GAMING REALMS

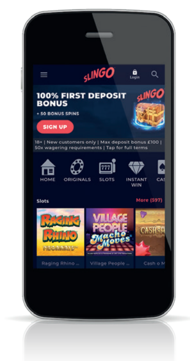
PLAYING A NEW GAME

Annual Report and Accounts 2018

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.

Contents



www.gamingrealms.com

Highlights

2018 Financial Highlights:

Total profit of
£0.9m
(2017: £8.2m loss)

Net cash inflow
£0.2m
(2017: £1.3m outflow)

Total adjusted EBITDA loss
£0.5m
(2017: £0.8m profit)

- Continuing Adjusted EBITDA loss £0.1m (2017: £2.8m loss)

Licensing
£1.0m
Adjusted EBITDA profit (2017: £0.2m loss) including intra group revenue

Social Publishing
£1.6m
Adjusted EBITDA profit (2017: £0.1m loss)

- Continuing revenue down by 19% to £6.2m (2017: £7.6m)

Licensing revenue increased
167%
to £2.2m (2017: £0.8m)

Social Publishing revenue decreased by
43%
to £3.9m (2017: £6.9m), with 63% reduction in costs

2018 Operational Highlights:

Games licensing and publishing

Own game content and IP generated
41%
(2017: 38%) of RMG and Social Publishing revenue

Launched with
13
new partners for Slingo Originals content

Licensed a further
19
games to our partners

Platform and Real Money Gaming ("RMG")

- Affiliate Marketing business sale completed in March 2018 for proceeds of £2.4m
- Sale of part of the B2C RMG business to River iGaming plc ("River") completed in August 2018 for minimum proceeds of £8.4m
- Proposed sale of remaining B2C RMG business to River in 2019
- Game library growth to 30 proprietary games on our Grizzly platform (2017: 19), of which 28 are licensed to operators via our remote game server ("RGS")
- Total game library growth to 812 games on our Grizzly platform (2017: 683)
- Launch of Casonic as first overseas platform deal

At a Glance

Innovation

Gaming Realms develops, publishes and licenses mobile gaming content.

As the creator of a variety of Slingo™, bingo, slots and other casual games, we use our proprietary content to create a 'Slingo' genre of games for our partners internationally. Gaming Realms has partnered with some of the most successful and popular global platforms and operators.

Integrated game development, licensing and publishing

Game development

2 Mobile games studios:

Rationale for sale of B2C RMG business

- The Company has previously set out its strategy to focus its resources on content development and the international licensing of the Slingo brand and intellectual property
- 2018 has seen high growth for licensing with consolidation in the New Jersey market as well as growth with tier 1 operators in the UK and Europe
- The Group has been unable to invest fully into all its activities in 2018 with RMG requiring platform investment in new Gambling Regulations, increase in Point of Consumption as well as increasing cost per acquisition of new players

Brand 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.

Game licensing

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, Golden Nugget, Ocean Resorts, Bwin, Betfair and Hard Rock
  - Europe – GVC, LadbrokesCoral, 888, JackpotJoy, Bet Victor, SkillOnNet, BeGame, Rank and William Hill

Brand partnerships

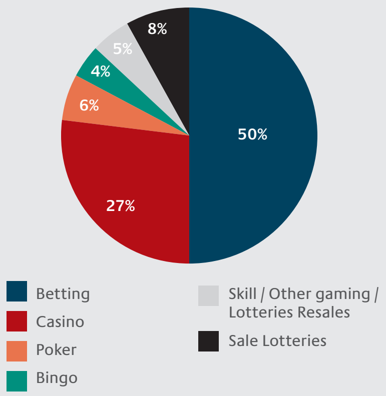
- Endemol – Deal or No Deal
- Fremantle – Britain's Got Talent, the X Factor, Take Me Out, The Price Is Right
- ITV – Love Island, Dancing On Ice, The Only Way is Essex, Hell's Kitchen
- Sony – Who Wants to Be a Millionaire
- Scientific Games – Monopoly, Rainbow Riches

Addressable online market worth $21bn gives opportunity

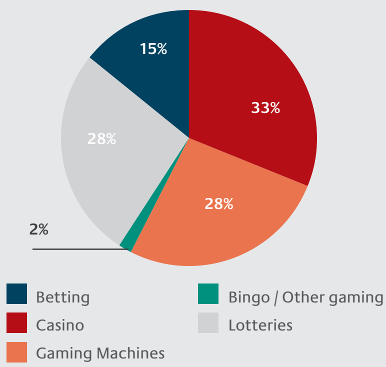
- $21bn Global market for online casinos, lottery, bingo
- 10% growth per annum
- Mobile share increasing to 51% of interactive by 2023
- Offline market for gaming machines worth $104bn
- 3% growth rate Globally
- GMR currently has 3.5% New Jersey & 1% UK Online slot market worth £1.7bn*
- iLottery & Landbased are also markets which suit Slingo

* Gambling compliance

Online Global Market Breakdown



Offline Global Market Breakdown



According to iGaming tracker we are

No.8

Casino supplier in UK

Strategy to repeat UK success in new markets

Our key focus areas

Original game content and IP development

We build original content from our Colchester and Victoria game studios incorporating social meta games and real money mechanics with well-known brands.

Data and algorithmic optimisation

'It's all about the data' – we put the customer first, developing engaging content and using data to enhance marketing and player retention.

Advanced mobile gaming platform

We have invested significantly in our RGS in order to increase the distribution of our games.

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

Despite the fact we have executed an agreement to dispose of our online casino operations, Gaming Realms has been committed, in the year and subsequently, 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 2018 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 or for a set period from all our sites
- In addition to self-exclusion we were an early adopter of GAMSTOP, UK's national self-exclusion scheme, where players can exclude themselves from all UK registered operators.

Chairman's Statement

Delivering growth

Michael Buckley
Chairman

The operating plan for 2019 adopted by the Board, is to continue the development and licence of mobile focused games using our unique Slingo brand, with increased income from our game portfolio through international distribution.

During 2016 and 2017 it became increasingly difficult to operate profitably within the UK online gaming market. This was due initially to competition from the plethora of operators, coupled with pressure on margins from the introduction of Point of Consumption Tax.

Continued increases in costs to be borne by operators has only increased with the passage of time;

- » Point of Consumption Tax has increased by 40% in April 2019
- » Changes in European data laws
- » Provisions to combat money laundering
- » Regulations relating to responsible gaming and gambling

All of these items encompassing new legislation and regulations, have increased costs to the point where a smaller B2C gaming company finds it difficult to operate at a profit in the UK, let alone grow the business for the future.

Given the adverse changes in the B2C marketplace, your Board decided towards the end of 2017 that the best course of action was to sell the larger part of our B2C sites and concentrate on game development and distribution to a worldwide audience. This resulted in a deal with River which closed in August 2018, and was followed by an announcement on 22 February 2019 of a further sale to River of all the remaining assets involved in operating B2C sites in the UK online market, subject to a number of conditions, for an aggregate consideration of £11.5m. We expect to complete this disposal very shortly.

This introduction is intended to give shareholders an outline and some background to the difficulties your Company has faced, and which have led to the reorganisation which is nearing completion.

Your Board is also considering its options to sell or rationalise the Social Publishing division. This process, coupled with the imminent sale of the B2C RMG assets, will lead to a dramatic reduction in overall Company costs, with a decrease in employees of over 60%.

The Group will then concentrate on game development and international licensing using primarily its Slingo brand, and this division which is experiencing healthy growth will become its main focus. An increasing number of gaming companies are signing up to distribute our content on their sites, both in the UK and overseas. We are licensed as a game supplier in New Jersey, USA, where our games account for approximately 3.5% of sales from slot products. The Company is engaged in applying for a license in Pennsylvania and will continue to pursue direct opportunities outside the UK to distribute its games.

The Group delivered an Adjusted EBITDA loss for 2018 of £0.5m (2017 £0.8m profit). These results mask the excellent progress made by our Licensing division, where revenue increased by 167% to £2.2m (2017: £0.8m) with an EBITDA surplus of £1.0m (2017: £0.2m loss) before allocation of central costs. The Licensing division went live with 17 new partners during the year, and our library of proprietary games increased to 28 games from 9 games at the start of the year under review. A number of new deals with game distributors have been announced during 2019, which will further increase worldwide exposure and income from our games once the necessary integrations have been completed.

Further details on the 2018 results are contained in the Statements from the Chief Executive and Finance Director which follow.

Outlook for 2019

The operating plan for 2019 adopted by the Board, is to continue the development and licence of mobile focused games using our unique Slingo brand, with increased income from our game portfolio through international distribution. Capitalising on our success in New Jersey, we intend to enter any new states in America which regulate online gaming.

With regard to the future, I am pleased to welcome Chris Ash to the Board of Directors. Chris has a long and successful history in online game development and distribution, and I am sure will make a valuable contribution to this ongoing Company activity.

Once the sale of the remaining B2C RMG business is completed and we conclude on the Social Publishing strategy, your Board believes shareholders can look forward to a period of increasing stability. This will show growth in Licensing income and a very significant reduction in Group costs, and a trend towards group profitability.

In our 2019 Interim Results, we will report on the cash availability post transaction, forecast working capital needs, and the Board's intentions with regard to any surplus.

Michael Buckley
Chairman

27 June 2019

Chief Executive's Review

A focused strategy

Patrick Southon
Chief Executive Officer

We continue to build proprietary 'Slingo Originals' content and increase its distribution with new partnerships.

Overview

In 2018, the Group's strategy continued to build its proprietary 'Slingo Originals' content and increase its distribution with new partnerships. The Group also disposed of non-core assets as it moved away from being a RMG operator in order to focus on content licensing.

The Group's decision to dispose of its B2C RMG operations has been driven by further regulatory headwinds and the recent increase in Point of Consumption Tax effective from 1 April 2019. The first phase of this asset disposal was completed in August 2018, with the sale of four B2C brands to River. We also streamlined our Social publishing business further, resulting in positive EBITDA of £1.6m (2017: £0.1m loss). However, after capitalisation the net cash inflow was £0.3m (2017: £1.3m outflow).

We have invested resources into new proprietary games and introduced a further 19 games to the market, bringing the total number of licensed games at the end of 2018 to 28 (2017: 9). At the same time, we increased our content distribution and were live with 17 partners at the end of 2018 (2017: 4). Partners we have gone live with during the year include GVC, 888, Rank as well as Golden Nugget and Hard Rock Casino.

This increase in taking our Slingo Originals games to market, as well as launching with new partners, has resulted in revenue growing 167% to £2.2m (2017: £0.8m). Our Licensing business also became profitable in the year, generating an Adjusted EBITDA of £1.0m (2017: £0.2m loss) before the allocation of central costs.

In 2019, to date, we have grown revenues in the online casino market in New Jersey and now account for c.3.5% of the growing market. We have also signed deals with several 'tier 1 operators' in Europe and are now live with William Hill and Gaming Innovation Group. We are aiming to finalise our integration with NYX, which will vastly increase our international footprint, by Q3 2019. Relax Gaming will also give us reach into new markets, in particular with the large tier 1 Scandinavian operators. Our games are also now certified for the newly regulated Swedish market, as well as with the Maltese regulator, and we are planning to obtain licences in other regulated jurisdictions in 2019.

We are excited to announce that we are due to release our Monopoly Slingo game to the international market in Q3 2019. We expect this to deliver increased revenue and also greater exposure on our partner sites. We are already creating a 'Slingo' genre of games and this very much complements our portfolio of unique IP and a well-known gaming brand.

Market overview

The games market is a very crowded environment, in which most operators have 700 plus games available on their sites. We are seeing that Slingo can cut through this with its unique brand and format. As such we are seeing enhanced placements on our partner sites. With the increase in Point of Consumption Tax, together with increased regulation in the UK, it is becoming more important to grow our revenues outside the UK market. We have a good footprint in the New Jersey market and have also gone live with Gaming Innovation Group, as well as currently integrating into Relax Gaming and NYX – both of whom allow access to a much larger market for Slingo.

Key goals for 2019

1. To complete the sale of the B2C RMG operations
2. Conclude on options to sell or rationalise the Social Publishing division
3. Continue the strategic investment in Slingo Originals content, with a view to branded partnerships with other brand owners
4. Increase new licensees for Slingo Original content
5. Further expansion of strategic brand licensing in adjacent markets

This strategic report was approved on behalf of the Board on 27 June 2019.

Patrick Southon
Chief Executive Officer

27 June 2019

Financial Review

A strong performance

Mark Segal
Chief Financial Officer

Overview

Following the global high margin opportunities in game content licensing and the 2019 sale of the majority of the RMG CGU the Directors believe the Group is in a strong position and expects to continue to be cash generative for 2019.

Overview

The operations of the Group have changed significantly in 2018 and into 2019 as the Group has continued with its strategy of disposing of non-core assets and focusing its resources on Licensing.

Gaming Realms delivered a profit after tax of £0.9m (2017: £8.2m loss) due to the sale of B2C RMG and Affiliate Marketing assets in year. We have treated the B2C RMG and Affiliate Marketing segments as discontinued operations in the current year and the comparative period.

Adjusted EBITDA totalled £0.5m loss (2017: £0.8m profit) as a result of declining revenues off the back of reduced marketing spend.

Profit on disposal initially totalled £12.5m in RMG for the disposal of four of our B2C brands in August 2018. Regulatory pressures adversely impacted the performance of these brands post sale, therefore at the year-end we impaired the investment in associate by £2.8m and recognised a fair value loss on contingent earn-out consideration of £1.9m. This has resulted in a net realised profit for the transaction of £7.8m.

Continuing operations

Continuing operations generated Adjusted EBITDA loss of £0.1m (2017: £2.8m loss).

EBITDA from continuing operations was a £0.6m loss (2017: £3.7m loss) including restructuring costs of £0.2m.

Year-on-year revenue declined 19% to £6.2m (2017: £7.6m) due to the declining performance in Social Publishing, partially offset by the growth in Licensing.

Marketing for the year totalled £0.7m (2017: £2.3m) as the Group restricted spend for the Social Publishing business.

Administrative expenses reduced to £4.9m (2017: £7.5m) as a result of restructuring the Social Publishing business in 2017 including the closure of our Seattle office.

Licensing

Licensing revenue increased 167% to £2.2m (2017: £0.8m) due to the continued success of distributing our proprietary games via our RGS to key operators in Europe and New Jersey.

During 2018 we went live with an additional 13 partners in Europe and New Jersey bringing the total to 17 (2017: 4).

Social Publishing

Social publishing achieved profitability in 2018, delivering Adjusted EBITDA profit of £1.6m (2017: Adjusted EBITDA loss £0.1m) as a result of reducing marketing spend by 81% and administrative expenses by 71%. Despite the significant reduction in marketing investment, Social publishing revenue decreased at a lower rate of 43% to £3.9m (2017: £6.9m).

During 2017, Gaming Realms closed its Seattle operations resulting in significant cost savings for 2018 of £2.5m.

Impairment of Social Publishing goodwill of £1.7m was recognised in the year as a result of revised forecasts based on the reduced performance of this segment.

Discontinued operations

Discontinued operations relate to B2C RMG and Affiliate Marketing. Profit after tax from discontinued operations was £6.6m (2017: £0.2m) including profit on disposal of £12.5m, write down of contingent consideration of £1.9m, impairment of associate of £2.8m, and loss for the year of £1.0m.

Discontinued operations have been discussed in more detail in note 20.

Real money gaming

Revenue fell by 28% to £16.4m (2017: £22.7m) due to ongoing reductions in marketing of 46% to £4.4m as a result of regulatory pressures (2017: £8.0m).

In August 2018 four of the Group's B2C RMG brands were sold to River generating an initial profit on disposal of £12.5m. The Group continues to operate these brands via a white label agreement until River obtains their own operating licence, recognising revenue and costs with net profit passed back to River after retaining a platform fee. As a result, additional operational costs of £1.4m were incurred, being the profit share payable to River.

£2.2m
licensing revenue (2017: £0.8m)

13
new partnerships

£1.6m
social publishing Adjusted EBITDA profit (2017: Adjusted EBITDA loss £0.1m)

Post year end the Group has entered into an agreement for the sale of the remaining B2C RMG business to River for £11.5m, which includes settlement of the remaining proceeds from the 2018 disposal and the Group's associate interest in River UK Casino. This sale is subject to regulatory approvals. As a result, this segment has been disclosed as a discontinued operation.

Operating expenses include point of consumption tax, third party royalties and transaction costs which have reduced due to declining revenues. Operating costs in total have increased 3% to £9.2m (2017: £8.9m) as a result of the additional £1.4m profit share payable to River.

This segment became EBITDA loss making in 2018 due to declining revenues, the new profit share to River coupled with fixed administrative costs increasing 5% on prior year.

Affiliate Marketing

The Affiliate Marketing business was sold in March 2018 for £2.4m after generating revenues of £0.2m in 2018 (2017: £1.3m). The loss on disposal was £0.1m.

Cashflow, Balance Sheet and Going Concern

Net cash (note 19) increased by £0.2m in 2018 (2017: decreased by £1.3m). The current year cash position was boosted by the sale of the Affiliate Marketing business for £2.4m plus the sale of certain B2C RMG assets to River for £4.2m cash in 2018. The post year end sale agreement with River will, subject to completion, generate an additional £11.5m, of which £1.5m is deferred to 2020.

Net assets totalled £17.7m (2017: £16.4m).

Following the global high margin opportunities in game content licensing and the 2019 sale of the remaining B2C RMG segment the Directors believe the Group is in a strong position and expects to continue to be cash generative for 2019. 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 £0.1m (2017: £0.4m) in research and development credits in Canada and has recognised an unwind of deferred tax of £0.3m (2017: £0.2m) which arose on prior year business combinations.

Mark Segal
Chief Financial Officer

27 June 2019

The table below sets out the split of revenue and Adjusted EBITDA on a continuing and discontinued basis:

	Discontinued			Continuing				
2018	**Real money gaming £'000**	**Affiliate Marketing £'000**	**Total discontinued 2018 £'000**	**Licensing £'000**	**Social Publishing £'000**	**Head office £'000**	**Total continuing 2018 £'000**	**Total 2018 £'000**
Revenue	**16,365**	**168**	**16,533**	**2,248**	**3,921**	**394**	**6,563***	**23,096**
Marketing expense	**(4,319)**	**(15)**	**(4,334)**	**–**	**(414)**	**(251)**	**(665)**	**(4,999)**
Operating expense	**(9,170)**	**(16)**	**(9,186)**	**(200)**	**(1,092)**	**–**	**(1,292)**	**(10,478)**
Administrative expense	**(3,324)**	**(116)**	**(3,440)**	**(1,055)**	**(861)**	**(2,738)**	**(4,654)**	**(8,094)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**(68)**	**(68)**	**(68)**
Adjusted EBITDA	**(448)**	**21**	**(427)**	**993**	**1,554**	**(2,663)**	**(116)**	**(543)**

	Discontinued			Continuing				
2017	Real money gaming £'000	Affiliate Marketing £'000	Total discontinued 2017 £'000	Licensing £'000	Social Publishing £'000	Head office £'000	Total continuing 2017 £'000	Total 2017 £'000
Revenue	22,718	1,323	24,041	840	6,879	179	7,898*	31,939
Marketing expense	(8,022)	(128)	(8,150)	–	(2,171)	(110)	(2,281)	(10,431)
Operating expense	(8,868)	(76)	(8,944)	(25)	(1,755)	–	(1,780)	(10,724)
Administrative expense	(3,155)	(226)	(3,381)	(1,036)	(3,010)	(2,721)	(6,767)	(10,148)
Share-based payments	–	–	–	–	–	150	150	150
Adjusted EBITDA	2,673	893	3,566	(221)	(57)	(2,502)	(2,780)	786

* Licensing revenue includes £389,464 (2017: £291,506) of inter-segment revenue. This is shown as an Operating Expense under the real money gaming segment and eliminates on consolidation.

EBITDA and Adjusted EBITDA are non-GAAP measures and exclude exceptional items, interest, depreciation, tax and amortisation. Exceptional items are 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 5.

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.

RISK	HOW THIS RISK IS MANAGED
Regulatory and legislation Online gambling and gaming is subject to a dynamic and complex regulatory regime. The Group now holds licenses 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 license. It is key to the Group to maintain compliance with all licenses 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.
Failing to complete River transaction Risk of failing to complete the transaction to sell real money gaming platform and Bear Group subsidiary. The Group is reliant on the £11.5m proceeds of the transaction in order to fulfil its future strategy.	The Company has worked to produce complete applications to the Gambling Regulators in order to gain the required regulatory consents and is working closely with River on the integration process. If the transaction fails to complete, then the Group will receive the £4.2m deferred consideration from the transaction completed with River in August 2018.
Taxation risk From the end of 2014, the gaming industry has been subject to point of consumption tax in relation to gambling activities within the UK. The rate has increased to 21% in April 2019.	The Group has entered into an agreement to sell the B2C RMG business in 2019 which will remove the Group's direct exposure to point of consumption tax. The remaining B2B business operates in multiple jurisdictions reducing the impact of UK specific tax. The tax liability is bourne by the operator.
Residency 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 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 help to diversify the risk.

RISK	HOW THIS RISK IS MANAGED
Brexit 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.
Time to market 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 timeframes can be met, and products go live at the highest standard.
Dependence on technology 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 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 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 three 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 2018 Strategic Report on pages 1 to 9, has been approved by the Board of Directors.

On behalf of the Board

Michael Buckley
Chairman

27 June 2019

Patrick Southon
Chief Executive Officer

27 June 2019

Board of Directors and Executive Management

An accomplished team

Board of Directors

MB

Michael Buckley
Non-Executive 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.

SC

Simon Collins
Non-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.

PS

Patrick Southon
Chief Executive Officer

Patrick Southon has been working within the online gambling sector for the last 18 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.

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.

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.

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.

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.

JB Jonny Bennet
Chief Product Officer

Jonny creates and leads, high performing, agile, cross functional teams. He has over 10 years experience working in the online gambling sector, across marketing, operations and product delivery. He began his career at Ladbrokes, before moving to be part of the founding team at marketing agency, Quickthink Media. Following the acquisition of Quickthink Media by Gaming Realms in 2014, he led Gaming Realms B2C/B2B UK casino team before becoming CPO where he now leads the product strategy and tech delivery across its global real money gaming and content distribution platforms and Slingo Originals games studio.

TD Tom Dyson
Operational Director of Bear Group Limited

Tom has 10 years' experience in the gaming industry. Having led sales teams at Gambling Compliance and ProgressPlay, he took on the role of Commercial Director at Nektan gaining significant operational experience for a B2B/B2C operator. More recently Tom held the role of Commercial Director for Optibid, a gambling focused digital marketing agency where he managed Account Management and Sales Teams servicing multiple UK facing casino, bingo and sportsbook brands before replacing Paul Munro as Managing Director for Bear Group in Alderney leading the marketing and operational strategy for the RMG business within Gaming Realms.

Directors' Report

for the year ended 31 December 2018

The Directors present their Annual Report together with the audited financial statements for the year ended 31 December 2018.

Principal activities

The Group's principal activities during the year continued to be that of an online casino operator, platform and content developer, licensor and 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 2018.

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
- Jim Ryan
- Patrick Southon
- Mark Wilson
- Mark Segal
- Atul Bali (resigned June 2018)
- Simon Collins
- Chris Bell (resigned June 2018)
- Chris Ash (appointed 6 June 2019)

Results and dividends

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

Post balance sheet events

On 21 February 2019 Gaming Realms Plc entered into an agreement ('Transaction') with River to sell the remaining B2C RMG operations via the sale of its subsidiary Bear Group Ltd, subject to regulatory approvals.

The Board appointed Chris Ash as a Non-Executive Director on 6 June 2019.

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.

The Group meets its day-to-day working capital requirements from the cash flows generated by its trading activities and its available cash resources. These are supplemented when required by the Group's bank overdraft facility, which is available until August 2019.

Whilst there are a number of risks to the Group's trading performance, as summarised on page 8, the Group is confident of its ability to continue to access sources of funding in the medium term. The Group's strategic forecasts, based on reasonable assumptions, indicate that the Group should be able to operate within the level of its currently available facilities. After making enquiries and after consideration of the Group's existing operations, cash flow forecasts and assessment of business, regulatory and financing risks, the potential risks and impacts of Brexit, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

The Group is dependent on the receipt of deferred consideration due following the August 2018 disposal of brands to River, or the completion of the proposed sale of the remaining B2C RMG business.

As of the date of approval of these financial statements, the proposed sale of the remaining B2C RMG business to River is yet to complete. If this sale does not go through as planned, £4.2m is still receivable under the original 2018 sale and is due in August 2019. The Group's facility with its banker expires in August 2019. As such, if there is a material delay in either the completion of the sale of the remaining B2C RMG business or the receipt of the £4.2m deferred consideration, alternative funding arrangements would be required in the interim which are not yet in place. This therefore represents a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

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 24 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 12.

Future developments

Future developments are discussed in the Chairman's Statement on page 4 and in the Chief Executive's Review on page 5.

This directors report was approved on behalf of the Board on 27 June 2019 and signed on its behalf by

Patrick Southon
Chief Executive Officer

27 June 2019

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

Chairman's Introduction

The Directors recognise the importance of good corporate governance and have chosen to apply the Quoted Companies Alliance Corporate Governance Code (the 'QCA Code'), which it did so during the last financial year. The QCA Code was developed by the QCA in consultation with a number of significant institutional small company investors, as an alternative corporate governance code applicable to AIM companies. The underlying principle of the QCA Code is that 'the purpose of good corporate governance is to ensure that the company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the longer term'. The Group is not in compliance with all aspects of the Code due to the size and relative stage of development of the business, but remains committed to developing its compliance position over time as the business grows and matures. The Group is not yet in compliance with the Code principle 7. This will be addressed at the next review of the Code in Q4 2019, given the Group's size and plans for the future, it will also endeavour to have regard to the provisions of the UK Corporate Governance Code as best practice guidance to the extent appropriate for a company of its size and nature. To see how the Company addresses the key governance principles defined in the QCA Code please refer to the Company's website and the below table. (The Company has not prepared an official Chairman's corporate governance statement).

The principles of the Quoted Company Alliance (QCA) Code

QCA Code Principle	What we do and why
1. Establish a strategy and business model which promote long-term value for shareholders	The Company develops, publishes and licenses mobile real money and social games. Through its market leading mobile platform and unique IP and brands, Gaming Realms is bringing together media, entertainment and gaming assets in new game formats. Our goal is to try to beat the market by investing in unique content and relationships with partners. We do that through: » Investing in unique mobile content and features on our gaming platform; » Investing with discipline, because we are able to test new opportunities before we roll them out; » Using data and technology to continuously improve. We are able to AB test all developments in games and platform and able to deploy only the best; and » We generate revenue by licensing our unique gaming content and Slingo brand to online real money gaming operators, social publishing operators and landbased gambling games manufacturers. Key challenges in implementing the strategy: » Regulatory framework is continually changing for Gambling which requires constant updates and development work per territory » Continuing to create best in class Games to licence to operators » Having technical resource to integrate the games onto Client sites
2. Seek to understand and meet shareholder needs and expectations	Please refer to our website for further details on how we comply with this requirement of the QCA code: http://www.gamingrealms.com/wp-content/uploads/GMR_Changes_to_corporate_governance_regime_092018.pdf
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success	Please refer to our website for further details on how we comply with this requirement of the QCA code: http://www.gamingrealms.com/wp-content/uploads/GMR_Changes_to_corporate_governance_regime_092018.pdf
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation	The Board recognises that maintaining sound controls and discipline is critical to managing the downside risks to our plan. To continue the improvement in this area we are adding to our existing controls department, expanding the compliance teams to ensure we remain compliant with regulations in all territories we will be working in and continued tight control on investment as we continue to develop the platform and the games content. Both the Board and senior managers are responsible for reviewing and evaluating risk and the Executive Directors meet at least monthly to review ongoing trading performance, discuss budgets and forecasts and new risks associated with ongoing trading.

QCA Code Principle	What we do and why
5. Maintain the Board as a well-functioning, balanced team led by the chair	The Board comprises the Non-Executive Chairman, two Executive Directors and three Non-Executive Directors. Michael Buckley, the Non-Executive Chairman, is responsible for the running of the Board and Patrick Southon, the Chief Executive Officer, has executive responsibility for running the Group's business and implementing Group strategy. The Directors considered to be independent are Michael Buckley, Jim Ryan and Mark Wilson. Simon Collins was considered to be independent post the sale of the B2C real money gaming brands to River in August 2018. He has become a full-time employee of River and is now not an executive of the Group. Key Board activities this year included: » Input into the accelerating growth plan; » Considered our financial and non-financial policies; » Discussed strategic priorities, including disposal during the year; and » Discussed the Group's capital structure and financial strategy – Reviewed the Group risk register, including Compliance – Reviewed feedback from shareholders post full and half year results. The Board is supported by the Audit, Remuneration and Nominations Committees. The Committees' roles and members are available on the Company's website. During the year there were 13 Board meetings. Attendance records were:

Board member	Meetings attended
Michael Buckley	12
Patrick Southon	12
Mark Segal	12
Jim Ryan	9
Mark Wilson	9
Simon Collins	10
Atul Bali*	5
Chris Bell*	5

* Both Atul Bali and Chris Bell resigned during the year and were not eligible to attend all 13 meetings

QCA Code Principle	What we do and why
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, including in the areas of international online gambling, international licensing, finance, innovation, and marketing. All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports monthly on its headline performance against its agreed budget, and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting. The Board makes decisions regarding the appointment and removal of Directors, and there is a formal, rigorous and transparent procedure for appointments. Full details of the Board members and their experience and skills can be found on page 10 of the 2018 Annual Report or via the Investor link on Gaming Realms plc's website. The Board has not sought external advice on any significant matter, apart from advice sought in the normal course of business from our auditors, lawyers and tax compliance advice. No external advisors have been engaged by the Board of Directors, except as noted above.

Corporate Governance
continued

QCA Code Principle	What we do and why
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	To date, the Board has not had a formal effectiveness review, but intends to carry one out once the roles which are currently being recruited are filled. The Chairman will be undertaking a rolling assessment of the individual contributions of each of the members of the team to ensure that: » their contribution is relevant and effective; » that they are committed; and » where relevant, they have maintained their independence – That there is succession planning for Board members. Going forward, appraisals will be carried out each year with all Executive Directors.
8. Promote a culture that is based on ethical values and behaviours	Gaming Realms takes its ethical values very seriously and, in particular, being in the gaming sector the areas of promoting responsible gaming and preventing underage gaming. Staff undergo regular training and processes are in place to ensure correct practice. The culture of the Group is to put the customer, supplier, shareholder and people first. We believe in long-term partnerships in all these areas and work to maintain strong relationships. There is a requirement to include in the Chairman's corporate governance statement what the Board does to monitor and promote a healthy corporate culture. We have not provided a chairman's corporate governance statement but will look to publish such a statement in the future.
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	Please refer to our website for further details on how we comply with this requirement of the QCA code: http://www.gamingrealms.com/wp-content/uploads/ GMR_Changes_to_corpotate_governance_regime_092018.pdf
10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	The Company communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, the Annual General Meeting ('AGM') and one-to-one meetings with large existing or potential new shareholders. The Board receives regular updates on the views of shareholders through briefings and reports from the Chief Executive Officer, Chief Financial Officer and the Company's brokers. The Company communicates with institutional investors through briefings with management. In addition, analysts' notes and brokers' briefings are reviewed to achieve a wide understanding of investors' views. The Company completes regular employee surveys to maintain an open dialogue with employees. There is a requirement to prepare both an Audit Committee report and a Remuneration report. These have not been done in this report but we will look to publish such reports in the future.

Roles of the Board, Chairman and Chief Executive Officer

The Board is responsible for the long-term success of the Company. There is a formal schedule of matters reserved to the Board. It is responsible for overall Group strategy; approval of major investments (whether Capex or Opex); approval of the annual and interim results; annual budgets; dividend policy; and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of all trading subsidiaries, their annual budgets and their performance in relation to those budgets. There is a clear division of responsibility at the head of the Company. The Chairman is responsible for running the business of the Board and for ensuring appropriate strategic focus and direction. The Chief Executive Officer is responsible for proposing the strategic focus to the Board, implementing it once it has been approved and overseeing the management of the Company through the Executive Team.

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports monthly on its headline performance against its agreed budget, and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting. Senior executives below Board level maybe invited to attend Board meetings where appropriate to present business updates. Board meetings throughout the year are held at the Company's Head Office in London.

Executive Team

The Executive Team consists of Patrick Southon and Mark Segal with input from the vertical directors and teams. They are responsible for formulation of the proposed strategic focus for submission to the Board, the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets approved by the Board of Directors. It also manages and oversees key risks, management development and corporate responsibility programmes. The Chief Executive Officer reports to the plc Board on issues, progress and recommendations for change. The controls applied by the Executive Team to financial and non-financial matters are set out earlier in this document, and the effectiveness of these controls is regularly reported to the Audit Committee and the Board.

Board committees

The Board is supported by the Audit and Remuneration committees. Each committee has access to such resources, information and advice as it deems necessary, at the cost of the Company, to enable the committee to discharge its duties.

The Audit Committee have the primary responsibility of monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on. It will receive and review reports from the Group's management and external auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The Audit Committee will meet not less than twice in each financial year and will have unrestricted access to the Group's external auditors. The Audit Committee is chaired by Jim Ryan and also comprises Simon Collins and Michael Buckley.

The Remuneration Committee review the performance of the executive directors and make recommendations to the Board on matters relating to their remuneration and terms of service. The Remuneration Committee also make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any employee share option scheme or equity incentive plans in operation from time to time. The Remuneration Committee meet as and when necessary. In exercising this role, the directors shall have regard to the recommendations put forward in the QCA Guidelines and, where appropriate, the Combined Code guidelines. The Remuneration Committee is chaired by Mark Wilson and comprises Jim Ryan and Michael Buckley.

The Company will continue review the corporate governance framework as the business grows.

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 2018 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 Group financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

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 2018 and of the Group's profit 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 United Kingdom Generally Accepted Accounting Practice; 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.

Material uncertainty in relation to going concern

We draw attention to note 1 in the financial statements which explains that the business is dependent on the receipt of the deferred consideration due following the disposal of brands to River, or the completion of the proposed sale of the remainder of the Group's real money gaming business to the same purchaser to enable it to continue as a going concern. The matters referred to in note 1 indicate that a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 1)

Key audit matter

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

During the year the Group adopted IFRS 15 (Revenue from Contracts with Customers).

Management make certain judgements around revenue recognition and the treatment of contractual arrangements for revenue streams entered into, including consideration of where the Group is acting as agent or principal with end users.

Licencing revenues include a number of significant revenues where agreements are multi-year and involve IP or content licencing and/or minimum guarantees or uncertain future events, which will impact the timing and extent of revenue recognition.

Our response

We assessed whether the revenue recognition policies adopted by the group comply with IFRS and Industry standards. As part of this we obtained and challenged management's paper on the impact of IFRS 15 on the revenue recognition and policies adopted.

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.

We challenged the significant judgements relating to revenue in the licencing segment, where recognition was based on uncertain future events, and considered the disclosure of these milestones and judgements in the financial statements.

Based on the work performed we consider that revenue has been recognised appropriately and in accordance with the group's revenue recognition accounting policy.

Impairment of intangible assets (with reference to note 14)

Key audit matter

In accordance with accounting standards, the group monitors the carrying value of goodwill and other intangible assets for indications of impairment.

Recoverable amount is the higher or value in use and fair value less cost to sell. The group performs annual impairment reviews for each CGU.

Following certain disposals in the year, management reviewed the allocation of some shared assets between CGUs, including Slingo IP and historic goodwill.

Impairment reviews require significant judgement from management and are based on assumptions in respect of future profitability. The identification of each CGU and allocation of assets and liabilities between CGUs require significant judgement from management.

Our response

We considered whether there were any indications of impairment in respect of intangible assets.

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 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.

We reviewed the methodology of the reallocation of goodwill and intangibles to CGUs following disposals in the year and challenged management on its appropriateness.

We considered the appropriateness of the related disclosures provided in the group financial statements in light of the requirements of the accounting standards.

Based on the procedures performed, we concur with management's assessment of recoverable amounts and consider the disclosures to be appropriate.

Capitalisation of development costs (with reference to note 14)

Key audit matter

The group has material expenditure on the internal development of intangible software assets. Such expenditure should only be capitalised when it qualifies under the criteria of the accounting standards and as such this is an area of judgement.

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 the identified useful lives were in line with our expectations and comparable entities.

We agreed a sample of costs capitalised in the year to source documentation to check that they met the criteria of the accounting standards.

This also included challenging the project analysis provided by management to check that the projects capitalised met the criteria of the standards.

Based on the work performed we consider that costs have been capitalised in accordance with the group's accounting policy.

Disposal of B2C Real Money Gaming operations (with reference to note 20)

Key audit matter

The Group has disposed of certain elements of its real money gaming segment during the year. Further to this, management have judged that the remainder of the real money gaming segment had either met the definition of held for sale as at the year end or where retained the element relating to goodwill has been reclassified to the Licensing CGU.

As a result of the above, management have made a number of judgements and estimates in respect of the amounts recorded in the income statement and balance sheet and the allocation between continuing and discontinuing operations.

Our response

We obtained management's calculations of the profit on disposal of certain elements of the real money gaming segment. We agreed that the accounting was in line with the disposal agreements. Where proceeds were based on future results of the operation we obtained management forecasts and challenged the assumptions supporting the forecast, including growth rates and marketing assumptions.

We obtained management's consideration of the carrying value of the investment in River UK Casino and the contingent consideration as at the year end and audited the underlying trading forecasts used to determine the values.

We obtained management's assessment of the goodwill allocation, following the partial disposal of the B2C RMG CGU and challenged the fair value estimates applied to each element and inputs to these calculations, which were either based on value in use or fair value less cost to sell approaches.

We challenged the basis that the remaining B2C RMG operations were held for sale by the year end and obtained supporting evidence including agreed heads of terms with the potential purchaser which were signed pre-year end.

Based on our work, we noted no significant issues in this area.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. 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.

We consider Revenue to be the most appropriate performance measure for the basis of materiality in respect of the audit of the group, given the stage of development of the Groups' operations and the loss in the year.

Using this benchmark, we set materiality at £270k (2017: £324k) being 1.2% (2017: 1%) of Revenue.

Materiality in respect of the audit of the Parent Company has been set at £256k (2017: £308k) using a benchmark of 2% total assets, limited to 95% of group materiality (2017: 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% 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, in a range of 10-75% of materiality.

We agreed with the Audit Committee that we would report to the Committee all audit differences individually in excess of £13k (2017: £16k). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Independent Auditors' Report to the Members of Gaming Realms plc continued

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. 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.

The Group consists of the parent company and 7 subsidiaries. Four of the subsidiaries were considered to be significant components and along with the parent company were subject to a full scope audit by the group audit team. These procedures covered 100% of revenue, 100% of profit before tax and 97% of total assets. Other components not considered significant were subject to desktop review by the group audit team.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts 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, 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 13, 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 : 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.

Dominic Stammers (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London, UK

27 June 2019

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 2018

Continuing	Note	2018 £	2017 £
Revenue	3	**6,173,196**	7,606,110
Marketing expenses		**(665,363)**	(2,280,855)
Operating expenses		**(901,807)**	(1,487,905)
Administrative expenses		**(4,870,226)**	(7,502,371)
Impairment of financial asset	29	**(228,451)**	–
Share-based payments	28	**(67,824)**	4,810
Adjusted EBITDA[1] total	5	**(542,911)**	786,402
Adjusted EBITDA – discontinued	20	**427,242**	(3,566,356)
Adjusted EBITDA – continuing		**(115,669)**	(2,779,954)
Impairment of financial asset	29	**(228,451)**	–
Restructuring costs	5	**(216,355)**	(880,257)
EBITDA* continuing		**(560,475)**	(3,660,211)
Amortisation of intangible assets	14	**(3,535,972)**	(4,292,283)
Depreciation of property, plant and equipment	16	**(145,269)**	(173,638)
Impairment of goodwill	14	**(1,650,000)**	–
Finance expense	11	**(576,107)**	(752,600)
Finance income	11	**419,894**	239,603
Loss before tax		**(6,047,929)**	(8,639,129)
Tax credit	12	**412,987**	612,903
Loss for the financial year – continuing		**(5,634,942)**	(8,026,226)
Profit/(Loss) for the financial year – discontinued	20	**6,564,246**	(201,441)
Profit/(Loss) for the financial year – total		**929,304**	(8,227,667)
Other comprehensive income			
Items that will or may be reclassified to profit or loss:			
Fair value gain on available for sale assets (pre 31 Dec 2017)	15	**–**	207,222
Exchange gain/(loss) arising on translation of foreign operations		**491,611**	(1,022,056)
Total other comprehensive income		**491,611**	(814,834)
Total comprehensive income		**1,420,915**	(9,042,501)
Profit/(loss) attributable to:			
Owners of the parent		**946,804**	(8,225,956)
Non-controlling interest		**(17,500)**	(1,711)
		929,304	(8,227,667)
Total comprehensive income attributable to:			
Owners of the parent		**1,443,741**	(9,007,324)
Non-controlling interest		**(22,826)**	(35,177)
		1,420,915	(9,042,501)

(Loss)/gain per share		Pence	Pence
Basic and diluted – continuing		**(1.98)**	(2.89)
Basic and diluted – discontinued		**2.31**	(0.07)
Basic and diluted – total	13	**0.33**	(2.96)

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 5.

The notes on pages 25 to 56 form part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2018

	Note	31 December 2018 £	31 December 2017 £
Non-current assets			
Intangible assets	14	**12,848,623**	20,464,170
Other investments	15	**535,130**	747,222
Property, plant and equipment	16	**127,556**	263,069
Other assets	17	**132,577**	163,865
		13,643,886	21,638,326
Current assets			
Trade and other receivables	18	**2,681,500**	3,759,434
Deferred consideration	20A	**665,690**	–
Cash and cash equivalents	19	**467,033**	2,283,302
		3,814,223	6,042,736
Assets classified as held for sale	21	**11,392,013**	2,292,881
Total assets		**28,850,122**	29,973,943
Current liabilities			
Trade and other payables	22	**2,484,592**	9,269,732
Liabilities classified as held for sale	21	**4,830,076**	–
		7,314,668	9,269,732
Non-current liabilities			
Deferred tax liability	12	**607,943**	881,512
Other Creditors	23	**3,004,602**	2,843,529
Derivative liabilities	23	**200,000**	600,000
		3,812,545	4,325,041
Total liabilities		**11,127,213**	13,594,773
Net assets		**17,722,909**	16,379,170
Equity			
Share capital	25	**28,442,874**	28,442,874
Share premium	26	**87,198,410**	87,198,410
Merger reserve	26	**(67,673,657)**	(67,673,657)
Available for sale reserve	26	**–**	207,222
Foreign exchange reserve	26	**1,911,453**	1,419,842
Shares to be issued	26	**–**	145,000
Retained earnings	26	**(32,308,495)**	(33,530,345)
Total equity attributable to owners of the parent		**17,570,585**	16,209,346
Non-controlling interest		**152,324**	169,824
Total equity		**17,722,909**	16,379,170

The notes on pages 25 to 56 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 27 June 2019 and were signed on its behalf by:

Patrick Southon
Chief Executive Officer

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	Note	2018 £	2017 £
Cash flows from operating activities			
Profit/(loss) for the period		**929,304**	(8,227,667)
Adjustments for:			
Depreciation of property, plant and equipment	16	**145,269**	173,638
Amortisation of intangible fixed assets	14	**4,319,920**	4,932,699
Impairment	14, 21	**4,479,026**	3,127,381
Share of loss of associate	21	**172,360**	–
Finance income	11	**(679,160)**	(239,603)
Finance expense	11	**576,107**	792,891
Income tax credit	12	**(412,987)**	(612,903)
Unrealised currency translation gains		**(11,076)**	(57,957)
Loss on disposal of property, plant and equipment	16	**41,646**	11,670
Profit on disposal of assets	20A, 20B	**(12,421,621)**	–
Fair value movement on contingent consideration	21	**1,900,065**	–
Cash settlement of director share-based payment	7	**(145,000)**	–
Share-based payments (release)/expense	7, 28	**67,824**	(4,810)
Increase in trade and other receivables		**(310,396)**	(411,839)
(Decrease)/increase in trade and other payables		**(951,414)**	1,166,029
Net cash flows from operating activities before taxation		**(2,300,133)**	649,529
Research and Development tax receipts in the year		**133,130**	389,286
Net cash flows from operating activities		**(2,167,003)**	1,038,815
Investing activities			
Acquisition of associate	21	**(3,000)**	–
Purchases of property, plant and equipment	16	**(34,712)**	(91,447)
Purchase of intangibles	14	**(3,017,674)**	(3,197,971)
Proceeds from disposal of property, plant and equipment	16	**–**	382
Proceeds from disposal of assets, net of disposal costs	20	**5,725,593**	–
Interest received	11	**120**	1,294
Net cash used in investing activities		**2,670,327**	(3,287,742)
Financing activities			
Proceeds of Ordinary Share issue	25	**–**	1,132,499
Proceeds from issue of convertible debt	23	**–**	122,966
Cost relating to issue of convertible debt	23	**(24,846)**	(96,763)
Interest paid	11	**(232,241)**	(173,192)
Net cash from financing activities		**(257,087)**	985,510
Net (decrease)/increase in cash and cash equivalents		**246,237**	(1,263,417)
Cash and cash equivalents at beginning of period		**1,319,098**	2,597,465
Exchange (gain)/losses on cash and cash equivalents		**(15,194)**	(14,950)
Cash and cash equivalents at end of period	19	**1,550,141**	1,319,098

Significant non-cash transactions are disclosed in note 23 and 20.

The notes on pages 25 to 56 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	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 2017	**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 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 8)	–	–	–	–	–	145,000	–	145,000	–	145,000
Share-based payment on share options (Note 28)	–	–	–	–	–	–	(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)**	**16,209,345**	**169,824**	**16,379,169**
Impact of adoption of IFRS 9	–	–	–	(207,222)	–	–	207,222	–	–	–
1 January 2018	**28,442,874**	**87,198,410**	**(67,673,657)**	**–**	**1,419,842**	**145,000**	**(33,323,123)**	**16,209,346**	**169,824**	**16,379,170**
Loss for the year	–	–	–	–	–	–	946,804	946,804	(17,500)	929,304
Other comprehensive income	–	–	–	–	491,611	–	–	491,611	–	491,611
Total comprehensive income/(loss) for the year	–	–	–	–	491,611	–	946,804	1,438,415	(17,500)	1,420,915
Contributions by and distributions to owners										
Share-based payment to Director settled via cash (Note 8)	–	–	–	–	–	(145,000)	–	(145,000)	–	(145,000)
Share-based payment on share options (Note 28)	–	–	–	–	–	–	67,824	67,824	–	67,824
31 December 2018	**28,442,874**	**87,198,410**	**(67,673,657)**	**–**	**1,911,453**	**–**	**(32,308,495)**	**17,570,585**	**152,324**	**17,722,909**

The notes on pages 25 to 56 form part of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

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 Two Valentine Place, London, SE1 8QH.

The consolidated financial statements are presented in pounds sterling.

Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and endorsed by the European Union.

The Group financial statements have been prepared on the historical cost basis, except where certain assets or liabilities are held at amortised cost or at fair value as described in our accounting policies.

Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The results of subsidiaries acquired or disposed of during the period are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition up to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired, including separately identifiable intangible assets, is recognised as goodwill. Any discount on acquisition, i.e. where the cost of acquisition is below the fair value of the identifiable net assets acquired, is credited to the Statement of Comprehensive Income in the period of acquisition.

Interests in associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated statement of financial position at cost. Where the interest in the associate arises as a result of the disposal of a subsidiary, the amount recognised as cost is the fair value of the interest retained in the associate.

Subsequently associates are accounted for using the equity method, where the Group's share of post-acquisition profits and losses and other comprehensive income is recognised in the consolidated statement of profit and loss and other comprehensive income (except for losses in excess of the Group's investment in the associate unless there is an obligation to make good those losses).

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is an indicator that the investment in an associate may have been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Adjusted EBITDA

The Group presents adjusted results, as described in note 5, which differ from statutory results due to the exclusion of exceptional items and adjustments.

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 which the directors consider to be one-off or material in nature that should be brought to the reader's attention in understanding the Group's 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 sales proceeds on business asset disposals.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 continued

1. Accounting policies (continued)

Going concern

The Group meets its day-to-day working capital requirements from the cash flows generated by its trading activities and its available cash resources. These are supplemented when required by the Group's bank overdraft facility, which is available until August 2019.

Whilst there are a number of risks to the Group's trading performance, as summarised on page 8, the Group is confident of its ability to continue to access sources of funding in the medium term. The Group's strategic forecasts, based on reasonable assumptions, indicate that the Group should be able to operate within the level of its currently available facilities. After making enquiries and after consideration of the Group's existing operations, cash flow forecasts and assessment of business, regulatory and financing risks, the potential risks and impacts of Brexit, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

The Group is dependent on the receipt of deferred consideration due following the August 2018 disposal of brands to River, or the completion of the proposed sale of the remaining B2C RMG business.

As of the date of approval of these financial statements, the proposed sale of the remaining B2C RMG business to River is yet to complete. If this sale does not go through as planned, £4.2m is still receivable under the original 2018 sale and is due in August 2019. The Group's facility with its banker expires in August 2019. As such, if there is a material delay in either the completion of the sale of the remaining B2C RMG business or the receipt of the £4.2m deferred consideration, alternative funding arrangements would be required in the interim which are not yet in place. This therefore represents a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Revenue

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

Performance obligations and timing of revenue recognition

Revenue comprises net gaming revenue derived from real money gaming, licensing of content and IP, and Social Publishing.

The following is a description of the principal activities – separated by reportable segments – from which the Group generates its revenue. For more detailed information about reportable segments see note 10.

Net gaming revenue derived from real money gaming

Net gaming revenue derived from online gambling operations 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 bonuses, jackpots and prizes granted to players.

Revenue is recognised at a point in time when the player activity is concluded.

The Group accounts for revenue as principal where it is the licenced entity in the provision of gaming services to end users and controls the service provision. Where the Group is considered to be acting as agent in the service provision, revenues are recognised net.

Affiliate revenue

Affiliate 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.

Revenue is recognised at a point in time when the marketing services are provided.

Social publishing revenue

Social publishing revenue derives from the purchase of credits and awards on social gaming sites. In addition, revenue is generated from in app advertisements.

Revenue is recognised at a point in time when the user credit has been purchased as there is no further service to be delivered and credits are non-refundable. In app advertising revenue is recognised at a point in time when the advertisement is displayed, or offer has been completed by the customer and confirmed by third-party reports.

Licensing revenue

Licensing revenue derives from contractual relationships for the right to use of intellectual property and the amount of consideration receivable is dependent upon the value of sales the customer makes using the IP.

For content licensing, revenue is recognised in the period that the customers sales occur under the royalty exception. Any minimum guarantees are recognised at a point in time when the control of the licence is passed to the customer.

For brand licensing, revenue is recognised at a point in time when there are no further monetary or financial obligations to be fulfilled by the licensor. However, where the Group has ongoing obligations, licensing fees are further analysed for the contractual service provision and recognised either at point in time or over time, applying the royalty exception as applicable.

Determining the transaction price

Most of the Group's revenue is derived from fixed price contracts and therefore the amount of revenue to be earned from each contract is determined by reference to those fixed prices and rates.

Contracts where the transaction price is not fixed are royalties which are accounted for in accordance with the usage-based royalty exception in IFRS 15.

Allocating amounts to performance obligations

For most contracts, there is a fixed amount for each wager or credit purchased and only one performance obligation, being the honouring of the outcome of the wager/purchase. Therefore, there is no judgement involved in allocating the contract price.

Licensing contracts work on a sales-based royalty. Therefore, there is no judgement involved in allocating the contract price.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities, including separately identifiable intangible assets, of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated impairment. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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 initially recognised at acquisition date fair value and 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 (i.e. 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 continued

1. Accounting policies (continued)

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.

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.

Adoption of new and revised standards

In preparing the Group financial statements for the current period, the Group has adopted a number of new IFRSs, amendments to IFRSs and IFRS Interpretations Committee ('IFRIC') interpretations, none of which has had a significant effect on the results or net assets of the Group.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued in July 2014 and replaces IAS 39 'Financial Instruments: Recognition and Measurement'.

Classification and measurement

IFRS 9 classification and measurement criteria requires financial instruments to be classified into one of the three categories being amortised cost, fair value through other comprehensive income or fair value through profit or loss.

Financial assets held by the Group consist of cash and cash equivalents, trade receivables, loans receivable, deferred consideration, contingent consideration and other investments.

The Group measures all financial assets at amortised cost except for derivative financial instruments, contingent consideration and other investments, which are measured at fair value through profit or loss.

The adoption of IFRS 9 has resulted in the Group's available-for-sale investments measured at fair value through other comprehensive income now being measured at fair value through profit or loss with the brought forward available-for-sale reserve reallocated to retained earnings as at 1 January 2018.

Financial liabilities held by the Group consist of customer funds, trade payables, long-term borrowings, other short-term monetary liabilities, and derivative liabilities.

The Group measures all financial liabilities at amortised cost except for derivative liabilities which are measured at fair value through profit and loss.

There was no impact on financial liabilities of adopting IFRS 9.

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.

Impairment

IFRS 9 requires the Group to use an expected credit loss model for its financial assets measured at amortised cost, either on a 12-month or a lifetime basis.

The Group financial assets at amortised cost consist of cash and cash equivalents, trade receivables and loans receivable. None of these financial assets have a significant financing component and the Group has applied the simplified approach and record lifetime expected losses on all trade receivables measured at amortised cost. Other financial assets are measured using the normal credit loss model.

IFRS 15 'revenue from contracts with customers'

IFRS 15 'Revenue from contracts with customers' establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

There were no transition adjustments required.

For licensing, revenue is recognised at a point in time when there are no further monetary or financial obligations to be fulfilled by the licensor. However, where there are ongoing obligations to the Group, licensing fees are further analysed for the contractual service provision and recognised either at point in time or over time, applying the royalty exception as applicable.

The ongoing obligations of certain brand licensing arrangements are satisfied over time and the method previously used to measure the progress towards complete satisfaction of these performance obligations continues to be appropriate under IFRS 15.

Standards in issue but not yet effective

IFRS 16 'Leases'

IFRS 16 'Leases' will replace IAS 17 in its entirety and is effective for accounting periods beginning on or after 1 January 2019. This will be adopted by the Group for the year ending 31 December 2019.

The distinction between operating leases and finance leases for lessees is removed and will result in most leases being recognised in the Statement of Financial Position as a right-of-use asset and a lease liability. For leases previously classified as operating leases, the lease cost will change from an in-period operating lease expense to recognition of depreciation of the right-of-use asset and interest expense on the lease liability.

The Group's currently classified operating leases include rent payable by the Group for office properties and amounts payable for the use of certain computer equipment.

The Group will apply IFRS 16 using the modified retrospective approach. A lease liability will be recognised equal to the present value of the remaining lease payments discounted using an incremental borrowing rate. A right-of-use asset will be recognised equal to the lease liability adjusted for prepaid and accrual lease payments.

At the transition date on 1 January 2019, the Group's main office lease in London is within 12 months of term end and as such is excluded from the transition to IFRS 16. The Group has no other material leases in excess of 12 months except for the office in Seattle, which is sublet to a third party.

As a result the Group do not expect a material change in the results or net position of the consolidated results, however the review is ongoing.

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.

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 continued

1. Accounting policies (continued)

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	3-5 years
Intellectual property	8 years
Domain names	2-3 years
Software	3-5 years

During the year the Directors re-evaluated the useful economic life of game development costs, included within Development costs, as 5 years (2017: 3 years). This resulted in a reduction in amortisation expense of £0.3m.

Research and development tax

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

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; and

» 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.

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 14.

(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. As a result of this review, the useful economic life of game development costs has been re-assessed from 3 to 5 years.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 continued

2. Critical accounting estimates and judgements (continued)

(c) Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

» Level 1: Quoted prices in active markets for identical items (unadjusted);

» Level 2: Observable direct or indirect inputs other than Level 1 inputs; and

» Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures a number of items at fair value:

» Financial instruments (note 23);

» Assets and liabilities classified as held for sale (note 21);

» Contingent consideration (note 21); and

» Investment in associate (note 21) – Initial recognition of interests in associates are recognised at the fair value of interest retained.

For more detailed information in relation to the fair value measurement and sensitivities of the items above, please refer to the applicable notes.

(d) Arrangement with JackpotJoy group

The arrangements entered into with JackpotJoy Group in 2017 are complex. The initial recognition involves estimating the fair value of the derivative liability, and estimating the initial carrying value of the loan liability using a suitable discount rate. The values computed reflected the directors' expectations of the timing and quantum of expected cash outflows on the loan and the probability of the conversion option being exercised. If these estimates change this will have an impact on the carrying amounts of the conversion option and the loan. The 'free services' revenue element of the agreement is designated as the residual value on initial recognition. See note 23 for further detail.

Judgements

(a) Revenue recognition

The treatment of group revenues as agent or principal in the service delivery can be a complex judgement dependent on the terms of the agreement with the partner. The Group accounts for revenue as principal where it is the licenced entity in the provision of gaming services to end users and controls the service provision. Where the Group is considered to be acting as agent in the service provision, revenues are recognised net.

(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. Development costs capitalised total £3.0m (2017: £3.2m). See note 14.

(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. The total unrecognised deferred tax asset was £5.6m (2017: £5.1m). See note 12.

(d) Allocation of Goodwill

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. On disposal of part of a CGU, management exercise significant judgement in the treatment of goodwill. Goodwill is allocated to the disposed operations on a relative fair value of the disposed and retained operations within the CGU. See note 20 for further details.

(e) Discontinued operations

The Directors have assessed the B2C RMG CGU to be held for sale as at 31 December 2018. Judgement is involved to determine if 'held for sale' conditions are met.

(f) Arrangement with JackpotJoy group

The agreement with JackpotJoy group allows for early settlement of the loan if a change of control occurs. The Directors' have used their judgement in order to determine that the probability of a change in control is low. Had this judgement been different, the Group may be liable, if the option is exercised, to make an additional cash payment to JackpotJoy group earlier than the end of the term. See note 23 for more detail.

3. Revenue from contracts with customers

Disaggregation of revenue

The Group has disaggregated revenue into various categories in the following table which is intended to:

» depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic date; and

» enable users to understand the relationship with revenue segment information provided in note 10.

Revenue from discontinued RMG operations in the period all arise from the UK, including Channel Islands and was direct to consumers (B2C) recognised at a point in time. There were no remaining performance obligations unsatisfied at the year end.

2018 continuing revenue	Licensing £	Social publishing £	Other £	Intra-group £	Total £
Primary geographic markets					
UK, including Channel Islands	443,204	–	14,088	(389,464)	67,828
US	977,461	3,920,619	135,409	–	5,033,489
Rest of the World	827,338	–	244,541	–	1,071,879
	2,248,003	**3,920,619**	**394,038**	**(389,464)**	**6,173,196**
Contract counterparties					
Direct to consumers (B2C)	–	3,920,619	–	–	3,920,619
B2B	2,248,003	–	394,038	(389,464)	2,252,577
	2,248,003	**3,920,619**	**394,038**	**(389,464)**	**6,173,196**
Timing of transfer of goods and services					
Point in time	1,893,399	3,920,619	394,038	(389,464)	5,818,592
Over time	354,604	–	–	–	354,604
	2,248,003	**3,920,619**	**394,038**	**(389,464)**	**6,173,196**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 continued

3. Revenue from contracts with customers (continued)

2017 continuing revenue	Licensing £	Social publishing £	Other £	Intra-group £	Total £
Primary geographic markets					
UK, including Channel Islands	309,505	–	60,577	(291,506)	78,576
US	522,922	6,878,760	44,731	–	7,446,413
Rest of the World	7,114	–	74,007	–	81,121
	839,541	**6,878,760**	**179,315**	**(291,506)**	**7,606,110**
Contract counterparties					
Direct to consumers (B2C)	–	6,878,760	–	–	6,878,760
B2B	839,541	–	179,315	(291,506)	727,350
	839,541	**6,878,760**	**179,315**	**(291,506)**	**7,606,110**
Timing of transfer of goods and services					
Point in time	525,102	6,878,760	179,315	(291,506)	7,291,671
Over time	314,439	–	–	–	314,439
	839,541	**6,878,760**	**179,315**	**(291,506)**	**7,606,110**

Remaining performance obligations

The vast majority of the Group's contracts are for services that will be provided within the next 12 months. Certain licence contracts have been entered into for which both:

» the original contractual period was greater than 12 months; and

» the Group's right to consideration does not correspond directly with the performance.

The amount of revenue that will be recognised in future periods on these contracts when those remaining performance obligations will be satisfied is:

	2018 £	2017 £
Next 12 months	**793,466**	397,204
12-24 months	**52,256**	783,810
24+ months	**104,513**	127,800
	950,235	1,308,814

4. Expenses by nature

Loss before interest and tax has been arrived at after charging/(crediting):

	2018 £	2017 £
Employee benefit expenses (see note 9)	**5,307,869**	7,018,634
Share-based payments	**67,824**	(149,810)
Operating lease payments	**237,984**	281,871
Depreciation of property, plant and equipment	**145,269**	173,638
Amortisation of intangible assets	**4,319,920**	4,932,699
Foreign exchange (gain)/loss	**(8,091)**	35,771

5. Adjusted EBITDA

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.

Adjusted EBITDA is stated before exceptional items as follows:

	2018 £	2017 £
Restructuring costs – share-based payment	**–**	(145,000)
Impairment of financial asset	**(228,451)**	–
Restructuring costs	**(216,355)**	(735,257)
Adjusting items	**(444,806)**	(880,257)

Disposal of RMG assets to River

On 16th August 2018 the Group entered into an Asset Purchase Agreement with River for the sale of 4 of the Group's real money brands including customer lists, domain names and contractual agreements. The resulting initial profit on disposal of £12.5m has been classified as exceptional due to its one-off nature. Further details of the disposal are provided in note 20.

Disposal of Affiliate Marketing business

On 22 March 2018, the Group sold its Affiliate Marketing business to First Leads Ltd. The resulting loss on disposal of £0.1m has been classified as exceptional due to its one-off nature. Further details of the disposal are provided in note 20.

Impairment of financial asset

The balance owed by Gamerail Entertainment LLC as at 31 December 2017 was $253,454 which was fully provided for in 2018. See note 29.

Restructuring costs

During 2018 restructuring costs of £0.2m were incurred relating to redundancy and consulting costs.

During 2017 the Group closed the Seattle office. Restructuring costs in the prior year related to the closure costs associated with this including employee severance payments.

6. Auditor's remuneration

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

	2018 £	2017 £
Fees payable to the Company's auditor for the audit of the Group's annual accounts	**25,000**	25,000
Fees payable to the Company's auditor for the audit of the subsidiary's financial statements	**80,000**	71,900
Fees payable to the Company's auditor for the review of Interim statement	**3,178**	3,100
Fees payable to the Company's auditor for other services:		
– Corporate finance	**13,830**	46,224
– Other	**13,600**	–
– Tax compliance services	**40,000**	40,000
– Tax advisory services	**10,000**	3,490
	185,608	189,714

7. 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:

	2018 £	2017 £
Short-term benefits of key management personnel	**1,517,689**	2,500,272
Post-employment benefits of key management personnel	**46,375**	47,251
Share-based benefits of key management personnel	**121,774**	46,238
	1,685,838	2,593,762

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 continued

8. Directors' remuneration

The following table presents the Directors' remuneration of the Company for the year ended 31 December 2018.

	Salary and fees £	Benefits £	**2018 Total £**	2017 Total £
Michael Buckley	210,000	–	**210,000**	360,000
Patrick Southon	250,000	13,077	**263,077**	263,595
Simon Collins	125,000	10,118	**135,118**	158,595
Mark Segal	200,000	713	**200,713**	172,056
Jim Ryan	40,000	–	**40,000**	40,000
Mark Wilson	40,000	–	**40,000**	40,000
Atul Bali	50,000	–	**50,000**	853,727
Chris Bell	20,000	–	**20,000**	10,000
	935,000	23,908	**958,908**	1,897,972

The remuneration for Michael Buckley includes consulting fees of £120,000 paid to Dawnglen Finance Limited, as well as repayment of expenses incurred wholly for the benefit of Gaming Realms plc of £30,000, giving a total of £150,000 paid to Dawnglen (2017: £300,000), a company controlled by Michael Buckley.

During 2018 Atul Bali received $375,000 (£285,844) in severance payments for loss of office as an executive director under his contract, the cost of which was recognised in 2017 results. As part of the separation agreement 5 million of share options granted were retained and allowed to vest over the remaining vesting period. In 2017 he was granted a one-time equity grant of shares to be issued with an estimated value at 31 December 2017 of £145,000. During 2018 the parties agreed to settle the equity grant by way of cash payment of £145,000. Atul resigned as a Non-Executive Director in June 2018. He received £50,000 for Non-Executive Director services in 2018.

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

£0.10 ordinary shares	**2018 Number of shares**	2017 Number of shares
Michael Buckley	**23,000,000**	23,000,000
Patrick Southon	**12,417,319**	12,417,319
Simon Collins	**10,806,742**	10,806,742
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	50,559,052

Directors' interests in long-term incentive plans

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

	Option at 1 Jan 2018	Option granted	Options lapsed	Option at 31 Dec 2018	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	–	(750,000)	5,000,000	£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.

9. Employee benefit expenses

	2018 £	2017 £
Employee benefit expenses (including directors) comprise:		
Wages and salaries	**6,418,110**	9,061,213
Share-based payment expense (Note 8 & 28)	**67,824**	(4,810)
Social security contributions and similar taxes	**687,288**	593,759
Pension contributions	**209,146**	144,228
	7,382,369	9,794,390
Staff costs capitalised in respect of internally generated intangible assets	**(2,006,675)**	(2,780,566)
	5,375,693	7,013,824

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.

The average number of employees was 115 (2017: 132).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 continued

10. 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 2 continuing reportable operating segments:

» Licensing – brand and content licensing to partners in the US and Europe; and

» Social Publishing – provides freemium games to the US and Europe.

There were no customers who generated more than 10% of total revenue. The results of the discontinued segments are included in note 20. Management do not report segmental assets and liabilities internally and as such an analysis is not reported.

2018	Licensing £	Social publishing £	Head office £	Total £
Revenue	**2,248,003**	**3,920,619**	**394,038**	**6,562,660***
Marketing expense	**–**	**(414,064)**	**(251,298)**	**(665,362)**
Operating expense	**(199,412)**	**(1,091,460)**	**(400)**	**(1,291,272)**
Administrative expense	**(1,054,712)**	**(861,253)**	**(2,737,906)**	**(4,653,871)**
Share-based payments	**–**	**–**	**(67,824)**	**(67,824)**
Adjusted EBITDA	**993,879**	**1,553,842**	**(2,663,390)**	**(115,669)**
Restructuring costs				(216,355)
EBITDA – continuing				**(332,024)**
Amortisation of Intangible assets				(3,535,972)
Depreciation of property, plant and equipment				(145,269)
Impairment				(1,878,451)
Finance expense				(576,107)
Finance income				419,894
Loss before tax – continuing				**(6,047,929)**

2017	Licensing £	Social publishing £	Head office £	Total £
Revenue	839,541	6,878,760	179,315	7,897,616*
Marketing expense	–	(2,171,341)	(109,514)	(2,280,855)
Operating expense	(24,961)	(1,754,450)	–	(1,779,411)
Administrative expense	(1,036,352)	(3,010,164)	(2,720,598)	(6,767,114)
Share-based payments	–	–	149,810	149,810
Adjusted EBITDA	(221,772)	(57,195)	(2,500,987)	(2,779,954)
Restructuring costs				(735,257)
Restructuring costs – share-based payment				(145,000)
EBITDA – continuing				(3,660,211)
Amortisation of Intangible assets				(4,292,283)
Depreciation of property, plant and equipment				(173,638)
Finance expense				(752,600)
Finance income				239,603
Loss before tax – continuing				(8,639,129)

* Segmental revenue includes £389,464 (2017: £291,506) of inter-segment Licensing revenue. This is shown as an Operating Expense under the real money gaming discontinued operations and eliminates on consolidation.

11. Finance income and expense

		2018 £	2017 £
Finance income			
Interest received		**120**	1,295
Unwind of interest on deferred consideration receivable	20A	**19,774**	–
Fair value gain on derivative liability	23	**400,000**	–
Foreign exchange movement on deferred consideration		**–**	238,309
Total finance income		**419,894**	239,604
Finance expense			
Bank & loan interest paid		**364,014**	272,613
Unwind of interest on deferred consideration payable		**–**	479,987
Fair value loss on other investments	15	**212,093**	–
Total finance expense		**576,107**	752,600

The deferred consideration in relation to the acquisition from RealNetworks Inc. was denominated in USD and the final payment of $4.5m was settled on 15 December 2017 (see Note 23).

The retranslation of this balance resulted in a £238,309 gain in the prior year.

12. Tax credit

	2018 £	2017 £
Current tax		
Adjustment for current tax of prior periods	**(11,078)**	(67)
R&D tax credit for the period	**144,208**	389,354
Total current tax credit	**133,130**	389,286
Deferred tax		
(Decrease)/increase in deferred tax liabilities	**279,857**	223,617
Total deferred tax credit	**279,857**	223,617
Total tax credit	**412,987**	612,903

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:

	2018 £	2017 £
Loss for the period – continuing	**(6,047,930)**	(8,639,129)
Profit/(loss) for the period – discontinued	**6,564,247**	(201,441)
Profit/(loss) for the period	**516,317**	(8,840,570)
Expected tax at effective rate of corporation tax in the UK of 19% (2017: 19.3%)	**98,100**	(1,701,507)
Expenses not deductible for tax purposes	**920,066**	7,840
Income not chargeable for tax purposed	**(1,999,096)**	–
Effects of overseas taxation	**290,594**	179,516
Adjustment for over provision in prior periods	**11,078**	67
Research and Development tax credit	**(144,208)**	(389,354)
Timing difference not recognised	**115,285**	–
Tax losses for which no deferred tax assets have been recognised	**295,194**	1,290,535
Total tax credit	**(412,987)**	(612,902)

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12. Tax credit (continued)

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 2018 have been recognised at 17% (2017: 17%).

There are unused UK tax losses carried forward as at the balance sheet date of £32.7m (2017: £30.1m) equating to an unrecognised deferred tax asset of £5.6m (2017: £5.1m). 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

	2018 **£**	2017 £
At 1 January 2018	**881,511**	1,202,889
Unwind of deferred tax recognised on business acquisitions	**(279,857)**	(223,617)
FX movement	**6,289**	(97,761)
At 31 December 2018	**607,943**	881,511

13. Profit/(loss) per share

Basic profit/(loss) per share is calculated by dividing the result 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 continuing operations of the Group are loss-making, none of the potentially dilutive securities (see note 28) are currently dilutive.

	2018 **£**	2017 £
Loss after tax – continuing	**(5,634,942)**	(8,026,226)
Profit/(loss) after tax – discontinued	**6,564,246**	(201,441)
Profit/(loss) after tax – total	**929,304**	(8,227,667)

	Number	Number
Weighted average number of ordinary shares used in calculating basic loss per share	**284,428,746**	278,166,853
Weighted average number of ordinary shares used in calculating dilutive loss per share	**284,428,746**	278,166,853

	Pence	Pence
Basic and diluted loss per share – continuing	**(1.98)**	(2.89)
Basic and diluted profit/(loss) per share – discontinued	**2.31**	(0.07)
Basic and diluted profit/(loss) per share – total	**0.33**	(2.96)

14. Intangible assets

	Goodwill £	Customer database £	Software £	Development costs £	Domain names £	Intellectual property £	Total £
Cost							
Balance at 1 January 2017	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
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
Additions	–	–	–	3,017,674	–	–	3,017,674
Disposals	(2,191,809)	(133,550)	–	–	(364,986)	–	(2,690,345)
Reclassified as held for sale	(1,699,000)	–	–	(3,374,902)	–	–	(5,073,902)
FX Movement	302,020	89,231	84,659	18,257	73	351,280	845,520
At 31 December 2018	**7,056,768**	**1,582,190**	**1,488,600**	**9,708,137**	**29,418**	**6,194,372**	**26,059,485**
Amortisation							
Balance at 1 January 2017	–	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
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
Amortisation charge	–	300,949	277,088	2,946,864	52,470	742,549	4,319,920
Disposals	–	(133,550)	–	–	(336,262)	–	(469,812)
Impairment	1,650,000	–	–	–	–	–	1,650,000
Reclassified as held for sale	–	–	–	(2,108,114)	–	–	(2,108,114)
FX Movement	–	87,133	72,507	23,777	597	138,486	322,500
At 31 December 2018	**1,650,000**	**1,582,190**	**1,407,255**	**5,923,789**	**29,418**	**2,618,210**	**13,210,862**
Net book value							
At 1 January 2017	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
At 31 December 2018	**5,406,768**	**–**	**81,345**	**3,784,348**	**–**	**3,576,162**	**12,848,623**

The Group has no contractual commitments for development costs (2017: nil).

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14. Intangible assets (continued)

Goodwill

The Group has 2 continuing CGUs (2017: 3) for which the carrying amount of goodwill is allocated as follows:

	2018 £	2017 £
Real money gaming	–	5,609,878
Licensing	**5,163,223**	3,146,558
Social Publishing	**243,545**	1,889,123
	5,406,768	10,645,559

In 2017 the Group split the RMG and Affiliate Marketing CGU's in preparation for sale. The Affiliate Marketing CGU was subsequently sold in March 2018 (see note 20).

In August 2018, four of the B2C RMG brands were sold (see note 20), with the remaining B2C RMG business classified as held for sale as at 31 December 2018 (see note 21).

Goodwill was allocated to the 2018 disposal based on relative fair values of the disposed operations, and £2.2m of goodwill included in the disposal (see note 20). Goodwill was allocated to the business classified as held for sale at the year-end based on the relative fair value of the business to be disposed, as a result goodwill of £1.7m was classified as held for sale at the year end.

The remaining B2B RMG CGU was subsequently combined into the Licencing CGU as part of the reorganisation.

Impairment of goodwill

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. A detailed impairment test was undertaken at 31 December 2018 to assess whether the carrying value of assets was supported by its recoverable amount.

The recoverable amount is the higher of fair value less costs of disposal, and value in use. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

The recoverable amount of the real money gaming CGU reclassified as held for sale in the year was assessed based on the signed Heads of Terms for the proposed sale to River in 2019 (note 31). No indicators of impairment arose as a result of this review. The remaining B2B real money CGU was subsequently combined into the Licensing CGU as part of the reorganisation.

The recoverable amounts of both continuing CGUs have been determined from value in use calculations based on cash flow projections from formally approved budgets. Cash flow projections have been prepared for a four-year period to 31 December 2022. Other major assumptions are as follows:

	Discount rate	Long-term growth rate[1]
2018		
Licensing	**14.5%**	**5%**
Social Publishing	**16.5%**	**0%**
2017		
Licensing	18.0%	5%
Social Publishing	20.0%	5%

1 The growth rate assumptions apply only to the period beyond the formal budgeted period with the value in use calculation based on an extrapolation of the budgeted cashflows for year 4.

The discount rates used in discounting the projected cash flows are based on the Group's Weighted Average Cost of Capital, after considering the specific risks of the different CGU's.

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.

As a result of declining revenue in the Social Publishing CGU, the recoverable amount of £2.7m was less than the carrying value. The total carrying value of this CGU was £4.4m, of which £1.9m was goodwill. As a result, the directors have impaired goodwill by £1.7m. Social Publishing is a reportable segment and business operation.

No indicators of impairment have arisen on the licensing CGU as a result as the impact of all sensitivities were judged to be within tolerable levels.

15. Other investments

	Other investment £
At 1 January 2017	540,000
Change in Fair Value	207,222
At 31 December 2017	747,222
Change in Fair Value	(212,092)
At 31 December 2018	**535,130**

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 2018 the quoted share price was SEK 17.50 (£1.54). This is a level 1 valuation as defined by IFRS 13. Under IFRS 9, movements in fair value are taken to profit and loss.

16. Property, plant and equipment

	Leasehold improvements £	Computers and related equipment £	Office furniture and equipment £	Total £
Cost				
Balance at 1 January 2017	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
Additions	6,403	22,829	5,480	34,712
Disposals	(102,841)	(19,523)	(8,868)	(131,232)
Reclassified as held for sale	–	(51,534)	(10,513)	(62,047)
FX Movement	(560)	(503)	499	(564)
At 31 December 2018	**197,580**	**180,899**	**92,475**	**470,954**
Accumulated deprecation				
Balance at 1 January 2017	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
Depreciation charge	75,038	49,131	21,100	145,269
Disposals	(95,629)	(15,758)	(6,923)	(118,310)
Reclassified as held for sale	–	(42,474)	(6,785)	(49,259)
FX Movement	(894)	(459)	35	(1,318)
At 31 December 2018	**148,968**	**126,631**	**67,799**	**343,398**
Net book value				
At 1 January 2017	215,901	76,451	80,955	373,307
At 31 December 2017	124,125	93,439	45,505	263,069
At 31 December 2018	**48,612**	**54,268**	**24,676**	**127,556**

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17. Other assets

	2018 £	2017 £
Other assets	**132,577**	163,865

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

18. Trade and other receivables

	2018 £	2017 £
Trade and other receivables	**1,541,665**	2,311,610
Prepayments and accrued income	**1,139,835**	1,447,824
	2,681,500	3,759,434

The carrying value of trade and other receivables classified at amortised cost approximates fair value.

All amounts shown fall due for payment within 1 year.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging.

The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers.

At 31 December 2018 the lifetime expected loss provision for trade receivables is as follows:

	Current £	More than 30 days past due £	More than 60 days past due £	More than 120 days past due £	Total £
Expected loss rate	1%	3%	10%	50%	
Gross carrying amount	1,461,274	47,889	27,986	4,516	**1,541,665**
Loss provision	14,613	1,437	2,799	2,258	**21,106**

19. Cash and cash equivalents

	2018 £	2017 £
Cash and cash equivalents	**467,033**	2,283,302
Cash – held for sale (note 21)	**1,101,489**	–
Restricted cash	**(18,382)**	(18,702)
Overdraft	**–**	(945,501)
Cash and cash equivalents for Statement of Cash Flows	**1,550,141**	1,319,098

The Group has restricted cash of £18,382 (2017: £18,702) 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.

20. Discontinued operations

During the year, the Group sold its Affiliate Marketing CGU, disposed of certain elements of the real money gaming CGU and was sufficiently progressed with active discussions concerning the remainder of the B2C RMG CGU that this element has been classified as held for sale as at 31 December 2018.

Analysis of profit for the financial year – discontinued operations:

B2C RMG		2018 £	2017 £
2018 Disposal			
Profit on disposal	A	**12,492,369**	–
(Loss)/profit for the financial year	C	**(977,362)**	2,033,894
B2C RMG business reclassified as held for sale			
Share of loss of associate	21	**(172,360)**	–
Impairment in associate	21	**(2,829,026)**	–
Fair value movement on contingent consideration	21	**(1,900,065)**	
		6,613,556	2,033,894
Affiliate Marketing			
2018 Disposal			
Loss on disposal	B	**(70,748)**	–
(Loss)/profit for the financial year	C	**21,438**	892,046
Affiliate Marketing business reclassified as held for sale			
Impairment		**–**	(3,127,381)
		(49,310)	(2,235,335)
Profit/(loss) for the financial year – discontinued		**6,564,246**	(201,441)

B2C RMG

Disposal in 2018

On 16 August 2018 the Group entered into an Asset Purchase Agreement with River for the sale of 4 of the Group's B2C RMG brands.

The disposed brands and associated activities were contributed to a newly incorporated company in Malta, River UK Casino. As part of the sale agreement, the Group received a 30% equity interest in this company. In addition, a put and call option was entered into giving River the right to purchase, and the Group the right to sell to River, Gaming Realms' 30% share of River UK Casino at the end of the earn-out period based on an Enterprise value of 5.5 times River UK Casino's EBIT.

The minimum consideration receivable of £8.4m is structured as follows; £4.2m received on completion plus a further £4.2m payable 31 August 2019. Further consideration is achievable on an earn-out basis, payable no later than 30 September 2019 based on 5.5 times River UK Casino's EBIT for the 12 months to 30 June 2019 to a maximum of £14.7m.

Further to this, River UK Casino has entered into a five-year B2B platform and content agreement with the Group.

Transfer to held for sale

The remaining B2C RMG CGU has been classified as held for sale as at 31 December 2018. Management were actively seeking a sale for the remainder of this business prior to the year end and heads of terms had been signed with River. The sale is expected to complete very shortly, following regulatory approvals (see note 21 for further details on the held for sale assets and liabilities).

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20. Discontinued operations (continued)

A – B2C RMG profit on disposal

		£
Cash consideration		4,200,000
Deferred consideration	i	3,629,074
Contingent consideration	ii	1,900,065
Fair value of put/call option	iii	–
Investment in River UK Casino	iv	5,266,579
Less: Disposal costs		(311,540)
Net proceeds		**14,684,178**
Less: Assets disposed		
Intangible assets		(2,191,809)
Profit on disposal of discontinued operation		**12,492,369**

i A discount rate of 14.5% was used to calculate the present value of £4.2m due 31 August 2019 at inception based on the Group's Weighted Average Cost of Capital. The deferred consideration is recognised in the respective subsidiaries involved in the disposal. As a result of the proposed disposal of Bear Group Limited and the transfer of the company to held for sale, £3.6m of deferred consideration is included in the disposal group, and interest unwind of £0.3m included in discontinued operations. The remaining deferred consideration of £0.3m is included in continuing operations.

ii At inception the Group was expecting to achieve an additional £2.2m earn-out. A discount rate of 14.5% was used to calculate the fair value at inception based on the Group's incremental borrowing rate.

iii The put/call option was considered to have nil value at inception and as at 31 December 2018 on the basis the 5.5x multiple is considered a market rate.

iv The initial carrying value of the Group's investment in River UK Casino has been calculated as the expected proceeds receivable upon exercise of the option to dispose of the interest (see iii) in 2020. Based on management's forecast at the date of the transaction, a further £7.1m was expected to be received in August 2020. A discount rate of 14.5% was used to calculate the present value at inception based on the Group's Weighted Average Cost of Capital.

		Continuing	Held for sale	Total
Deferred consideration for B2C RMG	20A	260,916	3,368,159	3,629,074
Deferred consideration for Affiliate Marketing	20B	385,000	–	385,000
Unwind of discount	11	19,774	255,266	275,040
		665,690	**3,623,425**	**4,289,115**

Affiliate Marketing

On 22 March 2018 the Group sold its Affiliate Marketing CGU for total consideration of £2.4m to First Leads Ltd. First Leads paid £2.0m on closing, and a further £0.4m was received in January 2019 based on the achievement of performance targets.

B – Loss on disposal of the Affiliate Marketing CGU

		£
Cash consideration		2,000,000
Deferred consideration	i	385,000
Less: Disposal costs		(162,867)
Net proceeds		**2,222,133**
Less: Assets disposed		
Intangible assets		(2,292,881)
Loss on disposal of discontinued operation		**(70,748)**

i The amount of deferred consideration was capped at £400,000 and reduced based on performance targets. The amount receivable of £385,000 was confirmed with First Lead Ltd as at 31 December 2018 and was received in January 2019.

C – Results of discontinued operations:

B2C RMG	2018 £	2017 £
Revenue	**16,364,816**	22,717,729
Marketing expenses	**(4,318,842)**	(8,022,410)
Operating expenses	**(9,169,594)**	(8,867,787)
Administrative expenses	**(3,325,060)**	(3,153,222)
EBITDA	**(448,680)**	2,674,310
Amortisation of intangible assets	**(783,948)**	(640,416)
Finance income	**255,266**	–
	(977,362)	2,033,894

Affiliate Marketing		
Revenue	**168,018**	1,322,713
Marketing expenses	**(14,833)**	(128,316)
Operating expenses	**(15,809)**	(76,316)
Administrative expenses	**(115,938)**	(226,035)
	21,438	892,046
Adjusted EBITDA – discontinued	**(427,242)**	3,566,356

The results of the discontinued real money gaming operations include the results generated by the brands disposed to River UK Casino and operated under the B2B platform and content agreement.

21. Assets and liabilities classified as held for sale

On 22 March 2018 the Group sold its Affiliate Marketing CGU, which was classified as held for sale in the comparative balance sheet, for total consideration of £2.4m to First Leads Ltd. See note 20.During H2 2018 the Board concluded to pursue the sale of the remaining B2C RMG business and to accelerate the conclusion of the put/call option over the Group's 30% interest in River UK Casino. Advisors were appointed and offers invited, which were actively being discussed during late 2018. The Group has therefore reclassified this business and the Group's interest in River UK Casino as held for sale as at 31 December 2018.

No impairment 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 £11.5m based on active offers received during late 2018.

Analysis of assets and liabilities classified as held for sale in the year

The following major classes of assets and liabilities relating to these operations have been classified as held for sale in the consolidated statement of financial position on 31 December 2018:

	Note	31 December 2018 £	31 December 2017 £
Non-current assets			
Intangible assets – goodwill		**1,699,000**	2,292,881
Intangible assets – platform development costs		**1,266,788**	–
Investment in associate		**2,268,192**	–
Property, plant and equipment		**12,789**	–
Other assets		**32,000**	–
		5,278,769	2,292,881
Current assets			
Trade and other receivables		**1,388,330**	–
Deferred consideration	20A	**3,623,425**	–
Cash and cash equivalents		**1,101,489**	–
Assets held for sale		**11,392,013**	2,292,881
Current liabilities			
Trade and other payables		**4,830,076**	–
Liabilities held for sale		**4,830,076**	–

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21. Assets and liabilities classified as held for sale (continued)

Associate investment in River UK Casino

The Group uses the equity method of accounting for associates. The following table shows the aggregate movement in the Group's interests in associates:

	2018 £
At 1 January 2018	–
Initial recognition of associate (note 20)	5,269,578
Share of associate's loss	(172,360)
Impairment	(2,829,026)
At 31 December 2018	**2,268,192**

On 16 August Gaming Realms Plc acquired an investment of 30% of the ordinary share capital of River UK Casino Limited, a newly incorporated company in Malta, for consideration of £3,000. The Group is able to exert significant influence over River UK Casino by way of its 30% holding and its seat on the Board of directors.

The following financial information relates to River UK Casino as at the period ended 31 December 2018:

	2018 £
Total assets	22,814,767
Total liabilities	(9,696,364)
Total revenue	1,384,822
Total loss after tax	(574,538)

River UK Casino owns a number of real money gaming sites targeting the UK market. The statutory financial statements of River UK Casino are prepared to 31 December 2018.

Impairment of the associate and contingent consideration movement

Post-sale, the performance of the 4 brands sold to River UK Casino has declined. As a result, the forecasts have been revised and expected proceeds reduced accordingly. As a result, an impairment of the associate of £2.8m and fair value decrease of contingent consideration of £1.9m have been recognised in discontinued operations.

Put/call option

As part of the sale agreement, the Group received a 30% equity interest in the above associate, River UK Casino. In addition, a put and call option was entered into giving River the right to purchase, and the Group the right to sell to River, Gaming Realms' 30% share of River UK Casino at the end of the earn-out period based on an Enterprise value of 5.5 times River UK Casino's EBIT. This is considered to have an immaterial value at inception and as at 31 December 2018.

22. Trade and other payables

	2018 £	2017 £
Trade and other payables	1,896,184	5,655,863
Bank overdraft	–	945,501
Accruals	588,408	2,270,675
Player liabilities	–	397,693
	2,484,592	9,269,732

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 expiring on 31 August 2019.

23. Arrangement with Jackpotjoy Group

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

The convertible loan principle of £3.5m was paid directly by Jackpotjoy Group to RealNetworks to settle the outstanding $4.5m (£3.4m) deferred consideration obligation, with the excess cash of £0.1m transferred to the Group. Under the framework services agreement the first £3.5m of services are provided free-of-charge within the first 5 years.

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 with a cash payment equal to the aggregate value of the convertible loan outstanding multiplied by the shortfall on nominal value payable to Jackpotjoy Group. Under this arrangement, the maximum dilution to Gaming Realms shareholders will be approximately 11%, assuming the convertible loan is converted in full.

The option violates the fixed-for-fixed criteria for equity classification as the number of shares is variable 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 initial fair value was £0.6m based on a probability assessment of conversion and future share price. This is a level 3 valuation as defined by IFRS 13. The fair value as at 31 December 2018 was £0.2m (2017: £0.6m) based on revised probabilities of when and if the option will be exercised. The key inputs into the valuation model included timing of exercise by the counterparty (based on a probability assessment) and the share price.

The initial fair value of the host debt was calculated as £2.7m, being the present value of expected future cash outflows. The rate used to discount future cashflows was 14.1%, being the Group's incremental borrowing rate. This rate was calculated by reference to the Group's cost of equity in the absence of reliable alternative evidence of the Group's cost of borrowing given it is predominantly equity funded. Expected cashflows are based on directors' judgement that a change in control event would not occur. Subsequently the loan is carried at amortised cost.

The residual £0.2m of proceeds were allocated to the obligation to provide free services.

	Fair value of debt host £	Obligation to provide free services	Fair value of derivative liability £	Total £
At 1 January 2018	2,630,469	213,000	600,000	3,443,469
Change in fair value	–	–	(400,000)	(400,000)
Cost relating to issue of convertible debt	(24,846)	–	–	(24,846)
Utilisation of free services	–	(4,000)	–	(4,000)
Effective interest (14.4%)	360,475		–	360,475
Interest paid	(170,495)		–	(170,495)
At 31 December 2018	**2,795,603**	**209,000**	**200,000**	**3,204,603**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 continued

24. 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. The Group has separately analysed the 2018 held for sale category. No instruments in held for sale were classified as held at fair value.

	Amortised cost			Fair value	
	2018 continuing £	**2018 held for sale £**	2017 £	**2018 £**	2017 £
Financial assets					
Cash and cash equivalents	**467,033**	**1,101,489**	2,283,302	**–**	–
Trade and other receivables	**1,541,665**	**1,388,330**	2,311,610	**–**	–
Deferred consideration	**665,690**	**3,623,425**	–		–
Other assets	**132,577**	**32,000**	163,865	**–**	–
Other investments	**–**	**–**	–	**535,130**	747,222
Financial liabilities					
Trade and other payables	**1,896,184**	**2,631,917**	5,655,863	**–**	–
Accruals	**588,408**	**1,894,730**	2,270,675	**–**	–
Player liabilities	**–**	**303,429**	397,693	**–**	–
Other creditors	**3,004,602**	**–**	2,843,529	**–**	–
Derivative liability	**–**	**–**	–	**200,000**	600,000

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:

» 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.

All financial instruments included in held for sale are denominated in GBP.

As of 31 December 2018 the Group's net exposure to foreign exchange risk was as follows:

Net foreign currency financial assets/ (liabilities)	Sterling 2018	Sterling 2017	US Dollar 2018	US Dollar 2017	Other 2018	Other 2017
Sterling	–	–	–	–	–	–
US Dollar	**234,737**	543,998	–	–	–	–
Other	**18,201**	37,837	–	–	–	–
	252,937	581,835	–	–	–	–

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 £50,587 (2017: decrease in losses and increase of net assets of £116,367). A 20% weakening in the exchange rate would, on same basis increase loss after tax and decrease net assets by £50,587. (2017: increase loss after tax and decrease net assets by £116,367).

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

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.

All financial liabilities included in held for sale are due within 1 year.

The Group operates an overdraft facility of £1m with its principal bankers, Barclays plc. The Group expects to complete the sale of the remaining B2C RMG business imminently which will generate cash proceeds on completion totalling £10m.

The following table sets out the undiscounted contractual cash flows:

At 31 December 2018	Within 1 year £	1-2 years £	Over 2 years £
Trade and other payables	**1,896,184**	–	–
Accruals	**588,408**	–	–
Player liabilities	–	–	–
Other creditors	**279,921**	**263,219**	**4,018,938**
Total	**2,764,513**	**263,219**	**4,018,938**

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	**8,549,808**	**227,500**	**4,282,158**

Credit risk

The Group's trading is mainly exposed to credit risk through credit sales in the Licencing and Social Publishing segments. Generally, receivables are due and collected within 30 days of invoice or contract. See note 18 for further detail on receivables exposure and expected credit loss analysis.

Management considered the credit risk on other financial assets including deferred consideration and the counterparty debt risk and concluded no provision was required. In the opinion of management, the credit risk to cash and lease deposits is immaterial.

See further disclosure on results of expected credit losses in notes 18 and 29.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 continued

24. 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 £0.2m (2017: £0.6m) was based on a probability assessment of conversion and future share price. This is a level 3 valuation as defined by IFRS 13.

Included in the held for sale group at year end is contingent consideration and a put/call option over the group's associate interest arising from the sale disclosed in note 20. The value of contingent consideration and the put/call option is based on future EBITDA multiples. This is a level 3 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 23) and a £1m overdraft facility with Barclays (note 22).

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

IAS 7 requires 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 23), Derivative liability (note 23) and an obligation to provide free services. There are no financing liabilities included in the held for sale asset group. A reconciliation between the opening and closing balances of these items is provided below.

2018

	Fair value of debt host	Obligation to provide free services	Fair value of derivative liability
Opening balance	2,630,469	213,000	600,000
Cash	(170,495)	–	–
Transaction costs	(24,846)	–	–
Non-cash transaction	–	(4,000)	–
Unwind of discount	360,475	–	–
Change in fair value	–	–	(400,000)
Carried forward	**2,795,603**	**209,000**	**200,000**

2017

	Fair value of debt host	Obligation to provide free services	Fair value of derivative liability
Opening balance	–	–	–
Cash	122,966	–	–
Transaction costs	(96,763)	–	–
Non-cash transaction	2,564,034	213,000	600,000
Unwind of discount	40,232	–	–
Foreign exchange movement	–	–	–
Carried forward	**2,630,469**	**213,000**	**600,000**

The 2017 non-cash transaction relates to JPJ settling the deferred consideration owed by the Group directly with Real Networks with excess cash of £123k transferred to Gaming Realms.

25. Share capital

Ordinary shares

	2018 Number	**2018 £**	2017 Number	2017 £
Ordinary shares of 10 pence each	**284,428,747**	**28,442,874**	284,428,747	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.

Movements in share capital

	Number	£
At 1 January 2017	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
At 31 December 2018	**284,428,747**	**28,442,874**

26. 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 – until 31 Dec 2017	Gains/losses arising on recognising changes in fair value of available for sale assets.

27. 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:

	2018 £	2017 £
Not later than one year	**162,307**	211,454
Later than one year and not later than five years	**218,593**	804,938
Later than five years	**–**	–
	380,900	1,016,393

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 continued

28. 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, eligible employees to be granted EMI or non-EMI options at an exercise price to be determined by the Board not less than the nominal value of a share. Options 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 £3m (based on the market value of the shares placed under option at the date of the grant).

No consideration is payable for the grant 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. 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. 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 inputs into the Black Scholes model for issues in previous years can be found in the respective annual reports.

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 £67,824 (2017: credit £149,810).

	Number	Weighted average exercise price (pence)
Outstanding at 1 January 2017	48,120,043	10.71
Forfeited during the year	(3,735,156)	25.30
Number of options outstanding at 31 December 2017	**44,384,887**	**9.48**
Forfeited during the year	(4,879,562)	22.70
Number of options outstanding at 31 December 2018	**39,505,325**	**15.45**
Exercisable at 31 December 2018	**38,370,699**	**15.50**

Options to subscribe under various schemes, including those noted in Directors' interests in note 8, are shown in the table below:

	Date granted	Exercise price (pence)	Exercisable between	2018 Number of shares	2017 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	**2,780,663**	4,208,315
Unapproved	17 June 2014	23.00	16 June 2016 to 16 June 2024	**–**	750,000
Approved	17 June 2014	28.88	16 June 2016 to 16 June 2024	**326,087**	467,391
Approved	19 February 2015	33.00	19 February 2018 to 19 February 2025	**284,141**	422,475
Approved	15 October 2015	25.13	15 October 2018 to 15 October 2025	**5,810,000**	5,970,000
Approved	10 November 2015	25.00	10 November 2018 to10 November 2025	**1,410,711**	2,340,713
Approved	28 July 2016	20.00	28 July 2018 to 28 July 2026	**1,069,251**	2,326,196
Unapproved	28 July 2016	20.00	28 July 2018 to 28 July 2026	**132,175**	207,500
				39,505,325	44,384,887

Modification

During the year certain share options were terminated and replaced with new options with lower exercise price or quantity. This has been accounted for as a modification under IFRS 2. The fair value of the reissued options is less than the fair value of the original grant.

29. Related party transactions

Atul Bali is an advisor of Gamerail Entertainment LLC, a social lottery gaming company. Blastworks, Inc., a group company, provided platform development, operational and marketing services to Gamerail Entertainment LLC in the prior year to the value of $47,365. No services were provided in 2018. The balance owed by Gamerail Entertainment LLC as at 31 December 2017 was $253,454 which was fully provided for in 2018.

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 £44,708 (2017: £93,995) with £2,768 owed at 31 December 2018 (2017: £4,925).

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 £51,377 (2017: £17,998) with £7,310 due at 31 December 2018 (2017: £2,220).

Atul resigned on 30 June 2018 and therefore the above entities ceased to be a related party as of this date.

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 $13,709 (2017: $44,000) with $1,102 due at 31 December 2018 (2017: $5,431).

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 23). Gaming Realms has also entered into an agreement to provide JackpotJoy Group a white label site, JackpotHappy.com. During the prior 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 £180,000 (2017: £300,000) of consulting fees were paid to Dawnglen Finance Limited, a company controlled by Michael Buckley. No amounts were owed at year end.

Simon Collins is a Non-Executive Director of the Company and holds a 6% shareholding in Stannp Limited. During 2018 we spent £2,593 on customer mailings with Stannp Limited. This amount was fully paid as at 31 December 2018.

The details of key management compensation are set out in note 7.

30. 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)	2 Valentine Place, London, SE1 8QH	UK	Marketing services	100%	100%
Blastworks Limited	2 Valentine Place, London, SE1 8QH	UK	IP owner	90.66%	100%
AlchemyBet Limited	2 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%

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 continued

30. Subsidiaries (continued)

The Group held 100% interest in the following subsidiaries that were in the process of liquidation 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%

31. Post balance sheet events

On 21 February 2019 Gaming Realms Plc entered into an agreement ('Transaction') with River to sell the remaining B2C real money operations via the sale of Bear Group Ltd, a Company incorporated in Alderney for total consideration of £11.5m, which includes settlement of the deferred consideration (see note 20), disposal of the associate and settlement of the put/call option (see note 20). The Company also has gaming licences issued by the UK Gambling Commission and the Alderney Gambling Commission. The Transaction also provides for the transfer of the 30% shareholding Gaming Realms has in River UK Casino and the acquisition of a sole perpetual licence for the use, development and distribution of a gaming platform. River have now received UK GC approval and expect to complete very shortly.

Parent Company Statement of Financial Position

as at 31 December 2018

	Note	31 December 2018 £	31 December 2017 £
Assets			
Non-current assets			
Investment in subsidiary undertakings	2	**10,897,262**	13,297,262
Other investments	2	**535,130**	747,222
Property, plant and equipment		**48,596**	131,717
Intangible assets		–	1,708
Other assets		**120,000**	120,000
		11,600,988	14,297,909
Current assets			
Trade and other receivables	3	**16,598,253**	23,804,493
Cash and cash equivalents		**59,561**	71,319
		16,657,814	23,875,812
Assets classified as held for sale		**3,000**	–
Total assets		**28,261,802**	38,173,721
Liabilities			
Current liabilities			
Trade and other payables	4	**6,386,838**	6,537,936
		6,386,838	6,537,936
Non-current liabilities			
Other Creditors	5	**3,008,603**	2,843,529
Derivative liabilities	5	**200,000**	600,000
		3,208,603	3,443,529
Total liabilities		**9,595,441**	9,981,465
Net assets		**18,666,361**	28,192,256
Equity			
Share capital	6	**28,442,874**	28,442,874
Share premium		**87,918,410**	87,918,410
Merger reserve		**2,683,702**	2,683,702
Available for sale reserve		–	207,222
Shares to be issued		–	145,000
Retained earnings		**(100,378,625)**	(91,204,952)
Total equity		**18,666,361**	28,192,256

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 £9,448,719 (2017: £10,329,552).

The financial statements were approved and authorised for issue by the Board of Directors on 27 June 2019 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 2018

	Share capital £	Share premium £	Merger reserve £	Available for sale reserve £	Shares to be issued £	Retained earnings £	Total equity £
1 January 2017	**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 8)	–	–	–	–	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**
Impact of adoption of IFRS 9	–	–	–	(207,222)	–	207,222	–
1 January 2018	**28,442,874**	**87,918,410**	**2,683,702**	**–**	**145,000**	**(90,997,730)**	**28,192,256**
Loss for the year	–	–	–	–	–	(9,677,170)	(9,677,170)
Share-based payment to Director (Note 8)	–	–	–	–	(145,000)	–	(145,000)
Share-based payment on share options	–	–	–	–	–	67,824	67,824
31 December 2018	**28,442,874**	**87,918,410**	**2,683,702**	**–**	**–**	**(100,607,076)**	**18,437,910**

The notes on pages 59 to 61 form part of these financial statements.

Notes to the Parent Company Financial Statements

for the year ended 31 December 2018

1. Principal accounting policies

These financial statements present the results of Gaming Realms plc for the year ended 31 December 2018.

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 2018.

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 party to the transaction is wholly owned by such a member.

Investments

Investments in subsidiaries and associates 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.

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.

Notes to the Parent Company Financial Statements

for the year ended 31 December 2018 continued

2. Investments

	Investment in subsidiary undertakings £	Investment in associate £	Other investments £
At 1 January 2017	20,737,592	–	540,000
Change in fair value	–	–	207,222
Impairment	(7,440,330)	–	–
At 31 December 2017	13,297,262	–	747,222
Change in fair value	–	–	(212,092)
Additions	–	3,000	–
Impairment	(2,400,000)	–	–
At 31 December 2018	**10,897,262**	**3,000**	**535,130**

The investment in Blueburra Holdings Limited was impaired as a result of the 2018 Affiliate Marketing business sale.

Details of the Company's investments can be found in note 30 of the consolidated financial statements.

3. Trade and other receivables

	2018 £	2017 £
Amounts due from Group companies	**16,407,738**	23,590,212
Other debtors	**73,743**	66,176
Prepayments and accrued income	**116,773**	148,104
	16,598,253	23,804,492

Expected credit losses on Amounts due from Group companies was calculated as £6.5m.

4. Trade and other payables

	2018 £	2017 £
Creditors: amounts falling due within one year		
Amounts due to Group companies	**6,056,090**	4,924,851
Trade creditors	**75,390**	325,710
Overdraft	**–**	945,501
Other creditors	**–**	–
Accruals and deferred income	**255,357**	341,874
	6,386,838	6,537,936

5. Other creditors & derivative liability

See note 23 of the consolidated accounts for further information.

6. Called up share capital

Allotted, called up and fully paid

	2018 Number	2018 £	2017 Number	2017 £
Ordinary shares of 10 pence each	**284,428,747**	**28,442,874**	284,428,747	28,442,874

Allotted and fully paid

	£
As at 31 December 2018 and 31 December 2017	28,442,875

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 10 (2017: 11) employees during the year.

The employee costs for the Company were £1,103,599 (2017: £1,090,741).

Details of Directors' remuneration can be found in note 8 of the Consolidated Financial Statements.

8. Leases

The Company 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:

	2018 £	2017 £
Not later than one year	**88,356**	125,000
Later than one year and not later than five years	**–**	35,959
Later than five years	**–**	–
	88,356	160,959

9. Related party transactions

During the year £180,000 (2017: £300,000) 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 7 of the Consolidated Financial Statements.

Company Information

Directors
Michael Buckley, Non-Executive Chairman
Patrick Southon, Chief Executive Officer
Mark Segal, Chief Financial Officer
Simon Collins, Non-Executive Director
Jim Ryan, Non-Executive Director
Mark Wilson, Non-Executive Director
Atul Bali, Non-Executive Director (resigned 30 June 2018)
Chris Bell, Non-Executive Director (resigned 30 June 2018)
Chris Ash, Non-Executive Director (appointed 6 June 2019)

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
Peel Hunt, 120 London Wall, London, EC2Y 5ET

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

Registrars
Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS13 8AE

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Registered number
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