Jackpotjoy plc

Unaudited Interim Condensed Consolidated Financial Statements

[in pounds sterling, except where otherwise noted]

For the Three Months Ended 31 March 2018

Jackpotjoy plc

Unaudited Interim Condensed Consolidated Statements of Comprehensive Income

For the three months ended 31 March 2018

(GBP)

	Note	**Three months ended 31 March 2018**	Three months ended 31 March 2017
		(£000's)	(£000's)
Gaming revenue	4	**80,672**	71,376
Costs and expenses			
Distribution costs	4, 5	**41,499**	31,244
Administrative costs	5	**27,772**	25,213
Severance costs	4	**450**	–
Transaction related costs	4	**75**	1,315
Foreign exchange loss	4	**410**	2,133
Total costs and expenses		**70,206**	59,905
Gain on sale of intangible assets		**–**	(1,002)
Fair value adjustments on contingent consideration	16	**11,450**	12,856
Realised loss on cross currency swap		**–**	3,534
Interest income	6	**(85)**	(38)
Interest expense	6	**4,939**	7,947
Accretion on financial liabilities	6	**1,537**	3,389
Financing expenses		**17,841**	27,688
Net loss for the period before taxes		**(7,375)**	(15,215)
Current tax provision		**471**	191
Deferred tax recovery		**(99)**	(105)
Net loss for the period attributable to owners of the parent		**(7,747)**	(15,301)
Other comprehensive income/(loss): Items that will or may be reclassified to profit or loss in subsequent periods			
Foreign currency translation (loss)/gain		**(883)**	5,555
Unrealised loss on cross currency hedge		–	(813)
Unrealised loss on interest rate hedge	11	**(415)**	–
Total comprehensive loss for the period attributable to owners of the parent		**(9,045)**	(10,559)
Net loss for the period per share			
Basic	7	**£(0.10)**	£(0.21)
Diluted	7	**£(0.10)**	£(0.21)

See accompanying notes

Jackpotjoy plc

Unaudited Interim Condensed Consolidated Balance Sheets

31 March 2018

(GBP)

	Note	As at 31 March 2018 (£000's)	As at 31 December 2017 (£000's)
ASSETS			
Current assets			
Cash	8	**76,231**	59,033
Restricted cash	8	**282**	208
Customer deposits		**7,908**	8,180
Trade and other receivables	9	**17,950**	19,379
Taxes receivable		**6,736**	6,432
Total current assets		**109,107**	93,232
Tangible assets		**1,278**	1,339
Intangible assets	12	**277,489**	292,223
Goodwill	12	**295,863**	296,781
Other long-term receivables	10, 16	**5,453**	5,604
Total non-current assets		**580,083**	595,947
Total assets		**689,190**	689,179
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	13	**17,209**	17,821
Other short-term payables	11, 14	**10,668**	12,151
Interest payable		**898**	924
Payable to customers		**7,908**	8,180
Convertible debentures	18	**57**	254
Current portion of contingent consideration	16	**63,782**	51,866
Provision for taxes		**7,969**	7,273
Total current liabilities		**108,491**	98,469
Contingent consideration	16	**8,274**	7,717
Other long-term payables	11, 17	**6,925**	8,245
Deferred tax liability		**1,436**	1,204
Long-term debt	15	**368,311**	369,487
Total non-current liabilities		**384,946**	386,653
Total liabilities		**493,437**	485,122
Equity			
Retained earnings		**(245,770)**	(238,133)
Share capital	18	**7,427**	7,407
Share premium		**407,839**	407,274
Other reserves		**26,257**	27,509
Total equity		**195,753**	204,057
Total liabilities and equity		**689,190**	689,179

See accompanying notes

On behalf of the Board:

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

Neil Goulden, Executive Chairman Keith Laslop, Chief Financial Officer

Jackpotjoy plc

Unaudited Interim Condensed Consolidated Statements of Changes in Equity
For the period ended 31 March 2018
(GBP)

		Share Capital (£000's)	Share Premium (£000's)	Merger Reserve (£000's)	Redeemable Shares (£000's)	Share-Based Payment Reserve (£000's)	Translation Reserve (£000's)	Hedge Reserve (£000's)	Retained (Deficit)/ Earnings (£000's)	Total (£000's)
Balance at 1 January 2017		**7,298**	**403,883**	**(6,111)**	**50**	**8,667**	**(3,958)**	**–**	**(170,361)**	**239,468**
Comprehensive income/(loss) for the period:										
Net loss for the period		–	–	–	–	–	–	–	(15,301)	(15,301)
Other comprehensive income/(loss)		–	–	–	–	–	5,555	(813)	–	4,742
Total comprehensive income/(loss) for the period:		**–**	**–**	**–**	**–**	**–**	**5,555**	**(813)**	**(15,301)**	**(10,559)**
Contributions by and distributions to shareholders:										
Conversion of debentures		63	2,049	–	–	–	–	–	–	2,112
Exercise of options		11	329	–	–	(77)	–	–	–	263
Cancellation of redeemable shares		–	–	–	(50)	–	–	–	–	(50)
Share-based compensation		–	–	–	–	525	–	–	–	525
Total contributions by and distributions to shareholders:		**74**	**2,378**	**–**	**(50)**	**448**	**–**	**–**	**–**	**2,850**
Balance at 31 March 2017		**7,372**	**406,261**	**(6,111)**	**–**	**9,115**	**1,597**	**(813)**	**(185,662)**	**231,759**
Balance at 1 January 2018		**7,407**	**407,274**	**(6,111)**	**–**	**9,971**	**23,649**	**–**	**(238,133)**	**204,057**
Comprehensive income/(loss) for the period:										
Net loss for the period		–	–	–	–	–	–	–	(7,747)	(7,747)
Other comprehensive loss		–	–	–	–	–	(883)	(415)	–	(1,298)
Total comprehensive loss for the period:		**–**	**–**	**–**	**–**	**–**	**(883)**	**(415)**	**(7,747)**	**(9,045)**
Contributions by and distributions to shareholders:										
Conversion of debentures	18	6	186	–	–	–	–	–	–	192
Exercise of options	18	14	379	–	–	(110)	–	–	110	393
Share-based compensation	18	–	–	–	–	156	–	–	–	156
Total contributions by and distributions to shareholders:		**20**	**565**	**–**	**–**	**46**	**–**	**–**	**110**	**741**
Balance at 31 March 2018		**7,427**	**407,839**	**(6,111)**	**–**	**10,017**	**22,766**	**(415)**	**(245,770)**	**195,753**

See accompanying notes

Jackpotjoy plc

Unaudited Interim Condensed Consolidated Statements of Cash Flows

For the three months ended 31 March 2018

(GBP)

	Note	**Three months ended 31 March 2018 (£000's)**	Three months ended 31 March 2017 (£000's)
Operating activities			
Net loss for the period		**(7,747)**	(15,301)
Add (deduct) items not involving cash			
Amortisation and depreciation		**15,563**	13,749
Share-based compensation expense	18	**156**	525
Current tax provision		**471**	191
Deferred tax recovery		**(99)**	(105)
Interest expense, net	6	**6,391**	11,298
Gain on sale of intangible assets		**–**	(1,002)
Fair value adjustments on contingent consideration	16	**11,450**	12,856
Realised loss on cross currency swap		**–**	3,534
Foreign exchange loss		**410**	2,133
		26,595	27,878
Trade and other receivables		**(240)**	487
Other long-term receivables		**180**	(16)
Accounts payable and accrued liabilities		**(625)**	(1,429)
Other short-term payables		**(1,483)**	(3,672)
Cash generated from operations		**24,427**	23,248
Income taxes paid		**–**	(28)
Income taxes received		**–**	102
Total cash provided by operating activities		**24,427**	23,322
Financing activities			
Restriction of cash balances		**(75)**	21
Proceeds from exercise of options		**393**	263
Proceeds from cross currency swap settlement		**–**	34,373
Repayment of non-compete liability	17	**(2,000)**	–
Interest repayment		**(4,926)**	(7,550)
Principal payments made on long-term debt	15	**–**	(6,296)
Total cash (used in)/provided by financing activities		**(6,608)**	20,811
Investing activities			
Purchase of tangible assets		**(74)**	(511)
Purchase of intangible assets		**(1,087)**	(549)
Proceeds from sale of intangible assets		**1,450**	1,002
Total cash provided by/(used in) investing activities		**289**	(58)
Net increase in cash during the period		**18,108**	44,075
Cash, beginning of period		**59,033**	68,485
Exchange loss on cash and cash equivalents		**(910)**	(263)
Cash, end of period		**76,231**	112,297

See accompanying notes

1. Corporate information

Jackpotjoy plc is an online gaming holding company that was incorporated under the *Companies Act 2006* (England and Wales) on 29 July 2016. Jackpotjoy plc's registered office is located at 35 Great St. Helen's, London, United Kingdom. Unless the context requires otherwise, use of 'Group' in these accompanying notes means Jackpotjoy plc and its subsidiaries, as applicable.

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

These Unaudited Interim Condensed Consolidated Financial Statements were authorised for issue by the Board of Directors of Jackpotjoy plc (the 'Board of Directors') on 15 May 2018.

2. Basis of preparation

Basis of presentation

These Unaudited Interim Condensed Consolidated Financial Statements have been prepared by management on a going concern basis, are presented in compliance with International Accounting Standard ('IAS') 34 – *Interim Financial Reporting*, and have been prepared on a basis consistent with the accounting policies and methods used and disclosed in Jackpotjoy plc's consolidated financial statements for the year ended 31 December 2017 (the 'Annual Financial Statements'), except as described below. Certain information and disclosures normally included in the Annual Financial Statements prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, and in accordance with IFRS as issued by the International Accounting Standards Board, have been omitted or condensed.

These Unaudited Interim Condensed Consolidated Financial Statements should be read in conjunction with the Annual Financial Statements. All defined terms used herein are consistent with those terms as defined in the Annual Financial Statements.

These Unaudited Interim Condensed Consolidated Financial Statements have been prepared under the historical cost convention, other than for the measurement at fair value of the Group's Interest Rate Swap (as defined in note 11), contingent consideration, certain hedged loan instruments, and loan receivable.

The comparative financial information for the year ended 31 December 2017 in these Unaudited Interim Condensed Consolidated Financial Statements does not constitute statutory accounts for that year. The auditors' report on the statutory accounts for the year ended 31 December 2017 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under sections 498(2) or 498(3) of the *Companies Act 2006*.

Basis of consolidation

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

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

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

3. Summary of significant accounting policies

For a description of the Group's significant accounting policies, critical accounting estimates and assumptions, and related information see note 3 to the Annual Financial Statements. Other than as described below, there have been no changes to the Group's significant accounting policies or critical accounting estimates and assumptions during the three months ended 31 March 2018.

Financial instruments

Effective from 1 January 2018, the Group adopted IFRS 9 – *Financial Instruments: Recognition and Measurement* ('IFRS 9') to account for the Gaming Realms Transaction (as defined in note 10). As a result, the Group no longer separates the embedded derivative from its host contract and the entire asset is measured at fair value through profit or loss. The adoption of IFRS 9 resulted in balances shown as other long-term receivables and other long-term assets at 31 December 2017 to be combined into a single figure and shown as other long-term receivables at 31 March 2018.

Hedge accounting

The Group elected to use hedge accounting for the purposes of recognising realised and unrealised gains and losses associated with the Interest Rate Swap, in accordance with guidance provided in IFRS 9.

IFRS 9 permits hedge accounting under certain circumstances provided that the hedging relationship is:

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

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

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

Based on the Group's analysis of the requirements outlined above, it was concluded that the Interest Rate Swap meets all the necessary criteria and qualifies for use of hedge accounting. The Interest Rate Swap was designated as a cash flow hedge.

Revenue recognition

Effective from 1 January 2018, the Group adopted IFRS 15 – *Revenue from Contracts with Customers* ('IFRS 15'). Applying this standard did not impact the Group's financial information as the Group's policy was already in compliance with the key principles outlined in IFRS 15.

4. Segment information

In March 2018, the Group determined that its reportable operating segments had changed such that the Mandalay segment is aggregated with the Jackpotjoy segment with effect from 1 January 2018, as Mandalay no longer met the criteria set out in IFRS 8 – *Operating Segments,* for a reportable operating segment. Mandalay has therefore been aggregated with the Jackpotjoy segment consistent with the Group's other third-party platform hosted operations and all 2017 comparative segment figures have been restated accordingly.

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

Three months ended 31 March 2018

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Gaming revenue	**59,501***	**21,171**	**—**	**80,672**
Distribution costs	28,810	12,687	2	41,499
Amortisation and depreciation	13,073	2,398	92	15,563
Compensation, professional, and general and administrative expenses	4,579	4,508	3,122	12,209
Severance costs	—	450	—	450
Transaction related costs	—	—	75	75
Foreign exchange loss	202	110	98	410
Financing, net	2	(36)	17,875	17,841
Income/(loss) for the period before taxes	**12,835**	**1,054**	**(21,264)**	**(7,375)**
Taxes	—	358	14	372
Net income/(loss) for the period	**12,835**	**696**	**(21,278)**	**(7,747)**
Net income/(loss) for the period	**12,835**	**696**	**(21,278)**	**(7,747)**
Interest expense/(income), net	2	(36)	4,888	4,854
Accretion on financial liabilities	—	—	1,537	1,537
Taxes	—	358	14	372
Amortisation and depreciation	13,073	2,398	92	15,563
EBITDA	**25,910**	**3,416**	**(14,747)**	**14,579**
Share-based compensation	—	—	156	156
Severance costs	—	450	—	450
Fair value adjustments on contingent consideration	—	—	11,450	11,450
Transaction related costs	—	—	75	75
Foreign exchange loss	202	110	98	410
Adjusted EBITDA	**26,112**	**3,976**	**(2,968)**	**27,120**
Net income/(loss) for the period	**12,835**	**696**	**(21,278)**	**(7,747)**
Share-based compensation	—	—	156	156
Severance costs	—	450	—	450
Fair value adjustments on contingent consideration	—	—	11,450	11,450
Transaction related costs	—	—	75	75
Foreign exchange loss	202	110	98	410
Amortisation of acquisition related purchase price intangibles	13,057	1,978	—	15,035
Accretion on financial liabilities	—	—	1,537	1,537
Adjusted net income/(loss)	**26,094**	**3,234**	**(7,962)**	**21,366**

* Jackpotjoy gaming revenue figure includes social gaming revenue of £2.9 million for Q1 2018.

Three months ended 31 March 2017

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Gaming revenue	**55,685***	**15,691**	**—**	**71,376**
Distribution costs	23,554	7,648	42	31,244
Amortisation and depreciation	11,283	2,368	98	13,749
Compensation, professional, and general and administrative expenses	4,446	3,660	3,358	11,464
Transaction related costs	—	—	1,315	1,315
Foreign exchange (gain)/loss	(20)	59	2,094	2,133
Gain on sale of intangible assets	—	(1,002)	—	(1,002)
Financing, net	1	(34)	27,721	27,688
Income/(loss) for the period before taxes	**16,421**	**2,992**	**(34,628)**	**(15,215)**
Taxes	—	86	—	86
Net income/(loss) for the period	**16,421**	**2,906**	**(34,628)**	**(15,301)**
Net income/(loss) for the period	**16,421**	**2,906**	**(34,628)**	**(15,301)**
Interest expense/(income), net	1	(34)	7,942	7,909
Accretion on financial liabilities	—	—	3,389	3,389
Taxes	—	86	—	86
Amortisation and depreciation	11,283	2,368	98	13,749
EBITDA	**27,705**	**5,326**	**(23,199)**	**9,832**
Share-based compensation	—	—	525	525
Fair value adjustments on contingent consideration	—	—	12,856	12,856
Realised loss on cross currency swap	—	—	3,534	3,534
Transaction related costs	—	—	1,315	1,315
Gain on sale of intangible assets	—	(1,002)	—	(1,002)
Foreign exchange (gain)/loss	(20)	59	2,094	2,133
Adjusted EBITDA	**27,685**	**4,383**	**(2,875)**	**29,193**
Net income/(loss) for the period	**16,421**	**2,906**	**(34,628)**	**(15,301)**
Share-based compensation	—	—	525	525
Fair value adjustments on contingent consideration	—	—	12,856	12,856
Realised loss on cross currency swap	—	—	3,534	3,534
Transaction related costs	—	—	1,315	1,315
Gain on sale of intangible assets	—	(1,002)	—	(1,002)
Foreign exchange (gain)/loss	(20)	59	2,094	2,133
Amortisation of acquisition related purchase price intangibles	11,283	2,107	—	13,390
Accretion on financial liabilities	—	—	3,389	3,389
Adjusted net income/(loss)	**27,684**	**4,070**	**(10,915)**	**20,839**

*Jackpotjoy gaming revenue figure includes social gaming revenue of £4.5 million for Q1 2017.

The following table presents net assets per segment and unallocated corporate costs as at 31 March 2018:

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Current assets	22,763	43,645	42,699	109,107
Goodwill	240,960	54,903	—	295,863
Long-term assets	239,184	29,943	15,093	284,220
Total assets	**502,907**	**128,491**	**57,792**	**689,190**
Current liabilities	9,925	21,134	77,432	108,491
Long-term liabilities	—	1,436	383,510	384,946
Total liabilities	**9,925**	**22,570**	**460,942**	**493,437**
Net assets	**492,982**	**105,921**	**(403,150)**	**195,753**

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

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Current assets	20,960	41,970	30,302	93,232
Goodwill	240,960	55,821	—	296,781
Long-term assets	249,703	31,878	17,585	299,166
Total assets	**511,623**	**129,669**	**47,887**	**689,179**
Current liabilities	10,958	19,877	67,634	98,469
Long-term liabilities	—	1,204	385,449	386,653
Total liabilities	**10,958**	**21,081**	**453,083**	**485,122**
Net assets	**500,665**	**108,588**	**(405,196)**	**204,057**

During the three months ended 31 March 2018 and 2017, substantially all of the revenue earned by the Group was earned in Europe. Revenue was earned from customers located in the following locations: United Kingdom – 61% (three months ended 31 March 2017 – 65%), Sweden – 9% (three months ended 31 March 2017 – 11%), rest of Europe – 16% (three months ended 31 March 2017 – 11%), rest of world – 14% (three months ended 31 March 2017 – 13%).

Non-current assets by geographical location as at 31 March 2018 were as follows: Europe £84.8 million (31 December 2017 – £87.7 million) and Americas £495.2 million (31 December 2017 – £508.2 million).

5. Costs and expenses

	Three months ended 31 March 2018 (£000's)	Three months ended 31 March 2017 (£000's)
Distribution costs:		
Selling and marketing	**14,550**	9,603
Licencing fees	**11,744**	11,086
Gaming taxes	**11,263**	7,992
Processing fees	**3,942**	2,563
	41,499	31,244
Administrative costs:		
Compensation and benefits	**8,720**	8,075
Professional fees	**1,289**	1,208
General and administrative	**2,200**	2,181
Tangible asset depreciation	**124**	73
Intangible asset amortisation	**15,439**	13,676
	27,772	25,213

6. Interest expense/income

	Three months ended 31 March 2018 (£000's)	Three months ended 31 March 2017 (£000's)
Interest earned on cash held during the period	**34**	38
Interest earned on long-term loan receivable	**51**	—
Total interest income	**85**	38
Interest paid and accrued on long-term debt	**4,936**	7,925
Interest paid and accrued on convertible debentures	**3**	22
Total interest expense	**4,939**	7,947
Accretion of discount recognised on contingent consideration	**1,023**	2,103
Interest accretion recognised on convertible debentures	**8**	18
Debt issue costs and accretion recognised on long-term debt	**139**	783
Interest accretion recognised on other long-term liabilities	**367**	485
Total accretion on financial liabilities	**1,537**	3,389

7. Earnings per share

The following table presents the calculation of basic and diluted earnings per share:

	Three months ended 31 March 2018 (£000's)	Three months ended 31 March 2017 (£000's)
Numerator:		
Net loss – basic	**(7,747)**	(15,301)
Net loss – diluted[1]	**(7,747)**	(15,301)
Denominator:		
Weighted average number of shares outstanding – basic	**74,093**	73,573
Instruments, which are anti-dilutive:		
Weighted average effect of dilutive share options	**758**	454
Weighted average effect of convertible debentures[2]	**67**	487
Net loss per share[3,4]		
Basic	**£(0.10)**	£(0.21)
Diluted[1]	**£(0.10)**	£(0.21)

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

[2] *An assumed conversion of convertible debentures had an anti-dilutive effect on loss per share for the three months ended 31 March 2018 and 31 March 2017.*

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

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

8. Cash and restricted cash

	31 March 2018 (£000's)	31 December 2017 (£000's)
Cash and cash equivalents	**76,231**	59,033
Restricted cash – other	**282**	208
Total cash balances	**76,513**	59,241

9. Trade and other receivables

Trade and other receivables consist of the following items:

	31 March 2018 (£000's)	31 December 2017 (£000's)
Due from the Gamesys group	**9,917**	8,634
Due from the 888 group	**2,327**	3,101
B2B and affiliate revenue receivable	**1,571**	2,481
Receivable for intangible assets sold	**—**	1,450
Prepaid expenses	**3,409**	2,375
Other	**726**	1,338
	17,950	19,379

10. Other long-term receivables

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

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

In connection with this transaction, the Group recognised a long-term receivable of £3.5 million for the secured convertible loan, in accordance with IFRS 9, based on the calculation of fair value at 31 March 2018, as explained in note 16.

11. Interest rate swap

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

As at 31 March 2018, the fair value of the Interest Rate Swap was a £0.4 million payable (31 December 2017 – £nil). The Group has included £0.1 million of this payable in current liabilities, as shown in note 14 (31 December 2017 – £nil), with the value of the remaining balance, being £0.3 million (31 December 2017 – £nil), included in other long-term payables.

12. Intangible assets

As at 31 March 2018

	Gaming licences (£000's)	Customer relationships (£000's)	Software (£000's)	Brand (£000's)	Partnership agreements (£000's)	Non-compete clauses (£000's)	Goodwill (£000's)	Total (£000's)
Cost								
Balance, 1 January 2018	93	337,655	25,211	70,019	12,900	20,434	316,386	782,698
Additions	—	—	974	—	—	—	—	974
Translation	(11)	(334)	(320)	(224)	—	—	(1,644)	(2,533)
Balance, 31 March 2018	**82**	**337,321**	**25,865**	**69,795**	**12,900**	**20,434**	**314,742**	**781,139**
Accumulated amortisation/impairment								
Balance, 1 January 2018	81	139,333	12,551	10,005	4,458	7,661	19,605	193,694
Amortisation	11	10,329	1,267	873	405	2,554	—	15,439
Translation	(47)	(259)	(274)	(40)	—	—	(726)	(1,346)
Balance, 31 March 2018	**45**	**149,403**	**13,544**	**10,838**	**4,863**	**10,215**	**18,879**	**207,787**
Carrying value								
Balance, 31 March 2018	**37**	**187,918**	**12,321**	**58,957**	**8,037**	**10,219**	**295,863**	**573,352**

As at 31 December 2017

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

13. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following items:

	31 March 2018 (£000's)	31 December 2017 (£000's)
Affiliate/marketing expenses payable	**5,260**	6,547
Payable to game suppliers	**2,097**	1,899
Compensation payable	**4,536**	4,868
Loyalty program payable	**252**	252
Professional fees	**1,459**	875
Gaming tax payable	**2,547**	2,101
Other	**1,058**	1,279
	17,209	17,821

14. Other short-term payables

Other short-term payables consist of:

	31 March 2018 (£000's)	31 December 2017 (£000's)
Transaction related payables	**1,918**	3,484
Current portion of other long-term payables (note 17)	**8,667**	8,667
Interest Rate Swap (note 11)	**83**	—
	10,668	12,151

15. Credit facilities

	Term Loan (£000's)	Incremental First Lien Facility (£000's)	Second Lien Facility (£000's)	EUR Term Facility (£000's)	GBP Term Facility (£000's)	Total (£000's)
Balance, 1 January 2017	220,016	67,534	83,243	—	—	370,793
Principal	—	—	—	122,574	250,000	372,574
Repayment	(218,793)	(70,000)	(90,000)	—	—	(378,793)
Debt financing costs	—	—	—	(1,397)	(3,434)	(4,831)
Accretion*	7,846	2,466	6,757	8	18	17,095
Foreign exchange translation	(9,069)	—	—	1,718	—	(7,351)
Balance, 31 December 2017	—	—	—	122,903	246,584	369,487
Accretion*	—	—	—	42	97	139
Foreign exchange translation	—	—	—	(1,315)	—	(1,315)
Balance, 31 March 2018	**—**	**—**	**—**	**121,630**	**246,681**	**368,311**

Current portion	**—**	**—**	**—**	**—**	**—**	**—**
Non-current portion	**—**	**—**	**—**	**121,630**	**246,681**	**368,311**

**Effective interest rates are as follows: EUR Term Facility – 4.44%, GBP Term Facility – 6.01%.*

16. Financial instruments

The principal financial instruments used by the Group are summarised below:

Financial assets

	Financial assets as subsequently measured at amortised cost	
	31 March 2018 (£000's)	31 December 2017 (£000's)
Cash and restricted cash	**76,513**	59,241
Trade and other receivables	**17,950**	19,379
Other long-term receivables	**1,989**	2,104
Customer deposits	**7,908**	8,180
	104,360	88,904

Financial liabilities

	Financial liabilities as subsequently measured at amortised cost	
	31 March 2018 (£000's)	31 December 2017 (£000's)
Accounts payable and accrued liabilities	**17,209**	17,821
Other short-term payables	**10,585**	12,151
Other long-term payables	**6,593**	8,245
Interest payable	**898**	924
Payable to customers	**7,908**	8,180
Convertible debentures	**57**	254
Long-term debt	**368,311**	369,487
	411,561	417,062

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

Other financial instruments

	Financial instruments at fair value through profit or loss – assets/(liabilities)	
	31 March 2018 (£000's)	31 December 2017 (£000's)
Interest Rate Swap	**(415)**	—
Contingent consideration	**(72,056)**	(59,583)
Other long-term receivables	**3,464**	3,500
	(69,007)	(56,083)

Fair value hierarchy

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

	Level 2		Level 3	
	31 March 2018 (£000's)	31 December 2017 (£000's)	**31 March 2018 (£000's)**	31 December 2017 (£000's)
Interest Rate Swap	**(415)**	—	**—**	—
Other long-term receivables	**3,464**	3,500	**—**	—
Contingent consideration	**—**	—	**(72,056)**	(59,583)

Other long-term receivables represent the fair value of the loan receivable from Gaming Realms. The key inputs into the fair value estimation of this balance include the share price of Gaming Realms on the date of cash transfer, a five-year risk-free interest rate of 1.339%, and an estimated share price return volatility rate of Gaming Realms of 39.3%.

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

A discounted cash flow valuation model was used to determine the value of the contingent consideration. The model considers the present value of the expected payments, discounted using a risk-adjusted discount rate of 7%. The expected payments are determined by considering the possible scenarios of forecast EBITDA, the amount to be paid under each scenario and the probability of each scenario. As at 31 March 2018, the Botemania payment makes up 82% of the contingent consideration and the probability used for the Botemania payment was set at 100%.

Without probability and discount factors, the fair value of the contingent consideration would be approximately 3% higher (£2.5 million), than its value at 31 March 2018, increasing the current portion of the contingent consideration, which is composed of the Botemania earn-out payment and the first Jackpotjoy milestone payment, by £0.7 million and increasing the long-term contingent consideration, which is composed of the final Jackpotjoy milestone payments due in 2019 and 2020, by £1.8 million. This assumes that the financial performance of the Jackpotjoy operating segment remains in line with management's expectations.

As at 31 March 2018, the contingent consideration balance related to the earn-out payment remaining on the Spanish assets included in the Jackpotjoy segment and milestone payments related to the Jackpotjoy segment.

The movement in Level 3 financial instruments is detailed below:

	(£000's)
Contingent consideration, 1 January 2017	120,187
Fair value adjustments	27,562
Payments	(94,218)
Accretion of discount	6,052
Contingent consideration, 31 December 2017	59,583
Fair value adjustments	11,450
Accretion of discount	1,023
Contingent consideration, 31 March 2018	**72,056**
Current portion	**63,782**
Non-current portion	**8,274**

17. Other long-term payables

The Group is required to pay the Gamesys group £24.0 million in equal monthly instalments in arrears over the period from April 2017 to April 2020, for additional non-compete clauses that came into effect in April 2017 and that expire in March 2019. The Group has included £8.7 million of this payable in current liabilities, as shown in note 14 (31 December 2017 – £8.7 million), with the discounted value of the remaining balance, being £6.6 million (31 December 2017 – £8.2 million), included in other long-term payables. During the three months ended 31 March 2018, the Group has paid a total of £2.0 million (three months ended 31 March 2017 – £nil) in relation to the additional non-compete clauses.

18. Share capital

As at 31 March 2018, Jackpotjoy plc's issued share capital consisted of 74,258,930 ordinary shares, each with a nominal value of £0.10. Jackpotjoy plc does not hold any shares in treasury and there are no shares in Jackpotjoy plc's issued share capital that do not represent capital.

		Ordinary shares of £0.10
	(£000's)	**#**
Balance, 1 January 2017	7,298	72,983,277
Conversion of convertible debentures, net of costs	92	916,498
Exercise of options	17	165,156
Balance, 31 December 2017	7,407	74,064,931
Conversion of convertible debentures, net of costs	6	56,499
Exercise of options	14	137,500
Balance, 31 March 2018	**7,427**	**74,258,930**

Ordinary shares

During the three months ended 31 March 2018, Jackpotjoy plc did not issue any additional ordinary shares, except as described below.

Convertible debentures

During the three months ended 31 March 2018, debentures at undiscounted value of £0.2 million were converted into 56,499 ordinary shares of Jackpotjoy plc.

Share options

During the three months ended 31 March 2018, nil share options were granted, 137,500 share options were exercised, nil share options were forfeited, and nil share options expired.

During the three months ended 31 March 2018, the Group recorded £0.1 million (three months ended 31 March 2017 – £0.5 million) in share-based compensation expense relating to the share option plan with a corresponding increase in share-based payment reserve.

Long-term incentive plan

On 26 March 2018, Jackpotjoy plc granted a mirror award over ordinary shares of Jackpotjoy plc. The mirror award is on the same commercial terms as the Group's long-term incentive plan for key management personnel.

On 28 March 2018, Jackpotjoy plc granted additional awards over ordinary shares of Jackpotjoy plc under the Group's long-term incentive plan for key management personnel.

19. Contingent liabilities

Indirect taxation

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

Where it is considered probable that a previously identified contingent liability will give rise to an actual outflow of funds, then a provision is made in respect of the relevant jurisdiction and period impacted. Where the likelihood of a liability arising is considered remote, or the possible contingency is not material to the financial position of the Group, the contingency is not recognised as a liability at the balance sheet date. As at 31 March 2018, the Group had recognised £nil liability (31 December 2017 – £nil) related to potential contingent indirect taxation liabilities.