Annual Report and Accounts 2017

GAMING REALMS

PLAYING A NEW GAME

Gaming Realms is a developer, publisher and licensor of mobile games, building an international portfolio of highly popular gaming content and brands.
Our vertically integrated approach, as well as investment in our proprietary mobile platform and successful brand partnerships, gives us complete control to offer highly popular games to a very broad audience.

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2017 Highlights

Financial

Delivered a maiden full year Adjusted EBITDA of
£0.8m
(2016: £2m loss)

Real money gaming (RMG) EBITDA increased
113%
to £2.7m (2016: 1.3m)

Social publishing EBITDA loss reduced
97%
to £0.1m (2016: £1.8m loss)

» Affiliate business transferred to held for sale and subsequently sold in March 2018

» Total Revenue down by 7% to £31.6m (2016: £34.0m) for the year ended 31 December 2017

» Revenue excluding disposed non-core assets down by 1%

RMG revenue increased by 5% to
£22.7m
(2016: £21.5m)

Licensing revenue increased
7%
to £0.8m (2016: £0.8m)

Social publishing revenue decreased by 13% to
£6.9m
(2016: £7.9m) with 45% reduction in marketing as well as a reduction in headcount of 19

RMG marketing decreased by
17%

Operational

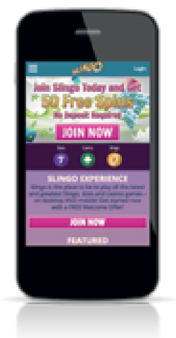
» Launched new content licensing business in addition to brand licensing. In 2017 the Remote Game Server was certified and deployed in New Jersey and Europe

» Secured a 10-year services agreement and £3.5m convertible loan with Jackpotjoy Group

» Settled $4.5m/£3.3m final tranche payment relating to the Slingo acquisition

Strategic brand partnership deployments with ITV and STORM for LoveIslandgames as well as growing previous partnerships with Fremantle and Endemol

» Integration of real money gaming and social game development roadmap



Game library growth to
19
proprietary games on our Grizzly platform (2016: 8)

Total game library growth to
683
games on our Grizzly platform (2016: 458)

Own game content and IP generated
38%
(2016: 37%) of real money gaming and social publishing revenue

At a glance

Innovation at our heart

Gaming Realms develops, publishes and licenses mobile gaming content. Our market-leading mobile technology powers content distribution and monetization across real money and social publishing markets.

As the creator of a variety of Slingo™, bingo, slots and other casual games, we use our proprietary data platform to build and engage global audiences that are expanding even further via strategic lottery, media and platform partnerships. Gaming Realms has partnered with some of the most successful and popular global platforms and operators.

Integrated game development, licensing and publishing

Game development

3 Mobile games studios:

Game publishing

End to end publisher with 100% regulated gaming and social games revenues.

» Our mobile-first, real money gaming platform 'Grizzly' is licensed in Alderney and by the UK Gambling Commission.

» Our real money gaming players are exclusively in the UK today.

» Our mobile-first, social games are available on iOS, Google Play, Facebook, Amazon and mobile web.

» c.90% of our publishing revenue is derived from mobile with our platform and games optimized for every device.

» Our platform is powered by sophisticated data science and engineering to drive optimal ROI for acquiring and retaining our audience.

Game licensing

IP licensor

» North American Lottery Printed Scratch Games – Scientific Games

» Global Electronic Gaming Machines – Scientific Games

» Global Lottery Mobile Instant Games – IWG

» Social Slot Games – Zynga Inc.

Content licensor

» Social Puzzle Games – Electronic Arts Inc.

» Bingo – Pala Interactive

» iGaming Library – US and EU

- US – Caesars Interactive, Resorts Inc, Pala Interactive, Rush Street and Golden Nugget
- Europe – LadbrokesCoral, 888, JackpotJoy and Bet Victor

Brand partnerships

» Endemol – Deal or No Deal

» Freemantle – Britain's Got Talent, the X Factor

» Northern & Shell – Health Games

» ITV – Love Island, Dancing On Ice, The Only Way is Essex, Hell's Kitchen

» Sony – Who Wants to Be a Millionaire

Our key focus areas

Original game content & IP development

We build original content from our own London, Victoria and Brest based studios incorporating social meta games and real money mechanics with well-known brands.

Advanced mobile gaming platform

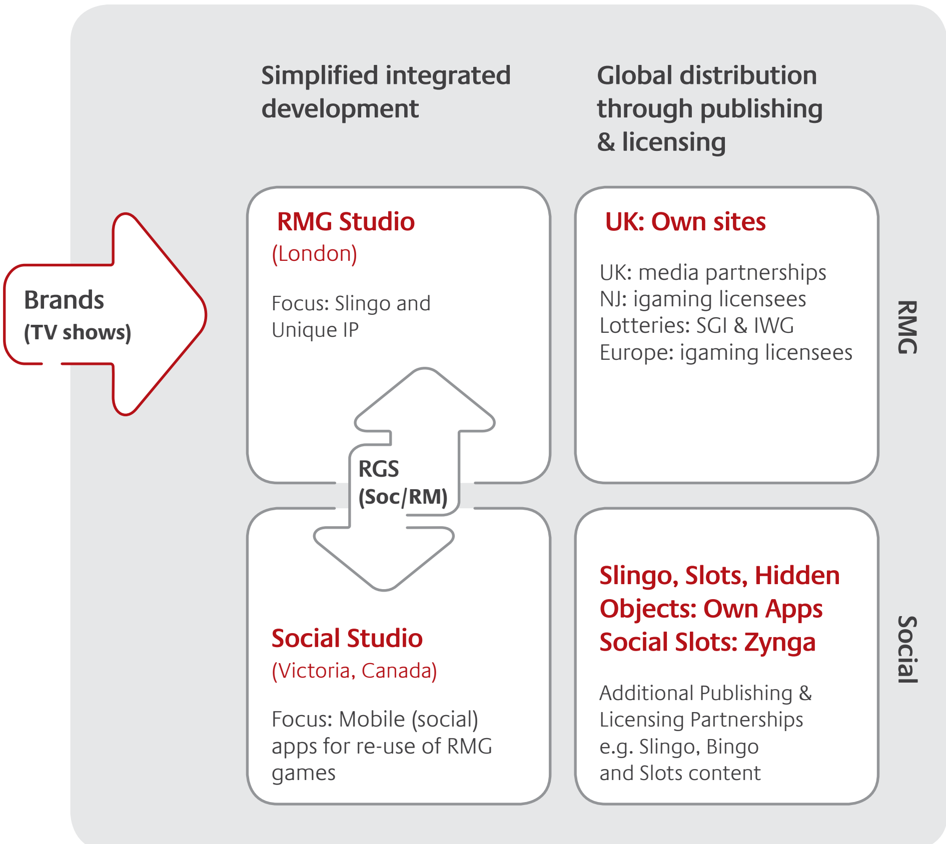
We have invested significantly in our mobile based gambling and social platforms powered by algorithmic CRM and personalised content. Our real money gaming business is operated from Guernsey and fully licensed by the UK Gambling Commission for both development and operation.

Data and algorithmic optimisation

'It's all about the data' - from advanced algorithms to individual landing pages designed to give the player an optimised experience.

Strategic partners and licensing

Partners include Fremantle, Zynga, IWG, Pala Interactive and Scientific Games. Not only do we leverage our own IP across multiple brands, but we also license Slingo into markets adjacent to the Group's core mobile gaming business.



Responsible gambling

Gaming Realms is committed to providing an environment for customers to play responsibly and securely. Since commencing operations we have had measures in place to encourage responsible play – to keep it fun – and have provided tools to help keep customers' gaming and spending within their control.

Gaming Realms has worked closely with other operators to help develop and shape a responsible approach to customers across the industry. Internally, we regularly conduct training for all our employees to raise awareness of problem gambling.

Our marketing and advertising strategies comply with the Committee of Advertising Practice (CAP), the Broadcast Committee of Advertising Practice (BCAP) and the Industry Group for Responsible Gambling (IGRG) advertising codes. Gaming Realms has also implemented new policies in response to the published guidelines from the UK Gambling Commission and the Competition and Markets Authority to ensure our terms are clear and fair.

In addition, we fund research, education and treatment of problem gambling through donations to GambleAware.

In 2017 we made several improvements to our processes to improve risk profiling and alerts for customers who may exhibit signs of problem gambling. We also established a dedicated team to focus on identifying concerns around problem gambling, source of funds and affordability.

All our customers have access to tools to help manage their gameplay, including:

- Session reminders – alerting customers when they've been playing for a set period
- Deposit Limits – customers can set daily, weekly or monthly deposit limits
- Cool down – customers may configure a period of time in days or weeks during which play on any of our sites will be stopped
- Self-exclusion – customers may exclude themselves permanently from all our sites

Chairman's Statement

Delivering growth

Michael Buckley
Chairman

The Group's strategy of disposing of non-core assets, and concentrating on delivering operating profit in its two main business units, has resulted in the Group ending 2017 in a much stronger position than the previous year.

I am pleased to report that the Group delivered a positive Adjusted EBITDA of £0.8m for 2017 (2016: £2m loss). This was achieved in part through significant cost reductions primarily in Social Publishing, and our rationalisation in overall marketing.

The Group's strategy of disposing of non-core assets, and concentrating on delivering operating profit in its two main business units, has resulted in the Group ending 2017 in a much stronger position than the previous year. Following this strategy, we sold our non-core affiliate business for £2.4m in March 2018.

We were able to grow Real Money Gaming revenue by 5% to £22.7m during the year (2016: £21.5m). This was achieved through operational improvements including player management, where bonus costs reduced to circa 26% of Gross Gaming Revenue (2016: 29%), and despite a 17% reduction in marketing costs.

The UK Real Money Gaming market has been challenging, with a great deal of new regulation to contend with as well as adverse changes in Point of Consumption tax. It would therefore be remiss of me not to emphasise the adverse effect that increased Government regulation has had on our UK Real Money Gaming business. Implementing changes to comply with the various laws incurs one off costs where it involves changes to our platforms and software, and recurring daily costs where it affects the operation of the sites. This has put pressure on margins throughout the last two years. On 17 May 2018, the Government announced that it proposes to reduce the permitted maximum allowed stake on Fixed Odds Terminals in betting shops to £2 from the current £100. Due to the resulting loss of tax revenue, the Government also announced that Remote Gaming Duty will be raised at the next Budget in November 2018 in order to balance the budget. This makes it likely that there will be a further rise in the rate of Point of Consumption tax.

We had a significant year in Social Publishing, with a reorganisation of the business and a substantial reduction in costs of circa £3m on an annualised basis. This was accompanied by a reduction of 45% in marketing expenditure which resulted in a reduction of 13% in revenues to £6.9m (2016: £7.9m), whilst reducing losses by 97% to £0.1m (2016: £1.8m).

We continued to execute synergies and leverage Slingo across our business. For example we took Slingo Originals games produced in our studio in London for real money, and offered these through our Slingo Arcade mobile app. These synergies helped take our Social Publishing business to profitability in H2 2017. Given these positive results, we have refocused our social growth exclusively through development of the Slingo Arcade app on which we will publish Slingo Originals content.

With the increase in our library of proprietary games, we are developing high margin revenue opportunities in game content licensing. We launched into the New Jersey, USA market in H2 2017, going live with Caesers Interactive, Resorts Digital Gaming and Rush Street Interactive. Our game licensing in New Jersey has grown in Q1 2018, with the addition of Golden Nugget and Pala Interactive. In March 2018, GGR from our games accounted for over 3% of the total New Jersey online casino market. Currently we have 9 games live in that market, with a pipeline of content to be produced for Real Money Gaming to distribute with existing and new partners during the current year.

ITV
partnership with launch of loveislandgames

£3m
reduction in Social Publishing costs

£2.4m
Sale of non-core affiliate business

In December 2017, the Group entered into a 10-year framework services agreement with the Jackpotjoy Group, under which we will supply various real money gaming services including the licensing of Slingo Originals content. The Company also signed a separate agreement to build Jackpothappy as a white label site on the Gaming Realms proprietary platform.

As part of the arrangements between the two companies, the Jackpotjoy Group entered into a £3.5m secured convertible loan agreement with the Company full details of which are given later in this Report and Accounts.

In summary, the Group has delivered an annual positive Adjusted EBITDA for the first time, significantly reduced run rate costs, has achieved a break-even position in Social Publishing, and is licensing games into New Jersey and Europe via its RGS. This is in addition to having a growing profitable UK based Real Money Gaming operation all leveraging our Slingo Originals games. Through focus on these tightly integrated core activities, we are now in a position to drive further profitable growth in the future.

Outlook for 2018

The Board has approved the 2018 operating plan which is to increase top line growth in UK real money gaming from our Grizzly operating platform and continue the development and licensing of mobile focused gambling games.

We plan to expand our presence in Europe and extend the recent licensing deals with 888 and Gala Bingo with deals involving other large operators. Benefits flowing from these activities should be supplemented by the benefits we hope to achieve from the 2017 investment in development and integration synergies within our social publishing business.

Capitalising on our success in New Jersey, we will licence Slingo Originals to more operators as well as licence our content in other States approving real money online gaming such as Pennsylvania. We will also pursue opportunities in Columbia and one or more provinces in Canada. On 14 May 2018, the US Supreme Court announced a decision to reverse a ban on sports betting within the USA. Whilst the expansion of sports betting on a state by state basis will no doubt be a slower process than many operators would like, the introduction of legalised betting into many states is likely to be a precursor to other forms of regulated online gaming. In the longer term, it seems likely that this decision will enable the Company to expand further into the US market, and is a cause for some additional optimism for the future.

Based on the Company's performance to date in 2018, the board believes that the results for the year ending 31 December 2018 should be in line with management's current expectations.

Michael Buckley
Chairman

4 June 2018

Chief Executive's Review

A focused strategy

Patrick Southon
Chief Executive Officer

Real Money Gaming delivered revenue growth in the very competitive UK market, despite the headwinds of increased regulation and Point of Consumption tax.

Overview

In 2017, the Group continued its strategy to focus on developing its unique proprietary content, 'Slingo Originals', and achieve a positive Adjusted EBITDA result.

Real Money Gaming delivered revenue growth in the very competitive UK market, despite the headwinds of increased regulation and Point of Consumption tax. We continued to develop and distribute market leading mobile content onto our Grizzly platform as well as to third party operators. We also streamlined our Social Publishing business, reducing losses to break even and creating further synergies with our games studio in London.

The investment in both our proprietary platform and mobile content development has led to the continued growth in a younger, more casual player set. Mobile play has increased to 84.0% (2016: 80.0%) of gross gaming revenue.

Growth in 2017 has been supported by key media deals with ITV, including Love Island and Dancing On Ice, as well as continuing relationships with Fremantle for the X Factor and Britain's Got Talent, which have allowed us to offer a more targeted gambling offering to our key demographic.

We have augmented this by the in-house creation of 11 new unique 'Slingo Original' mobile games bringing us to 19 in total, which account for over £123m (2016: £86m) in wagering on the platform or 27% of the gross gaming revenue for the year.

Gambling player deposits increased to £49.8m (2016: £49.0m). We have also managed to reduce bonus costs to 26% (2016: 29%) of gross gaming revenue. The cost per acquisition on the platform was £74 (2016: £86), and we gained 108,720 (2016: 116,349) new depositing players in the year. Our revenue per depositing player increased 7% to £162 (2016: £153).

Demand for our unique content has led to the development of a Remote Game Server ('RGS') which allows our 'Slingo Original' games to be licensed to third party operators as premium content. 2017 saw the launch of Slingo Orignals in New Jersey and in Europe. This will form a key part of our strategy in 2018 as we look to expand the reach of our content into new international territories. In 2018 we have achieved growth to 3% of the online casino market in New Jersey as well as sign deals with several 'tier one operators' in Europe. We are aiming to be live with 10 'tier one operators' by the end of the year. This will build high margin, recurring revenue in adjacent markets.

We have further integrated the social business in H2 2017 with the creation of a shared development path which now allows us to deliver content simultaneously to both real money gaming and social audiences. The first offering in this regard is Slingo Arcade which, following launch in late Q4/16 has become our highest grossing social app with very encouraging metrics. In future, emphasis will be on using this channel to monetize content developed for real money gaming similar to licensing our content to third party operators. This has resulted in a reduction in Social Publishing headcount from 53 in June 2016 to 19 in December 2017. With the reduction in costs and marketing, we have seen revenues fall 13% however this delivered a reduced full year EBITDA loss of £0.1m (2016: £1.8m).

Key goals for 2018

- Continued profitability in Real Money Gaming and Social Publishing; following 2017 cost reductions and operational improvements
- Continue strategic investment in Slingo Originals content library for overall revenue growth but with greater emphasis on content licensing
- Increase B2B partners on Grizzly platform
- Increase new licensees for Slingo Original content
- Further expansion of strategic media partnerships across all revenue streams

Patrick Southon
Chief Executive Officer

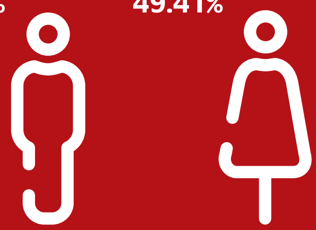
4 June 2018

Market overview

We are continuing to focus on the younger more casual gambling demographic. We are targeting them through mobile delivery and original game IP. This is enabling us to acquire and engage players away from the more crowded, male orientated sportsbook market. The 25 to 34 year-old group are our largest segment accounting for over 40% of all players. As a result of our content strategy, women are delivering higher lifetime values on the platform despite the fact that the active players, male to female ratio is 50:50.

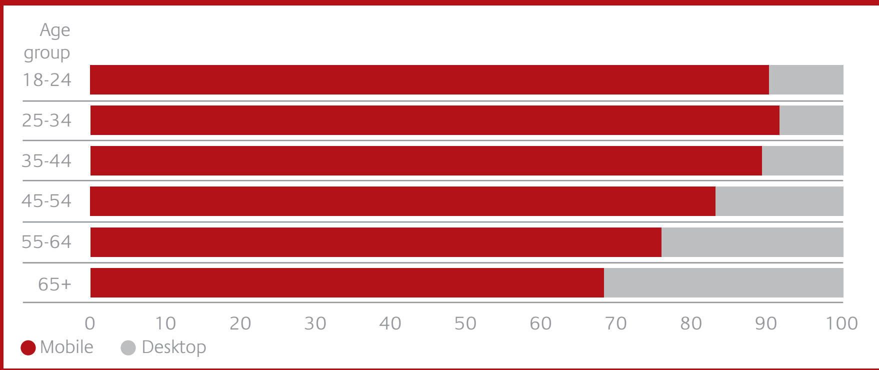
Real money payers

50.59% 49.41%

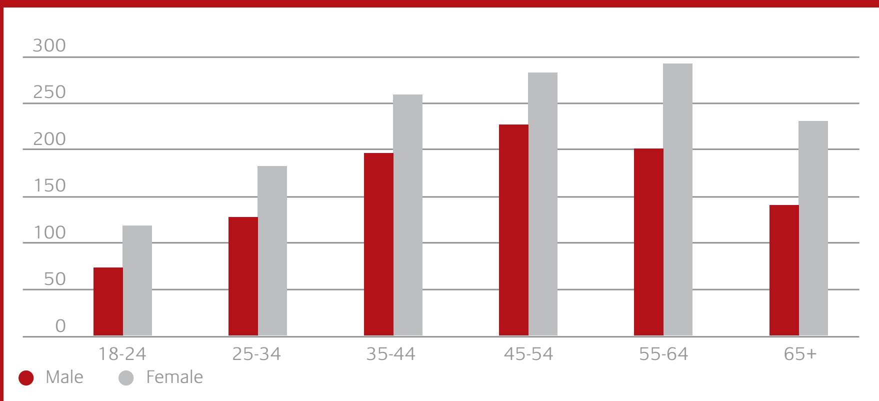


Players under 35

Device age split (last 6 months)



Demographic – Average NGR of funded users



VS

Game activity by device (last 6 months)

Desktop	vs	Mobile
1,210,481	GGR	7,514,878
4.60%	Margin	4.68%
11,756	Unique funded players	49,661
18,794	Unique players	100,995
47	Average age	37

Financial review

A strong performance

Mark Segal
Chief Financial Officer

Overview

Gaming Realms has delivered a maiden full year Adjusted EBITDA of £0.8m (2016: loss £2.0m). This was driven by revenue growth in RMG (5%) and significant cost savings across both RMG and Social Publishing.

Year-on-year revenue declined 7% to £31.6m (2016: £34.0m) due to the prior year disposal of the white label operations and agency business, which generated £1.9m of the £3.7m Affiliate marketing revenue in 2016. Like for like revenue (excluding the disposed assets) was down by 1%.

Marketing for the year, was £10.4m (2016: £14.8m) as the Group has focused on more cost-efficient marketing strategies.

Loss after tax from continuing operations reduced by £0.7m to £6.0m. Total loss after tax increased to £8.2m due to impairment of £3.1m in respect of the discontinued Affiliate marketing segment.

Real money gaming

Real money gaming on the Grizzly platform has grown 5% to £22.7m (2016: £21.5m). This reflects the continuing investment into development and targeted marketing.

Operating expenses include point of consumption tax, third party royalties and transaction costs. Operating costs have increased 15% to £8.9m (2016: £7.5m) because of the increase in revenue and size of the operation. Changes in point of consumption tax basis resulted in costs increasing to 38% (2016: 35%) as a proportion of revenue.

Adjusted EBITDA improved by 113% to £2.7m (2016: 1.3m) with cost savings of £1.7m achieved in marketing.

Affiliates

Affiliate marketing generated revenues of £1.3m (2016: £1.8m). 2016 also included £1.9m of revenue attributable to the disposed white label and agency business.

The Affiliate business was reclassified as held for sale as at 31 December 2017 with £3.1m of impairment recognised. The Group has sold the affiliate marketing business in Q1 2018 for £2.4m.

£0.8m
adjusted EBITDA (2016: loss £2.0m)

5%
revenue growth in real money gaming

£10.4m
marketing for 2017 (2016: £14.8m)

Social publishing

We achieved profit for Social Publishing in H2 2017, delivering a reduced full year loss of £0.1m (2016: loss £1.8m) as a result of reducing marketing by 45% and administrative expenses by 28%. Despite the reduction in marketing investment, Social Publishing revenue decreased by only 13% to £6.9m (2016: £7.9m).

During the year, Gaming Realms closed its Seattle operations resulting in restructuring costs in year of £0.9m, which will provide annual synergies of over £3m going forward.

Licensing

Licensing revenue increased 7% to £0.8m (2016: £0.8m) despite having less brand licensing in year. We launched in New Jersey and Europe during 2017 from where we will see contributions in 2018 and beyond.

Cashflow, Balance Sheet and Going Concern

Net cash decreased by £1.3m in 2017 (2016: increased by £0.1m) due to continued investment in development of £3.2m. The prior year cash position was improved by the sale of the white label business for £1.2m and share issues totalling £4m.

Net assets totalled £16.2m (2016: £24.3m). The reduction year-on-year is as a result of annual amortisation of Intangible assets of £4.9m and Impairment of the Affiliate CGU of £3.1m

Following the restructure of Social Publishing, the 2018 sale of the Affiliates CGU, and the global high margin opportunities in game content licensing the Directors believe the Group is in a strong position and expects to be cash generative for 2018.

As a result the Directors consider that the Group has adequate resources to continue its normal course of operations for the foreseeable future.

Dividend

During the year, Gaming Realms did not pay an interim or final dividend. The Board of Directors are not proposing a final dividend for the current year.

Corporation and deferred taxation

The Group received £389,354 (2016: £27,961) in research and development credits in the year and has recognised an unwind of deferred tax of £223,617 (2016: £248,941) which arose on business combinations.

2017	Real money gaming £	Affiliate marketing £	Social publishing £	Licensing £	Other £	Intra-group[1] £	Total 2017 £
Revenue	**22,717,729**	**1,322,713**	**6,878,760**	**839,541**	**179,315**	**(291,506)**	**31,646,552**
Marketing expense	**(8,022,410)**	**(128,316)**	**(2,171,341)**	**–**	**(109,514)**	**–**	**(10,431,581)**
Operating expense	**(8,867,787)**	**(76,316)**	**(1,754,450)**	**(24,961)**	**–**	**291,506**	**(10,432,008)**
Administrative expense	**(3,153,222)**	**(226,035)**	**(3,010,164)**	**(1,036,352)**	**(2,720,598)**	**–**	**(10,146,371)**
Share-based payments	**–**	**–**	**–**	**–**	**149,810**	**–**	**149,810**
Adjusted EBITDA[2]	**2,674,310**	**892,046**	**(57,195)**	**(221,772)**	**(2,650,797)**	**–**	**786,402**
2016							
Revenue	21,543,708	3,697,951	7,884,101	786,843	45,515	–	33,958,118
Marketing expense	(9,685,716)	(1,161,390)	(3,937,053)	–	(26,756)	–	(14,810,915)
Operating expense	(7,464,250)	(264,810)	(1,608,789)	–	–	–	(9,337,849)
Administrative expense	(3,138,644)	(676,922)	(4,140,794)	(343,488)	(2,526,921)	–	(10,826,769)
Share-based payments	–	–	–	–	(993,349)	–	(993,349)
Adjusted EBITDA[2]	1,255,098	1,594,829	(1,802,535)	443,355	(3,501,511)	–	(2,010,764)

1 Segmental revenue includes £291,506 (2016: NIL) of inter-segment Licensing revenue. This is shown as an Operating Expense under the Real Money Gaming segment and eliminates on consolidation.

2 EBITDA and Adjusted EBITDA are non-GAAP measures and exclude exceptional items, depreciation, and amortisation. Exceptional items are those items the Group considers to be non-recurring or material in nature that may distort an understanding of financial performance or impair comparability. See Note 4 and Note 26.

Mark Segal
Chief Financial Officer

4 June 2018

Principal risks and uncertainties

The Board constantly monitors and assesses risks and uncertainties within the Group's trading activities. There will always be a level of risk that needs to be evaluated against the Group's potential returns in any activity.

High risk | Medium risk | Low risk

Risk type	Level	Description of risk	How this risk is managed
Regulatory and legislation	Medium risk	Online gambling and gaming is subject to a dynamic and complex regulatory regime. The Group now holds licences from the Alderney Gambling Control Commission, the UK Gambling Commission and a transactional waiver for New Jersey Division for Gaming Enforcement whilst it seeks a full New Jersey licence. It is key to the Group to maintain compliance with all licences and any new ones that are required. These are critical to the continuing operation of the Group's gambling activities and also the production and supply of its unique content into both its operations and other third parties.	The Group has a compliance team to ensure that all regulatory guidelines are met in its gambling operations. The Group also maintains close legal counsel to advise on any changes to the regulatory framework, as well as updates on territories currently outside the Group's activities.
Taxation risk	Medium risk	From the end of 2014, the Group has been subject to point of consumption tax in relation to its gambling activities within the UK. Any changes to the tax rate or the point at which it is incurred may adversely affect duty payable.	The Group continues to take advice and keep up to date with changes in the gambling tax regime.
Residency	Medium risk	The Group has legal entities in several jurisdictions, including US, Canada and Alderney. Its real money gaming operations are based in Alderney where there is a zero rate for corporation tax and is outside the scope of VAT. If there was a change to the rate of corporate tax or VAT in Alderney, it would have an adverse effect on the amount of tax payable within the Group.	The Group has undertaken a detailed transfer pricing exercise to ensure that revenue and profits are attributed correctly between the operating locations and continues to monitor taxation policies in all jurisdictions.
Competition	High risk	The online and free to play gaming markets are highly competitive in North America and the UK. Failure to be able to hold a competitive advantage would result in attracting less players and have lower engagement on our apps and sites.	In following the Group's strategy of developing new unique IP and content, the Group feels well placed to be able to compete in the markets it operates in. It invests significant resource to be able to improve its development and operations. Diverse products and geographies also helps to diversify the risk.
Brexit	Low risk	On 23 June 2016 the UK voted to leave the EU. This may reduce the Group's ability to operate on an unfettered basis in certain EU markets. The Group, along with other EU based online gaming operators, have previously relied on the ability to challenge such protectionist measures through the EU Court of Justice ('CJEU'). In the event that the UK was to leave the EU, unless the Group was to re-domicile certain of its subsidiaries within the EU, it would no longer be able to rely on such protection. Such a re-domiciliation could give rise to higher taxes payable.	The Group will continue to closely monitor the situation and respond as the timing and terms of the UK's exit from the EU become clearer.

High risk | Medium risk | Low risk

Risk type	Level	Description of risk	How this risk is managed
Time to market	Low risk	The Group invests highly in technology and bringing new products and games to market. A delay in time to market will result in a loss of competitive advantage, a loss in potential revenue and also increasing cost of development.	The Group has invested highly in having a dual product track to allow its products and games to be ready for both licensing and publishing exploitation in the same release. Extensive work is undergone on the planning stage to ensure that time frames can be met and products go live at the highest standard.
Dependence on technology	Medium risk	As a provider of online gambling services, the Group's business is reliant on technology and advanced information systems. If the Group does not invest in the maintenance and further development of its technology systems, there is a risk that these systems may not cope with the needs of the business and may fail. The Group is reliant on the Internet and is vulnerable to activities such as distributed denial of service attacks, other forms of cyber-crime and a wide range of malicious viruses.	The Group continues to invest in its proprietary platform to ensure the necessary features and functionality meet partner needs. In addition, it has adopted industry standard protections to detect intrusions or other security breaches and implements preventative measures to protect against sabotage, hackers, viruses and other cyber-crime. The group also holds relevant insurance to cover against this.
Dependence on third-party service providers	Medium risk	The Group engages with a number of providers of non-proprietary third-party games and payment processing services, as well as other important service providers. In the event that there is any interruption to the products or services provided by third parties, problems in supplying the products, one or more ceased to be provided or are provided on onerous terms to the Group, this may have an adverse effect on the Group's business and performance.	The Group uses reliable industry suppliers and ensures that contractual agreements with key partners offer adequate protection.
The team	Low risk	The ability to carry out the Groups strategy is dependent on the engagement of its senior management team, its technology, marketing and operations teams. The group operates with a small team across 3 main locations. If key employees leave, there is a risk of loss of knowledge.	The Group continues to invest in its employees to ensure that it can attract, recruit and maintain a high-quality team.

The 2017 Strategic Report on pages 1 to 11, has been approved by the Board of Directors.

On behalf of the Board

Michael Buckley
Chairman

4 June 2018

Patrick Southon
Chief Executive Officer

4 June 2018

Board of Directors and Executive Management

MB

Michael Buckley
Chairman

Michael Buckley was Chairman of Cashcade, which he founded with Patrick Southon and Simon Collins in 2000. Cashcade became a leading UK-based online gaming company prior to its sale to PartyGaming plc in 2009 for an aggregate sale consideration of £96m for shareholders.

Michael has invested in and been Chairman of a number of public companies. These include SelecTV plc, a producer of comedy and comedy drama series for television such as Lovejoy, Birds of a Feather and The New Statesman. SelecTV invested in a consortium which in 1991 won the franchise to create Meridian Television of which Michael was a founding Director. He was also Chairman of Pacific Media plc, which invested in a number of internet backbone companies in Asia during the 1990s as well as creating a chain of movie theatres in South East Asia in partnership with United Artists Theatre Circuit Inc. Michael has held other public and private company directorships, having obtained a professional qualification as a chartered accountant in the UK.

MS

Mark Segal
Chief Financial Officer

Mark Segal joined Gaming Realms in May 2013 having left bwin.party as Finance Director for the bingo vertical. Previous to that Mark was Finance Director of Cashcade until it was acquired by PartyGaming plc in July 2009. Mark was responsible for the full finance function, including commercial negotiations, business intelligence and operational support in the business, and was involved in the sale to PartyGaming plc and acquisition by Cashcade of Independent Technology Ventures in July 2007. Prior to joining Cashcade, in May 2005, Mark spent five years at the accountancy firm Martin Greene Ravden, where he qualified as a chartered accountant in 2003.

PS

Patrick Southon
Chief Executive Officer

Patrick Southon has been working within the online gambling sector for the last 16 years. He is particularly focused on marketing, brand building and media buying. Patrick was Managing Director of Cashcade and Managing Partner of NewGame an investment fund focusing on innovation within the gambling sector. His marketing expertise allowed Cashcade to build a distinctive and prominent brand identity around, among others, its flagship 'Foxy Bingo' brand and turned the company into one of the most effective advertisers on British television. Based on research by TNS, Marketing Magazine cited Foxy Bingo as having the best value television advertising between 2008 and 2010.

AB

Atul Bali
Non-executive Director

Atul Bali currently serves as the non-exec Chairman of Meridian, a non-executive Director for Metric Gaming and for Rainbow Rare Earths plc. In addition, Atul advises a portfolio of private companies in the lottery, land based and online gaming and fintech spaces. Previously Atul held divisional CEO/President roles at three multinational listed companies: Real Networks Inc (NASDAQ:RNWK) (the creator of audio and video streaming technology on the internet); Aristocrat (ASX:ALL) (a leading casino supplier): after more than 13 years at GTECH (NYSE: IGT) where he led Global Business Development, Strategy & Corporate Development, their fintech division, lottery procurement and privatization bids, later forming GTECH G2 and serving as its President & CEO and the Chairman of Boss Media. Atul has a B.A. (Hons) in Law & Economics and is an FCA (he trained with KPMG in the UK) and has been licensed by more than 200 gaming regulators around the world.

SC

Simon Collins
Executive Director

Simon Collins was the co-founder and Commercial Director of Cashcade. He formed a range of profitable B2B and affiliate relationships for Cashcade and was an early adopter of both search engine and social network marketing in the monetised digital gaming space. In 2008 and 2009, Cashcade featured in The Sunday Times Top 20 fastest growing technology companies and the business won numerous other industry awards. Following the sale of Cashcade, Simon remained at bwin.party until April 2011, where he focused on innovation, research and development as well as the ongoing development of Cashcade's brand in the social networking space. Since leaving bwin.party, Simon joined Patrick Southon in founding NewGame, an investment fund focusing on innovation within the gambling sector.

JR

Jim Ryan
Non-executive Director

Jim Ryan is the CEO of Pala Interactive, LLC a real money gambling operator focused on the US regulated online gaming market. Prior to Pala Interactive, Jim was the Co-CEO of bwin.party digital entertainment plc. He has spent the last 14 years of his career in leadership roles within the online gaming sector. Jim has led a number of the industry's largest merger and acquisition transactions which include the merger of PartyGaming plc and bwin, the acquisitions of Cashcade (Foxy Bingo) and the World Poker Tour and the sale of St Minver Limited to GTECH. Jim held senior posts at four publicly listed companies. In addition to his role of CEO of PartyGaming plc and Co-CEO of bwin.party digital entertainment plc he was President and Chief Executive Officer of Excapsa Software Inc. and as Chief Financial Officer of CryptoLogic Inc. and Chief Financial Officer of SXC Health Solutions Corp and was CEO of St. Minver Limited. Jim also held senior management posts at Procuron Inc., Metcan Information Technologies Inc. and Epson Canada Limited. Educated at Brock University (Goodman School of Business) in Ontario, Canada, where he obtained a business degree with first class honours, Jim obtained professional qualifications as a chartered accountant and certified public accountant from the Canadian Institute of Chartered Accountants.

MW

Mark Wilson
Non-executive Director

Mark Wilson is a strategic adviser and investor in media, gaming and real estate. Mark has held multiple senior leadership positions, serving as CEO of Television Games Network, Executive Chairman of Music Choice International, President of Hubbard Enterprises, Managing Member of New Mexico Gaming LLC, and General Counsel and Corporate Secretary of Churchill Downs. He received a Juris Doctorate from the University of Louisville.

CB

Chris Bell
Non-executive Director

Chris has over 25 years' experience working in the gaming industry. He joined the Hilton Group in 1991 and was appointed managing director of the company's Ladbrokes Worldwide business in 1994. He joined the Board of Hilton Group in June 2000 and, following the disposal of its hotels division in 2006, became Ladbroke's Chief Executive. He held this position until May 2010. Since leaving Ladbrokes, Chris has held many senior non-executive board positions operating in the UK and around the world including Responsible Gambling Strategy Board and a trustee of the Northern Racing College. He is currently Chairman of XLMedia Plc and TechFinancials, Inc. and the Senior Independent Director of The Rank Group Plc.

Executive Management

SD

Stephen Downer
Chief Operating Officer

Stephen Downer has more than fifteen years of experience in online gaming. As Director of Gaming at Sky Bet for ten years, he launched and ran Sky Vegas, Sky Poker and Sky Bingo until 2012. A year later, Stephen led Betfair's online casino launch in New Jersey, and more recently managed Betfair's regulated sports betting and gaming businesses in Spain, Denmark and Bulgaria.

PT

Philip Tuck
Business Intelligence Director

Philip Tuck is a specialist in algorithmic development, machine learning, predictive modelling, database management/construction and behavioural science within the real money gambling and social gaming space.

He brings a consistent track record of delivering algorithmic CRM systems, managing analytics platforms and utilising ROI focused BI across a wide range of gaming products and companies, including Betfair, Ladbrokes and Gaming Realms, and is a regular speaker on the gaming and data conference circuit.

PG

Paul Gambrell
Chief Technology Officer

Paul Gambrell is a technology evangelist and web technologies expert with over ten years' experience building online gaming platforms and driving the adoption of modern technologies in the gambling sector.

After beginning his career at Virtue Fusion and Playtech, Paul was part of the founding team of social gaming development house Bejig. Following the acquisition of Bejig by Gaming Realms in 2013, he has steered the technical direction of the Group, leading the platform development team for three years before taking over as CTO.

PM

Paul Munro
Operational Director of Bear Group Limited

Paul Munro has worked for over 15 years in the online gambling sector. In 1998 he was working with games suppliers such as Cryptologic. In 2009, he was with a start-up involved with live presenter bingo and games suppler and Sportech Alderney.

Directors' report

for the year ended 31 December 2017

The Directors present their Annual Report together with the audited financial statements for the year ended 31 December 2017.

Principal activities

The Group's principal activities during the year continued to be that of an online casino operator, the provision and marketing of interactive casino services to customers in the UK and social publishing on mobile to customers in the US and Europe.

These financial statements present the results of the Group for the year ended 31 December 2017.

Names of Directors and dates of any changes

The Directors who served during the year and to the date of this report were:

» Michael Buckley

» Patrick Southon

» Mark Segal

» Simon Collins

» Atul Bali

» Jim Ryan

» Mark Wilson

» Chris Bell (appointed 1 October 2017)

Results and dividends

The results for the year are set out on page 21. The Company will not be paying a dividend this year.

Disclosures to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

BDO LLP, have expressed their willingness to continue in office and a resolution to reappoint them will be proposed for the Annual General Meeting in accordance with Section 489 of the Companies Act 2006.

Financial instruments

Details of the Group's financial risk management objectives and policies are included in Note 22 to the financial statements.

Research and Development

The Group maintains its level of investment in software development activities. In the opinion of the Directors, continued investment in this area is essential to strengthen the Group's market position and for future growth.

During the year the Group claimed Research and Development relief as per Note 11.

Future developments

Future developments are discussed in the Chairman's Statement on page 4 and in the Chief Executive's Review on page 6.

Patrick Southon
Chief Executive Officer

4 June 2018

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market ('AIM').

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

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

Corporate Governance

Corporate Governance

Although companies traded on AIM are not required to provide corporate governance disclosure, or follow guidelines in the UK Corporate Governance Code (the 'Code') issued by the Financial Reporting Council ('FRC'), the Directors recognise the value and importance of high standards of corporate governance.

Given the Company's size and the constitution of the Board, the following is a brief summary of the main aspects of corporate governance currently in place.

The Board has established an Audit Committee and a Remuneration Committee with formally delegated responsibilities.

The Remuneration Committee is chaired by Mark Wilson. Its other members are currently Michael Buckley and Jim Ryan. This committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to their remuneration and terms of employment. The Remuneration Committee also makes recommendations to the Board on proposals for the granting of share options and other equity incentives. The Board sets the remuneration and terms and conditions of appointment of the Non-Executive Directors.

The Audit Committee is chaired by Jim Ryan. Its other members are Atul Bali and Michael Buckley. The Committee determines the terms of engagement of the Company's auditors and, in consultation with them, the scope of the audit. It receives and reviews reports from management and the Company's auditors relating to the interim and annual financial statements and the accounting and internal control systems in use by the Group. The Audit Committee has unrestricted access to the Company's auditors. Under its terms of reference, the Audit Committee monitors, amongst other matters, the integrity of the Group's financial statements. The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the re-appointment of the external auditors. It is responsible for ensuring that an appropriate business relationship is maintained between the Group and the external auditors, including reviewing non-audit services and fees. The Committee meets with Executive Directors and management as well as meeting privately with the external auditors.

There is not a separate Nominations Committee and the Board as a whole considers recommendations for appointments to the Board.

The Directors follow the guidance set out by Rule 21 of AIM Rules relating to dealings by Directors in the Company's securities and, to this end, the Company has adopted an appropriate share dealing code.

Going concern

Under company law, the Company's Directors are required to consider whether it is appropriate to prepare financial statements on the basis that the Group and Company are a going concern. As part of the normal business practice the Group prepares annual and three-year plans and, in reviewing this information, the Company's Directors are satisfied that the Group and the Company have reasonable resources and future cash flows to enable them to continue in business for the foreseeable future. For this reason, the Company and Group continue to adopt the going concern basis in preparing the financial statements.

Independent Auditors' report

to the Members of Gaming Realms plc

Opinion

We have audited the financial statements of Gaming Realms plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

» the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;

» the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

» the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

» the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

» the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

» the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition (with reference to Note 9)

Key audit matter

The group has a number of revenue streams. The details of the accounting policies applied during the period are given in Note 1 to the financial statements.

For its B2C revenue streams, the group is reliant on IT systems which record all gaming transactions including deposits, withdrawals, wins and losses and their ability to process data accurately is critical.

Management make certain judgements around revenue recognition and the treatment of contractual arrangements for revenue streams entered into. There is a potential risk that revenue is recorded incorrectly from a timing perspective or that it is inappropriately recognised on a gross versus net basis.

Our response

We assessed the design and implementation of the controls over the group's revenue cycles.

We assessed whether the revenue recognition policies adopted by the group comply with IFRS and Industry standards.

We tested revenue through substantive procedures. This included agreement to underlying source data, and the use of IT audit data analytic techniques to underpin our substantive testing of certain revenue streams.

We reviewed a sample of key contracts entered into during the year to assess whether the revenue had been recognised in accordance with the group's accounting policy, to assess the critical estimates and judgements, and whether any other terms within the contract had any material accounting or disclosure implications.

Impairment of capitalised development costs and other intangibles (with reference to Note 13)

Key audit matter

In accordance with IAS 36, the group monitors the carrying value of goodwill and other intangible assets for indications of impairment. Recoverable amount is the higher of value in use and fair value less cost to sell. If the carrying value of these assets exceeds their recoverable amount there is a risk of material misstatement. The group performs annual impairment reviews for each CGU.

The Group has made losses in the current and preceding year, the Group also continues to evolve and adapt its operations.

Impairment reviews require significant judgement from management and are based on assumptions in respect of future profitability and the allocation of assets and liabilities between CGUs. This risk is considered significant due to the level of judgement involved and the opportunity for management bias within the impairment model assumptions.

Independent Auditors' report

to the Members of Gaming Realms plc continued

Our response

Where recoverable amount was based on value in use, the audit team challenged the appropriateness of the key assumptions used in the discounted cash flow models prepared by management and applied sensitivities to assess the potential for impairment of goodwill and those assets where indications of impairment were present. Our work was based on our assessment of the historical accuracy of the group's estimates in previous periods, our understanding of the commercial prospects of the assets, discussions with managements surrounding the future plans for the operation, identification and analysis of changes in assumptions from prior periods and an assessment of the consistency of assumptions across the impairment reviews.

Where recoverable amount was based on fair value less cost to sell, the audit team obtained supporting evidence for the identified fair value and considered the sensitivity and judgement applied to the amounts identified.

We considered the appropriateness of the related disclosures provided in the group financial statements, including disclosure of the significant judgements and estimates, and the sensitivity disclosures made by management.

Capitalisation of development costs and other intangibles (with reference to Note 13)

Key audit matter

The group has material expenditure on internal development of intangible software assets. Such expenditure should only be capitalised when it qualifies under the specified criteria of IAS 38 and as such this is an area of judgement. For internally generated intangible assets, capitalised cost should meet the following criteria:

» Technical feasibility

» Intention to complete and use/sell

» Ability to use/sell

» Probable future economic benefits

» Technical, financial and other resources to complete

» Accurately identify and measure expenditure

Upon completion of development, the costs are amortised to the consolidated income statement over the estimated economic life. There are a number of judgements involved in accounting for development expenditure, including whether the activities are appropriate for capitalisation in accordance with the criteria of the standard, the allocation of the development costs to a particular product and the estimated useful economic life of each product.

The risk also encompasses the possibility that the development activities may supersede costs previously capitalised. Due to the level of judgement, there is considered to be an inherent risk of management override.

Our response

We assessed the design and implementation of the controls over the group's capitalisation cycles.

We assessed whether the capitalisation policies adopted by the group comply with IFRS and Industry standards.

The audit team tested a sample of costs capitalised in the year to ensure they met the criteria of IAS 38, including agreement of the costs to source documentation.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Level of materiality applied and rationale

We consider Net Revenue to be the most appropriate performance measure for the basis of materiality in respect of the audit of the group. Using this benchmark, we set materiality at £316k (2016: £330k) being 1% (2016: 1%) of Revenue.

Materiality in respect of the audit of the Parent Company has been set at £300k (2016: £313k) using a benchmark of 2% of total assets, limited to 95% of group materiality (2016: 2% total assets, limited to 95% of group materiality). We consider total assets to be the most appropriate measure for the basis of materiality as the Parent Company is a holding company.

Performance materiality was set at 75% (2016: 75%) of materiality for both the group and parent company audits. In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.

Component materiality

We set materiality for each component of the group, other than the parent company, at 10-75% of materiality to account for the aggregation risk.

Agreement with the Audit Committee

We agreed with the Audit Committee that we would report to the Committee all audit differences individually in excess of £16k (2016: £16k). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including the group's system of internal control, and assessing the risks of material misstatement in the financial statements at the group level.

In determining the scope of our audit we considered the level of work to be performed at each component in order to ensure sufficient assurance was gained to allow us to express an opinion on the financial statements of the group as a whole.

The group consists of 8 components all of which were subject to a full audit by the group audit team.

We tailored the extent of the work to be performed on each component, which was performed by the group audit team, based on our assessment of the risk of material misstatement at each component.

We obtained an understanding of the entity-level controls of the group as a whole which assisted us in identifying and assessing risks of material misstatement due to fraud or error, as well as assisting us in determining the most appropriate audit strategy.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

» the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

» the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

» adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

» the parent company financial statements are not in agreement with the accounting records and returns; or

» certain disclosures of Directors' remuneration specified by law are not made; or

» we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 15, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kieran Storan
Senior Statutory Auditor
For and on behalf of BDO LLP, statutory auditor
London, UK

4 June 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Note	2017 £	2016 £
Revenue	9	**30,323,839**	32,188,618
Marketing expenses		**(10,303,265)**	(14,526,772)
Operating expenses		**(10,355,692)**	(9,220,384)
Administrative expenses		**(10,655,593)**	(10,280,232)
Share-based payments	26	**4,810**	(993,349)
Adjusted EBITDA total[1]	4	**786,402**	(2,010,766)
Adjusted EBITDA – discontinued	19	**(892,046)**	(1,140,187)
Profit on disposal	4	**–**	318,834
Restructuring costs	4	**(880,257)**	–
EBITDA		**(985,901)**	(2,832,119)
Amortisation of intangible assets	13	**(4,932,699)**	(3,979,941)
Depreciation of property, plant and equipment	15	**(173,638)**	(120,789)
Finance expense	10	**(752,600)**	(1,178,154)
Finance income	10	**239,603**	3,022
Loss before tax		**(6,605,235)**	(8,107,981)
Tax credit	11	**612,903**	272,451
Loss for the financial year – continuing		**(5,992,332)**	(7,835,530)
Loss/profit for the financial year – discontinued	19	**(2,235,335)**	1,140,187
Loss for the financial year – total		**(8,227,667)**	(6,695,343)
Other comprehensive income			
Fair value gain on available for sale assets	14	**207,222**	–
Exchange (loss)/gain arising on translation of foreign operations		**(1,022,056)**	1,836,352
Total other comprehensive income		**(814,834)**	1,836,352
Total comprehensive income		**(9,042,501)**	(5,999,178)
Loss attributable to:			
Owners of the parent		**(8,225,956)**	(6,685,120)
Non-controlling interest		**(1,711)**	(10,223)
		(8,227,667)	(6,695,343)
Total comprehensive income attributable to:			
Owners of the parent		**(9,007,324)**	(4,882,234)
Non-controlling interest		**(35,177)**	23,243
		(9,042,501)	(4,858,991)
(Loss)/gain per share		**Pence**	Pence
Basic and diluted (pence) – continuing		**(2.15)**	(2.99)
Basic and diluted (pence) – discontinued		**(0.80)**	0.43
Basic and diluted (pence) – total	12	**(2.95)**	(2.56)

1 EBITDA and Adjusted EBITDA are non-GAAP measures and exclude exceptional items, depreciation, and amortisation. Exceptional items are those items the Group considers to be non-recurring or material in nature that may distort an understanding of financial performance or impair comparability. See Note 3 and Note 26.

The notes on pages 24 to 45 form part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2017

	Note	31 December 2017 £	31 December 2016 £
Non-current assets			
Intangible assets	13	**20,464,170**	28,661,837
Available-for-sale investment	14	**747,222**	540,000
Property, plant and equipment	15	**263,069**	373,307
Other assets	16	**163,865**	152,000
		21,638,326	29,727,144
Current assets			
Trade and other receivables	17	**3,759,434**	3,347,595
Cash and cash equivalents	18	**2,283,302**	2,616,267
		6,042,736	5,963,862
Assets classified as held for sale	19	**2,292,881**	–
Total assets		**29,973,943**	35,691,006
Current liabilities			
Trade and other payables	20	**9,269,732**	7,058,781
Deferred consideration		**–**	3,135,356
		9,269,732	10,194,137
Non-current liabilities			
Deferred tax liability	11	**881,512**	1,202,889
Other Creditors	21	**2,843,529**	–
Derivative liabilities	21	**600,000**	–
		4,325,041	1,202,889
Total liabilities		**13,594,773**	11,397,026
Net assets		**16,379,170**	24,293,980
Equity			
Share capital	23	**28,442,874**	27,413,329
Share premium	24	**87,198,410**	87,095,455
Merger reserve	24	**(67,673,657)**	(67,673,657)
Available for sale reserve	24	**207,222**	–
Foreign exchange reserve	24	**1,419,842**	2,408,432
Shares to be issued	24	**145,000**	–
Retained earnings	24	**(33,530,345)**	(25,154,580)
Total equity attributable to owners of the parent		**16,209,346**	24,088,979
Non-controlling interest		**169,824**	205,001
Total equity		**16,379,170**	24,293,980

The notes on pages 24 to 45 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 4 June 2018 and were signed on its behalf by:

Patrick Southon
Chief Executive Officer

Consolidated Statement of Cash Flows

for the year ended 31 December 2017

	Note	2017 £	2016 £
Cash flows from operating activities			
Loss for the period		**(8,227,667)**	(6,695,343)
Adjustments for:			
Depreciation of property, plant and equipment	15	**173,638**	120,789
Amortisation of intangible fixed assets	13	**4,932,699**	3,979,941
Impairment	19	**3,127,381**	–
Finance income	10	**(239,603)**	(3,022)
Finance expense	10	**312,904**	36,850
Movement in deferred consideration		**479,987**	1,141,304
Unwind of deferred tax recognised on business acquisitions		**(223,617)**	(248,941)
Unrealised currency translation gains		**(57,957)**	(191,548)
Loss on disposal of property, plant and equipment	15	**11,670**	6,531
Profit on disposal of assets	4	**–**	(318,834)
Share-based payments (release)/expense	7, 26	**(4,810)**	993,349
(Increase)/decrease in trade and other receivables		**(411,839)**	643,961
Increase in trade and other payables		**1,166,029**	2,759,244
Net cash flows from operating activities		**1,038,815**	2,224,281
Investing activities			
Acquisition of subsidiary, net of cash acquired	27	**–**	18,759
Purchases of property, plant and equipment	15	**(91,447)**	(289,256)
Purchase of intangibles	13	**(3,197,971)**	(3,969,611)
Proceeds from disposal of property, plant and equipment	15	**382**	–
Proceeds from disposal of assets	4	**–**	1,200,000
Interest received	10	**1,294**	3,022
Net cash used in investing activities		**(3,287,742)**	(3,037,086)
Financing activities			
Proceeds of Ordinary Share issue	23	**1,132,499**	4,025,000
Issuance cost of shares		**–**	(45,000)
Payment of deferred consideration		**–**	(3,071,447)
Proceeds from issue of convertible debt	21, 22	**122,966**	–
Cost relating to issue of convertible debt	21, 22	**(96,763)**	–
Interest paid	10	**(173,192)**	(36,850)
Net cash from financing activities		**985,510**	871,703
Net (decrease)/increase in cash and cash equivalents		**(1,263,417)**	58,898
Cash and cash equivalents at beginning of period		**2,597,465**	2,516,820
Exchange (gain)/losses on cash and cash equivalents		**(14,950)**	21,747
Cash and cash equivalents at end of period	18	**1,319,098**	2,597,465

Significant non-cash transactions are disclosed in Note 22. Cash flows from discontinued operations are included in Note 19.

The notes on pages 24 to 45 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Share capital £	Share premium £	Merger reserve £	Available for sale reserve £	Foreign Exchange Reserve £	Shares to be issued £	Retained earnings £	Total to equity holders of parents £	Non-controlling interest £	Total equity £
1 January 2016	**24,920,829**	**85,127,955**	**(68,393,657)**	**–**	**605,546**	–	**(19,462,809)**	**22,797,864**	**–**	**22,797,864**
Loss for the year	–	–	–	–	–	–	(6,685,120)	(6,685,120)	(10,223)	(6,695,343)
Other comprehensive income	–	–	–	–	1,802,886	–	–	1,802,886	33,466	1,836,352
Total comprehensive income for the year	–	–	–	–	1,802,886	–	(6,685,120)	(4,882,234)	23,243	(4,858,991)
Contributions by and distributions to owners										
Shares issued as part of the consideration in a business combination	480,000	–	720,000	–	–	–	–	1,200,000	–	1,200,000
Shares issued as part of the capital raising	2,012,500	2,012,500	–	–	–	–	–	4,025,000	–	4,025,000
Cost of issue of Ordinary Share capital	–	(45,000)	–	–	–	–	–	(45,000)	–	(45,000)
Share-based payment on share options (Note 26)	–	–	–	–	–	–	993,349	993,349	–	993,349
Non-controlling interests on acquisition of subsidiary	–	–	–	–	–	–	–	–	181,758	181,758
31 December 2016	**27,413,329**	**87,095,455**	**(67,673,657)**	**–**	**2,408,432**	–	**(25,154,580)**	**24,088,979**	**205,001**	**24,293,980**
Loss for the year	–	–	–	–	–	–	(8,225,956)	(8,225,956)	(1,711)	(8,227,667)
Other comprehensive income	–	–	–	207,222	(988,590)	–	–	(781,368)	(33,466)	(814,834)
Total comprehensive income/(loss) for the year	–	–	–	207,222	(988,590)	–	(8,225,956)	(9,007,324)	(35,177)	(9,042,501)
Contributions by and distributions to owners										
Shares issued as part of the capital raising	1,029,545	102,955	–	–	–	–	–	1,132,500	–	1,132,500
Share-based payment to Director (Note 7)	–	–	–	–	–	145,000	–	145,000	–	145,000
Share-based payment on share options (Note 26)	–	–	–	–	–	–	(149,810)	(149,810)	–	(149,810)
31 December 2017	**28,442,874**	**87,198,410**	**(67,673,657)**	**207,222**	**1,419,842**	**145,000**	**(33,530,345)**	**16,209,346**	**169,824**	**16,379,170**

The notes on pages 24 to 45 form part of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2017

1. Accounting policies

General information

Gaming Realms Plc (the 'Company') and its subsidiaries (together the 'Group').

The Company is admitted to trading on AIM of the London Stock Exchange. It is incorporated and domiciled in the UK. The address of its registered office is One Valentine Place, London, SE1 8QH.

Basis of preparation

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below.

The consolidated financial statements are presented in sterling.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) as adopted by the EU.

The preparation of financial statements in compliance with adopted IFRSs requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. The areas where significant estimates and judgments have been made in preparing the financial statements and their effect are disclosed in Note 2.

Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 31 December 2017 and the results of all subsidiaries for the year then ended.

Where the Company has control over an entity, it is classified as a subsidiary. The Company controls an entity if all three of the following elements are present: power over the entity, exposure to variable returns from the entity, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

Going concern

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Revenue

Revenue comprises net gaming revenue derived from real money gaming, licensing, advertising and social publishing.

Net gaming revenue derived from real money gaming

Net gaming revenue derives from online gambling operations and is defined as the difference between the amounts of bets placed by the players less amounts won by players. It is stated after deduction of certain bonuses, jackpots and prizes granted to players.

Net gaming revenue is recognised to the extent that its probable economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised in the accounting periods in which the player activity is concluded.

Affiliate revenue

Revenue is derived from marketing services provided in relation to online bingo and casino products. The commission revenue is calculated either as a percentage of net gaming revenue from the operators or in line with contracts (typically based on fixed price per player). Commission revenue is recognised to the extent that the probably economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised in the accounting periods in which the marketing services are provided.

Advertising revenue

Advertising revenue derives from contractual relationships with agencies, advertising brokers and certain advertisers for advertisements within our social games. Advertising revenue is recognised to the extent that it is probable economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised in the accounting periods in which the advertising is provided.

Social publishing revenue

Social publishing revenue derives from the purchase of credits and awards on the social gaming sites. Social publishing revenue is recognised to the extent that it is probable economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised in the accounting periods in which the user credit has been purchased.

Licensing revenue

Licensing revenue derives from contractual relationships for the use of intellectual property. Revenue is recognised where substantially all risk and rewards have been transferred and there are no further monetary or financial obligations to be fulfilled by the licensor. However, where there is ongoing obligations to the Group, license fees are recognised over the estimated period of the license to the licensee.

Administrative expenses

Administrative expenses include staff costs, share-based payments, professional, consulting and legal fees and other costs.

Adjusted EBITDA

EBITDA is a non-GAAP company specific measure defined as loss before tax adjusted for finance income and expense, depreciation and amortisation.

Adjusted EBITDA excludes non-recurring material items which are outside the normal scope of the Group's ordinary activities. Adjusted EBITDA is considered to be a key performance measure by the Directors as it serves as an indicator of financial performance. The adjusting items are separately disclosed in order to enhance the reader's understanding of the Group's profitability and cash flow generation. Adjusting items include EBITDA from discontinued operations, costs arising from a fundamental restructuring of the Group's operations, acquisition costs, and revaluation of balances denominated in non-presentational currency. Management have observed the FRC's guidance published in November 2017 regarding the treatment of share-based payments and have now included this charge in Adjusted EBITDA.

Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus the amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree. Contingent consideration is included in cost at its acquisition date fair value and in the case of contingent consideration classified as a financial liability, remeasured subsequently through profit or loss.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (ie the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ('CGUs'). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from a business combination that gives rise to the goodwill.

Impairment charges are included in the income statement, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

Discontinued operations

The results of operations disposed of or classified as held for sale during the year are included in the consolidated statement of comprehensive income up to the date of disposal. A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in the consolidated statement of comprehensive income as a single line which comprises the post-tax profit or loss of the discontinued operation along with the post-tax gain or loss recognised on the re-measurement to fair value less costs to sell or on disposal of the assets or disposal groups constituting discontinued operations.

Foreign currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their 'functional currency') are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the statement of comprehensive income. Foreign exchange differences arising from financing transactions are recognised in finance income/loss, differences arising from trading balances are recognised in administration costs.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2017 continued

1. Accounting policies (continued)

Exchange differences recognised as profit or loss in Group entities' separate financial statements on the translation of long-term monetary items forming part of the Parent company's net investment in the overseas operation concerned are reclassified to other comprehensive income and accumulated in the foreign exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

Financial assets

The Group classifies its financial assets depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

The Group's accounting policies for financial assets are as follows:

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Available-for-sale investments

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise principally the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value, other than those arising due to exchange rate fluctuations and interest calculated using the effective interest rate, recognised in other comprehensive income and accumulated in the available-for-sale reserve. Exchange differences on investments denominated in a foreign currency and interest calculated using the effective interest rate method are recognised in profit and loss.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and – for the purpose of the statement of cash flows - bank overdrafts. Bank overdrafts are shown within trade and other payables in current liabilities on the consolidated statement of financial position.

Assets held for sale

Non-current assets and disposal groups are classified as held for sale if the carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as being met only when the sale is highly probable, management is committed to a sale plan, the asset is available for immediate sale in its present condition and the sale is expected to be completed within one year from the date of classification. These assets are measured at the lower of carrying value and fair value less associated costs of sale except where the assets were previously classified as available for sale, in which case they are carried at fair value. Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

Financial liabilities

Financial liabilities held by the Group consist of deferred consideration, customer funds, trade payables, long-term borrowings and other short-term monetary liabilities, which are held at amortised cost, and derivative liabilities which are held at fair value through profit and loss.

The Group's accounting policies for financial liabilities are as follows:

Amortised cost

Financial liabilities measured at amortised cost are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument and subsequently recognised at amortised cost.

Deferred consideration arising from business combinations is recognised at present value and unwound over the period until settlement.

Derivative liabilities

Derivative financial instruments are initially recognised at fair value on the contract date and are subsequently measured at their fair value at each balance sheet date with movements recognised in the statement of comprehensive income.

Embedded derivatives are separated and fair-valued through the statement of comprehensive income when they are not closely related to their host contracts and meet the definition of a derivative, or where the host contract is not carried at fair value.

Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The Group's ordinary shares are classified as equity instruments.

Non-controlling interests

Non-controlling interest is initially recognised at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. The total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests.

Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where equity instruments are granted to persons other than employees, the consolidated statement of comprehensive income is charged with the fair value of goods and services received.

The fair value of share options issued without market-based vesting conditions is measured by the application of the Black-Scholes option pricing model by reference to the grant date of the options. The fair value of share options issued with market-based vesting conditions is measured by use of the Monte Carlo method.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or arise from other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements below).

Internally generated intangible assets (development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

» it is technically feasible to develop the product for it to be sold;

» adequate resources are available to complete the development;

» there is an intention to complete and sell the product;

» the Group is able to sell the product;

» sale of the product will generate future economic benefits; and

» expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the consolidated statement of comprehensive income as incurred.

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life
Customer databases	1-2 years
Development costs	3 years
Intellectual property	8 years
Domain names	2-3 years
Software	3 years

Research and development tax

Research and development taxation relief is recognised once management considers it probable that any amount claimable will be received.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2017 continued

1. Accounting policies (continued)

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit
- Investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost less estimated residual value, of each asset evenly over its expected useful life as follows:

Office, furniture and equipment	20% per annum straight-line
Computer equipment	33% per annum straight-line
Leasehold improvements	Over the life of the lease

Player liabilities

Liabilities to players comprise the amounts that are credited to customers' accounts including provision for bonuses granted by the Group. These amounts are repayable in accordance with the applicable terms and conditions.

Standards and interpretations

There are no new standards, interpretations or amendments which became effective in the period which have had a material effect on the Group's financial information.

Based on management's review to date, IFRS 9 is not expected to have any financial impact on the financial statements other than the classification of investments currently classified as available for sale investments. Management do not consider that the adoption of the expected credit loss impairment model will have a material impact on reported results.

When considering IFRS 16, the Group operates from leased offices in 4 countries. Total lease commitments at the reporting date are £1.4m and total rent costs expensed in the income statement in 2017 is £0.3m. Management are undertaking a review to calculate the initial recognition of right of use assets and the related liabilities.

Management have considered the impact of IFRS 15 on the business by product (see Note 9). Management consider the recognition basis will remain unchanged for RMG, Affiliate and Social publishing revenues, which generate the majority of the Groups revenues. Management continue to review revenue recognition under IFRS 15 for the licencing revenues, where terms differ by contract, but do not anticipate a material impact on the financial statements.

2. Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates

(a) Impairment of goodwill and other intangible assets

Goodwill and other intangible assets are reviewed for impairment and their values are written-down on the basis of the Group's expectations of future economic benefits expected to be received. Any process which attempts to estimate future outcomes to determine the recoverable amount is subject to uncertainty. The recoverable amount is determined based on the lower of value in use calculations, which require the estimate of future cash flows and the choice of discount rate to calculate the present value of the cash flows, and fair value less costs to sell. Calculations are based on management's forecasts for the period, and past experience of the same or similar assets. Where it is believed that the estimation uncertainty can give rise to material differences in asset carrying values, this will be stated in the relevant notes to the financial statements. See Note 13.

(b) Amortisation of development costs
Capitalised development costs are subject to amortisation over the estimated useful life and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The estimated useful life of these assets is based on management's estimates of the period over which the assets are expected to generate revenue and are periodically reviewed to confirm they are still appropriate.

(c) Carrying value of loan and derivative liabilities
Loans and derivative liabilities are measured at fair value which is dependent on future outcomes and market rates. Any process which attempts to estimate future outcomes is subject to uncertainty. See Note 21 for more detail.

Judgements
(a) Revenue recognition
Social publishing revenue is recognised as the service is delivered. This is considered to be when the player buys credits to play the game on the basis that there is no further service to be delivered. In addition, revenue generated from in app advertisements is recognised when the advertisement is displayed or offer has been completed by the customer and confirmed by third-party reports.

(b) Capitalisation of development costs
The identification of development costs that meet the criteria for capitalisation is dependent on management's judgement and knowledge of the work done. Development costs of gaming software platforms are separately identified. Key judgements relate to the separately identified projects, the expected future benefits and the useful economic life and are based on the information available at each period end. Economic success of any development is assessed on a reasonable basis but remains uncertain at the time of recognition.

(c) Deferred tax
Deferred tax assets and liabilities are recognised for temporary differences and for tax loss carry-forwards. The assessment of temporary differences and tax loss carry-forwards is based on management's estimates of future taxable profits against which the temporary differences and loss carry-forwards may be utilised.

The Group has not recognised a deferred tax asset in respect of their losses as there is no track record of taxable profits at this time. Deferred tax assets will be recognised when the Group has established a track record of expected future taxable profit.

3. Expenses by nature
Loss before tax includes:

	2017 £	2016 £
Employee benefit expenses (see Note 8)	**7,018,634**	7,197,142
Share-based payments	**(149,810)**	993,349
Operating lease payments	**281,871**	253,945
Depreciation of property, plant and equipment	**173,638**	120,789
Amortisation of intangible assets	**4,932,699**	3,979,941
Exceptional restructuring costs	**735,257**	–
Exceptional restructuring costs – share-based payment	**145,000**	–
Foreign exchange loss/(gain)	**35,771**	(167,938)

4. Adjusted EBITDA
Adjusted EBITDA is stated before exceptional items as follows:

	2017 £	2016 £
Adjusted EBITDA – Total	**786,402**	(2,010,766)
Profit on disposal	**–**	318,834
Adjusted EBITDA – discontinued	**(892,046)**	(1,140,187)
Restructuring costs	**(880,257)**	–
EBITDA	**(985,901)**	(2,832,119)

Profit on prior year disposal
Disposal of third-party platform driven website properties
On 4 March 2016, the Group disposed of its third-party platform driven website properties, for a total consideration of £2.4m. Black Spark Media Limited paid the Group an upfront cash payment of £1.2m with the remaining £1.2m payable by Silverspin Media Limited, settled by way of waiving the final earn out payment to the previous shareholders of Blueburra Holding Limited. Chris Phillips and Scott Logan, shareholders of Silverspin Media, and who were Directors of the Company's subsidiaries Blueburra Holdings Limited and Digital Blue Limited at the time of the disposal, are therefore classified as related parties. The above waiving of £1.2m contingent consideration in exchange for the disposal of assets constitutes a major non-cash transaction in the year. An additional £500,000 was receivable under a transitional services agreement over a 5-month period with Black Spark Media Limited. The value of net assets disposed totalled £2.4m resulting in a loss on disposal of £19,452.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2017 continued

4. Adjusted EBITDA (continued)

Disposal of digital marketing agency

On 6 June 2016, the Group entered into a strategic partnership with digital marketing company Ayima Limited. Under the terms of the partnership, the Group has agreed to contribute assets comprising its external digital marketing agency to Ayima Limited. As consideration for the disposal of the Assets, the Group were issued shares to 10% of the enlarged issued share capital of Ayima Limited. The 10% shares were valued at approximately £540,000, based on a valuation performed by an external advisor. This is a level 3 valuation as defined by IFRS 13. The investment is now held as an available for sale investment (see Note 14). The value of net assets disposed of totalled £0.2m resulting in profit on disposal of £338,286.

Discontinued

The Affiliate marketing CGU has been reclassified as held for sale as management were actively seeking a sale of this business as at 31 December 2017. The sale concluded in March 2018 (see Note 30).

Restructuring costs

During 2017 the Group closed the Seattle office. Restructuring costs relate to the closure costs associated with this including employee severance payments.

5. Auditor's remuneration

During the year the Group obtained the following services from the Company's auditor:

	2017 £	2016 £
Fees payable to the Company's auditor for the audit of the company's annual accounts	**25,000**	25,000
Fees payable to the Company's auditor for the audit of the subsidiary's financial statements	**75,000**	75,000
Fees payable to the Company's auditor for other services:		
– Corporate finance	**46,224**	–
– Tax compliance services	**40,000**	57,630
– Tax advisory services	**3,490**	13,735
	189,714	171,365

6. Key management personnel remuneration

During the year the Group paid the following remuneration to the key management personnel (which include Directors) of the consolidated entity:

	2017 £	2016 £
Short-term benefits of key management personnel	**2,500,272**	2,118,036
Post-employment benefits of key management personnel	**47,251**	50,475
Share-based benefits of key management personnel	**46,238**	478,237
	2,593,762	2,646,748

7. Directors' remuneration

The following table presents the Directors' remuneration of the Company for the year ended 31 December 2017.

	Salary and fees £	Benefits £	2017 Total £	2016 Total £
Michael Buckley	360,000	–	**360,000**	335,000
Patrick Southon	250,600	12,995	**263,595**	230,203
Simon Collins	150,600	7,995	**158,595**	147,517
Mark Segal	171,433	622	**172,056**	150,659
Jim Ryan	40,000	–	**40,000**	40,000
Mark Wilson	40,000	–	**40,000**	40,000
Atul Bali	842,225	11,502	**853,727**	351,974
Chris Bell	10,000	–	**10,000**	–
	1,864,858	33,114	**1,897,972**	1,295,353

The remuneration for Michael Buckley includes consulting fees of £300,000 (2016: £275,000) paid to Dawnglen Finance Limited, a company controlled by Michael Buckley. The directors of Dawnglen believe that the company incurred in excess of £100,000 on expenses wholly for the benefit of Gaming Realms plc, repayment of which is included as part of the fees paid to Dawnglen. Consulting fees to Dawnglen have been reduced to £120,000 per annum before expenses effective 1 January 2018.

During 2017 Atul Bali received $214,265 (£169,198) in salary and benefits and £65,000 as a Director. The balance represents severance payments for loss of office as an executive director under his contract of $625,315 (£474,510) of which $375,000 (£285,844) is payable in 2018 together with a one-time non-cash equity grant of shares to be issued with an estimated value of £145,000 as at the date of these accounts.

Directors' interests in long-term incentive plans

The Directors' ordinary shares in the Company, were as follows:

£0.10 ordinary shares	**2017 Number of shares**	2016 Number of shares
Michael Buckley	**23,000,000**	22,000,000
Patrick Southon	**12,417,319**	11,735,501
Simon Collins	**10,806,742**	10,624,924
Mark Segal	**740,761**	740,761
Jim Ryan	**1,384,615**	1,384,615
Mark Wilson	**384,615**	384,615
Atul Bali	**1,825,000**	1,825,000
	50,559,052	48,695,416

The Directors' interests in share options, over ordinary shares in the Company, were as follows:

	Option at 1 Jan 2017	Option granted	Options lapsed	Option at 31 Dec 2017	Exercise price	Hurdle price	Date of grant
Michael Buckley[1]	5,769,230	–	–	5,769,230	£0.01	£0.20	01-Aug-13
Patrick Southon[1]	5,769,230	–	–	5,769,230	£0.01	£0.20	01-Aug-13
Simon Collins[1]	4,615,384	–	–	4,615,384	£0.01	£0.20	01-Aug-13
Mark Segal[1]	3,076,923	–	–	3,076,923	£0.01	£0.20	01-Aug-13
Jim Ryan[2]	769,230	–	–	769,230	£0.13	–	01-Aug-13
Mark Wilson[2]	769,230	–	–	769,230	£0.13	–	01-Aug-13
Atul Bali[3,4]	5,750,000	–	–	5,750,000	£0.23	–	17-Jun-14, 10-Oct-15

1 On the 1 August 2013 the Company granted options to B Shares under the Gaming Realms 2013 EMI plan. The B Share value will be 20 pence less than the prevailing price of the ordinary shares and will therefore have no value unless the value of the new ordinary shares exceeds 20 pence. EMI options can only be granted to employees who meet the statutory working time requirement, and cannot normally be exercised before 15 July 2015. All options granted under the New Share Option Scheme on Admission will be exercisable over B Shares at their nominal value of £0.01 and will be capable of exercise, subject to certain exceptions, after two years of the date of grant.

2 On the 1 August 2013, the Company granted Unapproved Options which have the same rights as the options granted over the B Shares under Gaming Realms 2013 EMI plan, save that the exercise price will be 13 pence per ordinary share.

3 On the 17 June 2014, the Company granted Unapproved Options which have the same rights as the options granted over the B Shares under Gaming Realms 2013 EMI plan, save that the exercise price will be 23 pence per ordinary share.

4 On the 10 October 2015, the Company granted Unapproved Options which have the same rights as the options granted over the B Shares under Gaming Realms 2013 EMI plan, save that the exercise price will be 23 pence per ordinary share.

8. Employee benefit expenses

	2017 £	2016 £
Employee benefit expenses (including Directors) comprise:		
Wages and salaries	**9,061,213**	8,827,513
Share-based payment expense (Note 7 & 26)	**(4,810)**	993,349
Social security contributions and similar taxes	**593,759**	604,086
Pension contributions	**144,228**	135,455
	9,794,390	10,560,403
Staff costs capitalised in respect of internally generated intangible assets	**(2,780,566)**	(2,369,912)
	7,013,824	8,190,491

The Group makes contributions to defined contribution plans and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. The assets of the individual schemes are held separately from those of the Group in independently administered funds.

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for the year ended 31 December 2017 continued

8. Employee benefit expenses (continued)

	2017 Number	2016 Number
The average number of persons, including Directors:		
Operational	**41**	50
Development	**53**	52
Marketing	**8**	18
Management and administrative	**30**	30
	132	150

9. Segment information

The Board is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board for the purposes of allocating resources and assessing performance.

The Group has four reportable segments. The social publishing segment provides freemium games to the US and Europe. Licensing segment includes IP brand and content licensing to partners in the US and Europe. The real money gaming division operates our brands direct to the end user. In 2016 the Group disposed of its white label and agency business which formed part of the RMG segment. It has been separated in the revenue by product table below for information. The Affiliate marketing segment provides digital marketing and referrals for group and third-party brands and has been classed as held for sale during the year (see Note 19).

Revenue by product:

	2017 £	2016 £
Real money gaming	**22,717,729**	21,543,708
Disposed white label and agency business	**–**	1,928,451
Social publishing	**6,878,760**	7,884,101
Licensing	**839,541**	786,843
Other	**179,315**	45,515
Total – continuing	**30,615,345**	32,188,618
Affiliate marketing – discontinued	**1,322,713**	1,769,500
	31,938,058	33,958,118

Segmental revenue includes £291,506 (2016: NIL) of inter-segment Licensing revenue. This is shown as an Operating Expense under the Real Money Gaming segment and eliminates on consolidation.

There were no customers who generated more than 10% of total revenue.

Geographical information

The Group considers that its primary geographic regions are the UK, including Channel Islands, US and the Rest of World. No revenue was derived from real money gaming in the US. Revenues from customers outside the UK (including Channel Islands) and US are not considered sufficiently significant to warrant separate reporting. All non-current assets are based in the UK.

	External revenue by location of customers 2017 £	External revenue by location of customers 2016 £
UK, including Channel Islands	**23,751,919**	23,925,469
US	**6,780,327**	6,754,016
Rest of the World	**1,114,306**	3,278,633
	31,646,552	33,958,118

Segmental reporting for the year is as below:

	Real money gaming £	Affiliate marketing £	Social publishing £	Licensing £	Other[1] £	Intra-group £	Total 2017 £
Revenue	**22,717,729**	**1,322,713**	**6,878,760**	**839,541**	**179,315**	**(291,506)**	**31,646,552**
Marketing expense	**(8,022,410)**	**(128,316)**	**(2,171,341)**	**–**	**(109,514)**	**–**	**(10,431,581)**
Operating expense	**(8,867,787)**	**(76,316)**	**(1,754,450)**	**(24,961)**	**–**	**291,506**	**(10,432,008)**
Administrative expense	**(3,153,222)**	**(226,035)**	**(3,010,164)**	**(1,036,352)**	**(2,720,598)**	**–**	**(10,146,371)**
Share-based payments	**–**	**–**	**–**	**–**	**149,810**	**–**	**149,810**
Adjusted EBITDA	**2,674,310**	**892,046**	**(57,195)**	**(221,772)**	**(2,650,797)**	**–**	**786,402**
Restructuring costs							(735,257)
Restructuring costs – share-based payment							(145,000)
Adjusted EBITDA – discontinued							(892,046)
EBITDA							**(985,901)**
Amortisation of Intangible assets							(4,932,699)
Depreciation of property, plant and equipment							(173,638)
Finance expense							(752,600)
Finance income							239,603
Loss before tax							**(6,605,235)**

The affiliate marketing segment has been treated as a discontinued operation in the income statement for the year ended 31 December 2017 and 31 December 2016. Prior year affiliate marketing segment included white label and agency revenue of £1,928,451 and EBITDA of £454,642. Affiliate revenue of £1,769,500 and EBITDA of £1,140,187 has therefore been shown as discontinued for 2016. See Note 19.

	Real money gaming £	Affiliate marketing £	Social publishing £	Licensing £	Other[1] £	Intra-group £	Total 2016 £
Revenue	21,543,708	3,697,951	7,884,101	786,843	45,515	–	33,958,118
Marketing expense	(9,685,716)	(1,161,390)	(3,937,053)	–	(26,756)	–	(14,810,915)
Operating expense	(7,464,252)	(264,810)	(1,608,789)	–	–	–	(9,337,851)
Administrative expense	(3,138,644)	(676,922)	(4,140,794)	(343,488)	(2,526,921)	–	(10,826,769)
Share-based payments	–	–	–	–	(993,349)	–	(993,349)
Adjusted EBITDA	1,255,096	1,594,829	(1,802,535)	443,355	(3,501,511)	–	(2,010,766)
Profit on disposal							318,834
Adjusted EBITDA – discontinued							(1,140,187)
EBITDA							(2,832,119)
Amortisation of Intangible assets							(3,979,941)
Depreciation of property, plant and equipment							(120,789)
Finance expense							(1,178,154)
Finance income							3,022
Loss before tax							(8,107,981)

[1] Other segment noted above includes unallocated head office activities. Management do not report segmental assets and liabilities internally and as such an analysis is not reported.

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for the year ended 31 December 2017 continued

10. Finance income and expense

	2017 £	2016 £
Finance income		
Interest received	**1,294**	3,022
Foreign exchange movement on deferred consideration	**238,309**	–
Total finance income	**239,604**	3,022
Finance expense		
Bank interest expense paid	**272,613**	36,850
Deferred consideration movement	**479,987**	292,212
Foreign exchange movement on deferred consideration	**–**	849,092
Total finance expense	**752,600**	1,178,154

The deferred consideration in relation to the acquisition from RealNetworks, Inc. is denominated in USD and was settled on 15 December 2017. The retranslation of this balance resulted in a £238,309 gain in the current year (2016: £849,092 loss).

11. Tax credit

	2017 £	2016 £
Tax credit		
Current tax		
Adjustment for over provision in prior periods	**(67)**	(4,451)
Current tax credit for the period	**389,354**	27,961
Total current tax	**389,287**	23,510
Deferred tax expense		
Origination and reversal of temporary differences	**223,617**	–
Total deferred tax	**223,617**	–
Total tax credit	**612,903**	23,510

The reasons for the difference between the actual tax credit for the period and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

	2017 £	2016 £
Loss for the period	**(8,840,570)**	(6,967,794)
Expected tax at effective rate of corporation tax in the UK of 19.3% (2016: 20%)	**(1,701,507)**	(1,393,559)
Expenses not deductible for tax purposes	**7,840**	224,896
Effects of overseas taxation	**179,516**	(224,795)
Adjustment for over provision in prior periods	**67**	4,451
Research and Development tax credit	**(389,354)**	(27,961)
Tax losses for which no deferred tax assets have been recognised	**1,290,535**	1,144,517
Total tax credit	**(612,903)**	(272,451)

Changes in tax rates and factors affecting the future tax charge

At Summer Budget 2015, the government announced legislation setting the Corporation Tax rate at 19% for the years starting 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. At Budget 2016, the government announced a further reduction to the Corporation Tax rate for the year starting 1 April 2020, setting the rate at 17%. Accordingly, deferred tax balances as at 31 December 2017 have been recognised at 17% (2016: 20%).

There are unused tax losses carried forward as at the balance sheet date of £32.0m (2016: £24.8m) equating to an unrecognised deferred tax asset of £6.1m (2016: £5.0m). No deferred tax asset has been recognised in respect of these losses, as the recoverability of any asset is dependent upon sufficient profits being achieved in future years to utilise this asset. The timings of such profits are uncertain.

Deferred tax liability

	2017 £	2016 £
At 1 January	**1,202,889**	1,232,597
Unwind of deferred tax recognised on business acquisitions	**(223,617)**	(248,941)
FX movement	**(97,761)**	219,233
	881,511	1,202,889

12. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of shares in issue during the year. For fully diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of dilutive potential ordinary shares. The Group's potentially dilutive securities consist of share options, performance shares and a convertible bond. As the Group is loss-making, none of the potentially dilutive securities (see Note 26) are currently dilutive.

	2017 £	2016 £
Loss after tax – continuing	**(5,992,332)**	(7,835,530)
(Loss)/profit after tax – discontinued	**(2,235,335)**	1,140,187
Loss after tax – total	**(8,227,667)**	(6,695,343)

	Number	Number
Weighted average number of ordinary shares used in calculating basic loss per share	**278,166,853**	262,432,743
Weighted average number of ordinary shares used in calculating dilutive loss per share	**278,166,853**	262,432,743
	Pence	**Pence**
Basic and diluted loss per share (pence) – continuing	**(2.15)**	(2.99)
Basic and diluted loss/(profit) per share (pence) – discontinued	**(0.80)**	0.43
Basic and diluted loss per share (pence) – total	**(2.95)**	(2.56)

13. Intangible assets

	Goodwill £	Customer database £	Software £	Development costs £	Domain names £	Intellectual Property £	Total £
Cost							
Balance at 1 January 2016	18,092,116	4,543,648	1,091,241	2,888,724	363,401	5,354,379	32,333,509
Acquired through business combination	75,413	–	217,216	–	–	–	292,629
Additions	–	–	–	3,969,611	–	–	3,969,611
Disposals	(2,513,765)	(698,446)	–	–	–	–	(3,212,211)
FX Movement	892,100	266,769	230,043	–	66,217	1,047,051	2,502,180
At 31 December 2016	16,545,864	4,111,971	1,538,500	6,858,335	429,618	6,401,430	35,885,718
Additions	–	–	–	3,197,971	–	–	3,197,971
Disposals	–	–	–	–	–	–	–
Reclassified as held for sale	(5,420,262)	(2,343,632)	–	–	–	–	(7,763,894)
FX Movement	(480,045)	(141,830)	(134,559)	(9,198)	(35,287)	(558,338)	(1,359,257)
At 31 December 2017	**10,645,557**	**1,626,509**	**1,403,941**	**10,047,108**	**394,331**	**5,843,092**	**29,960,538**
Amortisation							–
Balance at 1 January 2016	–	2,055,945	135,717	919,856	45,581	248,609	3,405,708
Amortisation charge	–	1,156,153	440,219	1,517,989	132,965	732,615	3,979,941
Disposals	–	(452,365)	–	–	–	–	(452,365)
FX Movement	–	81,939	67,052	260	20,386	120,960	290,597
At 31 December 2016	–	2,841,672	642,988	2,438,105	198,932	1,102,184	7,223,881
Amortisation charge	–	916,459	490,691	2,627,075	135,287	763,187	4,932,699
Disposed	–	–	–	–	–	–	–
Reclassified as held for sale	–	(2,343,632)	–	–	–	–	(2,343,632)
FX Movement	–	(86,841)	(76,019)	(3,918)	(21,606)	(128,196)	(316,580)
At 31 December 2017	**–**	**1,327,658**	**1,057,660**	**5,061,262**	**312,613**	**1,737,175**	**9,496,368**

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13. Intangible assets (continued)

	Goodwill £	Customer database £	Software £	Development costs £	Domain names £	Intellectual Property £	Total £
Net book value							
At 1 January 2016	18,092,116	2,487,703	955,524	1,968,868	317,820	5,105,770	28,927,801
At 31 December 2016	16,545,864	1,270,299	895,512	4,420,230	230,686	5,299,246	28,661,837
At 31 December 2017	**10,645,557**	**298,851**	**346,281**	**4,985,846**	**81,718**	**4,105,917**	**20,464,170**

Goodwill

In accordance with IAS 36, the Group regularly monitors the carrying value of its intangible assets for impairment. A detailed impairment test was undertaken at 31 December 2017 to assess whether the carrying value of assets was supported by its recoverable amount. The Group has 4 CGUs (2016: 3) for which the carrying amount of goodwill is allocated. During the year the Group split its RMG and Affiliate marketing CGUs in preparation for sale. The Affiliate marketing CGU has subsequently been transferred to HFS (see Note 19).

The recoverable amount is the higher of the CGU's fair value less costs of disposal, and value in use. The recoverable amount of the Affiliate marketing CGU was assessed based on fair value less costs to sell. This resulted in an impairment of £3.1m which has been treated as discontinued. See Note 19 for further information, cause of impairment and basis for fair value.

All other CGUs are based on value in use. Value in use is calculated as the net present value of future cash flows derived from those assets and is based on several assumptions which feed into a forecast model based on past player lifetime values and experience.

Cash flow projections have been prepared for a five-year period following which a long-term growth rate of 5% (2016: 2%) has been assumed. A discount rate of 16-20% (2016: 25%) has been used in discounting the projected cash flows and is based on the Group's specific risk adjusted Weighted Average Cost of Capital.

The discount rates used have been considered based on the risks involved in each of the underlying business units and terminal growth rates and reflect the expected growth in underlying EBITDA expected from these units. These CGUs have been considered for impairment and sensitivities have been calculated around the terminal growth rates and discount factors used together with specific scenarios including the loss of revenue where those revenues might be considered to be at risk. No indicators of impairment have arisen as a result as the impact of all sensitivities were judged to be within tolerable levels.

The key assumptions of the forecasts were as follows:

» number of new player depositing registrations;

» rate of retention of existing players;

» spending patterns of players; and

» CPA or installs from different acquisition sources.

The above assumptions are based on the trends noted to date, industry standard measurements and management's experience.

The carrying amount of goodwill is allocated to the CGUs as follows:

	2017 £	2016 £
Real money gaming	**5,609,878**	5,609,878
Affiliate marketing (previously RMG)	**–**	5,420,262
Licensing	**3,146,558**	3,340,692
Social publishing	**1,889,123**	2,175,032
	10,645,559	16,545,864

The goodwill allocation between licencing and social publishing in the prior year financial statements has been reassessed in the current year financial statements. This restatement does not result in any changes to the conclusion on management impairment reviews in current or prior year.

Headroom and sensitivities:

	Method	Headroom	Sensitised headroom[1]	Sensitised headroom[2]
Real money gaming	VIU	14,976,156	7,808,040	11,912,407
Licensing	VIU	20,879,004	13,063,319	17,100,767
Social publishing	VIU	1,421,061	218,114	612,110
		37,276,221	21,089,474	29,625,284

[1] Discount rate increased to 23%.

[2] Long-term growth rate reduced to 2%.

As indicated by the sensitivities above, the Directors do not believe any reasonably possible change in the key assumptions would lead to an impairment of the carrying amount of the CGUs.

14. Available-for-sale investments

	Available-for-sale investment £
At 1 January 2016	–
Additions	540,000
At 31 December 2016	540,000
Change in fair value	207,222
At 31 December 2017	**747,222**

The available-for-sale investment comprises a 6.6% interest in Ayima Group AB ('Ayima'). The shares of Ayima are quoted on AktieTorget, a Nordic stock exchange (www.aktietorget.se). The investment is remeasured each reporting period to fair value based on the quoted share price.

As at 31 December 2017 the quoted share price was SEK 23.80 (£2.15). This is a level 1 valuation as defined by IFRS 13.

15. Property, plant and equipment

	Leasehold improvements £	Computers and related equipment £	Office furniture and equipment £	Total £
Cost				
Balance at 1 January 2016	86,329	123,633	60,802	270,764
Acquired through business combination	–	–	8,549	8,549
Additions	196,096	48,141	45,019	289,256
Disposals	–	(13,568)	–	(13,568)
FX Movement	11,550	3,889	3,876	19,315
At 31 December 2016	293,975	162,095	118,246	574,316
Additions	3,373	73,324	2,885	79,582
Disposals	–	(4,872)	(12,483)	(17,355)
FX Movement	(2,770)	(917)	(2,771)	(6,458)
At 31 December 2017	**294,578**	**229,630**	**105,877**	**630,085**
Accumulated deprecation				
Balance at 1 January 2016	16,496	50,522	14,094	81,112
Depreciation charge	58,322	40,304	22,163	120,789
Disposals	–	(7,037)	–	(7,037)
FX Movement	3,256	1,855	1,034	6,145
At 31 December 2016	78,074	85,644	37,291	201,009
Depreciation charge	93,426	53,550	26,662	173,638
Disposals	–	(2,442)	(2,861)	(5,303)
FX Movement	(1,047)	(561)	(720)	(2,328)
At 31 December 2017	**170,453**	**136,191**	**60,372**	**367,016**
Net book value				
At 1 January 2016	69,833	73,111	46,708	189,652
At 31 December 2016	215,901	76,451	80,955	373,307
At 31 December 2017	**124,125**	**93,439**	**45,505**	**263,069**

16. Other assets

	2017 £	2016 £
Other Assets	**163,865**	152,000

Other assets represent the rental deposit on operating leases and deposits held with third-party suppliers.

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for the year ended 31 December 2017 continued

17. Trade and other receivables

	2017 £	2016 £
Trade and other receivables	**2,463,000**	2,736,039
Allowance for doubtful debts	**(1,477)**	(1,478)
	2,461,523	2,734,561
Prepayments and accrued income	**1,447,824**	613,034
	3,909,347	3,347,595

All amounts shown fall due for payment within one year.

18. Cash and cash equivalents

	2017 £	2016 £
Cash and cash equivalents	**2,283,302**	2,616,267
Restricted cash	**(18,702)**	(18,802)
Overdraft (Note 20)	**(945,501)**	–
Cash and cash equivalents for Statement of Cash Flows	**1,319,098**	2,597,465

The Group has restricted cash of £18,702 (2016: £18,802) relating to funds held in Swiss subsidiaries which are currently in liquidation. The funds are restricted and are not included in the consolidated statement of cash flows.

19. Assets and liabilities classfified as held for sale

During H2 2017 the Board concluded to pursue the sale of the affiliate marketing business. Advisors were appointed and offers invited, which were actively being discussed during late 2017. The group has therefore reclassified this business as held for sale as at 31 December 2017.

As a result, an impairment of £3.1m has been recognised based on the recoverable amount of goodwill attributable to this segment. Recoverable amount has been calculated as fair value less the costs of disposal. Fair value is measured at £2.4m based on active offers received during late 2017. The impairment has been included in discontinued operations as below.

In March 2018 the Group sold its Affiliate business, for total consideration of £2.4 million to First Leads Ltd. First Leads has paid £2.0m on closing, and a further £0.4m will be payable on 31 December 2018, based on the achievement of performance targets.

	2017 £
Net carrying amount of disposal group	**5,420,262**
Impairment of held for sale goodwill	**(3,127,381)**
	2,292,881

Discontinued operations

	2017 £	2016 £
Revenue	**1,322,713**	1,769,500
Marketing expenses	**(128,316)**	(284,143)
Operating expenses	**(76,316)**	(117,467)
Administrative expenses	**(226,035)**	(227,703)
EBITDA	**892,046**	1,140,187
Impairment of held for sale assets	**(3,127,381)**	–
Loss for the financial year – discontinued	**(2,235,335)**	1,140,187

Cash flow from discontinued operations

	Note	2017 £	2016 £
Cash flows from operating activities			
Profit/(Loss) for the period		**(2,235,335)**	1,140,187
Adjustments for:			
Impairment	19	**3,127,381**	–
Net cash flows from operating activities		**892,046**	1,140,187

The Affiliate marketing segment did not have any material financing or investing cash flows in the current or prior year.

20. Trade and other payables

	2017 £	2016 £
Trade and other payables	**5,655,862**	2,012,196
Bank Overdraft	**945,501**	–
Accruals	**2,270,675**	4,681,212
Player liabilities	**397,693**	365,373
	9,269,732	7,058,781

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value.

The Group's bank overdraft is repayable on demand and is secured over the Group's assets. The agreed facility at the reporting date was £1m, however this has been renewed during 2018 with an increased facility of £2m, available for two years which will be reduced in certain circumstances.

21. Arrangement with Jackpotjoy Group

In December 2017 the group entered into a £3.5m secured convertible loan agreement with Jackpotjoy plc and group companies (together 'Jackpotjoy Group') alongside a 10-year framework services agreement for the supply of various real money services.

Under the framework services agreement the first £3.5m of services are provided free-of-charge within the first 5 years. This will be recognised as revenue as it is utilised.

The convertible loan has a duration of 5 years and carries interest at 3-month LIBOR plus 5.5%. It is secured over the Group's Slingo assets and business. At any time after the first year, Jackpotjoy Group may elect to convert all or part of the principal amount into ordinary shares of Gaming Realms Plc at a discount of 20% to the share price prevailing at the time of conversion. To the extent that the price per share at conversion is lower than 10p (nominal value), then the shares can be converted at nominal value and the difference paid in cash. Under this arrangement, the maximum dilution to Gaming Realms shareholders will be approximately 12%, assuming the convertible loan is converted in full.

The number of shares is variable. The option therefore violates the fixed-for-fixed criteria for equity classification and as a result is classified as a liability. The fair value of the conversion feature is determined at each reporting date with changes recognised in profit or loss. The fair value as at 31 December 2017 was £0.6m based on a probability assessment of conversion and future share price. This is a level 2 valuation as defined by IFRS 13.

The remaining £2.9m of proceeds plus an estimate for free-of-charge services is accounted for as an interest-bearing loan. The interest rate used to discount the loan was calculated as 30.8%.

	Other Creditors £	Derivative Liability £	Total £
At 1 January 2017	–	–	–
Proceeds from issue of convertible debt	2,900,000	600,000	3,500,000
Cost relating to issue of convertible debt	(96,763)	–	(96,763)
Effective interest (30.8%)	40,232	–	40,232
At 31 December 2017	**2,843,469**	**600,000**	**3,443,469**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2017 continued

21. Arrangement with Jackpotjoy Group (continued)

The proceeds are first allocated to the fair value of the derivative liability. The key assumptions used to estimate the derivative liability are as follows:

» Future share price

» Probability assessment of expected conversion

» Timing and proportion converted to shares by JackpotJoy Group

The proceeds are then allocated between the use of the free services and the interest-bearing loan. The key assumptions used to estimate this split are:

» Timing and amount of usage of the free services

» Future 3-month LIBOR rates

Key sensitivities in the calculation of the above values include:

» For every £0.5m reduction in the estimate of free services, there will be an equal reduction in the interest expense over the term

» Each 1% increase in 3-month LIBOR would result in an additional £35k interest payable per annum, or £140k in total assuming no capital is repaid or converted to shares

» If the share price does not exceed 12p there will be no value in the conversion element meaning the carrying value of the loan will increase by £0.6m and interest expense will decrease by £0.6m

22. Financial instruments and risk management – Group

The Group is exposed through its operations to risks that arise from use of its financial instruments. The Group's financial assets and liabilities are shown on the face of the consolidated statement of financial position and in the table below and they can be classified wholly as either loans and receivables, other assets or other liabilities.

	Amortised cost		Fair Value		Available-for-sale	
	2017 **£**	2016 £	**2017** **£**	2016 £	**2017** **£**	2016 £
Financial assets						
Cash and cash equivalents	**2,283,302**	2,616,267	**–**	–	**–**	–
Trade and other receivables	**2,461,523**	2,734,561	**–**	–	**–**	–
Other assets	**163,865**	152,000	**–**	–	**–**	–
Available for sale investments	**–**	–	**–**	–	**747,222**	540,000
Financial liabilities						
Trade and other payables	**5,655,862**	2,012,196	**–**	–	**–**	–
Accruals	**2,270,675**	4,681,212	**–**	–	**–**	–
Player liabilities	**397,693**	365,373	**–**	–	**–**	–
Other creditors	**2,843,529**	–	**–**	–	**–**	–
Derivative liability	**–**	–	**600,000**	–		
Deferred consideration	**–**	3,135,356	**–**	–	**–**	–

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group classifies its financial instruments in the following categories:

» Available for sale;

» Loans and receivables at amortised cost;

» Other financial liabilities at amortised cost; and

» Financial assets and liabilities at fair value through profit or loss.

The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial instruments at initial recognition or in certain circumstances on modification.

Financial assets of the Group classified as loans and receivables or available for sale. Financial liabilities are held at amortised cost or fair value.

In the Directors' opinion, there is no material difference between the book value and the fair value of any of the financial instruments.

The Group has some exposure to credit risk and liquidity risk. There has been no material change to the financial instruments used within the business during the year except for contingent consideration and therefore no material changes to the risk management policies put in place by the Board which are now discussed below.

The Board has overall responsibility for the determination of the Group's risk management objectives and policies. Whilst acknowledging this responsibility, it has delegated the authority and day to day responsibility for designing and operating systems and controls which meet these risk management objectives to the finance and administration function. The Board regularly reviews the effectiveness of these processes in meeting its objectives and considers any necessary changes in response to changes within the business or the environment in which it operates.

Currency risk

The Group is exposed to currency risk on translation and on sales and purchases that are denominated in a currency other than Pounds Sterling (GBP). The currency in which these transactions are primarily denominated is US Dollars (USD).

The Group's policy is, where possible to allow group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where group entities have liabilities denominated in a currency other than their functional currency cash already denominated in that currency will, where possible, be transferred from elsewhere in the Group.

As of 31 December 2017 the Group's net exposure to foreign exchange risk was as follows:

Net foreign currency financial assets/(liabilities)	**Sterling 2017**	Sterling 2016	**US Dollar 2017**	US Dollar 2016	**Other 2017**	Other 2016
Sterling	**–**	–	**–**	–	**–**	–
US Dollar	**543,998**	(2,706,802)	**–**	–	**–**	41,322
Other	**37,837**	(3,881)	**–**	–	**–**	–
	581,834	(2,710,683)	**–**	–	**–**	41,322

The effect of a 20% strengthening of the US Dollar against Sterling at the reporting date on the US Dollar denominated receivables carried at that date would, all other variables held constant, have resulted in a decrease in losses and an increase in net assets of £116,367 (2016: increase in losses and decrease of net assets of £542,137). A 20% weakening in the exchange rate would, on same basis increase loss after tax and decrease net assets by £116,367. (2016: decrease loss after tax and increase net assets by £542,137).

Liquidity risk

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. Customer funds are kept in dedicated client accounts, separately from the Group's operational bank accounts.

The following table sets out the undiscounted contractual cash flows:

At 31 December 2017	**Within 1 year £**	**1–2 years £**	**Over 2 years £**
Trade and other payables	**5,655,862**	**–**	**–**
Accruals	**2,270,675**	**–**	**–**
Player liabilities	**397,693**	**–**	**–**
Other creditors	**225,578**	**227,500**	**4,282,158**
Total	**8,549,809**	**227,500**	**4,282,158**

At 31 December 2016	Within 1 year £	1–2 years £	Over 2 years £
Trade and other payables	2,012,196	–	–
Accruals	4,681,212	–	–
Player liabilities	365,373	–	–
Deferred consideration	3,135,356	–	–
Total	**10,194,137**	**–**	**–**

Credit risk

At 31 December 2017, the analysis of trade and other receivables that were past due but not impaired is as follows:

	Current 0-30 days £	Between 30 and 60 days £	Between 61 and 90 days £	Over 91 days £
Trade and other receivables	2,136,080	120,827	1,833	204,259
Allowance for doubtful debts	–	–	–	(1,477)
At 31 December 2017	**2,136,080**	**120,827**	**1,833**	**202,782**
Trade and other receivables	1,887,870	407,374	251,210	189,585
Allowance for doubtful debts	–	–	–	(1,478)
At 31 December 2016	1,887,870	407,374	251,210	188,107

Notes to the Consolidated Financial Statements

for the year ended 31 December 2017 continued

22. Financial instruments and risk management – Group (continued)

Financial liabilities measured at fair value

The fair value hierarchy of financial liabilities measured at fair value is provided.

The fair value of derivative liabilities totalling £0.6m was based on a probability assessment of conversion and future share price. This is a level 2 valuation as defined by IFRS 13.

The fair value measurement hierarchy is based on the inputs to valuation techniques used to measure fair value. The inputs are categorised into three levels, with the highest level (level 1) given to inputs for which there are unadjusted quoted prices in active markets for identical assets or liabilities and the lowest level (level 3) given to unobservable inputs. Level 2 inputs are directly or indirectly observable inputs other than quoted prices.

Capital management

The Group is funded through shareholders' funds, a £3.5m facility with JackpotJoy Group (Note 21) and a £1m overdraft facility with Barclays (Note 20). In the prior year, the primary funding was through shareholders' funds.

The Group monitors its capital structure, which comprises all components of equity (i.e. share capital, share premium, non-controlling interest and retained earnings) and monitors external debt.

The Group is not subject to any externally imposed capital requirements.

Changes in liabilities

The Group has adopted the amendments to IAS 7 for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Group's liabilities arising from financing activities consist of JPJ Arrangement (Note 21), Derivative liability (Note 21) and deferred consideration. A reconciliation between the opening and closing balances of these items is provided below. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year.

	JPJ Arrangement	Derivative liability	Deferred Consideration
Opening balance	–	–	3,135,356
Cash	122,966	–	–
Transaction costs	(96,763)	–	–
Non-cash transaction	2,777,034	600,000	(3,377,034)
Unwind of discount	40,232	–	479,987
Foreign exchange movement	–	–	(238,309)
Carried forward	**2,843,469**	**600,000**	**–**

23. Share capital

Ordinary shares

	2017 Number	**2017 £**	2016 Number	2016 £
Ordinary shares of 10 pence each	**284,428,747**	**28,442,874**	274,133,292	27,413,329

On 11 August 2017 10,295,455 shares were issued at £0.11 per share for a total consideration of £1,132,500.

On 2 March 2016, 7,625,000 shares were issued at £0.20 per share for a total consideration of £1,525,000.

On 9 June 2016, 4,800,000 shares were issued at £0.25 per share to the previous shareholders of Blueburra Holdings Limited to satisfy the final £1,200,000 share element of vendor consideration.

On 2 September 2016, 12,500,000 shares were issued at £0.20 per share for a total consideration of £2,500,000.

Movements in share capital

	Number	£
At 1 January 2016	249,208,292	24,920,829
Ordinary shares issued for cash consideration	20,125,000	2,012,500
Ordinary shares issued in the acquisition of Blueburra	4,800,000	480,000
At 31 December 2016	274,133,292	27,413,329
Ordinary shares issued for cash consideration	10,295,455	1,029,545
At 31 December 2017	**284,428,747**	**28,442,874**

24. Reserves

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Adjustments arising on the reverse transaction and the excess of the fair value over nominal value for shares issued in business combinations qualifying for merger relief under the Companies Act 2006.
Retained earnings	All other net gains and losses and transactions with owners not recognised elsewhere.
Foreign exchange reserve	Gains/losses arising on retranslating the net assets of overseas operations into sterling.
Available for sale reserve	Gains/losses arising on recognising changes in fair value of available for sale assets.

25. Leases

The Group has future lease payments under non-cancellable operating leases on land and buildings and other leases. The total future value of minimum lease payments is due as follows:

	2017 £	2016 £
Not later than one year	**250,099**	293,107
Later than one year and not later than five years	**1,184,790**	833,390
Later than five years	**–**	–
	1,434,889	1,126,497

26. Share-based payments

Gaming Realms 2013 EMI Plan

On 1 August 2013 the Company adopted the Gaming Realms 2013 EMI Plan to allow, at the discretion of the Board, any eligible employee to be granted EMI or non-EMI qualified options at an exercise price to be determined by the Board but not to be less than the nominal value of a share and will vest subject to such time based and share price performance-based conditions as the Board may determine.

Options to acquire ordinary shares under the EMI plan may be granted up to a maximum of £3,000,000 (based on the market value of the shares placed under option at the date of the grant).

No consideration is payable for the grant to of the option and the options are not transferable or assignable. Cash consideration is paid to the Company by the employee at the point that the share options are exercised.

In 2013, the Company granted options for B Shares under the Gaming Realms 2013 EMI plan. B Share value will be 20 pence less than the prevailing price of the ordinary shares and will therefore have no value unless the value of the new ordinary shares exceeds 20 pence. EMI options can only be granted to employees who meet the statutory working time requirement and cannot normally be exercised before 15 July 2015. All options granted under the New Share Option Scheme on Admission will be exercisable over B Shares at their nominal value of £0.01 and will be capable of exercise, subject to certain exceptions, after two years of the date of grant.

Options are not exercisable later than midnight on the day before the tenth anniversary of the date of grant.

Options were fair valued using the Black-Scholes option pricing model, or where there are market-based performance conditions, a Monte Carlo simulation pricing model. Expected volatility was determined by calculating the historical volatility of the Company's competitors in the sector.

The following information is relevant in the determination of the fair value of options granted during the prior year under the equity-settled share-based remuneration schemes operated by the Group.

Option scheme	2016 EMI Option	2016 Unapproved Options
Equity-settled		
Option pricing model used	Black-Scholes	Black-Scholes
Weighted average share price at grant date (in pence)	20	20
Exercise price (in pence)	20	20
Expected life (years)	7	7
Risk free rate	0.13%	0.13%
Expected dividend yield	–	–

IFRS 2 (Share-based payments) requires that the fair value of such equity-settled transactions is calculated and systematically charged to the statement of comprehensive income over the vesting period. The total fair value that was charged to the income statement in relation to the equity-settled share-based payments was a credit of £149,810 (2016: charge £993,349).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2017 continued

26. Share-based payments (continued)

	Number	Weighted average exercise price (pence)
Outstanding at 1 January 2016	48,814,391	11.24
Granted during the year	2,638,696	20.00
Forfeited during the year	(3,333,044)	25.76
Number of options outstanding at 31 December 2016	**48,120,043**	**10.71**
Granted during the year	–	–
Forfeited during the year	(3,735,156)	25.30
Number of options outstanding at 31 December 2017	**44,384,887**	**9.48**
Exercisable at 31 December 2017	**19,271,854**	**4.26**

Options to subscribe under various schemes, including those noted in Directors' interests in Note 7, are shown in the table below:

	Date granted	Exercise price (pence)	Exercisable between	2017 Number of shares	2016 Number of shares
Approved	1 August 2013	0.01	31 July 2015 to 31 July 2023	**26,153,837**	26,153,837
Unapproved	1 August 2013	13.00	31 July 2015 to 31 July 2023	**1,538,460**	1,538,460
Approved	2 April 2014	23.00	1 April 2017 to 1 April 2024	**4,208,315**	4,297,445
Unapproved	17 June 2014	23.00	16 June 2016 to 16 June 2024	**750,000**	750,000
Approved	17 June 2014	28.88	16 June 2016 to 16 June 2024	**467,391**	467,391
Approved	19 February 2015	33.00	19 February 2018 to 19 February 2025	**422,475**	583,081
Approved	15 October 2015	25.13	15 October 2018 to 15 October 2025	**5,970,000**	9,025,000
Approved	10 November 2015	25.00	10 November 2018 to10 November 2025	**2,340,713**	2,693,633
Approved	28 July 2016	20.00	28 July 2018 to 28 July 2026	**2,326,196**	2,326,196
Unapproved	28 July 2016	20.00	28 July 2018 to 28 July 2026	**207,500**	285,000
				44,384,887	48,120,043

27. Business combinations completed in prior periods

Acquisition of Hullabu Inc

On 22 July 2016, Blastworks Inc acquired 62.5% of the share capital of Hullabu Inc a company that develops and publishes social games. Hullabu Inc in conjunction with Blastworks Inc, developed, published and marketed the Hidden Artefacts game. The acquisition of Hullabu Inc is expected to expedite the development and growth of Hidden Artefacts.

The existing shareholders of Hullabu Inc, issued new shares equating to 62.5% of the overall share capital of Hullabu Inc in exchange for a loan note of $500,000. The loan has now been repaid in full.

Goodwill recognised in the acquisition of Hullabu Inc relates to the presence of certain intangible assets such as an experienced workforce, which do not qualify for separate recognition. Prior to acquisition for the period 1 January 2016 to 21 July 2016, the revenue generated was $111,123 and loss after tax was $34,670. Since acquisition, Hullabu Inc generated $124,285 in revenue and loss after tax of $109,604.

28. Related party transactions

Atul Bali was appointed as an advisor of Gamerail Entertainment LLC, a social lottery gaming company. During the year, Blastworks, Inc. entered into a platform and game licensing agreement with Gamerail Entertainment LLC to provide platform development, operational and marketing services. During the year, Blastworks, Inc. provided platform development services to the value of $47,365 (2016: $256,089) and at 31 December 2017 the balance owed to Blastworks, Inc. was $253,454 (2016: $206,089).

Atul Bali is an advisor to Instant Win Gaming. In April 2016, Instant Win Gaming entered into an agreement with Bear Group Limited to supply Instant Win Games on its online gaming websites. During the year, the total revenue share payable by Bear Group Limited for the supply of game content totalled £93,995 (2016: £55,221) with £4,925 owed at 31 December 2017 (2016: £6,679). In addition, Instant Win Gaming has entered into a licensing agreement with Blastworks Limited for the Slingo Brand. Instant Win Game licensed the Slingo Brand to create and distribute Slingo Branded Instant Win Games. During the year, the total licence fees earned were £17,998 (2016: £4,063) with £2,220 due at 31 December 2017 (2016: £4,063).

Jim Ryan is a non-executive Director of the Company and the CEO of Pala Interactive. On 22 March 2016, Pala Interactive launched a real-money online bingo site in New Jersey. The Bingo software is provided by AlchemyBet Limited on a revenue share basis. During the year, the total licence fees earned were $44,000 (2016: $NIL) with $5,431 due at 31 December 2017 (2016: advance of $16,667).

Jim Ryan is a non-executive Director of JackpotJoy Group. In December 2017 the group entered into a 10-year framework services agreement and a 5-year convertible loan agreement for £3.5m with the Jackpotjoy Group (see Note 21). Gaming Realms has also entered into an agreement to provide JackpotJoy Group a white label site, JackpotHappy.com. During the year Bear Group Limited billed £75,000 to JackpotJoy Group in respect of site design and build works which was outstanding as at 31 December 2017.

During the year £300,000 (2016: £275,000) of consulting fees were paid to Dawnglen Finance Limited, a company controlled by Michael Buckley. No amounts were owed at year end.

The details of key management compensation are set out in Note 6.

29. Subsidiaries

The subsidiaries of the Company, all of which have been included in these consolidated financial statements, are as follows:

Name	Registered Office	Country of Incorporation	Principal activity	Proportion held by Parent Company	Proportion held by Group
Quickthink Digital Limited (formerly Bingo Realms Limited)	1 Valentine Place, London, SE1 8QH	UK	Marketing services	100%	100%
Blastworks Limited	1 Valentine Place, London, SE1 8QH	UK	IP owner	90.66%	100%
AlchemyBet Limited	1 Valentine Place, London, SE1 8QH	UK	Software Developer	88.85%	100%
Bear Group Limited	Inchalla, Le Val, Alderney, GY9 3UL	Alderney	Real money gaming operator	100%	100%
Blueburra Holdings Limited	49 Victoria Street, Douglas, Isle of Man, IM1 2LD	Isle of Man	Marketing services	100%	100%
Digital Blue Limited	49 Victoria Street, Douglas, Isle of Man, IM1 2LD	Isle of Man	Marketing services	0%	100%
Blastworks Inc	300 Deschutes Way SW, Tumwater, WA 98501	USA	Social publishing operator	100%	100%
Backstage Technologies Inc	808 Douglas Street, Victoria BC, V8W 2B6	Canada	Software Developer	100%	100%
Hullabu Inc	848 N Rainbow Blvd, Las Vegas, NV, 89101	USA	IP owner	0%	62.5%
Blastmedia LLC	Prospekt Masherova 6a, Brest, Belarus, 224000	Belarus	Software Developer	0%	62.5%

The Group held 100% interest in the following subsidiaries which were in the process of being liquidated at the balance sheet date:

Name	Registered Office	Country of Incorporation	Principal activity	Proportion held by Parent Company	Proportion held by Group
PDX Businessgroup AG	Vordergasse 53, 8200 Schaffhausen	Switzerland	In liquidation	100%	100%
PDX Technologies AG		Switzerland	In liquidation	0%	100%
PDX Management AG		Switzerland	In liquidation	0%	100%
PDX Public Health and Safety AG		Switzerland	In liquidation	0%	100%
BFX Solutions AG		Switzerland	In liquidation	0%	100%
DDX Solutions AG		Switzerland	In liquidation	0%	100%

30. Post balance sheet events

After the balance sheet date the Group renewed and increased its overdraft facility with Barclays to £2m, available for two years with a reducing facility.

In March 2018 the Group sold its Affiliate CGU for total consideration of £2.4 million to First Leads Ltd. First Leads has paid £2.0m on closing, and a further £0.4m will be payable on 31 December 2018, based on the achievement of performance targets.

Parent Company Statement of Financial Position

as at 31 December 2017

	Note	31 December 2017 £	31 December 2016 £
Assets			
Non-current assets			
Investment in subsidiary undertakings	2	**13,297,262**	20,737,593
Available-for-sale investment	2	**747,222**	540,000
Tangible assets		**131,717**	214,015
Intangible assets		**1,708**	3,416
Other assets		**120,000**	120,000
		14,297,909	21,615,024
Current assets			
Trade and other receivables	3	**23,804,493**	18,918,168
Cash and cash equivalents		**71,319**	94,090
		23,875,812	19,012,258
Total assets		**38,173,721**	40,627,282
Liabilities			
Current liabilities			
Trade and other payables	4	**6,537,936**	3,440,386
		6,537,936	3,440,386
Non-current liabilities			
Other Creditors	5	**2,843,529**	–
Derivative liabilities	5	**600,000**	–
		3,443,529	–
Total liabilities		**9,981,465**	3,440,386
Net assets		**28,192,256**	37,186,896
Equity			
Share capital	6	**28,442,874**	27,413,329
Share premium		**87,918,410**	87,815,455
Merger reserve		**2,683,702**	2,683,702
Available for sale reserve		**207,222**	–
Shares to be issued		**145,000**	–
Retained earnings		**(91,204,952)**	(80,725,590)
Total equity		**28,192,256**	37,186,896

As permitted by section 408 of the Companies Act 2006, a separate profit and loss account of the Company is not presented. The Company's loss for the financial year was £10,329,552 (2016: £7,275,492).

The financial statements were approved and authorised for issue by the Board of Directors on 4 June 2018 and were signed on its behalf by:

Patrick Southon
Chief Executive Officer

Parent Company Statement of Changes in Equity

for the year ended 31 December 2017

	Share capital £	Share premium £	Merger reserve £	Available for sale reserve £	Shares to be issued £	Retained earnings £	Total equity £
1 January 2016	**24,920,829**	**85,127,955**	**2,683,702**	**–**	**–**	**(74,443,447)**	**38,289,039**
Loss for the year	–	–	–	–	–	(7,275,492)	(7,275,492)
Shares issued as part of the consideration in a business combination	480,000	720,000	–	–	–	–	1,200,000
Shares issued as part of the capital raising	2,012,500	2,012,500	–	–	–	–	4,025,000
Cost of issue of Ordinary Share capital	–	(45,000)	–	–	–	–	(45,000)
Share-based payment on share options	–	–	–	–	–	993,349	993,349
31 December 2016	**27,413,329**	**87,815,455**	**2,683,702**	**–**	**–**	**(80,725,590)**	**37,186,896**
Loss for the year	–	–	–	–	–	(10,329,552)	(10,329,552)
Other comprehensive income	–	–	–	207,222	–	–	207,222
Shares issued as part of the capital raising	1,029,545	102,955	–	–	–	–	1,132,500
Share-based payment to Director (Note 7)	–	–	–	–	145,000	–	145,000
Share-based payment on share options	–	–	–	–	–	(149,810)	(149,810)
31 December 2017	**28,442,874**	**87,918,410**	**2,683,702**	**207,222**	**145,000**	**(91,204,952)**	**28,192,256**

The notes on pages 48 to 50 form part of these financial statements.

Notes to the Parent Company Financial Statements

for the year ended 31 December 2017

1. Principal accounting policies

These financial statements present the results of Gaming Realms plc for the year ended 31 December 2017.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

The financial statements are prepared under the historical cost convention. No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The financial statements are prepared in Sterling.

Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) IFRS 2 Share-based Payment disclosure, the share-based payment arrangement concerns its own equity instruments and its separate financial statements are presented alongside the consolidated financial statements of the Group.

b) IFRS 7 Financial Instruments disclosures, given that equivalent disclosures are included in the consolidated financial statements of the Group in which the entity is consolidated.

c) IFRS 13 Fair Value Measurement disclosures.

d) Certain disclosures required by IAS 1 Presentation of Financial Statements, including certain comparative information in respect of share capital movements.

e) IAS 7 Statement of Cash Flows and related notes.

f) IAS 24 Related Party Disclosures relating to key management personnel compensation.

g) IAS 24 Disclosure of related party transactions entered into between two or more members of a group, given that any subsidiary which is a party to the transaction is wholly owned by such a member.

Investments

Investments in subsidiaries are stated at cost less provision for impairment in value, except for investments acquired before 1 October 2013 where shares issued to effect business combinations and the conditions of the Companies Act 2006 are met, merger relief was applied and the resulting investment is recorded at the nominal value of the shares issued.

Available-for-sale investments

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise principally the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value, other than those arising due to exchange rate fluctuations and interest calculated using the effective interest rate, recognised in other comprehensive income and accumulated in the available-for-sale reserve. Exchange differences on investments denominated in a foreign currency and interest calculated using the effective interest rate method are recognised in profit and loss.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the period in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Foreign currencies

Transactions denominated in foreign currencies are recorded at exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Financial liabilities

Financial liabilities held by the company consist of trade payables, deferred consideration, long-term borrowings and other short-term monetary liabilities, which are held at amortised cost, and derivative liabilities which are held at fair value through profit and loss.

2. Investments and assets available for sale

	Investment in Subsidiary Undertakings £	Available for Sale Investment £
At 1 January 2016	23,012,004	–
Additions	–	540,000
Disposals	(2,274,411)	–
At 31 December 2016	20,737,593	540,000
Change in Fair Value	–	207,222
Impairment	(7,440,330)	–
At 31 December 2017	**13,297,263**	**747,222**

Disposals during the prior year relate to the sale of the digital agency business and the entity, Quickthink Media Limited to Ayima Limited. In exchange for the disposal, the company acquired 10% investment in Ayima Limited which diluted to 6.6% upon listing of Ayima Limited. Refer to Note 14 of the consolidated financial statements for further details.

Details of the Company's investments can be found in Note 29 of the consolidated financial statements.

During the year the group has classified its Affiliate marketing business as held for sale. As a result, the investment in Blueburra Holdings Limited has been impaired by £7.4m. Please see Note 19 of the consolidated financial statements for further information.

3. Debtors

	2017 £	2016 £
Amounts due from Group companies	**23,590,304**	18,778,182
Other debtors	**66,085**	42,037
Prepayments and accrued income	**148,104**	97,949
	23,804,493	18,918,168

4. Creditors

	2017 £	2016 £
Creditors: amounts falling due within one year		
Amounts due to Group companies	**4,924,851**	–
Trade creditors	**325,710**	82,026
Overdraft	**945,501**	–
Other creditors	**25,655**	42,229
Accruals and deferred income	**316,219**	180,775
Deferred consideration	**–**	3,135,356
	6,537,936	3,440,386

Notes to the Parent Company Financial Statements

for the year ended 31 December 2017 continued

5. Other creditors & derivative liability

See Note 21 of the consolidated accounts for further information.

6. Called up share capital

Allotted, called up and fully paid

	£	£
284,428,747 (2016: 274,133,292) ordinary shares of 10 pence each	**28,442,874**	27,413,329

Allotted and fully paid

	£
As at 1 January 2017	27,413,329
Issued during the year	1,029,545
As at 31 December 2017	**28,442,874**

On 11 August 2017 10,295,455 shares were issued at £0.11 per share for a total consideration of £1,132,500.

7. Employee information

The Company had a monthly average of 11 (2016: 10) employees during the year.

The employee costs for the Company were £1,090,741 (2016: £1,068,345).

Details of Directors' remuneration can be found in Note 7 of the consolidated financial statements.

8. Leases

The Company has future lease payments under non-controllable operating leases on land and buildings and other leases. The total future value of minimum lease payments is due as follows:

	2017 £	2016 £
Not later than one year	**125,000**	125,000
Later than one year and not later than five years	**35,959**	160,959
Later than five years	**–**	–
	160,959	285,959

9. Related party transactions

During the year £300,000 (2016: £275,000) of consulting fees were paid to Dawnglen Finance Limited, a company controlled by Michael Buckley.

The details of key management compensation are set out in Note 6.

Company Information

Directors
Michael Buckley, Chairman
Patrick Southon, Chief Executive Officer
Simon Collins, Executive Director
Mark Segal, Chief Financial Officer
Atul Bali, Non-executive Director
Jim Ryan, Non-executive Director
Mark Wilson, Non-executive Director
Chris Bell, Non-executive Director

Company Secretary
Mark Segal

Auditors
BDO LLP, 55 Baker Street, London, W1U 7EU

Bankers
Barclays Bank plc, 1 Churchill Place, London, E14 5HP

Nominated advisors
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Solicitors
Memery Crystal LLP, 44 Southampton Buildings, London WC2A 1AP

Registrars
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Notes

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