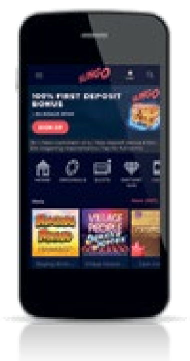
GAMING REALMS
PLAYING A NEW GAME

Annual Report and Accounts
2019

Gaming Realms is a developer, publisher and licensor of mobile games, building an international portfolio of highly popular gaming content and brands.

Through its unique IP and brands, Gaming Realms is bringing together media, entertainment and gaming assets in new game formats. The Gaming Realms management team includes accomplished entrepreneurs and experienced executives from a wide range of leading gaming and media companies.

Contents



www.gamingrealms.com

Highlights

2019 Financial highlights:

» EBITDA[1] from continuing operations loss of **£0.8m** (2018: £0.6m loss)

» Continuing revenue increased by **11.5% to £6.9m** (2018: £6.2m) for the year
- Licensing revenue increased **84.5% to £4.1m** (2018: £2.2m)
- Social Publishing revenue decreased by **29.6% to £2.8m** (2018: £3.9m), with a **16%** reduction in expenses and a **25.2%** reduction in development costs capitalised in the year

» Net cash inflow for the year of **£1.0m** (2018: £0.2m) with **£2.6m** cash at the year end
- Cash inflow from disposal of assets net of cash disposed[2] of **£6.1m** (2018: £6.0m)

» Continuing Adjusted EBITDA[3] loss **£0.3m** (2018: £0.1m loss)
- Licensing **£1.4m** Adjusted EBITDA (2018: £1.0m)
- Social Publishing **£0.8m** Adjusted EBITDA (2018: £1.6m)

» Loss for the year from continuing activities reduced to **£4.6m** (2018: £5.6m)

» Adoption of IFRS 16 in the year increasing 2019 EBITDA by **£0.1m** due to lease presentation

2019 Operational highlights:

» **Sale of the B2C RMG business** to River iGaming plc ("River") completed in July 2019 for £11.5m on a cash free, debt free basis. After settlement of liabilities in connection with the disposed assets and termination of the £4.2m deferred consideration due from the sale completed in 2018, the Company received an initial cash sum of £7.0m, with a deferred consideration of £1.5m due on or before 31 December 2020.

» Game library growth to **36 proprietary games** on the Group's remote game server ("RGS") (2018: 28)

» Launched **our first partner** through the Relax Gaming distribution platform

» Signed international distribution deal with Scientific Games

» Launched with **14 new partners** for Slingo Originals content, including Sun Bingo, William Hill, Kindred, Bettson

» **Extended our licensing** of the Slingo brand to Zynga for Social casino

1 EBITDA is profit before interest, tax, depreciation, amortisation and impairment expenses and is a non-GAAP measure. The Group uses EBITDA and Adjusted EBITDA to comment on its financial performance.

2 Cash inflow from disposal of assets net of cash disposed of represents the cash consideration received by the Group on the disposal of assets, less the cash balance included in any subsidiaries at the time of disposal. See note 21 for further details.

3 Adjusted EBITDA is EBITDA excluding non-recurring material items which are outside the normal scope of the Group's ordinary activities. Adjusting items include costs arising from a fundamental restructuring of the Group's operations, relocation costs, impairment of financial assets and sales proceeds on business asset disposals. See note 5 for further details.

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

» 2019 has seen high growth for licensing in the New Jersey market as well as growth with tier 1 operators in the UK and Europe

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

» 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, William Hill, Sky Betting and Gaming, Kindred, Bettson, Buzz Bingo

Brand partnerships

» Endemol – Deal or No Deal

» Fremantle – Britain's Got Talent, the X Factor, The Price Is Right

» Sony – Who Wants to Be a Millionaire

» Scientific Games – Monopoly, Rainbow Riches

» Inspired Entertainment – Centurion

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 Slingo and well-known brands.

Advanced mobile gaming platform

We have invested significantly in our Remote Gaming Server ("RGS") in order to increase the distribution of our games.

Data and algorithmic optimisation

"It's all about the data" – we put the customer first, developing engaging content and using data to enhance the development feedback loop.

Strategic partners and licensing

Partners include Endemol, Zynga, IWG, Inspired Entertainment, Hasbro 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

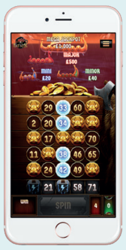
Despite the fact we disposed of our online casino operations, Gaming Realms has been committed, in the year, to providing an environment for customers to play responsibly and securely. Since commencing operations, we have had measures in place to encourage responsible play – to keep it fun – and have provided tools to help keep customers' gaming and spending within their control.

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

We always ensure that Responsible Gambling is at the heart of our game design process and have recently built a tool for players to set their own limits on stakes and features within games. We only contract with licenced partners, ensuring that the players are given a high level of protection through these operators. As our games are certified in highly regulated markets such as the UK and Sweden, the standards we have to provide for our games and RGS systems in terms of player protection is already set to an incredibly high level.

Playing a new game

1. Slingo Centurion



2. Sligo Berserk

3. Monopoly Slingo

4. Slingo Advance

Executive Chairman's Statement

A clear growth plan

Michael Buckley
Executive Chairman

2019 was a year of excellent progress for the Group, with the Licensing division increasing revenues by 84%.

The UK B2C real money online gaming market deteriorated throughout 2017, particularly for smaller companies. The increasing levels of regulation on many fronts, coupled with increased taxation, significantly increased costs and reduced margins to unsustainable levels.

In light of these poor market conditions, the Board took the difficult decision to sell a number of our B2C sites, completing that sale in 2018. By this time, it was apparent that conditions in this sector of the gaming market were still under pressure, and we withdrew completely from direct involvement in the UK B2C online casino market with the sale of the rest of these assets in July of the year under review.

These sales were accompanied by management's decision to invest in the development of a Gaming Content and Distribution Division.

These asset disposals have transformed the Company, which is now concentrated on the development and international distribution of mobile focussed gaming content and brand licensing, using our unique Slingo IP.

The Group has been able to reduce staff and operational costs, and now has a healthy cash balance to fund itself until it becomes cash generative which we hope will be before the end of the current year.

I am pleased to say that the Group delivered an Adjusted EBITDA loss on continuing activities for 2019 of £0.3m (2018 £0.1m loss), which was better than expected.

The Group made excellent progress this year, with the Licensing division increasing revenues by 84% to £4.1m (2018: £2.2m). More importantly for the longer-term profitability of the Company, we saw an increasing demand for our products and recognition of the value of the Slingo IP. This can be seen from the following facts for 2019:

- We increased our library of proprietary games by 8 to 36 games at year end.
- We went live with 14 new partners during the year, all of whom have licensed our Slingo Originals content.
- We signed games distribution deals with Relax Gaming and Scientific Games, who together have over 200 operators that they supply with content.
- We are relying less on the UK marketplace as our games are distributed internationally. In Scandinavia, our games are carried by Kindred, Bettson, and Leo Vegas.
- We are licensed as a game supplier in New Jersey, USA, where our games have maintained in excess of a 3.5% share of sales from online slot products throughout the year. During 2019, the New Jersey online casino market grew by 66.3% with Gaming Realms maintaining its percentage share.

As reported to shareholders during the year, we rationalised the Social division reducing costs and our exposure. Whilst this resulted in a decline in revenues of 30% to £2.8m (2018: £3.9m), the business is now making a positive cash contribution to Group results, and this appears to be sustainable. We will keep it under review, to ensure it is aligned with the best interests of shareholders at all times.

Further details on the 2019 results are contained in the Statement from the Finance Director which follows.

Market overview

The market for casino games is very crowded, with most operators having hundreds of games on their sites. It is apparent that Slingo games are able to get to the forefront of players attention, using its unique brand and format.

This is resulting in many partner sites giving our content enhanced placement, thus increasing awareness of Slingo games.

We are increasing our efforts to grow revenues outside the UK market, given the increase in Point of Consumption Tax and ever increasing UK regulation. We have a good footprint in the New Jersey, USA, market, and as mentioned above we are live on a number of other overseas sites. We have certified our games for the regulated market of Sweden and are currently undergoing testing for the regulated Italian market. Over time we expect to see an increasing percentage of our revenues generated from outside the UK.

Outlook for 2020

Our main focus for this year will be:

- To develop more proprietary Slingo games to add to our portfolio
- To continue expansion of the partners to whom our games are licensed, with particular emphasis on the international market
- To maintain control over Group costs where we have achieved a significant reduction, as we move towards Group profitability

This year has started well, and we have gone live on Sky Betting and Gaming in the UK, Draftkings in New Jersey, USA and Caliente in Mexico. We have submitted an application for a new license in Pennsylvania, USA which we hope will be granted by year end, and a number of operators in Pennsylvania have already agreed to take our games once they are licensed and approved. We will continue to expand in the USA as further States decide to regulate online casino gaming.

As regards current trading, I am pleased to inform shareholders that our Licensing revenues for the first quarter of this year were 90% ahead of the same period of 2019, and we are operating ahead of management's forecast. Whilst it is early in the year, these results, coupled with the new deals already announced and the pipeline of additional partners to come, gives the Board every confidence in the strategy being pursued and expectations for this year and beyond.

Board update

Early in February, the CEO Patrick Southon left the Company. On his departure, I became Executive Chairman and we announced we would be seeking a replacement. The successful division of duties between the Finance Director and myself, coupled with the performance of the Group in recent months, has led the Board to decide that we will not replace this position for the time being, which will also save costs. The Board believes the skill set and experience of the two Executives and four Non-Executives is appropriate for the size and strategy of the Company going forward, and provides the appropriate level of governance.

COVID-19

In light of the COVID-19 pandemic, I would like to reassure all our investors and stakeholders that the Group has taken every precaution to ensure the safety of our staff and those we work with. While it is impossible to predict the duration of this situation, we continue to experience a high level of demand for our products which supports the Board's confidence in the future prospects of the business.

Michael Buckley
Executive Chairman

27 April 2020

Financial Review

A strong performance

Mark Segal
Chief Financial Officer

During 2019, the Group has continued implementing its core strategy of focusing its resources to grow the Licensing business.

2019 saw the Group complete its disposal of the real money B2C assets, following the initial disposal of four real money B2C brands in 2018.

Gaming Realms delivered a loss after tax of £5.4m (2018: £0.9m profit), including a £0.8m loss on discontinued operations and disposals (2018: £6.6m profit). Excluding the impact of discontinued operations and disposals, the Group reduced its loss after tax by £1.1m to £4.6m (2018: £5.6m). We have continued to present the B2C RMG and Affiliate Marketing segments as discontinued operations in the current and comparative period.

The Group realised a £0.8m profit on disposal of the real money B2C assets in the year (2018: £12.5m).

The Group adopted IFRS 16 on 1 January 2019, which resulted in an increase in 2019 EBITDA of £0.1m due to the presentation of lease interest and depreciation in the income statement compared with the previous standard. See note 1 for more detail on the adoption of this standard.

Continuing operations

Continuing operations generated an Adjusted EBITDA loss of £0.3m (2018: £0.1m loss). 2019 continuing Adjusted EBITDA would have been a loss of £0.4m prior to the adoption of IFRS 16.

EBITDA from continuing operations was a £0.8m loss (2018: £0.6m loss) including restructuring costs of £0.3m (2018: £0.2m) and impairment of assets of £0.2m (2018: £0.2m). 2019 EBITDA from continuing operations would have been a loss of £0.9m prior to the impact of IFRS 16 adoption (see note 1).

Year-on-year revenue increased 11% to £6.9m (£2018: £6.2m) due to the strong growth in Licensing, partially offset by the declining performance in Social Publishing.

Operating expenses for the year increased to £1.5m (2018: £0.9m) principally as a result of increased costs associated with the growth in the Licensing segment, offset by reduced operating costs in Social Publishing.

Administrative expenses increased to £5.7m (2018: £4.9m) due to increased investment in infrastructure to support the planned long-term expansion of the Licensing segment, while cost savings of £0.1m were achieved in the Social Publishing segment compared to 2018.

Licensing

Licensing revenue increased 84% to £4.1m (2018: £2.2m) due to the successful implementation of the Group's strategy of growing both the games content and distribution to an increased number of operators in Europe and the US.

During 2019, the Group went live with an additional 14 partners in Europe, New Jersey and Latin America, bringing the total to 27 (2018: 17). After the year-end, the Group went live with a further 6 new operators, including tier 1 operator Sky Betting & Gaming in the UK and DraftKings in New Jersey, USA.

Social Publishing

Social Publishing continued to achieve profitability in 2019, delivering Adjusted EBITDA profit of £0.8m (2018: £1.6m).

Social Publishing revenues reduced 30% to £2.8m (2018: £3.9m) as a result of tighter cost control during the year which saw marketing and operating expenses reduce by 68% and 22% respectively.

Discontinued operations

Discontinued operations relate to B2C RMG and Affiliate Marketing. The Group recorded a loss after tax from discontinued operations of £0.8m (2018: £6.6m profit), comprising £0.7m profit on disposal of assets, £0.2m share of loss of associate prior to disposal, and incurred trading losses until disposal of £1.3m.

Discontinued operations have been discussed in more detail in note 21.

Real money gaming

In July 2019 the Group concluded the transaction with River, which finalised the Group's strategy of withdrawing from the UK real money B2C market to focus on game development and licensing activities. The Group recorded a profit on disposal of these assets of £0.8m.

The Group received cash consideration on disposal of £7.0m and the transaction included settlement of the £4.2m deferred consideration due from the sale completed in 2018. The Group is due £1.5m deferred consideration on 31 December 2020.

This followed the 2018 transaction also with River, where the Group sold four of its B2C real money brands.

£4.1m
licensing revenue (2018: £2.2m)

£0.8m
Adjusted EBITDA profit, Social Publishing (2018: £1.6m)

+£1.0m
Increase in net cash (2018: increase of £0.2m)

Regulatory pressures adversely impacted the performance of the discontinued RMG segment prior to its disposal in July 2019. Prior to disposal, the RMG segment generated an EBITDA loss of £1.6m (2018: £0.5m EBITDA loss).

Affiliate Marketing

The Affiliate Marketing business was sold in March 2018 for £2.4m after generating revenues of £0.2m in 2018. The loss on disposal recognised in the prior year was £0.1m.

Cashflow, Balance Sheet and Going Concern

Net cash (note 20) increased by £1.0m in 2019 (2018: increased by £0.2m) to £2.6m at 31 December 2019 (2018: £1.6m). The current year increase in net cash was largely driven through the £5.4m cash inflow on disposals, net of cash disposed of and disposal costs, offset by £1.5m cash used in operating activities (2018: £2.2m) and £2.7m of development costs capitalised in the year (2018: £3.0m).

The Group is due £1.5m deferred consideration on 31 December 2020 on the 2019 disposal of the real money B2C assets.

Net assets totaled £12.1m (2018: £17.7m).

Following completion of the Group's exit from the real money B2C market during 2019 and the strong growth seen and forecast for the core Licensing business, the Directors believe the Group is in a strong position to take advantage of the significant opportunities in the Licensing and Social Publishing segments.

Following the COVID-19 outbreak and the uncertainty this has brought to global markets and economies, the Directors have performed qualitative and quantitative assessments of the associated risks facing the business and its ability to meet its short and medium-term forecasts. The forecasts were subject to stress testing to analyse the reduction in forecast revenues required to bring about insolvency of the Company unless capital was raised. In such cases it is anticipated that mitigation actions such as reduction in overheads could be implemented to stall such an outcome.

The Directors confirm their view that they have carried out a robust assessment of the emerging and principal risks facing the business. As a result of the assessment performed, 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 (2018: £0.1m) in research and development credits in Canada and a £0.1m tax charge in respect of previous periods. The Group also recognised an unwind of deferred tax of £0.1m (2018: £0.3m) which arose on prior year business combinations.

Mark Segal
Chief Financial Officer

27 April 2020

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

	Discontinued operations			Continuing operations				
2019	**Real money gaming £'000**	**Affiliate Marketing £'000**	**Total discontinued £'000**	**Licensing £'000**	**Social Publishing £'000**	**Head office £'000**	**Total continuing £'000**	**Total 2018 £'000**
Revenue	**6,002**	**–**	**6,002**	**4,147**	**2,758**	**106**	**7,011**	**13,013**
Marketing expense	**(706)**	**–**	**(706)**	**–**	**(130)**	**(82)**	**(212)**	**(918)**
Operating expense	**(4,908)**	**–**	**(4,908)**	**(773)**	**(855)**	**1**	**(1,627)**	**(6,535)**
Administrative expense	**(1,965)**	**–**	**(1,965)**	**(1,970)**	**(1,001)**	**(2,446)**	**(5,417)**	**(7,382)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**(10)**	**(10)**	**(10)**
Adjusted EBITDA	**(1,577)**	**–**	**(1,577)**	**1,404**	**772**	**(2,431)**	**(255)**	**(1,832)**

	Discontinued operations			Continuing operations				
2018	Real money gaming £'000	Affiliate Marketing £'000	Total discontinued £'000	Licensing £'000	Social Publishing £'000	Head office £'000	Total continuing £'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)

Engaging with Stakeholders

The Board recognises that we have a number of stakeholders including shareholders, customers, employees, suppliers and regulators. The Board is cognisant of its responsibility to understand each of their views and does this through a variety of methods, which are continually reviewed to remain effective. Updates are provided and discussed at Board and relevant Committee meetings. Throughout this Annual Report, we have provided information on some of the initiatives and approaches undertaken in relation to stakeholder engagement by the Group during 2019.

Section 172 statement

The Board of Directors, in line with their duties under section 172 ("s172") of the Companies Act 2016, act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard to a range of matters when making decisions for the long term. Key decisions and matters that are of strategic importance to the Company are appropriately informed by s172 factors.

The 2018 UK Corporate Governance Code (the '2018 UK Code') reinforced the importance of the Board understanding the views of the Company's key stakeholders and this section is intended to provide information on how stakeholders' interests have been considered in Board discussions and decision making processes in accordance with the 2018 UK Code.

Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of stakeholders and other matters in their decision making. The Directors continue to have regard to the interests of the Company's employees and other stakeholders, the impact of its activities on the community, the environment and the Company's reputation for good business conduct, when making decisions. In this context, acting in good faith and fairly, the Directors consider what is most likely to promote the success of the Company for its members in the long term. We explain in this annual report, and below, how the Board engages with stakeholders.

The Board regularly reviews the Company's principal stakeholders and how it engages with them. This is achieved through information provided by management and also by direct engagement with stakeholders themselves.

Shareholders

The Board is committed to maintaining constructive dialogue with shareholders and ensuring that it has a deep understanding of their views. It also recognises that shareholders consider a range of environmental, social and governance matters. The Chair, Chief Executive Officer (up to his resignation) and Chief Financial Officer, on behalf of the Board, meets shareholders regularly and reports to the Board on these discussions. All Directors are also available to meet institutional investors on request.

Some of the activities undertaken during 2019 are summarised below:

- The Company has engaged with an Investor Relations consultant to liaise with investors for communications with investors.
- The Chair engaged with key shareholders on corporate governance matters.
- Private individual shareholders were communicated with via the Company Secretary.
- The Company met with key investors and produced a Circular for an EGM to approve the disposal of the B2C real money gaming business to River iGaming plc.

Disposal of B2C RMG business and focus on Licensing

On 28 February 2019, the Company announced it had entered into agreement to sell its B2C real money gaming business to River iGaming plc, which was conditional amongst other things upon shareholder and regulatory approval. At this point, the Chairman, CEO and CFO engaged with shareholders to explain the rationale for the disposal. On this date, the Company also called an EGM to vote on the proposed sale which was voted in favor by shareholders on 18 March 2019.

AGM

Five of our Directors attended the 2019 AGM and an average of 52% of the total issued share capital was voted across all resolutions. A Q&A was given to attending shareholders at the 2019 AGM on the Group's post-RMG strategy and future outlook.

The 2020 AGM will be held on 10 June 2020. Separate resolutions are proposed on each item of business.

Website and shareholder communications

Further details on the Group, our business and key financial dates can be found on our corporate website:

www.gamingrealms.com

Players

We always ensure that Responsible Gambling is at the heart of our game design process and have recently built a tool for players to set their own limits on stakes and features within games. We only contract with licenced partners, ensuring that the players are given a high level of protection through these operators. As our games are certified in highly regulated markets such as the UK and Sweden, the standards we have to provide for our games and RGS systems in terms of player protection is already set to an incredibly high level.

Customers

We are providing our customers with an increasing portfolio of unique games each year. We are making significant improvements to our platform in order to prepare for large scale growth.

We ensure our games and platform are fully tested before each new launch and adhere to any regulations required for them.

Trust is important to our customers and their end users and our competitive customer offering is maintained through our unique Slingo IP, together with constant communication and emphasis on accounts management.

We have invested in account managers who work closely with our B2B partners to ensure good relationships and that we get maximum exposure for our content.

Employees

Employee engagement is critical to our future success. In a year of transition for the business, our employees have worked hard to support the business and sustain our culture.

Empowerment, career development, health and well-being and social responsibility are all areas our employees have told us they consider important in the workplace.

The Board gains an understanding of the views of our employees and the culture of the organisation through visits to our offices, one-to-one meetings, Board presentations and via assessment of office wide engagement scores and views.

We continue to monitor and develop our approach to performance management, to promote a culture of continuous improvement.

Suppliers

We have established long-term partnerships that complement our in-house expertise, and have built a network of specialised partners within the industry and beyond.

We have an open, constructive and effective relationship with all suppliers through regular meetings which provide both parties the ability to feedback on successes, challenges and the future roadmap.

Our procurement policy includes a commitment to sustainable procurement and mitigation against the risk of modern slavery, anti-bribery and corruption, and data protection/privacy breaches across our supply chain. We aim to operate to the highest professional standards, treating our suppliers in a fair and reasonable manner and settling invoices promptly.

We regularly monitor the relationship and engagement approach with our third-party suppliers.

Following the disposal of the B2C real money gaming, we have reduced marketing and other direct costs and have worked closely with the associated partners who aided us in the operations of the casino. We worked closely with various partners and suppliers to ensure a smooth transition to the new owners of the business.

Regulators

We have an open and transparent dialogue with the regulatory and industry bodies that we work with.

In 2019 the Board met with the UK Gambling Commission ("UKGC") and New Jersey Division for Gaming Enforcement ("DGE") to discuss regulatory updates and best practice, and representatives from Gaming Realms attended the bi-annual UKGC 'Raising Standards' event.

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.

The sale of the B2C real money gaming business was conditional, amongst other things, on Regulatory approvals, and we worked closely with the Regulators to ensure approval of the transfer of the operating licences to River iGaming.

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 licences from the UK Gambling Commission, the New Jersey Division for Gaming Enforcement and a Recognition Notice for the Malta Gaming Authority. It is key to the Group to maintain compliance with all licences and any new ones that are required. These are critical to the continuing operation of the Group's gambling activities and also the production and supply of its unique content into both its operations and other third parties.	The Group has a compliance team to ensure that all regulatory guidelines are met in its gambling operations. The Group also maintains close legal counsel to advise on any changes to the regulatory framework, as well as updates on territories currently outside the Group's activities.
Taxation risk 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 increased to 21% in April 2019.	The remaining B2B business operates in multiple jurisdictions reducing the impact of UK specific tax. The tax liability is borne by the operator.
Residency The Group has legal entities in several jurisdictions, including US, Canada and the UK.	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.
Brexit On 23 June 2016 the UK voted to leave the EU which has now happened. We are now in a transition period until 31 December 2020 while the government negotiates with 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. The Group is currently applying for a full Maltese licence, to ensure that we can continue operating within EU territories and to reduce any risk of reliance on the UK licence.

Risk	How this risk is managed
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 for cloud-based technology and remote deployment, 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 and well-known 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 two 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.
Business disruption including COVID-19 Business disruptions may occur where the Group's workforce is unable to work or communicate, including due to pandemics such as COVID-19. Such disruptions affect the global economy and therefore our B2B operators and end users, if spending and confidence are significantly affected. While there is currently evidence of increased customer activity on our games content, in the event of a prolonged period of uncertainty it is possible that consumer spending on our games content would be reduced which would therefore impact the revenues the Group generates.	The Group actively monitors developments which may affect its operations and the Directors have taken practical steps to mitigate disruption this is causing to the business. The Directors have carried out a detailed assessment of the potential risks and ways the COVID-19 outbreak could impact the business. The Group's workforce is predominantly based in the UK, Canada and the US. All employees are currently working remotely and are fully operational.

The 2019 Strategic Report on pages 1 to 11, has been approved by the Board of Directors.

On behalf of the Board:

Michael Buckley
Executive Chairman

27 April 2020

Board of Directors and Executive Management

An accomplished team

Board of Directors

MB

Michael Buckley
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.

PS

Patrick Southon
Chief Executive Officer
(resigned from the Board on 11th February 2020)

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.

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.

JR

Jim Ryan
Non-Executive Director

Jim Ryan is the CEO of Pala Interactive, LLC a real money gambling operator and B2B platform provider focused on the US regulated online gaming market. Prior to Pala Interactive, Jim was the Co-CEO of bwin.party digital entertainment plc. He has spent the last 14 years of his career in leadership roles within the online gaming sector. Jim has led a number of the industry's largest merger and acquisition transactions which include the merger of PartyGaming plc and bwin, the acquisitions of Cashcade (Foxy Bingo) and the World Poker Tour and the sale of St Minver Limited to GTECH. Jim held senior posts at four publicly listed companies. In addition to his role of CEO of PartyGaming plc and Co-CEO of bwin.party digital entertainment plc he was President and Chief Executive Officer of Excapsa Software Inc. and as Chief Financial Officer of CryptoLogic Inc. and Chief Financial Officer of SXC Health Solutions Corp and was CEO of St. Minver Limited. Jim also held senior management posts at Procuron Inc., Metcan Information Technologies Inc. and Epson Canada Limited. Educated at Brock University (Goodman School of Business) in Ontario, Canada, where he obtained a business degree with first class honours, Jim obtained professional qualifications as a chartered accountant and certified public accountant from the Canadian Institute of Chartered Accountants.

MW

Mark Wilson
Non-Executive Director

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

CA

Chris Ash
Non-Executive Director

Chris is one of the UK's leading entrepreneurs and experts on the gaming industry. In a career of over 18 years in the industry, Chris built and sold Ash Gaming Ltd to Playtech plc for £23m, which, at the time, was one of the leading gaming content developers in the UK.

Whilst at Playtech plc, Chris also ran the content aggregation business with 25 partner studios and assisted with M&A. Chris is now an investor in, and advisor to, a range of software businesses.

MB

Mark Blandford
Non-Executive Director

Mark was the owner of a traditional 'bricks and mortar' bookmaker's chain for over 15 years, then recognised the potential of the internet in the mid 1990's. In 1998 he founded Sportingbet.com, and in 2001 floated the company on AIM. Mark stepped down from the Board of Sportingbet in 2007 before its eventual sale in 2013 for £485m, with the assets being split between William Hill and GVC. In 2002, Mark was awarded AIM Entrepreneur of the Year.

After stepping down from the board of Sportingbet, Mark has become an active, successful and widely followed investor in the digital pay2play entertainment space.

Executive Management

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.

Directors' Report

for the year ended 31 December 2019

The Directors present their Annual Report together with the audited financial statements for the year ended 31 December 2019.

Principal activities

The Group's principal activities during the year was that of content development and licensing to real money and social gaming customers in Europe and North America.

During the year, the Group also acted as an online casino operator and provided marketing services to real money gaming customers. The Group ceased involvement in these activities in July 2019 following the transaction to dispose of the Group's real money gaming assets. See note 21 to the financial statements for full details.

These financial statements present the results of the Group for the year ended 31 December 2019.

Names of Directors and dates of any changes

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

- Michael Buckley
- Patrick Southon (resigned 11 February 2020)
- Mark Segal
- Jim Ryan
- Mark Wilson
- Simon Collins (resigned 11 October 2019)
- Chris Ash (appointed 6 June 2019)
- Mark Blandford (appointed 15 October 2019)

Directors' and officers' liability insurance

The Group has purchased and maintains appropriate insurance cover in respect of Directors' and Officers liabilities. The Group has also entered into qualifying third-party indemnity arrangements for the benefit of all its Directors, in a form and scope which comply with the requirements of the Companies Act 2006.

Results and dividends

The results for the year are set out on page 24. The Company will not be paying a dividend this year.

Post balance sheet events

Significant events impacting the Company that occurred after 31 December 2019 are disclosed in note 30.

Going concern

Under Company law, the Company's Directors are required consider whether it is appropriate to prepare the 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.

As disclosed further in note 1 of the financial statements, whilst there are a number of risks to the Group's trading performance as summarised on pages 10 and 11, the Group is confident of its ability to continue to meet its liabilities as they fall due. 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 resources. 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 the impacts of Brexit and COVID-19, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

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

Disclosure to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, as far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the 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 at 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 25 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 for future growth. During the year, the Group capitalised £2.7m (2018: £3.0m) of development costs (see note 14).

During the year, the Group claimed Research and Development relief as per note 12 to the financial statements.

Future developments

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

The Directors report was approved on behalf of the Board on 27 April 2020 and signed on its behalf by

Michael Buckley
Executive Chairman

27 April 2020

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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'). 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. 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. In 2019 we disposed of the B2C real money gaming business, please refer to the Chairman's review for further details on the change in Company Strategy. 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. » We generate revenue by licensing our unique gaming content and Slingo brand to online real money gaming operators, social publishing operators and land-based 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: https://www.gamingrealms.com/wp-content/uploads/Statement-of-Compliance-with-the-QCA-Corporate-Governance-Code-2020-02.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: https://www.gamingrealms.com/wp-content/uploads/Statement-of-Compliance-with-the-QCA-Corporate-Governance-Code-2020-02.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 Executive Chairman, one Executive Director and four Non-Executive Directors. Michael Buckley, the Executive Chairman, is responsible for the running of the Board and is supported by Mark Segal, the Chief Financial Officer. He has executive responsibility for running the Group's business and implementing Group strategy. Patrick Southon left the Board on 11 February and Michael Buckley will continue as Executive Chairman. The Board still has 4 Non-Executive Directors and is able to govern on an effective basis. The Directors considered to be independent are Jim Ryan, Mark Wilson, Mark Blandford and Chris Ash. 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 » 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 and Remuneration Committees. The Committees' roles and members are available on the Company's website. During the year there were six board meetings. Attendance records were:

Board member	Meetings attended
Michael Buckley	6
Patrick Southon	6
Mark Segal	6
Jim Ryan	6
Mark Wilson	6
Simon Collins*	5
Chris Ash*	4
Mark Blandford*	1

* Simon Collins, who resigned during the year, and both Chris Ash and Mark Blandford, who were appointed during the year, were not eligible to attend all six 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 12 of the 2019 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 lawyers and tax compliance and other advisors. 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. 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 » They are committed » Where relevant, they have maintained their independence » 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: https://www.gamingrealms.com/wp-content/uploads/Statement-of-Compliance-with-the-QCA-Corporate-Governance-Code-2020-02.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 Executive Chairman, 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 Michael Buckley and Mark Segal (and Patrick Southon during 2019) 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 Mark Blandford 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. 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 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements 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 2019 and of the Group's loss for the year then ended;

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

» the Parent Company financial statements have been properly prepared in accordance with 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.

Conclusions relating to going concern

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

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

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

The key audit matters section of our report includes going concern as a matter based on our assessment of the significance of the risk, following the ongoing Covid-19 outbreak in 2020.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 – Licencing Revenue (with reference to notes 1 and 3)

Key audit matter	Our response
The group has a number of revenue streams, as summarised in note 3 to the financial statements. The details of the accounting policies applied during the period are disclosed in note 1 to the financial statements. Licencing revenues include a number of significant revenues where contracts entered into in previous years span multiple accounting periods and involve IP or content licencing and/or minimum guarantees or uncertain future events. There are significant judgements and estimates are required in determining the performance obligations in these contracts, whether revenue should be recorded at a point in time or over a period of time and the amount of revenue to be recognised. Therefore, this was considered to be an area of focus for our audit.	We assessed whether the revenue recognition policies adopted by the group was in accordance with applicable accounting standards. For a sample of key contracts: » We reviewed the terms to assess whether the revenue had been recognised in accordance with the group's accounting policy and whether any other terms within the contract had any material accounting or disclosure implications; » We challenged the significant judgements such as the identification of performance obligations and the timing of recognition against the terms; and » Where applicable, we inspected supporting documentation of the satisfaction of the performance obligation. Where revenue recognition was based on uncertain future events, we considered the adequacy the disclosure of the remaining performance obligations and judgements in the financial statements.

Key observations
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 notes 2 and 14)

Key audit matter	Our response
In accordance with applicable accounting standards, the group monitors the carrying value of goodwill and other intangible assets for indications of impairment. The group performs annual impairment reviews for all Cash Generating Units (CGUs). Impairment reviews also require significant judgement from management and are based on assumptions in respect of future profitability, growth rates and the discount rate to be applied to future cash flows.	The audit team, which included our internal valuation specialists, challenged the appropriateness of the key assumptions used in the discounted cash flow models prepared by management, including the growth and discount rates applied. 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 CGUs, discussions with management 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 checked the mathematical accuracy of the impairment model and compliance of the methodology therein with the requirements of relevant accounting standards. We performed sensitivity analyses on management's impairment review to assess the potential impairment of goodwill and assets associated with the Group's two CGUs, Licencing and Social. We challenged the basis and calculation of management's allocation of expenses between CGU's and 'head office' central costs through discussion with management and inspection of supporting documentation where available. We considered the appropriateness of the related disclosures provided in the group financial statements in light of the requirements of applicable accounting standards.

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

Capitalisation of development costs (with reference to notes 1 and 14)

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 applicable accounting standards. In addition, during the year, the Group disposed of certain intangible assets including developed software, which required judgement in determining the appropriate accounting treatment of related development costs prior to the disposal of these assets. Due to the level of judgement required by management in determining costs that meet the criteria for capitalisation, this was considered to be an area of focus for our audit.	We assessed whether the capitalisation policies adopted by the group comply with applicable accounting standards. We checked that the identified useful lives were in line with our expectations and that of comparable entities. We agreed a sample of costs capitalised in the year, including those for assets disposed of during the year, to source documentation to check that they met the capitalisation criteria of applicable accounting standards. We challenged management's project analysis to check that the projects capitalised met the criteria of applicable accounting standards by: » Agreeing the accuracy of time capitalised to related timecards and payroll records for a sample of projects; and » Inspecting evidence of the projects subsequent launch or intention to launch.

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

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

Going concern (with reference to note 1)

Key audit matter	Our response
In light of the recent COVID -19 outbreak, management have updated their going concern assessment, including the cash flow forecast and operational matters such as the ability of staff to work remotely and impact on future development projects. This involved considering a number of scenarios and performing stress tests on the key inputs. Due to the current uncertainties around COVID-19 and the significant judgement and estimates required by management in performing their going concern assessment, this was considered to be a significant risk and area of focus for our audit.	We challenged the assumptions made in the cash flow forecasts, and our audit work included the following: » We compared historical forecasts prepared against actual outcomes to determine the reliability of management forecasts, and discussed variances with management, obtaining evidence for key variances. » We agreed key customer or content launches in Q1 2020 and pipeline to underlying agreements and considered the sensitivity of the launch dates to assess the accuracy of assumptions and estimates in the period to date. » We challenged the anticipated growth rates in the forecast period, including new customer or content launches, inspecting supporting documentation where available and considered their impact on the sensitised cash flows. » We compared expenses, including development costs, in the forecast period with historic and current costs and the contractual commitments to assess the appropriateness thereof. We inspected minutes of board meetings held during the year and up until sign off and considered these in relation to the forecasts prepared and 2020 results to date to identify any additional factors which could impact going concern. We obtained and challenged management's analysis of the impact of COVID-19 on their supply chain and customer base to consider the potential impacts on the group operations and cash flow forecasts. We reviewed the disclosures in the annual report for consistency with management's going concern assessment.

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 £147k (2018: £270k) being 1.2% (2018: 1.2%) of Revenue.

Materiality in respect of the audit of the Parent Company has been set at £139k (2018: £256k) based on 95% of group materiality (2018: 95% of group materiality).

Performance materiality was set at 75% (2018: 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.

We set materiality for each component of the group, other than the parent company, based on a percentage of 20-75% of group materiality.

We agreed with the Audit Committee that we would report to them all audit differences individually in excess of £6.5k (2018: £13k). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

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

In determining the scope of our audit we considered the level of work to be performed at each component in order to ensure sufficient assurance was gained to allow us to express an opinion on the financial statements of the group as a whole. 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 seven 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
» the Parent Company financial statements are not in agreement with the accounting records and returns; or
» certain disclosures of Directors' remuneration specified by law are not made; or
» we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website: 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 April 2020

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 2019

Continuing	Note	2019 £	2018 £
Revenue	3	**6,882,741**	6,173,196
Marketing expenses		**(212,473)**	(665,363)
Operating expenses		**(1,498,294)**	(901,807)
Administrative expenses		**(5,743,747)**	(4,870,226)
Impairment of financial asset		**(200,000)**	(228,451)
Share-based payments	27	**(9,972)**	(67,824)
Adjusted EBITDA – continuing	10	**(255,116)**	(115,669)
Impairment of financial asset	5	**(200,000)**	(228,451)
Restructuring expenses	5	**(326,629)**	(216,355)
EBITDA – continuing	10	**(781,745)**	(560,475)
Amortisation of intangible assets	14	**(2,982,845)**	(3,535,972)
Depreciation of property, plant and equipment	16	**(204,714)**	(145,269)
Impairment of goodwill	14	**–**	(1,650,000)
Finance expense	11	**(842,518)**	(576,107)
Finance income	11	**146,661**	419,894
Loss before tax		**(4,665,161)**	(6,047,929)
Tax credit	12	**31,335**	412,987
Loss for the financial year – continuing		**(4,633,826)**	(5,634,942)
(Loss)/profit for the financial year – discontinued	21	**(783,451)**	6,564,246
(Loss)/profit for the financial year – total		**(5,417,277)**	929,304
Other comprehensive income			
Items that will or may be reclassified to profit or loss:			
Exchange (loss)/gain arising on translation of foreign operations		**(305,671)**	491,611
Total other comprehensive income		**(305,671)**	491,611
Total comprehensive income		**(5,722,948)**	1,420,915
(Loss)/profit attributable to:			
Owners of the parent		**(5,341,669)**	946,804
Non-controlling interest		**(75,608)**	(17,500)
		(5,417,277)	929,304
Total comprehensive income attributable to:			
Owners of the parent		**(5,647,340)**	1,443,741
Non-controlling interest		**(75,608)**	(22,826)
		(5,722,948)	1,420,915

(Loss)/gain per share		Pence	Pence
Basic and diluted – continuing	13	**(1.60)**	(1.97)
Basic and diluted – discontinued	13	**(0.28)**	2.31
Basic and diluted – total		**(1.88)**	0.34

* 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 28 to 58 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	31 December 2019 £	31 December 2018 £
Non-current assets			
Intangible assets	14	**11,702,553**	12,848,623
Other investments	15	**289,511**	535,130
Property, plant and equipment	16	**760,763**	127,556
Finance lease asset	1	**157,166**	–
Other assets	17	**150,885**	132,577
		13,060,878	13,643,886
Current assets			
Trade and other receivables	18	**1,850,863**	2,681,500
Deferred consideration	19	**1,298,663**	665,690
Finance lease asset	1	**126,354**	–
Cash and cash equivalents	20	**2,626,837**	467,033
		5,902,717	3,814,223
Assets classified as held for sale	22	**–**	11,392,013
Total assets		**18,963,595**	28,850,122
Current liabilities			
Trade and other payables	23	**2,125,257**	2,484,592
Lease liabilities	1	**256,527**	–
Liabilities classified as held for sale	22	**–**	4,830,076
		2,381,784	7,314,668
Non-current liabilities			
Deferred tax liability	12	**457,492**	607,943
Other Creditors	24	**3,126,673**	3,004,602
Derivative liabilities	24	**272,000**	200,000
Lease liabilities	1	**646,122**	–
		4,502,287	3,812,545
Total liabilities		**6,884,071**	11,127,213
Net assets		**12,079,524**	17,722,909
Equity			
Share capital	26	**28,442,874**	28,442,874
Share premium		**87,198,410**	87,198,410
Merger reserve		**(67,673,657)**	(67,673,657)
Foreign exchange reserve		**1,605,782**	1,911,453
Retained earnings		**(37,570,601)**	(32,308,495)
Total equity attributable to owners of the parent		**12,002,808**	17,570,585
Non-controlling interest		**76,716**	152,324
Total equity		**12,079,524**	17,722,909

The notes on pages 28 to 58 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 27 April 2020 and were signed on its behalf by:

Michael Buckley
Executive Chairman

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 £	2018 £
Cash flows from operating activities			
(Loss)/profit for the financial year		**(5,417,277)**	929,304
Adjustments for:			
Depreciation of property, plant and equipment	16, 21	**211,055**	145,269
Amortisation of intangible fixed assets	14	**2,982,845**	4,319,920
Impairment		**200,000**	4,479,026
Finance income	11, 21	**(420,512)**	(679,160)
Finance expense	11	**842,518**	576,107
Income tax credit	12	**(31,335)**	(412,987)
Exchange differences		**41,336**	(11,076)
Loss on disposal of property, plant and equipment	16	**28,081**	41,646
Profit on disposal of assets	21	**(683,323)**	(12,421,621)
Fair value movement on contingent consideration		**–**	1,900,065
Cash settlement of director share-based payment		**–**	(145,000)
Share of loss of associate	21	**157,307**	172,360
Share based payments expense	27	**9,972**	67,824
Decrease/(increase) in trade and other receivables		**1,330,674**	(310,396)
Decrease in trade and other payables		**(803,124)**	(951,414)
Increase in other assets		**(18,308)**	–
Net cash flows used in operating activities before taxation		**(1,570,091)**	(2,300,133)
Tax credit received in the year		**73,424**	133,130
Net cash flows used in operating activities		**(1,496,667)**	(2,167,003)
Investing activities			
Acquisition of associate		**–**	(3,000)
Acquisition of property, plant and equipment	16	**(106,583)**	(34,712)
Capitalised development costs	14	**(2,680,289)**	(3,017,674)
Proceeds from disposal of assets, net of cash disposed of	21	**6,135,529**	6,037,133
Costs related to asset disposal	21	**(765,867)**	(311,540)
Interest received	11	**3,705**	120
Finance lease asset – sublease receipts	1	**120,507**	–
Net cash from investing activities		**2,707,002**	2,670,327
Financing activities			
Cost relating to issue of convertible debt		**–**	(24,846)
Receipt of deferred consideration	19	**385,000**	–
IFRS 16 lease payments	1	**(252,376)**	–
Interest paid		**(322,772)**	(232,241)
Net cash used in financing activities		**(190,148)**	(257,087)
Net increase in cash and cash equivalents		**1,020,187**	246,237
Cash and cash equivalents at beginning of year	20	**1,550,141**	1,319,098
Exchange gain/(losses) on cash and cash equivalents		**38,127**	(15,194)
Cash and cash equivalents at end of year	20	**2,608,455**	1,550,141

Significant non-cash transactions are disclosed in note 21 and 24.

The notes on pages 28 to 58 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	Share capital £	Share premium £	Merger reserve £	Foreign Exchange Reserve £	Shares to be issued £	Retained earnings £	Total to equity holders of parents £	Non controlling interest £	Total equity £
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**
Profit for the year	–	–	–	–	–	946,804	946,804	(17,500)	929,304
Other comprehensive income	–	–	–	491,611	–	–	491,611	–	491,611
Total comprehensive income 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	–	–	–	–	(145,000)	–	(145,000)	–	(145,000)
Share-based payment on share options (Note 27)	–	–	–	–	–	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**
1 January 2019	**28,442,874**	**87,198,410**	**(67,673,657)**	**1,911,453**	**–**	**(32,308,495)**	**17,570,585**	**152,324**	**17,722,909**
Adjustment on the initial application of IFRS 16	–	–	–	–	–	69,591	69,591	–	69,591
Adjusted balance at 1 January 2019	**28,442,874**	**87,198,410**	**(67,673,657)**	**1,911,453**	**–**	**(32,238,904)**	**17,640,176**	**152,324**	**17,792,500**
Loss for the year	–	–	–	–	–	(5,341,669)	(5,341,669)	(75,608)	(5,417,277)
Other comprehensive income	–	–	–	(305,671)	–	–	(305,671)	–	(305,671)
Total comprehensive income for the year	–	–	–	(305,671)	–	(5,341,669)	(5,647,340)	(75,608)	(5,722,948)
Contributions by and distributions to owners									
Share-based payment on share options (Note 27)	–	–	–	–	–	9,972	9,972	–	9,972
31 December 2019	**28,442,874**	**87,198,410**	**(67,673,657)**	**1,605,782**	**–**	**(37,570,601)**	**12,002,808**	**76,716**	**12,079,524**

The notes on pages 28 to 58 form part of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

1. Accounting policies

General information

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

The Company is admitted to trading on the Alternative Investment Market (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 British 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 the accounting policies below.

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.

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.

The Group prepares cash flow forecasts and re-forecasts regularly as part of the business planning process. The Directors have reviewed forecast cash flows for the forthcoming 12 months for the Group from the date of the approval of the financial statements and consider that the Group will have sufficient cash resources available to meet its liabilities as they fall due. These cash flow forecasts have been analysed in light of the COVID-19 outbreak and subject to stress testing, scenario modelling and sensitivity analysis, which the Directors consider sufficiently robust. As described on page 5, the Group is currently seeing evidence of an increase in customer activity on its games content, however the sensitivity analysis has assessed the impact of various degrees of downturn in medium term revenues generated. The Directors note that in an extreme scenario the Group also has the option to rationalise its cost base including cuts to discretionary capital, marketing and overhead expenditure. The Directors consider that the required level of change to the Group's forecast cash flows to give rise to a material risk over going concern are sufficiently remote.

Accordingly, these financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Group and the Company will realise its assets and discharge its liabilities in the normal course of business. Management has carried out an assessment of the going concern assumption and has concluded that the Group and the Company will generate sufficient cash and cash equivalents to continue operating for the next twelve months.

Adoption of new and revised standards

In preparing the Group financial statements for the current year, the Group has adopted a number of new IFRSs, amendments to IFRSs and IFRS Interpretations Committee (IFRIC) interpretations described below. IFRS 16 'Leases' is the only new or revised standard to materially impact the Group. Other new amended standards or interpretations issued by IASB did not impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

IFRS 16 "Leases"

IFRS 16 'Leases' has replaced IAS 17 in its entirety. The distinction between operating leases and finance leases for lessees is removed and it results in most leases being recognised on the Statement of Financial Position as a right-of-use (ROU) asset and a lease liability. For leases previously classified as operating leases, the lease cost has changed 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 has leasehold property used in its own operations previously treated as operating leases, and one leasehold property which is sublet to external tenants which is treated as a finance lease under IFRS 16.

The Group has applied IFRS 16 using the modified retrospective approach. A lease liability has been recognised equal to the present value of the remaining lease payments discounted using an incremental borrowing rate. A ROU asset has been recognised equal to the lease liability adjusted for prepaid and accrued lease payments.

The Group has applied the below practical expedients permitted under the modified retrospective approach;

- Exclude leases for measurement and recognition for leases where the term ends within 12 months from the date of initial application and account for these leases as short-term leases;
- Applied portfolio level accounting for leases with similar characteristics;
- Excluded initial direct costs from measuring the right of use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The table below presents the cumulative effects of the items affected by the initial application on the statement of financial position as at 1 January 2019:

	1 January 2019 (as previously reported) £	IFRS 16 adoption £	1 January 2019 £
Non-current assets			
Property, plant and equipment	127,556	115,094	242,650
Finance lease asset	–	295,118	295,118
Current assets			
Finance lease asset	–	89,988	89,988
Total assets	**28,850,122**	**500,200**	**29,350,322**
Current liabilities			
Lease liabilities	–	(136,431)	(136,431)
Other payables	(986,349)	67,506	(918,843)
Non-current liabilities			
Lease liabilities	–	(361,684)	(361,684)
Total liabilities	**(11,127,213)**	**(430,609)**	**(11,557,822)**
Equity			
Retained earnings	32,308,495	(69,591)	32,238,904
Total equity and liabilities	**(28,850,122)**	**(500,200)**	**(29,350,322)**

In measurement of the lease liability and finance lease asset, the Group discounted future lease payments using the nominal incremental borrowing rate at 1 January 2019, being 8.75%.

The lease liability at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	£
Minimum lease payments under operating leases at 31 December 2018	380,900
Short term leases not recognised as liabilities	(109,026)
Sub-lease to recognise as liability under IFRS 16	302,608
Gross lease liabilities as at 1 January 2019	574,482
Effect of discounting at incremental borrowing rate	(76,367)
Present value of lease liabilities at 1 January 2019	**498,115**

The impact on EBITDA as a result of the implementation of IFRS 16 is an increase of £116,715 during the year ended 31 December 2019, and a decrease of £41,393 in the Group's net profit.

	2019 £	2018 £
EBITDA reported – continuing	**(781,745)**	(560,475)
Impact of IFRS 16	**(116,715)**	–
EBITDA reported – continuing – prior to impact of IFRS 16	**(898,460)**	(560,475)

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019 continued

1. Accounting policies (continued)

Set out below, are the carrying amount of the Group's right-of-use asset, finance lease asset and lease liability and the movement during the period:

	Right of use asset £	Finance lease asset £	Lease liability £
As at 1 January 2019	115,094	385,106	498,115
Leases entered into during the period	644,281	–	594,281
Amortisation of ROU asset	(116,713)	–	–
Interest income	–	30,625	–
Interest expense	–	–	72,056
Exchange differences	1,500	(11,704)	(9,427)
Lease payments	–	(120,507)	(252,376)
As at 31 December 2019	**644,162**	**283,520**	**902,649**

As a lessor

The Group has one leased property which is also sublet. For the sublet property, the Group has recognised a lease receivable equal to the net investment in the sublease. This is based on the present value of future lease payments due from the tenant. The lease liability is not impacted. Payments by the tenant reduce the lease receivable and finance income is recognised on the unwind of the lease receivable.

The sublease covers the total lease commitment entered into by the Group. There are no variable lease payments.

Comparatives

The Group adopted IFRS 16 using the modified retrospective approach. The comparative figures in these financial statements were therefore accounted for in accordance with IAS 17. Under this standard, where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

IFRIC 23 uncertainty over income tax treatments ("IFRIC 23")

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation requires:

- The Group to determine whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- The Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

The Group made no adjustments on adoption or during the year as a result of adopting IFRIC 23.

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.

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.

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 Board of Directors believes that in order to best represent the trading performance and results of the Group, the reported numbers should exclude certain one-off items. The Group therefore presents adjusted results, as described in note 5, which differ from statutory results due to the exclusion of these items.

Management regularly uses the adjusted financial measures internally to understand, manage and evaluate the business and make operating decisions. These adjusted measures are among the primary factors management uses in planning for and forecasting future periods.

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 costs arising from a fundamental restructuring of the Group's operations, relocation costs, impairment of financial assets and sales proceeds on business asset disposals.

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019 continued

1. Accounting policies (continued)

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 sales-based dependent on the activity of the Group's customers. Revenue is recognised as the usage occurs by the customer (under the IFRS 15 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.

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.

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.

Foreign currency

The financial information of the Group is prepared in British Pounds Sterling, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Group. The Group has subsidiaries with functional currencies of British Pounds Sterling, U.S. Dollars and Canadian Dollars.

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.

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.

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.

Non-controlling interests

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

Share-based payments

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

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

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

Externally acquired intangible assets

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

Intangible assets are recognised on business combinations if they are separable from the acquired entity or arise from other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements on page 35).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019 continued

1. Accounting policies (continued)

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

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
- 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

Reserves

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

Reserve	Description and purpose
Share capital	Nominal value of shares subscribed for.
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.

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.

(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

» 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 25)

» Assets and liabilities classified as held for sale (note 22)

» Contingent consideration (note 21)

» 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019 continued

2. Critical accounting estimates and judgements (continued)

(d) Arrangement with Gamesys Group plc (previously JackpotJoy Group)

The arrangements entered into with Gamesys Group plc 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 24 for further detail.

(e) Determining the discount rate of a lease liability under IFRS 16

The Group discounts the lease payments using its incremental borrowing rate. The possible effects of a change in the incremental borrowing rate are an increase or decrease in the lease liability, right-of-use asset and depreciation and financing expenses recognised.

(f) Impairment of financial assets and expected credit losses

Loss allowances for financial assets are based on assumptions about the risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculations based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. See note 5 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 £2.7m (2018: £3.0m). See note 14.

(c) Determining the lease term under IFRS 16

In order to determine the lease term, the Group takes into consideration the period over which the lease is non-cancellable, including renewal options that it is reasonably certain it will exercise and/or termination options that it is reasonably certain it will not exercise. The possible effects are an increase or decrease in the initial measurement of a right of use asset and lease liability and in depreciation and financing expenses in subsequent periods.

(d) 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 £6.4m (2018: £5.6m). See note 12.

(e) Discontinued operations

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

(f) Arrangement with Gamesys Group plc (previously JackpotJoy Group)

The agreement with Gamesys Group plc 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 Gamesys Group plc earlier than the end of the term. See note 24 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 (see note 21) 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.

2019 continuing revenue	Licensing £	Social publishing £	Other £	Intra-group £	Total £
Primary geographical markets					
UK, including Channel Islands	455,727	–	–	(128,755)	326,972
USA	1,659,667	2,758,475	6,148	–	4,424,290
Isle of Man	1,450,318	–	–	–	1,450,318
Rest of the World	581,145	–	100,016	–	681,161
	4,146,857	**2,758,475**	**106,164**	**(128,755)**	**6,882,741**
Contract counterparties					
Direct to consumers (B2C)	–	2,758,475	–	–	2,758,475
B2B	4,146,857	–	106,164	(128,755)	4,124,266
	4,146,857	**2,758,475**	**106,164**	**(128,755)**	**6,882,741**
Timing of transfer of goods and services					
Point in time	3,806,415	2,758,475	106,164	(128,755)	6,542,299
Over time	340,442	–	–	–	340,442
	4,146,857	**2,758,475**	**106,164**	**(128,755)**	**6,882,741**

2018 continuing revenue	Licensing £	Social publishing £	Other £	Intra-group £	Total £
Primary geographical markets					
UK, including Channel Islands	443,204	–	14,088	(389,464)	67,828
USA	977,461	3,920,619	135,409	–	5,033,489
Isle of Man	493,549	–	–	–	493,549
Rest of the World	333,789	–	244,541	–	578,330
	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 2019 continued

3. Revenue from contracts with customers (continued)

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:

	2019 £	2018 £
Next 12 months	**320,615**	793,466
12-24 months	**80,154**	52,256
24+ months	**–**	104,513
	400,769	950,235

4. Expenses by nature

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

	2019 £	2018 £
Employee benefit expenses (see note 9)	**3,868,943**	5,307,869
Share-based payments	**9,972**	67,824
Depreciation of property, plant and equipment	**204,714**	145,269
Amortisation of intangible assets	**2,982,845**	4,319,920
Foreign exchange loss/(gain)	**51,261**	(8,091)

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:

	2019 £	2018 £
Impairment of financial asset	**(200,000)**	(228,451)
Restructuring costs	**(326,629)**	(216,355)
Adjusting items	**(526,629)**	(444,806)

Restructuring costs

Restructuring costs of £0.3m (2018: £0.2m) were incurred relating to redundancy, consulting and relocation costs.

Impairment of financial asset

In accordance with IFRS 9, management have performed an expected credit loss review over its trade and other receivable balances. As a result of this review, an impairment provision of £200,000 has been recorded in the income statement. The balance owed by Gamerail Entertainment LLC as at 31 December 2017 of £228,451 ($253,454) was fully provided for in 2018.

6. Auditor’s remuneration

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

	2019 £	2018 £
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 financial statements	**70,900**	80,000
Fees payable to the Company's auditor for the review of the interim statement	**3,588**	3,178
Fees payable to the Company's auditor for other services:		
– Tax compliance services	**30,197**	40,000
– Tax advisory services	**22,938**	10,000
– Corporate finance	**–**	13,830
– Other	**–**	13,600
	152,623	185,608

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:

	2019 £	2018 £
Short-term benefits of key management personnel	**1,327,969**	1,517,689
Post-employment benefits of key management personnel	**41,065**	46,375
Share-based benefits of key management personnel	**3,551**	121,774
	1,372,585	1,685,838

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019 continued

8. Directors' remuneration

The following table presents the Directors' remuneration of the Company for the year ended 31 December 2019.

	Salary and fees £	Benefits £	2019 Total £	2018 Total £
Michael Buckley	**150,000**	–	**150,000**	210,000
Patrick Southon	**229,167**	**10,429**	**239,596**	263,077
Mark Segal	**200,000**	**781**	**200,781**	200,713
Jim Ryan	**40,000**	–	**40,000**	40,000
Mark Wilson	**40,000**	–	**40,000**	40,000
Chris Ash	**23,333**	–	**23,333**	–
Mark Blandford	**8,333**	–	**8,333**	–
Simon Collins	**31,385**	–	**31,385**	135,118
Atul Bali	–	–	–	50,000
Chris Bell	–	–	–	20,000
	722,218	**11,210**	**733,428**	958,908

The remuneration for Michael Buckley (including amounts paid to third parties, see note 28) includes repayment of expenses incurred wholly for the benefit of Gaming Realms plc of £15,000.

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

	2019 No. of shares	2018 No. of shares
Michael Buckley	**27,000,000**	23,000,000
Patrick Southon	**12,417,319**	12,417,319
Simon Collins	**7,161,397**	10,806,742
Mark Segal	**740,761**	740,761
Jim Ryan	**1,384,615**	1,384,615
Mark Wilson	**384,615**	384,615
Chris Ash	**1,965,680**	–
Mark Blandford	**10,000,000**	–
	61,054,387	48,734,052

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 2019	Option granted	Option lapsed	Option at 31 Dec 2019	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

1 On 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 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.

9. Employee benefit expenses

	2019 £	2018 £
Employee benefit expenses (including directors) comprise:		
Wages and salaries	**4,847,133**	6,418,110
Share-based payment expense (Note 27)	**9,972**	67,824
Social security contributions and similar taxes	**522,976**	687,288
Pension contributions	**175,723**	209,146
	5,555,804	7,382,368
Staff costs capitalised in respect of internally generated intangible assets	**(1,676,889)**	(2,006,675)
	3,878,915	5,375,693

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 85 (2018: 115).

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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 Europe and the US
- Social Publishing – providing 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 21. Management do not report segmental assets and liabilities internally and as such an analysis is not reported.

2019	**Licensing £**	**Social publishing £**	**Head Office £**	**Total £**
Revenue	**4,146,857**	**2,758,475**	**106,164**	**7,011,496**
Marketing expense	**–**	**(130,505)**	**(81,968)**	**(212,473)**
Operating expense	**(772,827)**	**(854,984)**	**762**	**(1,627,049)**
Administrative expense	**(1,970,455)**	**(1,001,103)**	**(2,445,560)**	**(5,417,118)**
Share-based payments	**–**	**–**	**(9,972)**	**(9,972)**
Adjusted EBITDA – continuing	**1,403,575**	**771,883**	**(2,430,574)**	**(255,116)**
Impairment of financial asset				(200,000)
Restructuring expenses				(326,629)
EBITDA – continuing				**(781,745)**
Amortisation of intangible assets				(2,982,845)
Depreciation of property, plant and equipment				(204,714)
Finance expense				(842,518)
Finance income				146,661
Loss before tax – continuing				**(4,665,161)**

2018	Licensing £	Social publishing £	Head Office £	Total £
Revenue	2,248,003	3,920,619	394,038	6,562,660
Marketing expense	–	(414,064)	(251,299)	(665,363)
Operating expense	(199,412)	(1,091,460)	(399)	(1,291,271)
Administrative expense	(1,054,712)	(861,253)	(2,737,906)	(4,653,871)
Share-based payments	–	–	(67,824)	(67,824)
Adjusted EBITDA – continuing	993,879	1,553,842	(2,663,390)	(115,669)
Impairment of financial asset				(228,451)
Restructuring expenses				(216,355)
EBITDA – continuing				(560,475)
Amortisation of intangible assets				(3,535,972)
Depreciation of property, plant and equipment				(145,269)
Impairment				(1,650,000)
Finance expense				(576,107)
Finance income				419,894
Loss before tax – continuing				(6,047,929)

Segmental revenue includes £128,755 (2018: £389,464) of inter-segment Licensing revenue. This is shown as an Operating Expense under the real money gaming discontinued operations and eliminates on consolidation.

The Group's non-current assets by geographical area are detailed below.

	2019 £	2018 £
UK	**12,485,328**	12,894,853
USA	**186,959**	200,440
Sweden	**289,511**	535,130
Canada	**99,080**	13,463
	13,060,878	13,643,886

11. Finance income and expense

		2019 £	2018 £
Finance income			
Interest received		**3,705**	120
Interest income on unwind of finance lease asset	1	**30,625**	–
Interest income on unwind of deferred consideration receivable	19	**112,331**	19,774
Fair value gain on derivative liability	24	**–**	400,000
Total finance income		**146,661**	419,894
Finance expense			
Bank interest paid		**45,931**	3,540
Fair value loss on other investments	15	**245,619**	212,092
Fair value movement on derivative liability	24	**72,000**	–
Effective interest on other creditor	24	**406,912**	360,475
Interest expense on lease liability	1	**72,056**	–
Total finance expense		**842,518**	576,107

12. Tax credit

	2019 £	2018 £
Current tax		
Adjustment for current tax of prior periods	**(134,631)**	(11,078)
R&D tax credit for the year	**97,007**	144,208
Current tax expense	**(62,784)**	–
Total current tax credit	**(100,408)**	133,130
Deferred tax		
Unwind of deferred tax	**131,743**	279,857
Total deferred tax credit	**131,743**	279,857
Total tax credit	**31,335**	412,987

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12. Tax credit (continued)

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:

	2019 £	2018 £
Loss before tax for the year – continuing	**(4,665,161)**	(6,047,929)
(Loss)/profit before tax for the year – discontinued	**(783,451)**	6,564,246
(Loss)/profit before tax for the year	**(5,448,612)**	516,317
Expected tax at effective rate of corporation tax in the UK of 19.0% (2018: 19.0%)	**(1,035,236)**	98,100
Expenses not deductible for tax purposes	**36,755**	920,066
Income not chargeable for tax purposes	**(129,831)**	(1,999,096)
Effects of overseas taxation	**62,785**	290,594
Adjustment for under-provision in prior years	**134,631**	11,078
Research and development tax credit	**(97,007)**	(144,208)
Timing difference not recognised	**29,959**	115,285
Tax losses for which no deferred tax assets have been recognised	**966,609**	295,194
	(31,335)	(412,987)

There are unused UK tax losses carried forward as at the balance sheet date of £37.7m (2018: £32.7m) equating to an unrecognised deferred tax asset of £6.4m (2018: £5.6m) using the expected future tax rates in the UK of 17% (2018: 17%) as announced at Budget 2016. 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

	2019 £	2018 £
At 1 January 2019	**607,943**	881,511
Unwind of deferred tax recognised on business acquisitions	**(131,743)**	(279,857)
Exchange differences	**(18,708)**	6,289
At 31 December 2019	**457,492**	607,943

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 27) are currently dilutive.

	Note	2019 £	2018 £
Loss after tax – continuing		**(4,558,218)**	(5,617,442)
(Loss)/profit after tax – discontinued	21	**(783,451)**	6,564,246
(Loss)/profit after tax – total		**(5,341,669)**	946,804

		Number	Number
Weighted average number of ordinary shares used in calculating basic loss per share	26	**284,428,747**	284,428,747
Weighted average number of ordinary shares used in calculating dilutive loss per share		**284,428,747**	284,428,747

	Pence	Pence
Basic and diluted loss per share – continuing	**(1.60)**	(1.97)
Basic and diluted (loss)/profit per share – discontinued	**(0.28)**	2.31
Basic and diluted (loss)/profit per share – total	**(1.88)**	0.34

14. Intangible assets

	Goodwill £	Customer database £	Software £	Development costs £	Domain names £	Intellectual Property £	Total £
Cost							
At 1 January 2018	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)
Exchange differences	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
Additions	–	–	–	2,680,289	–	–	2,680,289
Disposals	–	–	–	(144,766)	(20,000)	–	(164,766)
Reclassified as held for sale	–	–	–	(437,023)	–	–	(437,023)
Exchange differences	(207,720)	(61,681)	(68,226)	(8,264)	(365)	(231,600)	(577,856)
At 31 December 2019	**6,849,048**	**1,520,509**	**1,420,374**	**11,798,373**	**9,053**	**5,962,772**	**27,560,129**
Accumulated amortisation and impairment							
At 1 January 2018	–	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)
Exchange differences	–	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
Amortisation charge	–	–	79,731	2,128,156	–	774,958	2,982,845
Disposals	–	–	–	(60,389)	(20,000)	–	(80,389)
Reclassified as held for sale	–	–	–	–	–	–	–
Exchange differences	–	(61,681)	(66,612)	(5,521)	(365)	(121,563)	(255,742)
At 31 December 2019	**1,650,000**	**1,520,509**	**1,420,374**	**7,986,035**	**9,053**	**3,271,605**	**15,857,576**
Net book value							
At 31 December 2018	5,406,768	–	81,345	3,784,348	–	3,576,162	12,848,623
At 31 December 2019	**5,199,048**	**–**	**–**	**3,812,338**	**–**	**2,691,167**	**11,702,553**

The Group has no contractual commitments for development costs (2018: none).

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14. Intangible assets (continued)

Goodwill

The Group has 2 continuing CGUs (2018: 2) for which the carrying amount of goodwill is allocated as follows:

	2019 £	2018 £
Licensing	**4,964,607**	5,163,223
Social Publishing	**234,441**	243,545
	5,199,048	5,406,768

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 2019 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. No indicators of impairment arose as a result of this review.

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 three-year period to 31 December 2022, which have been extended by a further 2 years using estimated growth rates to give 5-year projections. Other major assumptions are as follows:

	Discount rate	Long-term growth rate*
2019		
Licensing	**13.7%**	**2%**
Social Publishing	**15.7%**	**2%**
2018		
Licensing	14.5%	5%
Social Publishing	16.5%	0%

* 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 cash flows for year 5.

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.

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

15. Other investments

	Other investments £
At 1 January 2018	747,222
Change in fair value	(212,092)
At 31 December 2018	535,130
Change in fair value	(245,619)
At 31 December 2019	**289,511**

The other investment balance 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 2019 the quoted share price was SEK 10.35 (£0.83). This is a level 1 valuation as defined by IFRS 13. Under IFRS 9, movements in fair value are taken to the income statement.

16. Property, plant and equipment

	ROU lease assets £	Leasehold improvements £	Computers and related equipment £	Office furniture and equipment £	Total £
Cost					
At 1 January 2018	–	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)
Exchange differences	–	(560)	(503)	499	(564)
At 31 December 2018	–	197,580	180,899	92,475	470,954
Additions on adoption of IFRS 16	115,094	–	–	–	115,094
Additions	644,281	60,968	15,279	30,336	750,864
Disposals	–	(181,100)	(13,093)	(46,934)	(241,127)
Reclassified as held for sale	–	–	(1,125)	–	(1,125)
Exchange differences	959	(916)	235	(111)	167
At 31 December 2019	**760,334**	**76,532**	**182,195**	**75,766**	**1,094,827**
Accumulated deprecation					
At 1 January 2018	–	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)
Exchange differences	–	(894)	(459)	35	(1,318)
At 31 December 2018	–	148,968	126,631	67,799	343,398
Depreciation charge	116,713	40,627	36,836	10,538	204,714
Disposals	–	(174,938)	(12,871)	(25,237)	(213,046)
Reclassified as held for sale	–	–	–	–	–
Exchange differences	(541)	(766)	161	144	(1,002)
At 31 December 2019	**116,172**	**13,891**	**150,757**	**53,244**	**334,064**
Net book value					
At 31 December 2018	–	48,612	54,268	24,676	127,556
At 31 December 2019	**644,162**	**62,641**	**31,438**	**22,522**	**760,763**

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17. Other assets

	2019 £	2018 £
Other assets	**150,885**	132,577

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

18. Trade and other receivables

	2019 £	2018 £
Trade receivables	**974,321**	467,802
Other receivables	**145,855**	719,750
Tax and social security	**123,919**	354,113
Prepayments and accrued income	**606,768**	1,139,835
	1,850,863	2,681,500

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

All amounts shown fall due for payment within one 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.

Management have assessed the expected loss rate based on the Group's historical credit losses experienced over the four-year period ended 31 December 2019. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. As discussed in note 5, the result of this review performed by management was a provision of £200,000 (2018: £228,451) being recognised in the income statement.

19. Deferred consideration

	Note	Affiliate Marketing Continuing £	RMG Continuing £	Total Continuing £	RMG Discontinued £	Total £
At 1 January 2019		385,000	280,690	665,690	3,623,425	4,289,115
Deferred consideration received in the year		(385,000)	–	(385,000)	–	(385,000)
Interest recognised as finance income on b/fwd balance	11, 21	–	22,034	22,034	273,851	295,885
Eliminated on 2019 RMG disposal	21	–	(302,724)	(302,724)	(3,897,276)	(4,200,000)
Deferred consideration on 2019 RMG disposal	21	–	1,208,366	1,208,366	–	1,208,366
Interest recognised as finance income on 2019 disposal	11	–	90,297	90,297	–	90,297
At 31 December 2019		**–**	**1,298,663**	**1,298,663**	**–**	**1,298,663**

RMG disposals

Disposal in 2019

As part of the 2019 disposal of the B2C RMG CGU (see note 21), the Group is due £1.5m deferred consideration on 31 December 2020. A discount rate of 14.5% was used to calculate the present value of the £1.5m (£1,208,366). Interest income of £90,297 was recognised within finance income on the unwind of this balance. The balance at 31 December 2019 totalled £1,298,663.

Disposal in 2018

As part of the 2018 disposal of 4 of the Group's B2C RMG brands (see note 21), £4.2m of consideration was deferred for receipt until 31 August 2019. A discount rate of 14.5% was used to calculate the present value of the £4.2m at inception based on the Group's Weighted Average Cost of Capital. The deferred consideration was recognised in the subsidiaries involved in the disposal. As a result of the RMG CGU being classified as held for sale, £3.6m of deferred consideration was included in the disposal group at 31 December 2018. The 2019 RMG disposal transaction terminated this deferred consideration receivable.

Affiliate Marketing

The Group sold its Affiliate Marketing CGU during 2018 (see note 21). As part of the disposal, deferred consideration was capped at £400,000 and reduced based on performance targets. The amount receivable of £385,000 was received in January 2019.

20. Cash and cash equivalents

	2019 £	2018 £
Cash and cash equivalents	**2,626,837**	467,033
Cash – held for sale (see note 22)	**–**	1,101,489
Restricted cash	**(18,382)**	(18,382)
Cash and cash equivalents for Statement of Cash Flows	**2,608,455**	1,550,141

The Group has restricted cash of £18,382 (2018: £18,382) 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.

21. Discontinued operations

During the year, the Group disposed of the remaining elements of its real money gaming B2C CGU that was classified as held for sale within the 2018 balance sheet date. During the year the Group also disposed of one of its subsidiaries, Blastmedia LLC, a software development Company.

During the prior 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 was reclassified as held for sale as at 31 December 2018, and subsequently disposed of during 2019.

Analysis of profit for the financial year – discontinued operations:

		2019 £	2018 £
B2C RMG – 2019 and 2018 disposals			
Profit on disposal	A	**791,488**	12,492,369
Loss for the financial year	E	**(1,309,467)**	(977,362)
B2C RMG business reclassified as held for sale			
Share of loss of associate	B	**(157,307)**	(172,360)
Impairment in associate		**–**	(2,829,026)
Fair value movement on contingent consideration		**–**	(1,900,065)
(Loss)/profit on disposal of B2C RMG		**(675,286)**	6,613,556
Others:			
Blastmedia LLC – loss on disposal	C	**(108,165)**	–
Affiliate Marketing – loss on disposal	D	**–**	(70,748)
Affiliate Marketing – profit for the financial year	E	**–**	21,438
(Loss)/profit for the financial year – discontinued		**(783,451)**	6,564,246

B2C RMG

Disposal in 2019

On 17 July 2019, the Group completed the transaction to (i) sell the entire issued share capital of Bear Group Limited, (ii) license the Company's real money gaming platform, and (iii) sell the Company's residual interest in River UK Casino Limited, to River iGaming plc ("River").

The cash consideration of the transaction is £11.5m on a cash-free, debt-free basis, with £1.5m deferred for receipt until 31 December 2020. The transaction terminated the £4.2m deferred consideration due on 31 August 2019 and the put/call option over the Group's 30% shareholding in River UK Casino.

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 was structured as follows; £4.2m received on completion plus a further £4.2m payable 31 August 2019. Further consideration was 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.

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21. Discontinued operations (continued)

A – B2C RMG profit on disposal

		2019 £	2018 £
Cash consideration		**6,967,718**	4,200,000
Deferred consideration		**1,208,366**	3,629,074
Deferred consideration cancelled		**(4,200,000)**	–
Contingent consideration		**–**	1,900,065
Fair value of put/call option		**–**	–
Investment in River UK Casino		**–**	5,266,579
Total consideration received		**3,976,084**	14,995,718
Cash disposed of		**(811,858)**	–
Net cash inflow on disposal		**6,155,860**	4,200,000
Net assets disposed (other than cash):			
Intangible assets		**3,402,811**	2,191,809
Investment in Bear Group Limited		**1**	–
Investment in River UK Casino	B	**2,110,885**	–
Property, plant and equipment		**8,100**	–
Other assets		**32,000**	–
Trade and other receivables		**494,787**	–
Trade and other payables		**(4,441,713)**	–
Total net assets disposed (other than cash)		**1,606,871**	2,191,809
Gain on disposal of discontinued operation		**1,557,355**	12,803,909
Less: Disposal costs		**(765,867)**	(311,540)
Profit on disposal of discontinued operation		**791,488**	12,492,369

B – Share of loss in associate investment in River UK Casino

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

	2019 £	2018 £
At 1 January	**2,268,192**	–
Initial recognition of associate	**–**	5,269,578
Share of associate's loss	**(157,307)**	(172,360)
Impairment	**–**	(2,829,026)
Disposal of associate	**(2,110,885)**	–
At 31 December	**–**	2,268,192

C – Disposal of Blastmedia LLC

On 11 February 2019 the Group disposed of its investment in Blastmedia LLC, a software development company, for consideration of $100 (£77), which resulted in a loss on disposal of the investment being recognised of £108,165.

	2019 £
Cash consideration	**77**
Cash disposed of	**(20,408)**
Net cash outflow on disposal	**(20,331)**
Less: Assets disposed	
Investment in Blastmedia LLC	**12,076**
Intangible assets	**72,680**
Property, plant and equipment	**4,528**
Other receivables	**1,124**
Other payables	**(2,574)**
Total net assets disposed (other than cash)	**87,834**
Loss on disposal of Blastmedia LLC	**(108,165)**

D – Loss on disposal of the Affiliate Marketing CGU

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.

	2019 **£**	2018 £
Cash consideration	–	2,000,000
Deferred consideration	–	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)

E – Results of discontinued operations

B2C RMG	**2019** **£**	2018 £
Revenue	**6,002,455**	16,364,816
Marketing expenses	**(706,213)**	(4,318,842)
Operating expenses	**(4,907,731)**	(9,169,594)
Administrative expenses	**(1,965,488)**	(3,325,060)
EBITDA – B2C RMG	**(1,576,977)**	(448,680)
Amortisation of intangible assets	–	(783,948)
Depreciation of property, plant and equipment	**(6,341)**	–
Finance income	**273,851**	255,266
Loss for the financial year – B2C RMG	**(1,309,467)**	(977,362)

Affiliate Marketing	**2019** **£**	2018 £
Revenue	–	168,018
Marketing expenses	–	(14,833)
Operating expenses	–	(15,809)
Administrative expenses	–	(115,938)
EBITDA – Affiliate Marketing	–	21,438

Total EBITDA – discontinued	**(1,576,977)**	(427,242)
Total loss for the financial year – discontinued	**(1,309,467)**	(955,924)

The net cash flows arising from discontinued operations are as follows:

	2019 **£**	2018 £
Operating activities	**(1,072,258)**	(655,149)
Investing activities	**4,932,639**	4,704,939
Financing activities	–	–
Net cash inflow/(outflow)	**3,860,381**	4,049,790

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019 continued

22. Assets and liabilities classified as held for sale

During H2 2018 the Board concluded to pursue the sale of the remaining real money gaming 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 therefore reclassified this business and the Group's interest in River UK Casino as held for sale as at 31 December 2018. These items were subsequently disposed of as part of the July 2019 disposal of the remaining B2C RMG CGU (see note 21).

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 were classified as held for sale in the consolidated statement of financial position on 31 December 2018:

	31 December 2019 £	31 December 2018 £
Non-current assets		
Intangible assets – goodwill	–	1,699,000
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
Current assets		
Trade and other receivables	–	1,388,330
Deferred consideration	–	3,623,425
Cash and cash equivalents	–	1,101,489
Assets held for sale	–	11,392,013
Current liabilities		
Trade and other payables	–	4,830,076
Liabilities held for sale	–	4,830,076

23. Trade and other payables

	2019 £	2018 £
Trade payables	**488,755**	766,628
Other payables	**634,807**	986,349
Tax and social security	**170,931**	143,207
Accruals	**830,764**	588,408
	2,125,257	2,484,592

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

24. Arrangement with Gamesys Group plc (previously Jackpotjoy Group)

In December 2017 the Group entered into a complex transaction with Gamesys Group plc (previously 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. 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, Gamesys Group plc 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 Gamesys Group plc. 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 2019 was £0.3m (2018: £0.2m) 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 2019	2,795,602	209,000	200,000	3,204,602
Utilisation of free services	–	(8,000)	–	(8,000)
Effective interest	406,912	–	–	406,912
Interest paid	(276,841)	–	–	(276,841)
Change in fair value	–	–	72,000	72,000
At 31 December 2019	**2,925,673**	**201,000**	**272,000**	**3,398,673**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019 continued

25. 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 are presented in the table below by category, as defined by IFRS 9 'Financial Instruments'. The Group has separately analysed the 2018 assets and liabilities in a disposal group. No instruments in held for sale were classified as held at fair value.

	Amortised cost			Fair Value	
	2019 **£**	2018 Continuing £	2018 Held for sale £	**2019** **£**	2018 £
Financial assets					
Cash and cash equivalents	**2,626,837**	467,033	1,101,489	**–**	–
Trade and other receivables	**1,120,176**	1,187,552	1,388,330	**–**	–
Deferred consideration	**1,298,663**	665,690	3,623,425	**–**	–
Finance lease asset	**283,520**	–	–	**–**	–
Other assets	**150,885**	132,577	32,000	**–**	–
Other investments	**–**	–	–	**289,511**	535,130
Financial liabilities					
Trade and other payables	**1,123,562**	1,752,977	2,631,917	**–**	–
Accruals	**830,764**	588,408	1,894,730	**–**	–
Player liabilities	**–**	–	303,429	**–**	–
Other creditors	**3,126,673**	3,004,602	–	**–**	–
Derivative liability	**–**	–	–	**272,000**	200,000
Lease liability	**902,649**	–	–	**–**	–

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:

» Financial assets held at amortised cost;

» Financial assets held at fair value;

» Financial liabilities held at amortised cost; and

» Financial liabilities held at fair value.

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.

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 2019 the Group's net exposure to foreign exchange risk was as follows:

Net foreign currency financial assets	2019 £	2018 £
Sterling	–	–
US Dollar	**780,928**	234,737
Canadian Dollar	**141,712**	7,124
Other	**17,787**	11,077
	940,427	252,938

The effect of a 20% strengthening in Sterling against other currencies, all other variables held constant, have resulted in a decrease in losses and an increase in net assets of £188,086 (2018: decrease in losses and increase of net assets of £50,587). A 20% weakening in the exchange rates would, on same basis increase loss after tax and decrease net assets by £188,086. (2018: increase loss after tax and decrease net assets by £50,587).

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.

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

The following table sets out the undiscounted contractual cash flows:

At 31 December 2019	**Within 1 year £**	**1-2 years £**	**Over 2 years £**
Trade and other payables	**1,123,562**	**–**	**–**
Accruals	**830,764**	**–**	**–**
Other creditors	**263,219**	**264,600**	**3,754,338**
Lease liability	**327,030**	**356,919**	**368,315**
Total	**2,544,575**	**621,519**	**4,122,653**

At 31 December 2018	Within 1 year £	1-2 years £	Over 2 years £
Trade and other payables	1,752,977	–	–
Accruals	588,408	–	–
Other creditors	279,921	263,219	4,018,938
Lease liability	–	–	–
Total	2,621,306	263,219	4,018,938

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 note 18.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019 continued

25. 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 £0.3m (2018: £0.2m) 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 the prior year end is contingent consideration and a put/call option over the Group's associate interest arising from the 2018 disposal disclosed in note 21. The value of contingent consideration and the put/call option were 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 and a £3.5m facility with Gamesys Group plc (note 24).

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 the Gamesys Group plc arrangement (see note 24), Derivative liability (see note 24), an obligation to provide free services (see note 24) and lease liabilities (see note 1). A reconciliation between the opening and closing balances of these items is provided below.

2019

	Fair value of debt host £	**Obligation to provide free services £**	**Fair value of derivative liability £**	**Lease liability £**
Opening balance	2,795,602	209,000	200,000	–
Adoption of IFRS 16	–	–	–	498,115
New leases entered into during the year	–	–	–	594,281
Cash	(276,841)	–	–	(252,376)
Transaction costs	–	–	–	–
Non-cash transaction	–	(8,000)	–	–
Unwind of discount	406,912	–	–	72,056
Exchange differences	–	–	–	(9,427)
Change in fair value	–	–	72,000	–
Carried forward	**2,925,673**	**201,000**	**272,000**	**902,649**

2018

	Fair value of debt host £	Obligation to provide free services £	Fair value of derivative liability £	Lease 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	–

26. Share capital

Ordinary shares

	2019 Number	2019 £	2018 Number	2018 £
Ordinary shares of 10 pence each	**284,428,747**	**28,442,874**	284,428,747	28,442,874

27. 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 £9,972 (2018: £67,824).

	Number	Weighted average exercise price (pence)
Outstanding at 1 January 2018	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
Forfeited during the year	(2,603,214)	17.12
Number of options outstanding at 31 December 2019	**36,902,111**	15.33
Exercisable at 31 December 2019	**36,902,111**	15.33

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	2019 Number of shares	2018 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	**1,690,621**	2,780,663
Approved	17 June 2014	28.88	16 June 2016 to 16 June 2024	**326,087**	326,087
Approved	19 February 2015	33.00	19 February 2018 to 19 February 2025	**172,475**	284,141
Approved	15 October 2015	25.13	15 October 2018 to 15 October 2025	**5,535,000**	5,810,000
Approved	10 November 2015	25.00	10 November 2018 to 10 November 2025	**866,905**	1,410,711
Approved	28 July 2016	20.00	28 July 2018 to 28 July 2026	**588,726**	1,069,251
Unapproved	28 July 2016	20.00	28 July 2018 to 28 July 2026	**30,000**	132,175
				36,902,111	39,505,325

Modification

During the prior 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019 continued

28. Related party transactions

Jim Ryan is a Non-Executive Director of the Company and the CEO of Pala Interactive, which has a real-money online bingo site in New Jersey. During the year, total license fees earned by the Group were $19,269 (2018: $13,709) with $4,120 due at 31 December 2019 (2018: $1,102).

Jim Ryan is a Non-Executive Director of Gamesys Group plc. In December 2017 the Group entered into a 10-year framework services agreement and a 5-year convertible loan agreement for £3.5m with Gamesys Group plc (previously JackpotJoy Group) (see Note 24).

During the year £90,000 (2018: £150,000) of consulting fees were paid to Dawnglen Finance Limited, a company controlled by Michael Buckley, which is included in the remuneration figure of £150,000 (2018: £210,000) shown in note 8. No amounts were owed at 31 December 2019 (2018: £nil).

Simon Collins was a Non-Executive Director of the Company until 11 October 2019 and held a 6% shareholding in Stannp Limited. During 2018 the Group spent £2,593 on customer mailings with Stannp Limited. This amount was fully paid as at 31 December 2018 and no transactions arose in 2019.

Atul Bali was a Non-Executive Director of the Company until 30 June 2018. Atul Bali is an advisor of Gamerail Entertainment LLC, a social lottery gaming company. During 2018, a balance of $253,454 receivable in Blastworks Inc., which arose from historical transactions was fully provided for. No services were provided in 2018 or 2019.

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 2018, up to 30 June 2018, the total revenue share payable by Bear Group Limited for the supply of game content totalled £22,033, which has all been settled in full.

In addition, Instant Win Gaming has entered into a licensing agreement with Blastworks Limited for the Slingo Brand. Instant Win Gaming licensed the Slingo Brand to create and distribute Slingo Branded Instant Win Games. During 2018, up to 30 June 2018, total license fees earned were £18,835, which has been received in full.

Following Atul's resignation on 30 June 2018, the above entities ceased to be a related party on this date.

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

29. Subsidiaries

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

Name	Registered Office	Country of Incorporation	Principal activity	Proportion held by Parent Company	Proportion held by Group
Quickthink Digital Limited	2 Valentine Place, London, SE1 8QH	UK	Marketing services	100%	100%
Blastworks Limited	2 Valentine Place, London, SE1 8QH	UK	IP owner	91%	100%
Alchemybet Limited	2 Valentine Place, London, SE1 8QH	UK	Software Developer	89%	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%

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%

30. Post balance sheet events

Following the COVID-19 outbreak and the uncertainty this has brought to global markets and economies, the Directors have performed qualitative and quantitative assessments of the associated risks facing the business and its ability to meet its short and medium term forecasts. See the strategic report and note 1 for further information.

Parent Company Statement of Financial Position

As at 31 December 2019

	Note	31 December 2019 £	31 December 2018 £
Non-current assets			
Investment in subsidiary undertakings	2	**5,128,030**	10,897,262
Other investments	2	**289,511**	535,130
Property, plant and equipment	3	**629,699**	48,596
Other assets		**138,798**	120,000
		6,186,038	11,600,988
Current assets			
Trade and other receivables	4	**15,251,311**	16,598,253
Deferred consideration	5	**1,298,663**	–
Cash and cash equivalents		**1,717,280**	59,561
		18,267,254	16,657,814
Assets classified as held for sale		**–**	3,000
Total assets		**24,453,292**	28,261,802
Current liabilities			
Trade and other payables	6	**8,053,805**	6,386,838
Lease liabilities		**106,720**	–
		8,160,525	6,386,838
Non-current liabilities			
Other Creditors	7	**3,126,673**	3,008,603
Derivative liabilities	7	**272,000**	200,000
Lease liabilities		**444,160**	–
		3,842,833	3,208,603
Total liabilities		**12,003,358**	9,595,441
Net assets		**12,449,934**	18,666,361
Equity			
Share capital	8	**28,442,874**	28,442,874
Share premium		**87,918,410**	87,918,410
Merger reserve		**2,683,702**	2,683,702
Retained earnings		**(106,595,052)**	(100,378,625)
Total equity		**12,449,934**	18,666,361

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 £6,226,399 (2018: £9,448,719).

The financial statements were approved and authorised for issue by the Board of Directors on 27 April 2020 and were signed on its behalf by:

Michael Buckley
Executive Chairman

Parent Company Statement of Changes in Equity

for the year ended 31 December 2019

	Share capital £	Share premium £	Merger reserve £	Shares to be issued £	Retained earnings £	Total equity £
1 January 2018	**28,442,874**	**87,918,410**	**2,683,702**	**145,000**	**(90,997,730)**	**28,192,256**
Loss for the year	–	–	–	–	(9,448,719)	(9,448,719)
Share-based payment to director	–	–	–	(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**	**–**	**(100,378,625)**	**18,666,361**
Loss for the year	–	–	–	–	(6,226,399)	(6,226,399)
Share-based payment on share options	–	–	–	–	9,972	9,972
31 December 2019	**28,442,874**	**87,918,410**	**2,683,702**	**–**	**(106,595,052)**	**12,449,934**

The notes on pages 61 to 63 form part of these financial statements.

Notes to the Parent Company Financial Statements

for the year ended 31 December 2019

1. Principal accounting policies

These financial statements present the results of Gaming Realms plc for the year ended 31 December 2019.

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 British Pounds 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 2019.

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; and

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 (date of adoption of IFRS) 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.

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 2019 continued

2. Investments

	Investment in subsidiary undertakings £	Investment in associate £	Other investments £
At 1 January 2018	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
Change in fair value	–	–	(245,619)
Disposals	(1)	(3,000)	–
Impairment	(5,769,231)	–	–
At 31 December 2019	**5,128,030**	**–**	**289,511**

As part of the Groups transaction with River iGaming plc during the year, the Company disposed of its £1 investment in Bear Group Limited. See note 21 of the consolidated accounts for further information. During the current year, following the disposal of Bear Group Limited and changes in operations, an impairment of subsidiary investments of £5.8m was recognised.

During the prior year, the investment in Blueburra Holdings Limited was impaired as a result of the Affiliate Marketing business sale.

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

3. Property, plant and equipment

	ROU lease assets £	Leasehold improvements £	Computers and related equipment £	Office furniture and equipment £	Total £
Cost					
At 1 January 2019	–	226,115	9,136	54,111	289,362
Additions	644,281	60,968	3,624	18,797	727,670
Disposals	–	(226,115)	(1,339)	(53,861)	(281,315)
At 31 December 2019	**644,281**	**60,968**	**11,421**	**19,047**	**735,717**
Accumulated deprecation					
At 1 January 2019	–	191,172	7,359	42,235	240,766
Depreciation charge	86,569	36,498	1,679	8,747	133,493
Disposals	–	(219,953)	(1,117)	(47,171)	(268,241)
At 31 December 2019	**86,569**	**7,717**	**7,921**	**3,811**	**106,018**
Net book value					
At 31 December 2018	–	34,943	1,777	11,876	48,596
At 31 December 2019	**557,712**	**53,251**	**3,500**	**15,236**	**629,699**

4. Trade and other receivables

	2019 £	2018 £
Amounts due from Group companies	**15,127,642**	16,407,738
Tax and social security	**39,140**	26,902
Other debtors	**18,286**	46,840
Prepayments and accrued income	**66,243**	116,773
	15,251,311	16,598,253

The balances due from fellow Group companies are repayable on demand and interest free. Management has assessed its receivables from Group companies using a forward-looking expected credit loss model. The methodology used in determining the amount of provision as at the reporting date is that of lifetime expected credit losses which is defined as a credit loss estimate of the present value of cash shortfalls over the expected life of the financial assets (receivables from Group companies). The expected credit loss charge in the year was calculated to be £15,252 (2018: £6,500,000).

5. Deferred consideration

See note 19 of the consolidated accounts for further information.

6. Trade and other payables

	2019 £	2018 £
Creditors: amounts falling due within one year		
Amounts due to Group companies	**7,487,624**	6,056,090
Trade creditors	**113,876**	49,711
Other creditors	**86,267**	–
Accruals and deferred income	**342,447**	255,358
Tax and social security	**23,591**	25,679
	8,053,805	6,386,838

7. Other creditors & derivative liability

See note 24 of the consolidated accounts for further information.

8. Called up share capital

Allotted, called up and fully paid

	2019 Number	2019 £	2018 Number	2018 £
Ordinary shares of 10 pence each	**284,428,747**	**28,442,874**	284,428,747	28,442,874

Allotted and fully paid up

	£
At 31 December 2019 and 31 December 2018	28,442,874

9. Employee information

The Company had an average of 8 (2018: 10) employees during the year.

The employee costs for the Company were £944,117 (2018: £1,103,599).

Details of Directors' remuneration can be found in note 8 of the consolidated financial statements.

10. Related party transactions

During the year £90,000 (2018: £150,000) of consulting fees were paid to Dawnglen Finance Limited, a company controlled by Michael Buckley. No amounts were owed at 31 December 2019 (2018: £nil).

The details of key management compensation are set out in note 7 of the consolidated financial statements.

Company Information

Directors
Michael Buckley, Executive Chairman
Patrick Southon, Chief Executive Officer (resigned 11 February 2020)
Mark Segal, Chief Financial Officer
Simon Collins, Non-executive Director
Jim Ryan, Non-executive Director
Mark Wilson, Non-executive Director
Chris Ash, Non-executive Director (appointed 6 June 2019)
Mark Blandford, Non-executive Director (appointed 15 October 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
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04175777

Designed and produced by Instinctif Partners
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