into effect in April 2017 and that expire in March 2019. The Group has included £8.7 million of this payable in current liabilities (note 15, 31 December 2016 – £6.0 million), with the discounted value of the remaining balance, being £8.2 million (31 December 2016 – £14.5 million), included in other long-term payables. During the year ended 31 December 2017, the Group has paid a total of £5.3 million (31 December 2016 – £nil) in relation to the additional non-compete clauses.

20. Share Capital

The share capital movements presented below for periods prior to the date of completion of the plan of arrangement discussed in note 1 are presented as if each common share of The Intertain Group Limited had the same nominal value as the ordinary shares of Jackpotjoy plc. The number of Jackpotjoy plc ordinary shares in issue at the date of the plan of arrangement was 73,718,942.

Jackpotjoy plc does not hold any shares in treasury and there are no shares in Jackpotjoy plc's issued share capital that do not represent capital.

		Ordinary shares of £0.10
	(£000's)	**#**
Balance, 1 January 2016	7,051	70,511,493
Conversion of convertible debentures, net of costs	185	1,853,667
Exercise of options	58	577,492
Exercise of warrants	4	40,625
Balance, 31 December 2016	7,298	72,983,277
Conversion of convertible debentures, net of costs	92	916,498
Exercise of options	17	165,156
Balance, 31 December 2017	**7,407**	**74,064,931**

Convertible debentures

During the year ended 31 December 2017 (and prior to completion of the plan of arrangement), debentures at an undiscounted value of £2.3 million were converted into 628,333 common shares of Intertain. Additionally, during the year ended 31 December 2017 (and following the completion of the plan of arrangement), debentures at an undiscounted value of £1.0 million were converted into 288,165 ordinary shares of Jackpotjoy plc.

Share options

The share option plan (the "Share Option Plan") was approved by the Board of Directors on 5 September 2016. Upon completion of the plan of arrangement, all options over common shares of Intertain under Intertain's stock option plan were automatically exchanged for options of equivalent value over ordinary shares of Jackpotjoy plc on equivalent terms and subject to the same vesting conditions under Intertain's share option plan. The strike price of each grant has been converted from Canadian dollars to pound sterling at the foreign exchange rate of 0.606, being the exchange rate at the date of the plan of arrangement. Following the grant of the replacement options, no further options were, or will be, granted under the Share Option Plan.

The changes in the number of share options outstanding during the year ended 31 December 2017 were as follows:

	Number of options #	Weighted average exercise proceeds (£)
Outstanding, January 1, 2016	2,863,776	5.81
Granted*	1,340,000	6.79
Forfeited	(375,138)	7.48
Exercised	(577,492)	2.42
Outstanding, 31 December 2016	3,251,146	6.62
Forfeited	(58,000)	9.26
Exercised	(165,156)	2.71
Outstanding, 31 December 2017	**3,027,990**	**6.79**

**Options granted expire 5 years from their grant date. The fair value of options granted is determined using the Black-Scholes options pricing model. The key inputs are as follows: expected volatility – 35%, risk-free interest rate – 0.61, term – 5 years, price on grant date and exercise price – £6.79.*

Share option plan

As at 31 December 2017, 2,923,726 options are exercisable (31 December 2016 – 2,449,018). The weighted average remaining contractual life of share options outstanding as at 31 December 2017 is approximately 2.6 years (31 December 2016 – 3.5 years).

During the year ended 31 December 2017, the Group recorded £1.3 million (2016 – £2.3 million) in share-based compensation expense relating to the share option plan with a corresponding increase in share-based payment reserve.

Long-term incentive plan

On 24 May 2017, Jackpotjoy plc granted awards over ordinary shares under the Group's long-term incentive plan ("LTIP") for key management personnel. The awards (i) will vest on the date on which the Board of Directors determines the extent to which the performance condition (as described below) has been satisfied, and (ii) are subject to a holding period of two years beginning on the vesting date, following the end of which they will be released so that the shares can be acquired.

The performance condition as it applies to 50% of each award is based on the Group's total shareholder return compared with the total shareholder return of the companies constituting the Financial Times Stock Exchange 250 index (excluding investment trusts and financial services companies) over three years commencing on 25 January 2017 ("TSR Tranche"). The performance condition as it applies to the remaining 50% of the award is based on the Group's earnings per share ("EPS") in the last financial year of that performance period ("EPS Tranche") and vests as to 25% if final year EPS is 133.5 pence, between 25% and 100% (on a straight-line basis) if final year EPS is more than 133.5 pence but less than 160 pence, and 100% if final year EPS is 160 pence or more.

Each award under the LTIP is equity-settled and LTIP compensation expense is based on the award's estimated fair value. The fair value has been estimated using the Black-Scholes model for the EPS Tranche and the Monte Carlo model for the TSR Tranche.

During the year ended 31 December 2017, the Group recorded £0.1 million (2016 – £nil) in LTIP compensation expense, with a corresponding increase in share-based payment reserve.

Reserves

The following describes the nature and purpose of each reserve within the Group's Consolidated Statements of Changes in Equity.

Share capital

The purpose of this reserve is to show Jackpotjoy plc's issued share capital at its nominal value of £0.10.

Share premium

The purpose of this reserve is to show amount subscribed for Jackpotjoy plc's issued share capital in excess of nominal value.

Merger reserve

The purpose of this reserve is to present the Consolidated Statements of Changes in Equity under the merger method of accounting, as if Jackpotjoy plc has always been the Parent Company and owned all of the subsidiaries. The balance on the Group's merger reserve of £6,111,000 arises on recognition of the Parent Company's investment in Intertain recorded at the Intertain net asset value on 25 January 2017 as explained in note 1.

Redeemable shares

The purpose of this reserve is to show redeemable shares issued by Jackpotjoy plc on 15 August 2016 and cancelled following the plan of arrangement transaction described in note 1.

Share-based payment reserve

The purpose of this reserve is to show cumulative share-based compensation expense relating to the Group's share option plan and LTIP and recognised in the Consolidated Statement of Comprehensive Income.

Translation reserve

The purpose of this reserve is to show gains and losses arising on retranslating balances denominated in currencies other than GBP.

Retained (deficit)/earnings

The purpose of this reserve is to show cumulative net gains and losses recognised in the Consolidated Statements of Comprehensive Income.

21. Capital Management

Jackpotjoy plc defines the capital that it manages as its aggregate shareholders' equity. Its principal source of cash is operating activities, the issuance of common shares, and long-term debt. Jackpotjoy plc's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient capital to meet its financial obligations as they become due. To maintain or adjust the capital structure, Jackpotjoy plc may attempt to issue new shares, issue new debt, acquire or dispose of assets.

The Group monitors its SSLR, which is calculated in accordance with the Senior Facilities Agreement on a frequent basis as this ratio impacts, among other things, the amount of excess cash flow required to be applied in prepayment of the Term Facilities. Commencing on 31 December 2018, if the Group's SSLR is greater than 2.5, 50% of the Group's excess cash flow is required to be applied in prepayment of the Term Facilities. If the Group's SSLR falls between 2.0 and 2.5, 25% of the Group's excess cash flow is required to be applied in prepayment of the Term Facilities. If the Group's SSLR falls below 2.0, 0% of the Group's excess cash flow is required to be applied in prepayment of the Term Facilities.

Excess cash flow is calculated in accordance with the Senior Facilities Agreement and is based on consolidated EBITDA (also calculated in accordance with the Senior Facilities Agreement) to which certain adjustments are made (such as the deduction of certain items such as earn-out payments and debt prepayments). Jackpotjoy plc is not subject to any externally imposed capital requirements. Jackpotjoy plc manages the Group's capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Group's underlying assets.

There have been no changes to Jackpotjoy plc's approach to capital management or in the items the Group manages as capital during the year ended 31 December 2017.

22. Taxes and Deferred Taxes

	Year ended 31 December 2017 (£000's)	Year ended 31 December 2016 (£000's)
Current tax expense		
Total current tax on profits for the year	1,128	347
Deferred tax		
Origination and reversal of temporary differences related to business combinations	(427)	(411)
Total tax expense/(credit)	701	(64)

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	Year ended 31 December 2017 (£000's)	Year ended 31 December 2016 (£000's)
Loss for the year before taxes	(67,196)	(40,707)
Tax using Jackpotjoy's domestic tax rate of 19.25% (2016 – 26%)	(12,935)	(10,584)
Effect of different tax rates applied in overseas jurisdictions	9,998	(1,726)
Non-capital loss for which no tax benefit has been recorded	3,638	12,374
Total tax expense/(credit)	**701**	**(64)**

As at 31 December 2017, taxes receivable and payable balances consist of taxes owing and recoverable related to the 2016 and 2017 fiscal years.

The Group has unused UK tax losses of approximately £18.9 million (2016 – £nil) that are available indefinitely for offsetting against future taxable profits. There is no certainty over the use or timing of use of tax losses and as a result, no deferred tax assets have been recognised in the year.

23. Contingent Liabilities

Indirect taxation

Jackpotjoy plc subsidiaries may be subject to indirect taxation on transactions that have been treated as exempt supplies of gambling, or on supplies that have been zero rated where legislation provides that the services are received or used and enjoyed in the country where the service provider is located. Revenues earned from customers located in any particular jurisdiction may give rise to further taxes in that jurisdiction. If such taxes are levied, either on the basis of current law or the current practice of any tax authority, or by reason of a change in the law or practice, then this may have a material adverse effect on the amount of tax payable by the Group or on its financial position.

Where it is considered probable that a previously identified contingent liability will give rise to an actual outflow of funds, then a provision is made in respect of the relevant jurisdiction and period impacted. Where the likelihood of a liability arising is considered remote, or the possible contingency is not material to the financial position of the Group, the contingency is not recognised as a liability at the balance sheet date. As at 31 December 2017, the Group had recognised £nil liability (31 December 2016 – £nil) related to potential contingent indirect taxation liabilities.

24. Related Party Transactions

Compensation of key management

Key management is comprised of the Board of Directors, Officers, and Members of Management of the Group. Key management personnel compensation for service rendered is as follows:

	Year ended 31 December 2017 (£000's)	Year ended 31 December 2016 (£000's)
Salaries, bonuses and benefits*	3,062	3,815
Severance costs	700	5,695
Stock-based compensation	936	1,147
	4,698	**10,657**

**Compensation paid to management included in transaction related costs is included in this balance.*

Related party transactions

As disclosed in note 11, the Group entered into loan and services agreements with Gaming Realms plc. Jim Ryan is a Director of both Jackpotjoy plc and Gaming Realms plc. Mr. Ryan recused himself from all discussions related to these agreements.

25. Employees

	Year ended 31 December 2017 (£000's)	Year ended 31 December 2016 (£000's)
Wages and salaries*	12,534	15,822
Pensions	120	80
Social security	692	409
Benefits	52	85
	13,398	**16,396**

**Wages and salaries figures include severance costs.*

The average number of employees on a full-time equivalent basis during the year was as follows:

	31 December 2017 (#)	31 December 2016 (#)
Group	209	153

26. Auditors' Remuneration

Remuneration of the Parent Company's auditors for the auditing of these financial statements and for other services provided are as follows:

	Year ended 31 December 2017 (£000's)	Year ended 31 December 2016 (£000's)
Audit fees	316	386
Audit related assurance services	121	137
Taxation compliance services	10	6
Taxation advisory services	24	718
Other non-audit services fees	300	1,410
	771	**2,657**

27. Operating Leases

The Group has entered into operating leases for office facilities, which require the following approximate future minimum lease payments due under the non-cancellable operating lease payments.

	31 December 2017 (£000's)	31 December 2016 (£000's)
Within one year	1,043	664
Later than one year but not later than 5 years	998	387
	2,041	**1,051**

During year ended 31 December 2017, the Group incurred £0.9 million (2016 – £0.6 million) in operating lease expenses.

28. Recent Accounting Pronouncements

The Group has not adopted any new accounting standards since 31 December 2016.

Recent Accounting Pronouncements – Not Yet Effective

IFRS 9 - Financial Instruments

The IASB issued IFRS 9 relating to the classification and measurement of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (i.e. its business model) and the contractual cash flow characteristics of such financial assets. IFRS 9 also includes a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. IFRS 9 will be applied retrospectively for annual periods beginning on or after 1 January 2018, with early adoption permitted.

Management completed a review of the potential changes and impact of applying this standard on the Group's financial information and concluded that:

- it remains appropriate for the Group to continue measuring its loans and receivables, as well as its financial liabilities at amortised cost;
- it remains appropriate for the Group to continue measuring its contingent consideration at fair value through profit and loss; and
- in relation to its financial assets, the Group will no longer separate the embedded derivative from its host contract.

The Group will not be applying IFRS 9 prior to its effective date.

IFRS 15 - Revenues from Contracts with Customers

IFRS 15 affects any entity that enters into contracts with customers. This IFRS will supersede the revenue recognition requirements in IAS 18 and most industry-specific guidance. On 27 July 2015, the IASB decided to postpone the initial 1 January 2017 effective date to 1 January 2018 with early adoption permitted.

Management completed a review of the potential changes and impact of applying this standard on the Group's financial information and concluded that the new pronouncement will not impact the Group's revenue recognition policy as the Group's current policy is already in compliance with the key principles outlined in the new pronouncement.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 - *Leases,* which replaces IAS 17 - *Leases and related interpretations*. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. The distinction between operating leases and finance leases is removed from the perspective of a lessee. IFRS 16 will be applied retrospectively for annual periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 has also been applied.

Management completed a review of the potential changes and impact of applying this standard on the Group's financial information and concluded that, while the Group will have to start presenting its operating leases on its Consolidated Balance Sheets, the impact of this change will not be material as the Group does not have a large number of such leases.

The Group will not be applying IFRS 16 prior to its effective date.

29. Subsequent Events

On 16 February 2018, Jackpotjoy plc entered into an interest rate swap agreement (the "Interest Rate Swap") in order to minimise the Group's exposure to interest rate fluctuations. The Interest Rate Swap has an effective date of 15 March 2018 (the "Effective Date") and an expiry date of 15 March 2023. Under this agreement, Jackpotjoy plc will pay a fixed 6.439% interest in place of floating GBP interest payments of GBP LIBOR plus 5.25%. The fixed interest rate will be paid on 60% of the GBP Term Facility (£150.0 million) to start. The notional amount will decrease by £30.0 million every 12 months from the Effective Date. The Interest Rate Swap will be designated as a fair value hedge, as described in note 3.