JPJ Group plc

Consolidated Financial Statements

[in pounds sterling, except where otherwise noted]

For the Year Ended 31 December 2018

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Independent Auditor's Report

To the Shareholders of JPJ Group Plc

Opinion

We have audited the consolidated financial statements of JPJ Group Plc and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, 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.

Other Information

Management is responsible for the other information. The other information comprises:

- The information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report; and
- The information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions; and

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis and Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 Canadian generally accepted auditing standards 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 consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kieran Storan.

BDO LLP
London
United Kingdom
19 March 2019

JPJ Group plc

Consolidated Statements of Comprehensive Income

For the year ended 31 December 2018

(GBP)

	Note	**Year ended 31 December 2018 (£000's)**	Year ended 31 December 2017 (£000's)
Gaming revenue	5	**319,588**	289,258
Costs and expenses			
Distribution costs	5, 6	**158,865**	140,736
Administrative costs	6	**109,444**	107,412
Severance costs	5	**850**	700
Transaction related costs	5	**1,888**	6,710
Foreign exchange loss	5	**354**	9,857
Total costs and expenses		**271,401**	265,415
Gain on sale of intangible assets		–	(1,271)
Fair value adjustments on contingent consideration	19	**7,208**	27,562
Realised loss on cross currency swap		**–**	12,512
Interest income	8	**(349)**	(182)
Interest expense	8	**19,821**	30,189
Accretion on financial liabilities	8	**2,993**	25,049
Financing expenses		**29,673**	95,130
Net income/(loss) for the year before taxes from continuing operations		**18,514**	(70,016)
Current tax provision	23	**853**	1,128
Deferred tax recovery	23	**(395)**	(427)
Net income/(loss) for the year after taxes from continuing operations		**18,056**	(70,717)
Net (loss)/income from discontinued operation	7	**(3,579)**	2,820
Net income/(loss) for the year attributable to owners of the parent		**14,477**	(67,897)
Other comprehensive income/(loss): Items that will or may be reclassified to profit or loss in subsequent periods			
Foreign currency translation gain		**394**	27,607
Unrealised loss on cross currency swap		–	(7,737)
Reclassification of loss on cross currency swap		–	7,737
Unrealised loss on interest rate swap	13	**(1,141)**	–
Total comprehensive income/(loss) for the year attributable to owners of the parent		**13,730**	(40,290)
Net income/(loss) for the year per share			
Basic	9	**£0.20**	£(0.92)
Diluted	9	**£0.19**	£(0.92)
Net income/(loss) for the year per share - continuing operations			
Basic		**£0.24**	£(0.96)
Diluted		**£0.24**	£(0.96)

See accompanying notes

JPJ Group plc

Consolidated Balance Sheets

31 December 2018

(GBP)

	Note	As at 31 December 2018 (£000's)	As at 31 December 2017 (£000's)
ASSETS			
Current assets			
Cash	10, 19	**84,383**	59,033
Restricted cash	10, 19	**6,161**	208
Customer deposits	19	**9,032**	8,180
Trade and other receivables	11, 19	**17,070**	19,379
Taxes receivable		**7,313**	6,432
Total current assets		**123,959**	93,232
Non-current assets			
Tangible assets		**2,232**	1,339
Intangible assets	14	**226,324**	292,223
Goodwill	14	**288,355**	296,781
Other long-term receivables	12, 19	**5,036**	5,604
Total non-current assets		**521,947**	595,947
Total assets		**645,906**	689,179
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	15, 19	**20,606**	17,821
Other short-term payables	13, 16, 19	**9,709**	12,151
Interest payable	19	**264**	924
Payable to customers	19	**9,032**	8,180
Convertible debentures	19, 21	–	254
Current portion of contingent consideration	19	**4,540**	51,866
Provision for taxes		**8,169**	7,273
Total current liabilities		**52,320**	98,469
Non-current liabilities			
Contingent consideration	19	–	7,717
Other long-term payables	13, 19, 20	**1,817**	8,245
Deferred tax liability		**1,196**	1,204
Long-term debt	18, 19	**371,450**	369,487
Total non-current liabilities		**374,463**	386,653
Total liabilities		**426,783**	485,122
Equity			
Retained earnings		**182,435**	167,799
Share capital	21	**7,434**	7,407
Share premium		**2,068**	1,342
Other reserves		**27,186**	27,509
Total equity		**219,123**	204,057
Total liabilities and equity		**645,906**	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

JPJ Group plc

Consolidated Statements of Changes in Equity
For the year ended 31 December 2018
(GBP)

	Note	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 year:										
Net loss for the year (continued and discontinued operations)		–	–	–	–	–	–	–	(67,897)	(67,897)
Loss on cross currency swap		–	–	–	–	–	–	(7,737)	–	(7,737)
Reclassification of loss on cross currency swap		–	–	–	–	–	–	7,737	–	7,737
Other comprehensive income		–	–	–	–	–	27,607	–	–	27,607
Total comprehensive income/(loss) for the year:		**–**	**–**	**–**	**–**	**–**	**27,607**	**–**	**(67,897)**	**(40,290)**
Contributions by and distributions to shareholders:										
Conversion of debentures	21	92	2,986	–	–	–	–	–	–	3,078
Exercise of options	21	17	405	–	–	(125)	–	–	125	422
Cancellation of redeemable shares		–	–	–	(50)	–	–	–	–	(50)
Cancellation of share premium	2	–	(405,932)	–	–	–	–	–	405,932	–
Share-based compensation	21	–	–	–	–	1,429	–	–	–	1,429
Total contributions by and distributions to shareholders:		**109**	**(402,541)**	**–**	**(50)**	**1,304**	**–**	**–**	**406,057**	**4,879**
Balance at 1 January 2018		**7,407**	**1,342**	**(6,111)**	**–**	**9,971**	**23,649**	**–**	**167,799**	**204,057**
Comprehensive income/(loss) for the year:										
Net income for the year (continued and discontinued operations)		–	–	–	–	–	–	–	14,477	14,477
Other comprehensive income/(loss)		–	–	–	–	–	394	(1,141)	–	(747)
Total comprehensive income/(loss) for the year:		**–**	**–**	**–**	**–**	**–**	**394**	**(1,141)**	**14,477**	**13,730**
Contributions by and distributions to shareholders:										
Conversion of debentures	21	6	186	–	–	–	–	–	–	192
Exercise of options	21	21	540	–	–	(159)	–	–	159	561
Share-based compensation	21	–	–	–	–	583	–	–	–	583
Total contributions by and distributions to shareholders:		**27**	**726**	**–**	**–**	**424**	**–**	**–**	**159**	**1,336**
Balance at 31 December 2018		**7,434**	**2,068**	**(6,111)**	**–**	**10,395**	**24,043**	**(1,141)**	**182,435**	**219,123**

See accompanying notes

JPJ Group plc

Consolidated Statements of Cash Flows

For the year ended 31 December 2018

(GBP)

	Note	**Year ended 31 December 2018 (£000's)**	Year ended 31 December 2017 (£000's)
Operating activities			
Net income/(loss) for the year		**14,477**	(67,897)
Add (deduct) items not involving cash			
Amortisation and depreciation		**61,994**	63,042
Share-based compensation expense	21	**583**	1,429
Current tax provision	23	**853**	1,128
Deferred tax recovery	23	**(395)**	(427)
Interest expense, net	8	**22,465**	55,056
Gain on sale of intangible assets		**–**	(1,271)
Fair value adjustments on contingent consideration	19	**7,208**	27,562
Realised loss on cross currency swap		**–**	12,512
Foreign exchange loss		**317**	10,051
Loss on sale of discontinued operation, net of tax	7	**4,477**	–
		111,979	101,185
Restriction of cash balances		**(5,900)**	(72)
Trade and other receivables		**950**	(3,009)
Other long-term receivables		**(74)**	640
Accounts payable and accrued liabilities		**2,705**	6,363
Other short-term payables		**(2,871)**	(3,170)
Cash generated from operations		**106,789**	101,937
Income taxes paid		**(3,325)**	(6,899)
Income taxes received		**2,484**	5,860
Total cash provided by operating activities		**105,948**	100,898
Financing activities			
Proceeds from exercise of options		**561**	422
Proceeds from cross currency swap settlement		**–**	26,094
Proceeds from long-term debt	18	**–**	367,743
Debenture settlement	21	**(62)**	–
Proceeds from long-term loan receivable		**645**	–
Repayment of non-compete liability	20	**(8,000)**	(5,333)
Interest repayment		**(21,007)**	(30,874)
Payment of contingent consideration	19	**(63,455)**	(94,218)
Principal payments made on long-term debt	18	**–**	(373,962)
Total cash used in financing activities		**(91,318)**	(110,128)
Investing activities			
Purchase of tangible assets		**(1,450)**	(981)
Purchase of intangible assets		**(5,250)**	(3,212)
Proceeds from sale of intangible assets		**1,450**	1,002
Secured convertible loan	12	**–**	(3,500)
Disposal of discontinued operation	7	**16,140**	–
Total cash provided by/(used in) investing activities		**10,890**	(6,691)
Net increase/(decrease) in cash during the year		**25,520**	(15,921)
Cash, beginning of year		**59,033**	68,485
Exchange (loss)/gain on cash and cash equivalents		**(170)**	6,469
Cash, end of year		**84,383**	59,033

See accompanying notes

1. Corporate information

JPJ Group plc, formerly Jackpotjoy plc, is an online gaming holding company that was incorporated under the *Companies Act 2006* (England and Wales) on 29 July 2016. On 27 June 2018, Jackpotjoy plc changed its name to JPJ Group plc. JPJ Group 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 JPJ Group plc and its subsidiaries, as applicable, and use of 'Parent Company' refers to JPJ Group plc.

The Group currently offers bingo, casino and other games to its customers using the Jackpotjoy, Starspins, Botemania, Vera&John, Costa Bingo, InterCasino, Solid Gaming 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, InterCasino and Solid Gaming 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 Consolidated Financial Statements were authorised for issue by the Board of Directors of JPJ Group plc (the 'Board of Directors') on 19 March 2019.

2. Basis of preparation

Basis of presentation

These Consolidated Financial Statements have been prepared by management on a going concern basis, are presented in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'). The impact of the first time adoption of IFRS 9 – *Financial Instruments* and IFRS 15 – *Revenue from Contracts with Customers* is explained in note 3.

These 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 13), contingent consideration, certain hedged loan instruments, and certain loans receivable.

On 1 February 2017, having been approved in the High Court, the Group's share premium was cancelled. Accordingly, the balance has been reallocated within equity reserves to the Group's retained earnings account by way of a restatement of the comparatives, which did not originally include this transaction. This is now shown in the Consolidated Statements of Changes in Equity as an adjustment to the balances on the Group's equity reserves in the year ended 31 December 2017. While there is no impact on the income statement, on earnings per share or on total equity, share premium has been reduced and retained earnings increased by £405.9 million.

The financial information for the period ended 31 December 2018 and the period ended 31 December 2017 does not constitute the company's UK statutory accounts for those years.

Statutory accounts for the period ended 31 December 2017 have been delivered to the UK Registrar of Companies. The statutory accounts for the period ended 31 December 2018 will be delivered to the Registrar of Companies in due course.

The auditors' reports to the accounts for the year ended 31 December 2018 and year ended 31 December 2017 were unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under s498(2) or s498(3) of the *Companies Act 2006.*

Basis of consolidation

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

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

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

The subsidiaries of JPJ Group plc, all of which have been included in these Consolidated Financial Statements, are wholly owned by the Group and constitute investment in subsidiaries on the Parent Company's Balance Sheets, are as follows:

Name of business	Country of incorporation and principal place of business
Intertain CallCo ULC	Canada
The Intertain Group Ltd.	Canada
Plain Management Bahamas Ltd.	Bahamas
Libita Group Ltd.	Bahamas
Ludus Group Ltd.	Bahamas
Jackpotjoy Operations Ltd.	Bahamas
Wagerlogic Bahamas Ltd.	Bahamas
Mandalay Media Ltd.	Bahamas
Jet Management Group Ltd.	Bahamas
JPJ Maple Ltd.	Bahamas
Golden Hero Group Ltd.	Bahamas
JPJ (Sweden) Ltd.	Bahamas
Stockwell Ltd.	Bahamas
JPJ Group Jersey Finance Ltd.	Jersey
JPJ Holding II Ltd.	Jersey
JPJ Group Holdings Ltd.	Jersey
JPJ Holding Jersey Ltd.	Jersey
JPJ Jersey Ltd.	Jersey
Dumarca Holdings Ltd.	Malta
Dumarca Services Ltd.	Malta
Dumarca Gaming Ltd.	Malta
Wagerlogic Malta Holding Ltd.	Malta
Cryptologic Operations Ltd.	Malta
Cryptologic Trading Ltd.	Malta
JPJ Maple II Ltd.	Malta
JPJ Spain PLC	Malta
Simplicity Malta Ltd.	Malta
Wagerlogic Alderney Ltd.	Alderney
Wagerlogic Israel Ltd.	Israel
Jet Media Ltd.	Gibraltar

Fifty States (Gibraltar) Ltd.	Gibraltar
Solid Innovations Ltd.	Gibraltar
Intertain Management (UK) Ltd.	United Kingdom
JPJ Marketing Support Services Ltd.	United Kingdom
Plain Support SA	Costa Rica
Dumarca Asia Ltd.	Hong Kong
Simplicity V8 Hong Kong Ltd.	Hong Kong
Intertainment Asia Inc.	British Virgin Islands
Entserv Asia Ltd.	British Virgin Islands
Silverspin AB	Sweden
Intertain Financial Services AB	Sweden
Fifty States Ltd.	Isle of Man
Solid (IOM) Ltd.	Isle of Man
The Intertain Group Finance LLC	United States of America
Luxembourg Investment Company 192 S.a.r.l.	Luxembourg

3. Summary of significant accounting policies

Business combinations and goodwill

The acquisition method of accounting is used to account for the acquisition of subsidiaries by JPJ Group plc, whereby the purchase consideration is allocated to the identifiable assets and liabilities on the basis of fair value at the date of acquisition. Provisional fair values allocated at a reporting date are finalised as soon as the relevant information is available, within a period not to exceed a year from the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred, and equity interests issued by JPJ Group plc. Consideration also includes the fair value of any contingent consideration. Subsequent to the acquisition, contingent consideration that is based on an earnings target and classified as a liability is measured at fair value with any resulting gain or loss recognised in net income. Transaction related costs are expensed as incurred.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to JPJ Group plc's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The Chief Operating Decision Makers, who are responsible for allocating resources and assessing the performance of the operating segments, have been identified as the management team comprising of Executive Chairman and the Chief Financial Officer.

Revenue recognition

Effective from 1 January 2018, the Group adopted IFRS 15 – *Revenue from Contracts with Customers* ('IFRS 15'), which replaces IAS 18 – *Revenue.* While the standard is adopted on the full retrospective basis, applying this standard did not impact the Group's financial information as the revenue recognition policy applied by the Group prior to 1 January 2018 was already in compliance with the key principles outlined in IFRS 15. As a result, there was no change in how the Group identifies timing of revenue recognition or determines its transaction price and performance obligations.

The Group earns its revenue from operating online bingo and casino websites ('Net Gaming Revenue'). Other revenue streams, which the Group does not consider material, comprise of licencing of its proprietary platform to a third party ('B2B revenue'), affiliate aggregation services ('Affiliate Revenue'), and game aggregation services ('Game Aggregation Revenue'). Up to 31 August 2018, the Group also earned revenue from social gaming.

Net Gaming Revenue

Revenue from online bingo and casino consists of the difference between total amounts wagered by players less all winnings payable to players, bonuses allocated and jackpot contributions. Players transact with the Group's businesses under agreed terms, which forms the basis for the contractual arrangement. The Group does not consider that there are any significant judgements required in applying IFRS 15 to these arrangements.

Net Gaming Revenue is recognised upon satisfaction of the Group's performance obligation to the customer, which is the point in time when the customer completes one of the games offered by the Group and the outcome of the game is honoured with the appropriate payout being made.

There is no significant degree of uncertainty involved in quantifying the amount of Net Gaming Revenue earned, including bonuses, jackpot contributions, and loyalty points. Bonuses, jackpot contributions and loyalty points are measured at face value when credited to the player's account.

As discussed in note 7, the social gaming part of the business was sold on 31 August 2018, at which point social gaming ceased to be a revenue stream for the Group. Prior to this sale, social gaming revenue was recognised once the customer made a deposit, at which point the Group's obligation was fulfilled as such deposits were non-refundable.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market accessible by the Group for the asset or liability.

JPJ Group plc uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the Consolidated Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

Foreign currency translation

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective entity of JPJ Group plc, using the exchange rates prevailing at the dates of the transactions (spot rates). Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates as at the reporting date. Foreign exchange gains and losses resulting from the settlement or translation of monetary items are recognised in profit and loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

Financial instruments

Effective from 1 January 2018, the Group adopted IFRS 9 – *Financial Instruments* ('IFRS 9'). The adoption of the new standard solely impacts the provision for expected credit losses, which are quantified and disclosed in note 11. Treatment of the Group's remaining financial instruments was already in compliance with the key principles of IFRS 9.

Financial assets and financial liabilities are recognised when JPJ Group plc becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognised when extinguished, discharged, cancelled, or when they expire.

The Group classifies its financial assets and liabilities under the following categories: fair value through profit or loss ('FVPL'), fair value through other comprehensive income ('FVOCI'), financial assets at amortised cost, and financial liabilities at amortised cost. All financial instruments are recognised initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of a financial instrument classified as other than at FVPL are added to the carrying amount of the asset or liability.

The accretion of these costs is recognised over the life of the instrument in accretion on financial liabilities under the effective interest rate method described below.

Fair value through profit or loss

Financial instruments classified as FVPL include contingent consideration and an interest rate swap. Any gains or losses are recorded in net income in the period in which they arise.

Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. After initial measurement, such instruments are subsequently measured at amortised cost using the effective interest rate ('EIR') method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income or expense in the Consolidated Statements of Comprehensive Income. This category generally applies to cash, restricted cash, customer deposits, trade and other receivables, and other long-term receivables.

The Group has adopted the simplified Expected Credit Loss model ('ECL') ('ECL Model') for JPJ Group plc's trade receivables in accordance with IFRS 9. Other receivables have been evaluated under the standard ECL Model. Under the ECL Model, JPJ Group's trade receivables are classified in stage 1 – financially healthy assets that are expected to perform in line with their contractual terms and which show no signs of increased credit risk.

In order to determine the amount of ECL to be recognised in the Consolidated Financial Statements, JPJ Group plc has set up a provision matrix based on its historical credit loss experience. The matrix is adjusted for forward looking estimates and establishes that ECL should be calculated as follows:

- 0-30 days past due: 1% of carrying value
- 31-60 days past due: 15% of carrying value
- 61-90 days past due: 19% of carrying value
- More than 90 days past due: 25% of carrying value

Financial liabilities at amortised cost

With the exception of contingent consideration and derivatives, all financial liabilities are measured at amortised cost using the effective interest rate method. This category generally applies to interest payable, accounts payable and accrued liabilities, other short-term payables, payable to customers, long-term debt, and other long-term payables. All interest-related charges are reported in profit or loss within interest expense.

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Financial assets are assessed for impairment using the ECL approach discussed above.

Factors considered:

- likelihood of breach based on analysis of historical settlement patterns; and
- regulatory environments in the issuers' or counterparties' respective jurisdictions.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of receivables is presented in the Consolidated Statements of Comprehensive Income within administrative costs, if applicable.

Compound financial instruments

The Group's compound financial instruments comprise of a convertible loan receivable that can be converted to equity of the loan party after 12 months following the date of the loan agreement.

The convertible loan receivable is shown as a single asset and is measured at fair value through profit or loss. Fair value is established using a risk neutral simulation model.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Balance Sheets if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

From time to time JPJ Group plc uses derivative instruments for risk management purposes. JPJ Group plc does not use derivative instruments for speculative trading purposes. All derivatives are recorded at fair value on the Consolidated Balance Sheets. The method of recognising unrealised and realised fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives not designated as hedging instruments, unrealised gains and losses are recorded in interest income/expense on the Consolidated Statements of Comprehensive Income. For derivatives designated as hedging instruments, unrealised and realised gains and losses are recognised according to the nature of the hedged item and where the hedged item is a non-financial asset, amounts recognised in the hedging reserve are reclassified and the non-financial asset is adjusted accordingly.

In relation to the Gaming Realms Transaction (as defined in note 12), 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. Also in relation to this transaction, the adoption of IFRS 9 resulted in balances shown as other long-term receivables and other long-term assets at 31 December 2017 being combined into a single figure and shown as other long-term receivables at 31 December 2018.

Hedge accounting

The Group uses derivative financial instruments, such as interest rate swaps to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value at each reporting period end. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in the Statements of Other Comprehensive Income and later reclassified to profit or loss when the hedge item affects profit or loss.

The Group elected to use hedge accounting for the purposes of recognising realised and unrealised gains and losses associated with the Interest Rate Swap.

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.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a risk associated with a recognised asset or liability or a highly probable forecast transaction; and
- hedges of a net investment in a foreign operation.

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the Consolidated Statements of Comprehensive Income as a financing expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the Consolidated Statements of Comprehensive Income as a financing expense. For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

At 31 December 2018, the Group had no hedges designated as fair value hedges.

Cash flow hedges

The Group uses interest rate contracts as hedges of its exposure to interest rate risk in forecast transactions and firm commitments. The effective portion of the gain or loss on the hedging instrument is recognised in the Statements of Other Comprehensive Income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss. The ineffective portion relating to interest rate contracts is recognised in financing expenses. Amounts recognised in the Statements of Other Comprehensive Income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

If the hedging instrument or hedged item expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in the Statements of Other Comprehensive Income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

Effective from 16 February 2018, the Group designated its Interest Rate Swap (as defined in note 13) as a cash flow hedge.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in the Statements of Other Comprehensive Income, while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

Effective from 14 December 2017, the Group elected to use its EUR Term Facility as a hedge of its exposure to foreign exchange risk on its investments in EUR foreign subsidiaries. Gains or losses on the retranslation of this borrowing are transferred to the Statements of Other Comprehensive Income to offset any gains or losses on translation of the net investments in the subsidiaries.

At 31 December 2018, no material ineffectiveness arising on net investment hedge was included in the Consolidated Statements of Comprehensive Income.

Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognised in the Consolidated Statements of Comprehensive Income. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities are recognised for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred taxes are not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realised or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the Consolidated Statements of Comprehensive Income in the period that substantive enactment occurs.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. To the extent that the Group does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks, as well as balances with payment processors which are subject to an insignificant risk of change in value.

Cash and cash equivalents exclude restricted cash. Restricted cash is made up of cash held on deposit for the purpose of applying for a business licence, as well as reserves held with payment service providers.

The effect on the Consolidated Statements of Cash Flows of restrictions either taking effect on, or being lifted from, cash balances are reported with regard to the linkage principle, under which changes in cash are classified based on the purpose for which the restricted cash is used. Under this principle, changes (such as cash, which is restricted for the purposes of applying for a business licence and payment service provider reserves) are treated as an operating cash outflow.

Tangible assets

Tangible assets are recorded at cost less accumulated depreciation. These assets are depreciated over their estimated useful lives as follows:

Computer hardware	33% per annum
Office furniture	20% per annum
Leasehold improvements	Over the term of the lease

Depreciation is recorded under administrative costs in the Consolidated Statements of Comprehensive Income.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Amortisation expense is reflected in the Consolidated Statements of Comprehensive Income. Amortisation for the material categories of finite life intangible assets is recorded under administrative costs and is calculated at the following rates:

Brand	5% per annum
Gaming licences	5% per annum
Software	20% - 33% per annum
Customer relationships and partnership agreements	8% - 25% per annum (variable, according to the expected pattern of consumption)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit ('CGU') level. If any indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows independently of other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell (measured according to level 3 in the fair value hierarchy) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

In instances when a part of a particular CGU is disposed of, the value of goodwill associated with the disposal is measured on the basis of the relative value of the operation disposed of as a portion of the unit retained. The relative value is derived by analysing various metrics available for the asset being disposed of and concluding on the metric that is most appropriate for each individual disposal.

Share-based compensation and long-term incentive plan

Compensation expense for equity-settled stock options awarded under the share option plan is measured at the fair value at the grant date using the Black-Scholes valuation model and is recognised using the graded vesting method over the vesting period of the options granted. Compensation expense for equity-settled stock options awarded under the LTIP and LTIP2 (as defined in note 21) is measured at the fair value at the grant date using the Black-Scholes valuation model for the EPS and EPS CAGR Tranches (as defined in note 21) and the Monte Carlo model for the TSR Tranches (as defined in note 21).

Compensation expense recognised is adjusted to reflect the number of options that has been estimated by management for which conditions attached to service will be fulfilled as of the grant date until the vesting date so that the ultimately recognised expense corresponds to the options that have actually vested. The compensation expense credit is attributed to contributed surplus when the expense is recognised in the Consolidated Statements of Comprehensive Income.

Earnings per share

Basic earnings per share are calculated by dividing the net income or loss for the period attributed to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated using the same method as for basic earnings per share and adjusting the weighted average of common shares outstanding during the period to reflect the dilutive impact, if any, of options and warrants assuming they were exercised for that number of common shares calculated by applying the treasury stock method. The treasury stock method assumes that all proceeds received by JPJ Group plc when options and warrants are exercised will be used to purchase common shares at the average market price during the reporting period. Convertible debt is considered in the calculation of diluted earnings per share to the extent that it is dilutive.

Provisions

Provisions are recognised when the Group has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins the same month the asset is recognised and is amortised over the period of expected future economic benefit to the Group. During the period of development, the asset is tested for impairment annually.

Leases

JPJ Group plc has classified its rental leases as operating leases. Operating lease payments are recognised on a straight-line basis over the lease term. Operating lease payments are recorded under administrative costs in the Consolidated Statements of Comprehensive Income unless they are attributable to qualifying assets, in which case they are capitalised.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

IFRS 16 – *Leases* ('IFRS 16') has not been applied to these Consolidated Financial Statements. IFRS 16 will be applicable for annual reporting periods commencing 1 January 2019. The Group will be applying IFRS 16 using the modified retrospective approach and, therefore, the comparative information will not be restated and will continue to be reported under IAS 17 – *Leases* and related interpretations. Impact of IFRS 16 is further discussed in note 29 of these Consolidated Financial Statements.

4. Summary of significant accounting estimates and assumptions

The preparation of JPJ Group plc's Consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The effect of a change in an accounting estimate is recognised prospectively by including it in the Consolidated Statements of Comprehensive Income in the period of the change, if the change affects that period only; or in the period of the change and future periods if the change affects both.

The estimates and judgements that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Business combinations and contingent consideration

Business combinations require management to exercise judgement in measuring the fair value of the assets acquired, equity instruments issued, and liabilities, and contingent consideration incurred or assumed. In particular, a high degree of judgement is applied in determining the fair value of the separable intangible assets acquired, their useful economic lives and which assets and liabilities are included in a business combination.

In certain acquisitions, the Group may include contingent consideration which is subject to the acquired company achieving certain performance targets. At each reporting period, JPJ Group plc estimates the future earnings of acquired companies, which are subject to contingent consideration in order to assess the probability that the acquired company will achieve their performance targets and thus earn their contingent consideration. Any changes in the fair value of the contingent consideration between reporting periods are included in the determination of net income. Changes in fair value arise as a result of changes in the estimated probability of the acquired business achieving its earnings targets and the consequential impact of amounts payable under these arrangements.

Goodwill and intangible assets

Goodwill and intangible assets are reviewed for impairment annually, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. Management uses judgement in estimating the recoverable values of the Group's CGUs and uses internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. The use of different assumptions and estimates could influence the determination of the existence of impairment and the valuation of goodwill.

Taxes

Group companies may be subject to indirect taxation on transactions, which have been treated as exempt supplies of gambling, or on supplies which have been zero rated where legislation provides that the services are received or used and enjoyed in the country where the service provider is located. Revenue earned from customers located in any particular jurisdiction may give rise to further taxes in that jurisdiction. If such taxes are levied, either on the basis of current law or the current practice of any tax authority, or by reason of a change in the law or practice, then this may have a material adverse effect on the amount of tax payable by the Group, its financial position or its reported results. Where it is considered probable that a previously identified contingent liability will give rise to an actual outflow of funds, then a provision is made in respect of the relevant jurisdiction and period impacted. Where the likelihood of a liability arising is considered remote, or the possible contingency is not material to the financial position of the Group, the contingency is not recognised as a liability at the balance sheet date.

5. Segment information

Segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision Makers (as defined in note 3).

The Vera&John segment consists of the online casino operating results of various brands, including Vera&John, InterCasino and Solid Gaming. The Jackpotjoy segment consists of the real money operating results of the Jackpotjoy, Starspins, Botemania brands and various online bingo websites operated off the Dragonfish platform and the operating results of affiliate portal websites.

In March 2018, the Group determined that its reportable operating segments had changed such that the Mandalay segment was aggregated with the Jackpotjoy segment with effect from 1 January 2018, as Mandalay no longer met the criteria for a reportable operating segment, set out in IFRS 8 – *Operating Segments.* Mandalay was therefore aggregated with the Jackpotjoy segment, consistent with the Group's other third-party platform hosted operations. Additionally, as discussed in note 7, the Group sold its social gaming business in the current year. All current year and 2017 comparative segment figures have been restated accordingly. The social gaming business was previously reported as a part of the Jackpotjoy segment.

The following tables present selected financial results for each segment and the Unallocated Corporate Costs:

Year ended 31 December 2018:

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Gaming revenue	**216,015**	**103,573**	**—**	**319,588**
Distribution costs	105,616	53,186	63	158,865
Amortisation and depreciation	50,318	10,131	390	60,839
Compensation, professional, and general and administrative expenses	17,424	19,549	11,632	48,605
Severance costs	—	850	—	850
Transaction related costs	—	139	1,749	1,888
Foreign exchange loss/(gain)	238	200	(84)	354
Financing, net	5	(120)	29,788	29,673
Net income/(loss) for the year before taxes from continuing operations	**42,414**	**19,638**	**(43,538)**	**18,514**
Taxes	—	122	336	458
Net income/(loss) for the year after taxes from continuing operations	**42,414**	**19,516**	**(43,874)**	**18,056**
Net income/(loss) for the year after taxes from continuing operations	**42,414**	**19,516**	**(43,874)**	**18,056**
Interest expense/(income), net	5	(120)	19,587	19,472
Accretion on financial liabilities	—	—	2,993	2,993
Taxes	—	122	336	458
Amortisation and depreciation	50,318	10,131	390	60,839
EBITDA	**92,737**	**29,649**	**(20,568)**	**101,818**
Share-based compensation	—	—	583	583
Severance costs	—	850	—	850
Fair value adjustments on contingent consideration	—	—	7,208	7,208
Transaction related costs	—	139	1,749	1,888
Foreign exchange loss/(gain)	238	200	(84)	354
Adjusted EBITDA	**92,975**	**30,838**	**(11,112)**	**112,701**
Net income/(loss) for the year after taxes from continuing operations	**42,414**	**19,516**	**(43,874)**	**18,056**
Share-based compensation	—	—	583	583
Severance costs	—	850	—	850
Fair value adjustments on contingent consideration	—	—	7,208	7,208
Transaction related costs	—	139	1,749	1,888
Foreign exchange loss/(gain)	238	200	(84)	354
Amortisation of acquisition related purchase price intangibles	50,251	7,945	—	58,196
Accretion on financial liabilities	—	—	2,993	2,993
Adjusted net income/(loss)	**92,903**	**28,650**	**(31,425)**	**90,128**

Year ended 31 December 2017:

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Gaming revenue	**216,091**	**73,167**	**—**	**289,258**
Distribution costs	104,008	36,582	146	140,736
Amortisation and depreciation	50,546	9,956	380	60,882
Compensation, professional, and general and administrative expenses	15,028	18,558	12,944	46,530
Severance costs	—	—	700	700
Transaction related costs	—	—	6,710	6,710
Foreign exchange (gain)/loss	(95)	599	9,353	9,857
Gain on sale of intangible assets	(269)	(1,002)	—	(1,271)
Financing, net	4	(166)	95,292	95,130
Net income/(loss) for the year before taxes from continuing operations	**46,869**	**8,640**	**(125,525)**	**(70,016)**
Taxes	—	701	—	701
Net income/(loss) for the year after taxes from continuing operations	**46,869**	**7,939**	**(125,525)**	**(70,717)**
Net income/(loss) for the year after taxes from continuing operations	**46,869**	**7,939**	**(125,525)**	**(70,717)**
Interest expense/(income), net	4	(166)	30,169	30,007
Accretion on financial liabilities	—	—	25,049	25,049
Taxes	—	701	—	701
Amortisation and depreciation	50,546	9,956	380	60,882
EBITDA	**97,419**	**18,430**	**(69,927)**	**45,922**
Share-based compensation	—	—	1,429	1,429
Severance costs	—	—	700	700
Fair value adjustments on contingent consideration	—	—	27,562	27,562
Realised loss on cross currency swap	—	—	12,512	12,512
Transaction related costs	—	—	6,710	6,710
Gain on sale of intangible assets	(269)	(1,002)	—	(1,271)
Foreign exchange (gain)/loss	(95)	599	9,353	9,857
Adjusted EBITDA	**97,055**	**18,027**	**(11,661)**	**103,421**
Net income/(loss) for the year after taxes from continuing operations	**46,869**	**7,939**	**(125,525)**	**(70,717)**
Share-based compensation	—	—	1,429	1,429
Severance costs	—	—	700	700
Fair value adjustments on contingent consideration	—	—	27,562	27,562
Realised loss on cross currency swap	—	—	12,512	12,512
Transaction related costs	—	—	6,710	6,710
Gain on sale of intangible assets	(269)	(1,002)	—	(1,271)
Foreign exchange (gain)/loss	(95)	599	9,353	9,857
Amortisation of acquisition related purchase price intangibles	50,499	8,568	—	59,067
Accretion on financial liabilities	—	—	25,049	25,049
Adjusted net income/(loss)	**97,004**	**16,104**	**(42,210)**	**70,898**

The following table presents net assets per segment and Unallocated Corporate Costs as at 31 December 2018:

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Current assets	18,055	54,394	51,510	123,959
Goodwill	231,322	57,033	—	288,355
Other non-current assets	200,642	28,152	4,798	233,592
Total assets	**450,019**	**139,579**	**56,308**	**645,906**
Current liabilities	19,758	25,788	6,774	52,320
Non-current liabilities	—	1,196	373,267	374,463
Total liabilities	**19,758**	**26,984**	**380,041**	**426,783**
Net assets	**430,261**	**112,595**	**(323,733)**	**219,123**

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
Other non-current assets	262,471	31,878	4,817	299,166
Total assets	**524,391**	**129,669**	**35,119**	**689,179**
Current liabilities	27,870	19,877	50,722	98,469
Non-current liabilities	—	1,204	385,449	386,653
Total liabilities	**27,870**	**21,081**	**436,171**	**485,122**
Net assets	**496,521**	**108,588**	**(401,052)**	**204,057**

During the years ended 31 December 2018 and 2017, revenue was earned from customers located in the following locations: United Kingdom – 57% (2017 – 64%), Sweden – 8% (2017 – 10%), Spain – 10% (2017 – 8%), Japan – 13% (2017 – 8%), rest of Europe – 8% (2017 – 6%), rest of world – 4% (2017 – 4%).

During the year ended 31 December 2018 and 2017, the Group's B2B Revenue, Affiliate Revenue and Game Aggregation Revenue comprised 3% (2017 – 3%) of total Group revenues, with the remaining portion being revenues earned from Net Gaming Revenue operations as described in note 1.

Non-current assets by geographical location as at 31 December 2018 were as follows: Europe £85.2 million (31 December 2017 – £87.7 million) and Americas £436.8 million (31 December 2017 – £508.2 million).

6. Costs and expenses

As discussed in note 7, the Group sold its social gaming business in the current year. As a result, all current and 2017 comparative figures have been restated accordingly.

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Distribution costs:		
Selling and marketing	**55,535**	48,482
Licensing fees	**44,311**	41,598
Gaming taxes	**40,390**	37,851
Processing fees	**18,629**	12,805
	158,865	140,736
Administrative costs:		
Compensation and benefits	**33,484**	31,943
Professional fees	**4,369**	3,729
General and administrative	**10,752**	10,858
Tangible asset depreciation	**598**	424
Intangible asset amortisation	**60,241**	60,458
	109,444	107,412

7. Discontinued operations

On 31 August 2018, the Group completed the sale of its social gaming business for cash consideration of £18.0 million, excluding working capital adjustments and costs of disposal paid by the Group. The social gaming business was not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated statement of comprehensive income is presented below to show the discontinued operation separately from continuing operations. The results of the social gaming business have been excluded from notes 5 and 6 above.

Results of discontinued operation

	Eight month period to disposal on 31 August 2018 (£000's)	Year ended 31 December 2017 (£000's)
Social gaming revenue	**7,495**	15,388
Expenses	**6,597**	12,568
Results from operating activities	**898**	2,820
Income tax	**—**	—
Income for the year	**898**	2,820
Loss on disposal of discontinued operation	**(4,477)**	—
Income tax on loss on sale of discontinued operation	**—**	—
(Loss)/income from discontinued operation, net of tax	**(3,579)**	2,820
Basic (loss)/income per share	**£(0.05)**	£0.04
Diluted (loss)/income per share	**£(0.05)**	£0.04

Cash flows from discontinued operation

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Net cash provided by operating activities	**2,016**	5,174
Net cash provided by investing activities	**16,140**	—
Net cash from financing activities	**—**	—
Net cash flows for the year	**18,156**	5,174

Effect of disposal on the financial position of the Group

	31 December 2018 (£000's)
Trade and other receivables	184
Non-current assets	10,365
Goodwill	9,638
Net assets	**20,187**
Working capital adjustment payable*	(1,203)
Costs of disposal	(1,118)
Consideration received, satisfied in cash	18,031
Loss on disposal of discontinued operation	**(4,477)**

**As at 31 December 2018 £0.4 million remains payable as shown in note 16.*

Goodwill disposed of was allocated to the social gaming business on the basis of its earnings before interest, taxes, depreciation and amortisation, relative to that of the overall segment.

8. Interest income/expense

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Interest earned on cash held during the year	**136**	182
Interest earned on long-term loan receivable	**213**	—
Total interest income	**349**	182
Interest paid and accrued on long-term debt	**19,815**	30,144
Interest paid and accrued on convertible debentures	**6**	45
Total interest expense	**19,821**	30,189
Accretion of discount recognised on contingent consideration	**1,204**	6,052
Interest accretion recognised on convertible debentures	**8**	42
Debt issue costs and accretion recognised on long-term debt*	**576**	17,095
Interest accretion recognised on other long-term liabilities	**1,205**	1,860
Total accretion on financial liabilities	**2,993**	25,049

**2017 figure includes accelerated accretion of costs of £14.1 million as a result of debt refinancing that took place in December 2017.*

9. Earnings per share

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

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Numerator:		
Net income/(loss) – basic	**14,477**	(67,897)
Net income/(loss) – diluted[1]	**14,477**	(67,897)
Denominator:		
Weighted average number of shares outstanding – basic	**74,241**	73,865
Weighted average effect of dilutive share options	**563**	—
Weighted average effect of convertible debentures[2]	**29**	—
Weighted average number of shares outstanding – diluted[1]	**74,833**	73,865
Instruments, which are anti-dilutive:		
Weighted average effect of dilutive share options	—	453
Weighted average effect of convertible debentures[2]	—	238
Net income/(loss) per share[3,4]		
Basic	**£0.20**	£(0.92)
Diluted[1]	**£0.19**	£(0.92)

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 year ended 31 December 2017.*

3 *Basic income/(loss) per share is calculated by dividing the net income/(loss) attributable to owners of the parent by the weighted average number of shares outstanding during the year.*

4 *Diluted income per share is calculated by dividing the net income attributable to owners of the parent by the weighted average number of shares outstanding during the year and adjusted for the number of potentially dilutive share options and contingently issuable instruments.*

10. Cash and restricted cash

	31 December 2018 (£000's)	31 December 2017 (£000's)
Cash	**84,383**	59,033
Restricted cash	**6,161**	208
Total cash balances	**90,544**	59,241

11. Trade and other receivables

Trade and other receivables consist of the following items:

	31 December 2018 (£000's)	31 December 2017 (£000's)
Due from the Gamesys group	**8,764**	8,634
Due from the 888 group	**1,665**	3,101
B2B and affiliate revenue receivable	**2,722**	2,481
Receivable for intangible assets sold	**—**	1,450
Prepaid expenses	**2,925**	2,375
Other	**1,994**	1,338
Less: ECL provision for trade and other receivables	**(1,000)**	—
	17,070	19,379

The following table summarises the Group's ECL on its trade receivables and loan receivables:

	0-30 days (£000's)	31-60 days (£000's)	61-90 days (£000's)	90 days + (£000's)	**Total (£000's)**
Trade and other receivables	—	91	131	417	**639**
Other long-term receivables	—	—	—	361	**361**
	—	91	131	778	**1,000**

12. 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 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 will cease.

In connection with this transaction, the Group recognised a long-term receivable of £3.6 million (2017 – £3.5 million) for the secured convertible loan, in accordance with IFRS 9, based on the calculation of fair value at 31 December 2018, as explained in note 19.

13. Interest rate swap

On 16 February 2018, JPJ Group 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, JPJ Group plc will pay a fixed 6.439% rate of 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 – the ‘Notional Amount’) 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 December 2018, the fair value of the Interest Rate Swap was a £0.5 million payable. The Group has included £0.1 million of this payable in current liabilities, as shown in note 16, with the value of the remaining balance, being £0.4 million, included in other long-term payables.

14. Intangible assets and goodwill

As at 31 December 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	—	—	5,318	—	—	—	—	**5,318**
Disposals (note 7)	—	(18,000)	—	—	—	—	(9,638)	**(27,638)**
Translation	(2)	405	426	307	—	—	2,373	**3,509**
Balance, 31 December 2018	**91**	**320,060**	**30,955**	**70,326**	**12,900**	**20,434**	**309,121**	**763,887**
Accumulated amortisation/impairment								
Balance, 1 January 2018	81	139,333	12,551	10,005	4,458	7,661	19,605	**193,694**
Amortisation	44	40,496	5,518	3,502	1,622	10,214	—	**61,396**
Disposals (note 7)	—	(7,635)	—	—	—	—	—	**(7,635)**
Translation	(69)	380	211	70	—	—	1,161	**1,753**
Balance, 31 December 2018	**56**	**172,574**	**18,280**	**13,577**	**6,080**	**17,875**	**20,766**	**249,208**
Carrying value								
Balance, 31 December 2018	**35**	**147,486**	**12,675**	**56,749**	**6,820**	**2,559**	**288,355**	**514,679**

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**

**On 6 December 2017, the Group entered into an agreement to sell certain affiliate contracts for £1.5 million.*

Goodwill impairment testing

For the purpose of the annual impairment test, goodwill has been allocated to each operating segment of the business, which also represent the Group CGUs.

The recoverable amount of the Vera&John CGU has been determined based on a fair value less selling costs calculation using cash flow projections from financial forecasts approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 18% (2017 – 22%) and cash flows beyond the five-year period are extrapolated using a 2.5% (2017 – 2.5%) growth rate.

The recoverable amount of the Jackpotjoy CGU has been determined based on a fair value less selling costs calculation using cash flow projections from financial forecasts approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 14% (2017 – 14%) and cash flows beyond the five-year period are extrapolated using a 2.5% (2017 – 2.5%) growth rate.

The fair value less selling costs calculations are based on level 3 in the fair value hierarchy.

As at 31 December 2018, there was no indication of impairment of goodwill, nor do the Directors expect any reasonably possible change in a key assumption that may give rise to an impairment.

15. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following items:

	31 December 2018 (£000's)	31 December 2017 (£000's)
Affiliate/marketing expenses payable	**7,038**	6,547
Payable to game suppliers	**3,181**	1,899
Compensation payable	**5,773**	4,868
Professional fees	**1,231**	875
Gaming tax payable	**1,174**	2,101
Other	**2,209**	1,531
	20,606	17,821

16. Other short-term payables

Other short-term payables consist of:

	31 December 2018 (£000's)	31 December 2017 (£000's)
Transaction related payables	**516**	3,484
Current portion of other long-term payables (note 20)	**8,667**	8,667
Interest Rate Swap (note 13)	**97**	—
Working capital adjustment payable (note 7)	**429**	—
	9,709	12,151

17. Financial risk management

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. As at 31 December 2018, the Group is largely exposed to credit risk through its relationship with its service providers, the Gamesys group, the 888 group, as well as its cash balances. Credit risk also arises from payment services providers ('PSPs'). Prior to accepting new PSPs, credit checks are performed using a reputable external source, where available. Management monitors PSP balances on a weekly basis and promptly takes corrective action if pre-agreed limits are exceeded. As at 31 December 2018 the Group recognised a £1.0 million provision for potentially uncollectable trade and other receivables as well as other long-term receivables to be in compliance with IFRS 9, as explained in note 3. With the exception of the balances discussed in note 11, no other receivables are considered past due or impaired. Quantitative analysis of the Group's exposure to credit risk arising from its receivables is included in note 11 and analysis of the Group's exposure to its credit risk arising from cash is presented below.

A significant amount of cash is held with the following institutions:

Financial Institution Rating	**31 December 2018 (£000's)**	31 December 2017 (£000's)*
AA-	**17,786**	18,209
A+	**—**	7,677
A	**43,946**	7,307
A-	**31**	60
BBB+	**1,969**	2,701
BBB	**5,975**	5,481
BB	**4,002**	9,122

The Group monitors the credit ratings of counterparties regularly and at the reporting date does not expect any losses from non-performance by the counterparties. The Group's policy is to transfer significant concentrations of cash held at lower-rated financial institutions to higher rated financial institutions as swiftly as possible.

**2017 ratings have been restated to match ratings of respective banks at 31 December 2018.*

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. JPJ Group plc is exposed to cash flow interest rate risk on its credit facilities, described in note 18, which bear interest at variable rates. A one percentage point increase (decrease) in interest rates would have decreased (increased) net earnings before income taxes by approximately £3.7 million for the year ended 31 December 2018 (31 December 2017 – £3.5 million), with all other variables held constant.

Management monitors movements in the interest rates by reviewing the LIBOR on a frequent basis.

On 16 February 2018, JPJ Group plc entered into an Interest Rate Swap (as defined in note 13) to mitigate its exposure to interest rate volatility. A one percentage point increase (decrease) in interest rates would have increased (decreased) the fair value of the Interest Rate Swap by approximately £2.9 million for the year ended 31 December 2018 (31 December 2017 – £nil), with all other variables held constant.

Foreign exchange risk

Foreign exchange risk arises when individual group entities enter into transactions denominated in a currency other than their functional currency. JPJ Group plc's policy is, where possible, to allow the Group's entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where JPJ Group plc's entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within JPJ Group plc.

Apart from these particular cash flows, the Group aims to fund expenses and investments in their respective currencies and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred, as well as by matching the currency of its debt structure with the currency cash is generated in.

The following table summarises the Group's discounted net financial assets/liabilities by currency and the approximate effects on total comprehensive income, and therefore total equity as a result of a 10% change in the value of the foreign currencies against pounds sterling where the Group has significant exposure. The analysis assumes that all other variables remain constant.

At 31 December 2018	Net foreign currency financial assets/(liabilities) (£000's)	Effect of 10% strengthening in foreign exchange rates on comprehensive income (£000's)	Effect of 10% weakening in foreign exchange rates on comprehensive income (£000's)
Canadian dollar	(237)	(24)	24
EURO	(99,546)	(9,955)	9,955
United States dollar	1,471	147	(147)

At 31 December 2017	Net foreign currency financial assets/(liabilities) (£000's)	Effect of 10% strengthening in foreign exchange rates on comprehensive income (£000's)	Effect of 10% weakening in foreign exchange rates on comprehensive income (£000's)
Canadian dollar	(480)	(48)	48
EURO	(96,854)	(9,685)	9,685
United States dollar	5,416	542	(542)

Liquidity risk

The Group requires capital and liquidity to fund existing and future operations and future cash payments. The Group's policy is to maintain sufficient capital levels to fund the Group's financial position and meet future commitments and obligations in a cost-effective manner.

Liquidity risk arises from the Group's ability to meet its financial obligations as they become due. The following tables summarise the Group's undiscounted financial and other liabilities as at 31 December 2018 and 31 December 2017:

At 31 December 2018	On demand (£000's)	Less than 1 year (£000's)	2-3 years (£000's)	4-5 years (£000's)	After 5 years (£000's)
Accounts payable and accrued liabilities	20,606	—	—	—	—
Other payables	1,612	8,097	2,388	—	—
Payable to customers	9,032	—	—	—	—
Contingent consideration	—	4,670	—	—	—
Long-term debt	—	—	—	—	375,692
Interest payable on long-term debt	—	19,763	39,580	39,526	20,081
	31,250	**32,530**	**41,968**	**39,526**	**395,773**

At 31 December 2017	On demand (£000's)	Less than 1 year (£000's)	2-3 years (£000's)	4-5 years (£000's)	After 5 years (£000's)
Accounts payable and accrued liabilities	17,821	—	—	—	—
Other payables	4,151	8,000	10,000	—	—
Payable to customers	8,180	—	—	—	—
Contingent consideration	—	53,348	8,750	—	—
Convertible debentures	—	258	—	—	—
Long-term debt	—	—	—	—	374,292
Interest payable on long-term debt	—	20,621	39,461	39,407	39,461
	30,152	**82,227**	**58,211**	**39,407**	**413,753**

The Group manages liquidity risk by monitoring actual and forecasted cash flows in comparison with the maturity profiles of financial assets and liabilities. The Group does not anticipate fluctuations in its financial obligations as they largely stem from interest payments related to the EUR Term Facility (as defined below) and the GBP Term Facility (as defined below). Management believes that the cash generated from the Group's operating segments is sufficient to fund the working capital and capital expenditure needs of each operating segment in the short and long term, assuming there are no significant adverse changes in the markets in which the Group operates. The Group is actively managing its capital resources to ensure sufficient resources will be in place when Term Facilities (as defined below) repayments and interest payments become due.

Subject to meeting certain financial covenants, the Group may have the ability to draw on the £13.5 million RCF (as defined in note 18) as a further capital resource.

18. 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 advanced	—	—	—	122,574	250,000	372,574
Repayment	(218,793)	(70,000)	(90,000)	—	—	(378,793)
Debt financing costs incurred	—	—	—	(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*	—	—	—	172	404	576
Foreign exchange translation	—	—	—	1,387	—	1,387
Balance, 31 December 2018	**—**	**—**	**—**	**124,462**	**246,988**	**371,450**
Current portion	—	—	—	—	—	—
Non-current portion	—	—	—	**124,462**	**246,988**	**371,450**

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

On 6 December 2017, JPJ Group plc entered into a senior facilities agreement ('Senior Facilities Agreement') pursuant to which debt facilities were made available to JPJ Group plc and certain of its subsidiaries in an aggregate sterling equivalent amount of approximately £388.5 million, comprised of (i) a €140.0 million term facility (the 'EUR Term Facility', (ii) a £250.0 million term facility (the 'GBP Term Facility and, together with the EUR Term Facility', the 'Term Facilities') and (iii) a £13.5 million revolving credit facility (the 'RCF' and, together with the Term Facilities, the 'Facilities'). Proceeds from the Term Facilities were used in part to repay the Group's existing First and Second Lien Facilities on 14 December 2017, at which point, the accretion of the remaining debt issue costs on the First and Second Lien facilities was accelerated. Proceeds from the RCF can be applied to, among other things, working capital and general corporate purposes and financing or refinancing capital expenditure.

The Term Facilities are non-amortising and mature in December 2024. The RCF matures in December 2023 and remains undrawn as at 31 December 2018.

The EUR Term Facility has an interest rate of EURIBOR (with a 0% floor) plus an opening margin of 4.25% per annum, subject to a margin ratchet with step downs of 0.25% to 3.50% based on reductions in the senior secured net leverage ratio ('SSLR') and meeting certain ratings requirements. The GBP Term Facility has an interest rate of LIBOR (with a 0% floor) plus an opening margin of 5.25% per annum, subject to a margin ratchet with step downs of 0.25% to 4.50% based on reductions in the SSLR and meeting certain ratings requirements. The RCF has an interest rate of EURIBOR (for Euro loans, with a 0% floor) or LIBOR (for GBP and USD loans, with a 0% floor) plus, in each case, an opening margin of 4.25% per annum, subject to a margin ratchet with step downs of 0.50% to 3.25% based on reductions in the SSLR.

The Senior Facilities Agreement contains certain restrictions on, amongst other things, asset disposals, debt incurrence, loans and guarantees, joint ventures and acquisitions, subject in each case to various permissions. The Senior Facilities Agreement also contains a senior secured leverage ratio maintenance covenant and an interest cover maintenance covenant.

JPJ Group plc was in compliance with the terms of the Senior Facilities Agreement as at 31 December 2018.

19. Financial instruments

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

Financial assets

	Financial assets as subsequently measured at amortised cost	
	31 December 2018 (£000's)	31 December 2017 (£000's)
Cash and restricted cash	**90,544**	59,241
Trade and other receivables	**17,070**	19,379
Other long-term receivables	**1,462**	2,104
Customer deposits	**9,032**	8,180
	118,108	88,904

Financial liabilities

	Financial liabilities as subsequently measured at amortised cost	
	31 December 2018 (£000's)	31 December 2017 (£000's)
Accounts payable and accrued liabilities	**20,606**	17,821
Other short-term payables	**9,612**	12,151
Other long-term payables	**1,429**	8,245
Interest payable	**264**	924
Payable to customers	**9,032**	8,180
Convertible debentures	**—**	254
Long-term debt	**371,450**	369,487
	412,393	417,062

The carrying values of the financial instruments noted above approximate their fair values.

Other financial instruments

	Financial instruments at fair value through profit or loss – assets/(liabilities)	
	31 December 2018 (£000's)	31 December 2017 (£000's)
Interest Rate Swap	**(485)**	—
Contingent consideration	**(4,540)**	(59,583)
Other long-term receivables	**3,574**	3,500
	(1,451)	(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 December 2018 (£000's)	31 December 2017 (£000's)	**31 December 2018 (£000's)**	31 December 2017 (£000's)
Interest Rate Swap	**(485)**	—	**—**	—
Other long-term receivables	**3,574**	3,500	**—**	—
Contingent consideration	**—**	—	**(4,540)**	(59,583)

The Interest Rate Swap balance represents the fair value of expected cash outflows under the Interest Rate Swap agreement.

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 1.386%, and an estimated share price return volatility rate of Gaming Realms of 48.3%.

A discounted cash flow valuation model was used to determine the value of the contingent consideration at 31 December 2017. The model considered the present value of the expected payments, discounted using a risk-adjusted discount rate of 7%. The expected payments were determined by considering the possible scenarios of forecast EBITDA, the amount to be paid under each scenario and the probability of each scenario.

On 15 June 2018, the Group made a final earn-out payment of £58.5 million for the Botemania brand, its Spanish business within the Jackpotjoy segment, and a £5.0 million milestone payment related to certain performance achievements within the Jackpotjoy segment. This final payment was met using existing cash resources.

At year-end, the Group reviewed the two remaining milestone payments related to the Jackpotjoy segment and concluded that it is highly unlikely that the last milestone balance will become payable. As a result, the last milestone balance was revalued to £nil.

As at 31 December 2018, the entire contingent consideration balance relates to one remaining milestone payment for 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*	7,208
Payments	(63,455)
Accretion of discount	1,204
Contingent consideration, 31 December 2018	**4,540**
Current portion	4,540
Non-current portion	—

**The figure is made up of an earn-out fair value adjustment of £11.4 million, less a £4.2 million revaluation of the last milestone payment.*

20. 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 16 (31 December 2017 — £8.7 million), with the discounted value of the remaining balance, being £1.4 million (31 December 2017 — £8.2 million), included in other long-term payables. During the year ended 31 December 2018, the Group has paid a total of £8.0 million (year ended 31 December 2017 — £5.3 million) in relation to the additional non-compete clauses.

As at 31 December 2018, the other long-term payables figure of £1.8 million (31 December 2017 — £8.2 million) also includes the non-current portion of the Group's Interest Rate Swap (as discussed in note 13).

21. Share capital

As at 31 December 2018, JPJ Group plc's issued share capital consisted of 74,328,930 ordinary shares, each with a nominal value of £0.10.

		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	21	207,500
Balance, 31 December 2018	**7,434**	**74,328,930**

Convertible debentures

During the year ended 31 December 2018, debentures at an undiscounted value of £0.2 million were converted into 56,499 ordinary shares of JPJ Group plc. The remaining convertible debentures were redeemed in full to the value of £0.1 million on 1 June 2018.

Share options

The share option plan (the 'Share Option Plan') was approved by the Board of Directors on 5 September 2016. Upon completion of the plan of arrangement, all options over common shares of Intertain under Intertain's stock option plan were automatically exchanged for options of equivalent value over ordinary shares of JPJ Group plc on equivalent terms and subject to the same vesting conditions under Intertain's share option plan. The strike price of each grant was converted from Canadian dollars to pound sterling at the foreign exchange rate of 0.606, being the exchange rate at the date of the plan of arrangement. Following the grant of the replacement options, no further options were, or will be, granted under the Share Option Plan.

The changes in the number of share options outstanding during the year ended 31 December 2018 were as follows:

	Number of options #	Weighted average exercise price (£)
Outstanding, 1 January 2017	3,251,146	6.62
Forfeited	(58,000)	9.26
Exercised	(165,156)	2.71
Outstanding, 31 December 2017	3,027,990	6.79
Forfeited	(425,000)	9.51
Exercised	(207,500)	2.70
Outstanding, 31 December 2018	**2,395,490**	**6.66**

Share Option Plan

As at 31 December 2018, 2,392,005 options are exercisable (31 December 2017 – 2,923,726). The range of exercise prices of share options issued is £2.42 to £3.98 for options granted in 2014, £9.24 to £11.19 for options granted in 2015 and £6.79 for options granted in 2016. The weighted average remaining contractual life of share options outstanding as at 31 December 2018 is approximately 1.8 years (31 December 2017 – 2.6 years).

During the year ended 31 December 2018, the Group recorded £0.3 million (2017 – £1.3 million) in share-based compensation expense relating to the Share Option Plan with a corresponding increase in the share-based payment reserve.

Long-term incentive plan

On 24 May 2017, JPJ group plc granted awards over ordinary shares under the Group's long-term incentive plan ('LTIP') for key management personnel. The awards (i) will vest on the date on which the Board of Directors determines the extent to which the performance condition (as described below) has been satisfied, and (ii) are subject to a holding period of two years beginning on the vesting date, following the end of which they will be released so that the shares can be acquired. At 31 December 2018, the number of ordinary shares that may be allotted under the Group's 2017 LTIP awards is 170,190 (2017 – 332,052).

The performance condition as it applies to 50% of each award is based on the Group's total shareholder return compared with the total shareholder return of the companies constituting the Financial Times Stock Exchange 250 index (excluding investment trusts and financial services companies) over three years commencing on 25 January 2017 ('TSR Tranche'). The performance condition as it applies to the remaining 50% of the award is based on the Group's earnings per share ('EPS') in the last financial year of that performance period ('EPS Tranche') and vests as to 25% if final year EPS is 133.5 pence, between 25% and 100% (on a straight-line basis) if final year EPS is more than 133.5 pence but less than 160 pence, and 100% if final year EPS is 160 pence or more.

On 26 March 2018, JPJ Group plc granted an equity-settled mirror award ('Mirror Award') over ordinary shares of JPJ Group plc. The Mirror Award is on the same commercial terms as the Group's LTIP for key management personnel. At 31 December 2018, the number of ordinary shares that may be allotted under the Group's Mirror Award is 57,435.

On 28 March 2018, JPJ Group plc granted additional equity-settled awards over ordinary shares of JPJ Group plc under the Group's long-term incentive plan ('LTIP2') for key management personnel. The awards will (i) vest on the date on which the remuneration committee determines the extent to which the performance conditions (as described below) have been met and (ii) are subject to a holding period of two years beginning on the vesting date. At 31 December 2018, the number of ordinary shares that may be allotted under the Group's 2018 LTIP2 awards is 251,893.

The performance condition as it applies to 50% of each LTIP2 award is based on the Group's total shareholder return compared with the total shareholder return of the companies constituting the Financial Times Stock Exchange 250 index (excluding investment trusts and financial services companies) over three years commencing on 1 January 2018 (the TSR Tranche). The performance condition as it applies to the remaining 50% of the award is based on the compound annual growth rate ('CAGR') of the Group's earnings per share in the last financial year of that performance period ('EPS CAGR Tranche') and vests as to 25% if the EPS CAGR equals 5.5%, between 25% and 100% (on a straight-line basis) if final year EPS CAGR is more than 5.5% but less than 14%, and 100% if final year EPS CAGR is 14% or more.

Each award under LTIP and LTIP2 is equity-settled and long-term incentive plan compensation expense is based on the awards' estimated fair value. The fair value has been estimated using the Black-Scholes model for the EPS and EPS CAGR Tranches and the Monte Carlo model for the TSR Tranche.

At 31 December 2018, the total number of ordinary shares that may be allotted under the Group's LTIP and LTIP2 awards is 479,518 (2017 – 332,052).

During the year ended 31 December 2018, the Group recorded £0.3 million (2017 — £0.1 million), in share-based compensation expense relating to LTIP and LTIP2 with a corresponding increase in share-based payment reserve.

Reserves

The following describes the nature and purpose of each reserve within the Group's Consolidated Statements of Changes in Equity.

Share capital

The purpose of this reserve is to show JPJ Group plc's issued share capital at its nominal value of £0.10.

Share premium

The purpose of this reserve is to show amount subscribed for JPJ Group plc's issued share capital in excess of nominal value.

Merger reserve

The purpose of this reserve is to present the Consolidated Statements of Changes in Equity under the merger method of accounting, as if JPJ Group plc has always been the Parent Company and owned all of the subsidiaries.

The reserve arises from the application of merger accounting for the 2017 plan of arrangement and represents the difference between the nominal value of the shares issued by the Group and the amount shown as paid in capital in the accounting records of the previous parent company of the Group.

Redeemable shares

The purpose of this reserve is to show redeemable shares issued by JPJ Group plc on 15 August 2016 and cancelled following the plan of arrangement transaction.

Share-based payment reserve

The purpose of this reserve is to show cumulative share-based compensation expense relating to the Group's Share Option Plan, LTIP and LTIP2.

Translation reserve

The purpose of this reserve is to show gains and losses arising on retranslating the financial information of the Group companies with functional currencies other than GBP.

Hedge reserve

The purpose of this reserve is to show unrealised gains and losses arising from the changes in the fair value of the Group's Interest Rate Swap.

Retained (deficit)/earnings

The purpose of this reserve is to show cumulative net gains and losses recognised in the Consolidated Statements of Comprehensive Income.

22. Capital management

JPJ Group plc defines the capital that it manages as its aggregate shareholders' equity. Its principal source of cash is operating activities and, in earlier periods, the issuance of common shares, and long-term debt. JPJ Group plc's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient capital to meet its financial obligations as they become due. To maintain or adjust the capital structure, JPJ Group plc may attempt to issue new shares, issue new debt, or acquire or dispose of assets.

The Group monitors its SSLR, which is calculated in accordance with the Senior Facilities Agreement, on a frequent basis as this ratio impacts, among other things, the amount of excess cash flow required to be applied in prepayment of the Term Facilities. Commencing on 31 December 2018, if the Group's SSLR is greater than 2.5, 50% of the Group's excess cash flow is required to be applied in prepayment of the Term Facilities. If the Group's SSLR falls between 2.0 and 2.5, 25% of the Group's excess cash flow is required to be applied in prepayment of the Term Facilities. If the Group's SSLR falls below 2.0, 0% of the Group's excess cash flow is required to be applied in prepayment of the Term Facilities. At 31 December 2018 the Group's SSLR is greater than 2.5.

Excess cash flow is calculated in accordance with the Senior Facilities Agreement and is based on consolidated EBITDA (also calculated in accordance with the Senior Facilities Agreement) to which certain adjustments are made (such as the deduction of certain items such as debt prepayments). JPJ Group plc is not subject to any externally imposed capital requirements. JPJ Group plc manages the Group's capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Group's underlying assets.

There have been no changes to JPJ Group plc's approach to capital management or in the items the Group manages as capital during the year ended 31 December 2018.

23. Taxes and deferred taxes

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Current tax expense		
Total current tax on profits for the year	**853**	1,128
Deferred tax		
Origination and reversal of temporary differences related to business combinations	**(395)**	(427)
Total tax expense	**458**	701

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Gain/(loss) for the year before taxes	**14,935**	(67,196)
Tax using JPJ Group plc's domestic tax rate of 19% (2017 – 19.25%)	**2,838**	(12,935)
Effect of different tax rates applied in overseas jurisdictions	**(3,754)**	9,998
Non-capital loss for which no tax benefit has been recorded	**1,374**	3,638
Total tax expense	**458**	701

As at 31 December 2018, taxes receivable and payable balances consist of taxes owing and recoverable related to the 2017 and 2018 fiscal years.

The Group generated unused UK tax losses of approximately £7.1 million (2017 — £18.9 million) that are available indefinitely for offsetting against future taxable profits. There is no certainty over the use or timing of use of tax losses and as a result, no deferred tax assets have been recognised in the year.

24. Contingent liabilities

Indirect taxation

JPJ Group 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 December 2018, the Group had recognised £nil (31 December 2017 – £nil) related to potential contingent indirect taxation liabilities.

25. Related party transactions

Compensation of key management

Key management is comprised of the Board of Directors, officers, and members of management of the Group. Key management personnel compensation for service rendered is as follows:

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Salaries, bonuses and benefits	**4,619**	3,062
Severance costs	**—**	700
Stock-based compensation	**404**	936
	5,023	4,698

Related party transactions

As disclosed in note 12, the Group entered into loan and services agreements with Gaming Realms plc. Jim Ryan is a Director of both JPJ Group plc and Gaming Realms plc. Mr. Ryan recused himself from all discussions related to these agreements.

26. Employees

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Wages and salaries*	**16,071**	13,801
Pensions	**545**	160
Social security	**1,846**	1,032
Benefits	**300**	119
	18,762	15,112

**Wages and salaries figures include severance costs.*

The average headcount of employees on a full-time and part-time basis during the year was as follows:

	31 December 2018 (#)	31 December 2017 (#)
Group	**293**	229

27. Auditors' remuneration

BDO LLP's remuneration for the auditing of these Financial Statements and for other services provided is as follows:

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Audit fees	**335**	316
Audit related assurance services	**100**	121
Taxation compliance services	**—**	10
Taxation advisory services	**—**	24
Other non-audit services fees	**239**	300
	674	771

28. Operating leases

The Group has entered into operating leases for office facilities, which require the following approximate future minimum lease payments due under the non-cancellable operating lease payments.

	31 December 2018 (£000's)	31 December 2017 (£000's)
Within one year	**925**	1,043
Later than one year but not later than 5 years	**386**	998
Later than 5 years	**312**	—
	1,623	2,041

During the year ended 31 December 2018, the Group incurred £1.0 million (2017 – £0.9 million) in operating lease expenses.

29. Recent accounting pronouncements

IFRS 16 - Leases

Adoption of IFRS 16 will result in the Group recognising right-of-use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the Group does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing total commitments in its annual financial statements.

Management decided that the modified retrospective adoption method of IFRS 16 will be applied. Therefore, leases will be recognised on the Consolidated Balance Sheets as at 1 January 2019. In addition, it was also decided to measure right-of-use assets by reference to the measurement of the lease liabilities on the same date. This will ensure there is no immediate impact to the net assets or reserves on the date of implementation. The Group anticipates recognising right-of-use assets and lease liabilities of approximately £2.5 million on 1 January 2019. However, further work needs to be carried out to determine whether and when extension and termination options are likely to be exercised, which could potentially result in the actual balances recognised to fluctuate against the estimate provided above.

Effective from 1 January 2019, the Group will recognise interest on its lease liabilities and amortisation on its right-of-use assets rather than reflect lease payments as operating expenses. The net income impact of the standard will not be significant.

30. Subsequent events

On 19 February 2019, the Group signed a definitive agreement for the sale of its Mandalay operating business for cash consideration of £18.0 million.

The sale was completed on 12 March 2019, with £12.0 million of the cash consideration received by the Group and the remaining £6.0 million expected to be received in September 2019.