



Jackpotjoy plc
Results for the Year Ended 31 December 2017

Full year gaming revenue up 14% year-on-year
Healthy double-digit progression in Group revenues in Q1 2018

LONDON, 20 March 2018 - Jackpotjoy plc (LSE: JPJ), a leading global online bingo-led operator, today announces the results of the Jackpotjoy group (the "Group") for the year ended 31 December 2017.

Financial summary

	Year ended 31 Dec 2017 (£m)	Year ended 31 Dec 2016 (£m)	Reported Change (%)
Gaming revenue	304.6	266.9	14
Net loss (as reported under IFRS)	(67.9)	(40.6)	(67)
Adjusted EBITDA ¹	108.6	102.2	6
Adjusted net income ¹	76.1	83.5	(9)
Operating cash flows	101.0	83.0	22
Diluted net loss per share ²	£(0.92)	£(0.57)	(61)
Diluted adjusted net income per share ^{1,2}	£1.02	£1.13	(10)

Financial highlights for the year

- Strong 2017 financial performance:
 - Gaming revenue rose 14%, supported by 12% growth in the Jackpotjoy segment and 28% growth in Vera&John
 - Adjusted EBITDA¹ increased 6% (growth of 8% on a like-for-like basis³), reflecting the planned increase in marketing costs in the second half of the year and the application of point of consumption tax to gross gaming revenue ("POC2") in the UK in Q4
 - Adjusted net income¹ decreased 9% year-on-year due to higher net interest costs
- Impressive ongoing cash generation and successful re-financing:
 - Record £101.0 million of operating cash flow generated in 2017, equating to 22% growth year-on-year and 135p of operating cash flow per share²
 - Adjusted EBITDA¹ to cash conversion of 93%
 - Free cash flow (operating cash flow less capital expenditure) of £97.8 million

¹This release contains non-IFRS financial measures, which are noted where used. For additional details, including with respect to the reconciliations from these non-IFRS financial measures, please refer to the information under the heading "Note Regarding Non-IFRS Measures" on page 6 of this release and Note 5 – Segment Information of the consolidated financial statements on pages 33 through 36 of this release.

² Per share figures are calculated on a diluted weighted average basis using the IFRS treasury method.

³ Figures reflect Adjusted EBITDA growth factoring out £2.1 million in other income earned in 2016, as it is non-recurring.

- Successful refinancing of debt facilities and annualised interest cost savings in excess of £9.0 million a year
- Adjusted net debt⁴ of £387.3 million (reduced from £408.1 million at 31 December 2016) and adjusted net leverage ratio⁵ of 3.57x
- Solid start to FY18 with 12% growth in revenues to the end of February. The Group has comfortable cash resources to meet the final earn-out payment due to Gamesys in June 2018 (for the Spanish assets, Botemania) and expects to continue to deleverage the business during the year.

Operational highlights for the year

- Continued improvement in core KPIs⁶ year-on-year:
 - Average Active Customers per month⁶ grew to 250,321 in the year to 31 December 2017, an increase of 6% year-on-year
 - Average Real Money Gaming Revenue per month⁶ grew to £23.5 million, an increase of 16% year-on-year
 - Monthly Real Money Gaming Revenue per Average Active Customer⁶ of £94, an increase of 9% year-on-year

Business segments highlights for the year

- Jackpotjoy (69% of Group revenue) – Gaming revenue growth of 12%, driven by good operational execution across all major brands; Adjusted EBITDA¹ growth of 12% partially impacted by higher distribution costs from the launch of the new TV advertising campaign in September and the introduction of POC2 on gross gaming revenue in the UK in Q4; Starspins and Botemania brands (22% of segment revenues) continued to perform strongly
- Vera&John (24% of Group revenue) – Gaming revenue growth of 28% and Adjusted EBITDA¹ growth of 13%; revenue increased by 20% on a constant currency⁷ basis
- Mandalay (7% of Group revenue) – Gaming revenue decline of 7% and an Adjusted EBITDA¹ increase of 8% due to lower marketing spend; operational margins and deposit hold have been improving since the segment focused on changing promotional spend in Q1 2017

Outlook

The 2018 financial year has seen a solid start with a healthy double-digit progression in Group revenues. We are due to make the final earn-out payment to Gamesys in June and expect to meet this comfortably from existing cash resources. Deleveraging remains core to our strategy and we

⁴ Adjusted net debt consists of existing term loan, convertible debentures, non-compete clause payout, and contingent consideration liability less non-restricted cash.

⁵ Adjusted net leverage ratio consists of existing term loans, convertible debentures, non-compete clause payout and contingent consideration liability less non-restricted cash divided by LTM to 31 December 2017 Adjusted EBITDA of £108.6 million.

⁶ For additional details, please refer to the information under the heading “Key performance indicators” on pages 13 and 14 of this release.

⁷ Constant currency amounts are calculated by applying the same EUR to GBP average exchange rates to both, current and prior year comparative periods.



expect to make further progress in this area over the course of the financial year. The UK and other global online gaming markets continue to offer significant growth opportunities, and we are confident that we are well-placed to take advantage of this backdrop and deliver further value to shareholders.

Neil Goulden, Executive Chairman, commented:

“The record financial results we achieved in 2017 reflect the dedication, ambition and work ethic present in employees across the business. As an organisation, we are committed to delivering the best customer experience across all our gaming verticals. We also strive to represent the highest standards of consumer best practice in our industry. This is underpinned by wholehearted support for the ethos of responsible gambling and proactive monitoring of player behaviour.

We are confident of our prospects for growth against a healthy market backdrop in global online gaming and determined to ensure we present an entertaining, fun and responsible environment for our customers to enjoy.”

Conference call

A conference call for analysts and investors will be held today at 1.00pm GMT / 9.00am ET. To participate, interested parties are asked to dial +44 (0) 20 3003 2666 or +1 800 608-0547, or for US shareholders +1 866 966-5335, 10 minutes prior to the scheduled start of the call using the reference "Jackpotjoy" when prompted. A replay of the conference call will be available for 30 days by dialling +44 (0) 20 8196 1998 or +1 866 583-1039 and using reference 8070495#. A transcript will also be made available on Jackpotjoy plc's website at www.jackpotjoyplc.com/investors.

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Executive Chairman's Review

Overview and summary of results

Some of the key highlights of this year include a successful UK listing, record results and the completion of the substantial majority of earn-out payments for prior year acquisitions. In addition, we completed a refinancing of all the Group's debt facilities with a major interest cost saving. We expect to make further progress in all key areas in 2018, whilst remaining vigilant over the operational and regulatory challenges which both the Group and the online gaming industry faces.

Successful UK listing January 2017

The journey of transition from a Canadian listed company began in July 2016 with the announcement of the intention to apply for a London listing for Jackpotjoy plc. Our largest market by far is the UK, but as well as reflecting our customer-facing profile, a primary motivation was to attain a more appropriate valuation of the Group's businesses. The Group successfully listed on the main market of the LSE in January 2017, and we expect the ongoing transition of shares from Canadian to international investors to be maintained. We continue to target a move to the Premium list of the LSE and remain focused on the steps needed to achieve this.

Record operational results

Gaming revenues grew 14% in 2017 to £304.6m, while Adjusted EBITDA¹ increased 6% to £108.6m representing a record outturn for the Group since its inception in 2014. Following a payment of £94.2m in June 2017 for all the non-Spanish assets acquired from Gamesys, the vast majority of our earn-out payments have now been met. We finished the year with Adjusted net debt⁴ of £387.3m and having successfully completed a major refinancing exercise, our interest bill has reduced by c.£9m per annum.

Senior divisional management appointees

During the year, we appointed two new divisional CEOs to our largest business segments to substantially enhance our key leadership team. Irina Cornides became CEO of the Jackpotjoy division in June 2017. Irina joined Intertain through the acquisition of Mandalay Media in 2014, where she served as Managing Director. Her prior industry experience spans over a decade and includes roles at PartyGaming (bwin.party/GVC) both pre-and post-IPO.

Subsequently, in September 2017, it was announced that David Flynn would be joining the Group as CEO of the Vera&John division. David was most recently the Group Chief Commercial Officer at NYX Gaming Group Limited ('NYX'), where he was responsible for NYX's revenue generation worldwide. With more than 14 years in the iGaming business, David has extensive digital gaming experience, having previously been both CEO and COO of NYX Interactive AB, prior to its merger with NextGen Gaming. He has also held executive management roles at Microgaming and Ogame.

Leadership team and Board developments

In January 2017, Nigel Brewster and Colin Sturgeon were appointed to the Board as Non-Executive Directors.

In October 2017, we announced that Andy McIver was to step down from his role as Chief Executive Officer. After several months of careful consideration and in consultation and agreement with Andy, the Board's view was that further operational expertise was required to ensure the Company is positioned to maximise future growth prospects through its core business segments. Andy left with our best wishes, having played a major role in achieving our listing on the LSE.

Under the Company's new management structure, I have become Executive Chairman, responsible for leading the development and execution of the Company's long-term strategy and the Board has appointed experienced gaming executive, Simon Wykes, as Chief Executive Officer of Jackpotjoy Operations Ltd. Simon had most recently completed an external consultancy role with Ladbrokes Coral on their merger integration plans, and he was previously Chief Executive Officer at Gala Leisure and Managing Director at Gala Coral Group, where he oversaw the execution of a successful strategic turnaround of its bingo division. He also served as Managing Director of Rank Group for over four years. His main role will be working operationally in the Company's global markets with the senior management teams across each of the Company's three business segments.

Other Board developments during the year included the announcement in September that Jörgen Nordlund (a co-founder of Vera&John) was stepping down as Non-Executive Director of Jackpotjoy plc following our successful relisting in London. We expect to announce a UK-based independent Non-Executive Director replacement in the coming months.

Overview of strategic development and execution

Our primary goals at the beginning of 2017 were to continue to execute operationally, to successfully list in London, to meet the earn-out obligations and to refinance our debt. Having successfully addressed each of these, we remain focused on the delivery of operational progress and revenue growth and also to deleverage as we seek to position the Group with a capital structure more akin to a typical UK-quoted online gaming company. In turn, we expect this to put us in a position where we can use the strong cash flow of the Group to return cash to shareholders. As we approach 2019, one of our key operational challenges will be to determine how we integrate the Jackpotjoy division employees that currently reside within Gamesys, and I am confident we have a team in place that can deliver this successfully.

Neil Goulden

Executive Chairman

20 March 2018

Note Regarding Non-IFRS Measures

The following non-IFRS definitions are used in this release because management believes that they provide additional useful information regarding ongoing operating and financial performance. Readers are cautioned that the definitions are not recognised measures under IFRS, do not have standardised meanings prescribed by IFRS, and should not be considered in isolation or construed to be alternatives to revenues and net income/(loss) and comprehensive income/(loss) for the period determined in accordance with IFRS or as indicators of performance, liquidity or cash flows. Our method of calculating these measures may differ from the method used by other entities. Accordingly, our measures may not be comparable to similarly titled measures used by other entities or in other jurisdictions.

Adjusted EBITDA, as defined by the Group, is income before interest expense including accelerated debt costs and other accretion (net of interest income), income taxes, amortisation and depreciation, share-based compensation, independent committee related expenses, severance costs, (gain)/loss on cross currency swap, fair value adjustments on contingent consideration, transaction related costs, foreign exchange (gain)/loss, and gain on sale of intangible assets. Management believes that Adjusted EBITDA is an important indicator of the issuer's ability to generate liquidity to service outstanding debt and fund acquisition earn-out payments and uses this metric for such purpose. The exclusion of share-based compensation eliminates non-cash items and the exclusion of independent committee related expenses, severance costs, (gain)/loss on cross currency swap, fair value adjustments on contingent consideration, transaction related costs, foreign exchange (gain)/loss, and gain on sale of intangible assets eliminates items which management believes are either non-operational and non-routine.

Adjusted Net Income, as defined by the Group, means net income plus or minus items of note that management may reasonably quantify and believes will provide the reader with a better understanding of the Group's underlying business performance. Adjusted Net Income is calculated by adjusting net income for accretion on financial liabilities including accelerated debt issue costs, amortisation of acquisition related purchase price intangibles and non-compete clauses, share-based compensation, independent committee related expenses, severance costs, (gain)/loss on cross currency swap, fair value adjustments on contingent consideration, transaction related costs, foreign exchange (gain)/loss substantially arising on the Group's credit facilities, and gain on sale of intangible assets. The exclusion of accretion on financial liabilities and share-based compensation eliminates the non-cash impact and the exclusion of amortisation of acquisition related purchase price intangibles and non-compete clauses, independent committee related expenses, severance costs, (gain)/loss on cross currency swap, fair value adjustments on contingent consideration, transaction related costs, foreign exchange (gain)/loss, and gain on sale of intangible assets eliminates items which management believes are non-operational and/or non-routine. Adjusted Net Income is considered by some investors and analysts for the purpose of assisting in valuing a company.

Diluted Adjusted Net Income per share, as defined by the Group, means Adjusted Net Income divided by the diluted weighted average number of shares outstanding, calculated using the IFRS treasury method, for the applicable period. Management believes that Diluted Adjusted Net Income per share assists with the Group's ability to analyse Adjusted Net Income on a diluted weighted average per share basis.

Cautionary Note Regarding Forward-Looking Information

This release contains certain information and statements that may constitute “forward-looking information” (including future-oriented financial information and financial outlooks) within the meaning of applicable laws, including Canadian securities laws. Often, but not always, forward-looking information can be identified by the use of words such as “plans”, “expects”, “estimates”, “projects”, “predicts”, “targets”, “seeks”, “intends”, “anticipates”, “believes”, or “is confident of” or the negative of such words or other variations of or synonyms for such words, or state that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved. Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance, achievements or developments to be materially different from those anticipated by the Group and expressed or implied by the forward-looking statements. Forward-looking information contained in this release includes, but is not limited to, statements with respect to the Group’s future financial performance, the future prospects of the Group’s business and operations, the Group’s growth opportunities and the execution of its growth strategies, the Group’s earn-out obligations and the possibility of the Group drawing on the Revolving Facility. Certain of these statements may constitute a financial outlook within the meaning of Canadian securities laws. These statements reflect the Group’s current expectations related to future events or its future results, performance, achievements or developments, and future trends affecting the Group. All such statements, other than statements of historical fact, are forward-looking information. Such forward-looking information is based on a number of assumptions which may prove to be incorrect, including, but not limited to, the ability of the Group to secure, maintain and comply with all required licenses, permits and certifications to carry out business in the jurisdictions in which it currently operates or intends to operate; governmental and regulatory actions, including the introduction of new laws or changes in laws (or the interpretation thereof) related to online gaming; general business, economic and market conditions (including market growth rates and the withdrawal of the UK from the European Union); the Group operating in foreign jurisdictions; the competitive environment; the expected growth of the online gaming market and potential new market opportunities; anticipated and unanticipated costs; the protection of the Group’s intellectual property rights; the Group’s ability to successfully integrate and realise the benefits of its completed acquisitions, the amount of expected earn-out payments required to be made; the Group’s continued relationship with the Gamesys group and other third parties; the ability of the Group to service its debt obligations; and the ability of the Group to obtain additional financing, if, as and when required. Such statements could also be materially affected by risks relating to the lack of available and qualified personnel or management; stock market volatility; taxation policies; competition; foreign operations; the Group’s limited operating history and the Group’s ability to access sufficient capital from internal or external sources. The foregoing risk factors are not intended to represent a complete list of factors that could affect the Group. Additional risk factors are discussed in Schedule “A” attached to Jackpotjoy plc’s most recently filed annual information form. Although the Group has attempted to identify important factors that could cause actual results, performance, achievements or developments to differ materially from those described in forward-looking statements, there may be other factors that cause actual results, performance, achievements or developments not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results, performance, achievement or developments are likely to differ, and may differ materially, from those expressed in or implied by the forward-looking information contained in this release. Accordingly, readers should not place undue reliance on forward-looking information. While subsequent events and developments may cause the Group’s expectations, estimates and views to change, the Group does not undertake or assume any obligation to update or revise any forward-looking information, except as required by applicable securities laws. The forward-looking information contained in this release should not be relied upon as representing the Group’s expectations, estimates and views as of any date subsequent to the date of this release. The forward-looking information contained in this release is expressly qualified by this cautionary statement. Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur.

Any future-oriented financial information or financial outlooks in this release are based on certain assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. While the Group considers these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. These risks, uncertainties and other factors include, but are not limited to: credit, market, currency, operational, liquidity and funding risks, including changes in economic conditions, and interest rates or tax rates.

Financial Review

Total revenue and other income

The Group's revenues during the three months ended 31 December 2017 consisted of:

- £56.1 million in revenue earned from Jackpotjoy's operational activities
- £21.7 million in revenue earned from Vera&John's operational activities
- £4.8 million in revenue earned from Mandalay's operational activities

The Group's revenues during the three months ended 31 December 2016 consisted of:

- £52.6 million in revenue earned from Jackpotjoy's operational activities
- £15.3 million in revenue earned from Vera&John's operational activities
- £5.1 million in revenue earned from Mandalay's operational activities

The increase in revenue for the three months ended 31 December 2017 in comparison with the three months ended 31 December 2016 relates primarily to organic growth⁸ of the Vera&John and Jackpotjoy segments, where revenues increased by 42% and 7%, respectively.

The Group's revenues during the year ended 31 December 2017 consisted of:

- £211.3 million in revenue earned from Jackpotjoy's operational activities
- £73.2 million in revenue earned from Vera&John's operational activities
- £20.2 million in revenue earned from Mandalay's operational activities

The Group's revenues during the year ended 31 December 2016 consisted of:

- £188.2 million in revenue earned from Jackpotjoy's operational activities
- £57.0 million in revenue earned from Vera&John's operational activities
- £21.7 million in revenue earned from Mandalay's operational activities
- £2.1 million in other income earned from the revenue guarantee relating to the service agreement entered into with Amaya Inc. (the "Revenue Guarantee") and Platform Migration Revenue (the "Platform Migration Revenue") from Amaya Inc. included in the Vera&John operating segment

The increase in revenue for the year ended 31 December 2017 in comparison with the year ended 31 December 2016 relates primarily to organic growth⁸ of the Vera&John and Jackpotjoy segments, where revenues increased by 28% and 12%, respectively.

⁸ Organic growth is growth achieved without accounting for acquisitions or disposals.

Costs and expenses

	Three month period ended 31 December 2017 (£000's)	Three month period ended 31 December 2016 (£000's)	Year ended 31 December 2017 (£000's)	Year ended 31 December 2016 (£000's)
Expenses:				
Distribution costs	45,489	37,066	147,483	130,735
Administrative costs	31,094	26,150	113,039	96,200
Transaction related costs	4,034	6,189	6,710	22,767
Severance costs	700	—	700	5,695
	81,317	69,405	267,932	255,397

Distribution costs

	Three month period ended 31 December 2017 (£000's)	Three month period ended 31 December 2016 (£000's)	Year ended 31 December 2017 (£000's)	Year ended 31 December 2016 (£000's)
Selling and marketing	16,720	14,382	49,760	46,744
Licensing fees	12,384	11,505	47,067	42,653
Gaming taxes	12,648	8,271	37,851	29,769
Processing fees	3,737	2,908	12,805	11,569
	45,489	37,066	147,483	130,735

Selling and marketing expenses consist of payments made to affiliates and general marketing expenses related to each brand. Licensing fees consist of the fees for the Mandalay and Jackpotjoy segments to operate on their respective platforms and game suppliers' fees paid by the Vera&John and Jackpotjoy segments. Gaming taxes largely consist of point of consumption ("POC") tax, which is a 15% tax on Total Real Money Gaming Revenue⁶ introduced in the UK in December 2014. Gaming taxes also consist of POC2, which was introduced in the UK in August 2017 and came into effect in Q4 2017. Processing fees consist of costs associated with using payment providers and include payment service provider transaction and handling costs, as well as deposit and withdrawal fees. With the exception of selling and marketing expenses, distribution costs tend to be variable in relation to revenue.

The increase in distribution costs for the three months and year ended 31 December 2017 compared to the same periods in 2016 is mainly due to the higher revenues achieved.

Administrative costs

	Three month period ended 31 December 2017 (£000's)	Three month period ended 31 December 2016 (£000's)	Year ended 31 December 2017 (£000's)	Year ended 31 December 2016 (£000's)
Compensation and benefits	9,126	8,849	34,848	29,490
Professional fees	1,074	447	3,749	3,741
General and administrative	4,503	2,280	11,400	6,836
Amortisation and depreciation	16,391	14,574	63,042	56,133
	31,094	26,150	113,039	96,200

Compensation and benefits costs consist of salaries, wages, bonuses, directors' fees, benefits and share-based compensation expense. The increase in costs for the three months and year ended 31 December 2017 compared to the same periods in 2016 relates to staff additions, bonus accruals, and salary increases in various business units.

Professional fees consist mainly of legal, accounting and audit fees. The increase in professional fees for the three months ended 31 December 2017 compared to the same period in 2016 relates to increases in consulting and legal costs associated with the Group's growth and dual listings on both, the London Stock Exchange and the Toronto Stock Exchange. However, professional fees incurred in the year ended 31 December 2017 are flat in comparison to the same period in 2016 as prior year balances included one-time costs related to the Independent Committee.

General and administrative expenses consist of items such as rent and occupancy, travel and accommodation, insurance, listing fees, technology and development costs, write-offs of accounts receivable and other office overhead charges. The increase in these expenses for the three months ended 31 December 2017 compared to the same period in the prior year can be attributed mostly to higher travel costs and accounts receivable write-offs of £1.4 million recorded in the current period. The increase in these expenses for the year ended 31 December 2017 compared to the same period in the prior year relates to accounts receivable write-offs of £1.5 million, as well as higher travel costs and overheads.

Amortisation and depreciation consists of amortisation of the Group's intangible assets and depreciation of the Group's tangible assets over their useful lives. The increase in amortisation and depreciation for the three months and year ended 31 December 2017 is due to intangible and tangible asset additions since Q1 2016, particularly the non-compete clauses (as defined below), for which amortisation started in 2017.

Transaction related costs

Transaction related costs consist of legal, professional, due diligence, other direct costs/fees associated with transactions and acquisitions contemplated or completed, initiatives, costs related to corporate structure optimisation, and the refinancing of the Group's external debt. 2016 and Q1 2017 transaction related costs also included costs associated with the UK strategic review and initiatives undertaken by the Intertain board of directors. Transaction related costs for the year ended 31 December 2016 additionally included special committee fees.

Business unit results

Jackpotjoy

	Q4 2017 £(millions)	Q4 2016 £(millions)	Variance £(millions)	Variance %
Revenue	56.1	52.6	3.5	7%
Distribution costs	30.5	26.9	3.6	13%
Administration costs	4.6	4.0	0.6	15%
Adjusted EBITDA ¹	21.0	21.7	(0.7)	(3%)

	YTD 2017 £(millions)	YTD 2016 £(millions)	Variance £(millions)	Variance %
Revenue	211.3	188.2	23.1	12%
Distribution costs	99.1	88.1	11.0	12%
Administration costs	17.1	15.5	1.6	10%
Adjusted EBITDA ¹	95.1	84.6	10.5	12%

Revenue for the Jackpotjoy segment increased in the three months and year ended 31 December 2017 due to organic growth⁸ led by sharp increases in Starspins and Botemania brands. Collectively, they accounted for 25% and 22% of the segment's revenue for the three months and year ended 31 December 2017, respectively. Jackpotjoy UK brand revenue accounted for 64% and 66% of the Jackpotjoy segment's revenue for the three months and year ended 31 December 2017, respectively. In addition to higher revenues achieved, the increase in distribution costs for the three months and year ended 31 December 2017 is further driven by the segment's UK TV marketing campaign launched in September 2017, as well as an incremental gaming tax expense incurred in Q4 2017, which relates to the introduction of tax on bonuses through UK POC2 tax.

Vera&John

	Q4 2017 £(millions)	Q4 2016 £(millions)	Variance £(millions)	Variance %
Revenue	21.7	15.3	6.4	42%
Distribution costs	11.6	6.9	4.7	68%
Administration costs	6.5	4.2	2.3	55%
Adjusted EBITDA ¹	3.6	4.2	(0.6)	(14%)

	YTD 2017 £(millions)	YTD 2016 £(millions)	Variance £(millions)	Variance %
Revenue	73.2	57.0*	16.2	28%
Distribution costs	36.6	28.3	8.3	29%
Administration costs	18.6	12.8	5.8	45%
Adjusted EBITDA ¹	18.0	15.9*	2.1	13%

*Excludes £2.1 million of other income earned from the Revenue Guarantee and from Platform Migration Revenue in 2016.

Revenue for the Vera&John segment in the three months and year ended 31 December 2017 increased by 42% and 28% respectively, compared to the same periods in 2016 due to strong organic growth⁸. GBP to EUR exchange rate movement also impacted these results. On a constant currency⁷ basis, in the three months and year ended 31 December 2017, revenue increased by 39% and 20% respectively, compared to same periods in 2016. Distribution costs also increased by 68% and 29% as game suppliers and payment providers' costs moved proportionally with revenue. Selling and marketing costs increased by 72% and 35% in the three months and year ended 31 December 2017 respectively, due to several marketing campaigns launched in Q4 2017.

Increases in administration costs for the three months and year ended 31 December 2017 compared to the same periods in 2016, were mainly driven by accounts receivable write-offs recorded in Q4 2017, as well as increases in personnel costs as the segment continues to grow.

Mandalay

	Q4 2017 £(millions)	Q4 2016 £(millions)	Variance £(millions)	Variance %
Revenue	4.8	5.1	(0.3)	(6%)
Distribution costs	3.3	3.2	0.1	3%
Administration costs	0.4	0.3	0.1	33%
Adjusted EBITDA ¹	1.1	1.6	(0.5)	(31%)

	YTD 2017 £(millions)	YTD 2016 £(millions)	Variance £(millions)	Variance %
Revenue	20.2	21.7	(1.5)	(7%)
Distribution costs	11.7	14.0	(2.3)	(16%)
Administration costs	1.4	1.1	0.3	27%
Adjusted EBITDA ¹	7.1	6.6	0.5	8%

Revenue for the Mandalay segment for the three months and year ended 31 December 2017 was 6% and 7% lower respectively, compared to the same periods in 2016. Adjusted EBITDA¹ for the three months ended 31 December 2017 was 31% lower compared to the prior period due to incremental gaming tax expense incurred in Q4 2017, which relates to POC2. This was partially offset by lower marketing spend in the period.

However, for the year ended 31 December 2017, Adjusted EBITDA¹ was 8% higher compared to the same period in 2016 as a result of lower marketing spend. Operational margins and deposit hold have been improving since the segment focused on changing promotional spend in Q1 2017. The segment continues to focus on developing a long-term strategy to best maximise future growth.

Unallocated Corporate Costs

Adjusted EBITDA¹ on unallocated corporate costs decreased from (£2.4) million to (£3.1) million in the three months ended 31 December 2017 compared to the three months ended 31 December

2016. The variance mainly relates to a £0.2 million increase in general and administrative overheads and a £0.6 million increase in professional fees, which were slightly offset by a £0.2 million decrease in compensation.

Adjusted EBITDA¹ on unallocated corporate costs decreased from (£7.0) million to (£11.7) million in the year ended 31 December 2017 as compared to the year ended 31 December 2016. This is primarily due to an increase of £1.7 million in compensation due to the addition of new staff and bonuses, a £1.2 million increase in general and administrative overhead costs associated with increased headcount and higher travel costs, as well as a £1.8 million increase in professional fees.

Key performance indicators

Average Active Customers is a key performance indicator used by management to assess real money customer acquisition and real money customer retention efforts of each of the Group's brands. The Group defines Average Active Customers as being real money customers who have placed at least one bet in a given month ("Average Active Customers").

"Average Active Customers per month" is the Average Active Customers per month, averaged over a twelve-month period. While this measure is not recognised by IFRS, management believes that it is a meaningful indicator of the Group's ability to acquire and retain customers.

Total Real Money Gaming Revenue and Average Real Money Gaming Revenue per month are key performance indicators used by management to assess revenue earned from real money gaming operations of the business. The Group defines Total Real Money Gaming Revenue ("Total Real Money Gaming Revenue") as revenue less revenue earned from the Revenue Guarantee, affiliate websites and social gaming.

The Group defines Average Real Money Gaming Revenue per month ("Average Real Money Gaming Revenue per month") as Real Money Gaming Revenue per month, averaged over a twelve-month period. While these measures are not recognised by IFRS, management believes that they are meaningful indicators of the Group's real money gaming operational results.

Monthly Real Money Gaming Revenue per Average Active Customer is a key performance indicator used by management to assess the Group's ability to generate Real Money Gaming Revenue on a per customer basis.

The Group defines Monthly Real Money Gaming Revenue per Average Active Customer ("Monthly Real Money Gaming Revenue per Average Active Customer") as being Average Real Money Gaming Revenue per month divided by Average Active Customers per month. While this measure is not recognised by IFRS, management believes that it is a meaningful indicator of the Group's ability to generate Total Real Money Gaming Revenue.

	Year ended 31 December 2017	Year ended 31 December 2016	Variance	Variance %
Average Active Customers per month (#)	250,321	235,584	14,737	6%
Total Real Money Gaming Revenue (£000's) ⁽¹⁾	282,375	243,042	39,333	16%
Average Real Money Gaming Revenue per month (£000's)	23,531	20,254	3,277	16%
Monthly Real Money Gaming Revenue per Average Active Customer (£)	94	86	8	9%

⁽¹⁾ Total Real Money Gaming Revenue for the year ended 31 December 2017 consists of total revenue less other income earned from the Revenue Guarantee and Platform Migration Revenue of £nil (31 December 2016 - £2.1 million) and revenue earned from affiliate websites and social gaming revenue of £22.3 million (31 December 2016 - £23.9 million).

Monthly Real Money Gaming Revenue per Average Active Customer⁶ increased by 9% year-over-year which is in line with the Group's overall customer acquisition and retention strategy.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	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 income⁵	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 expenses⁵	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.

CONSOLIDATED BALANCE SHEETS

ASSETS	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.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	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.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	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)
<i>Add (deduct) items not involving cash</i>		
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
<i>Change in non-cash operating items</i>		
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)	35,632
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.

SUPPLEMENTARY NOTES FOR THE YEAR ENDED 31 DECEMBER 2017

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 adopted by the EU.

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-Complete 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:

	As at 31 December 2017 (£000's)	As at 31 December 2016 (£000's)*
Financial Institution Rating		
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.

	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)
At 31 December 2017			
Canadian dollar	(816)	(82)	82
EURO	(109,095)	(10,910)	10,910
United States dollar	7,320	732	(732)
At 31 December 2016			
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:

	<u>(£000's)</u>
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	<u>120,187</u>
Fair value adjustments	27,562
Payments	(94,218)
Accretion of discount	6,052
Contingent consideration, 31 December 2017	<u>59,583</u>
Current portion	<u>51,866</u>
Non-current portion	<u>7,717</u>

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.

	(£000's)	Ordinary shares of £0.10 #
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)	<u>701</u>	<u>(64)</u>

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)	<u>701</u>	<u>(64)</u>

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.