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27 June 2018

## **Jackpotjoy plc**

### **Notification of Transfer to a Premium Listing**

Jackpotjoy plc (the “**Company**” and, together with its subsidiary undertakings, the “**Group**”) (LSE: JPJ), a leading global bingo-led operator, announces that it is proposing to transfer the listing category of its entire issued and to be issued ordinary share capital from a Standard Listing to a Premium Listing on the Official List of the Financial Conduct Authority (the “**FCA**”) in accordance with paragraph 5.4A of the FCA’s Listing Rules (the “**Listing Rules**”) (the “**Transfer**”).

The provision of a minimum 20 business days’ notice (which period commenced by way of today’s announcement) is required to effect the Transfer. No shareholder approval is required in connection with the Transfer. It is currently anticipated that the Transfer will take effect at 8.00 a.m. on 26 July 2018, conditional on the approval of the FCA.

#### **1. Background to the Transfer**

The Company’s ordinary shares were listed on the Standard Listing Segment of the Official List and admitted to trading on London Stock Exchange plc’s Main Market for listed securities on 25 January 2017 (“**Admission**”).

Prior to 25 January 2017, the parent company of what is now the Company’s business was The Intertain Group Limited (“**Intertain**”), a Canadian corporation. On 25 January 2017, the Company became the parent company of the Group following a share for share exchange, details of which were outlined in the Company’s prospectus published on 20 January 2017 in connection with Admission (the “**Prospectus**”).

The Group is an online gaming operator that provides gaming and entertainment to a global customer base through its subsidiaries. The Group markets its bingo and casino products under a number of consumer facing brands:

- Jackpotjoy, Botemania and Star spins (collectively the “**Jackpotjoy Brands**”) which run on a platform provided by Gamesys Limited and its subsidiaries (together, the “**Gamesys Group**”), a privately held third party gaming group, with gaming licenses held in the UK, Spain and Gibraltar (registered to the Gamesys Group);
- Costa Bingo.com, Crocodile Bingo, Sparkly Bingo, Sing Bingo, City Bingo and Rio Bingo, amongst others, which run on the Dragonfish platform provided by 888 Holdings plc (“**888**”), with licenses held in the UK and Gibraltar (registered to members of 888’s group) (together forming the “**Jackpotjoy Segment**”<sup>1</sup>); and
- Vera&John and InterCasino (forming the “**Vera&John Segment**”) which runs on the Group’s own proprietary software platform, with licenses held in the UK, Malta and Denmark.

The board of directors of the Company (the “**Board**”) believes that the Company has now reached an appropriate stage in its development to undertake the Transfer.

The Company has therefore requested that the FCA approve the Transfer with effect from 8.00 a.m. on 26 July 2018. All of the Company’s ordinary shares in issue at such time shall be subject to the Transfer. As at 27 June 2018, the Company had 74,258,930 ordinary shares in issue.

#### **2. Reasons for and effect of the Transfer**

No changes to the Company’s business have been or are proposed to be made in connection with the Transfer.

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<sup>1</sup> As noted in the Company’s Q1 results published on 15 May 2018, effective 1 January 2018, the Mandalay segment has been amalgamated with the Jackpotjoy segment.

The Board believes that the Transfer will bring with it a number of benefits to the Company and its shareholders. In particular, the Board believes the Transfer will:

- benefit the Company's shareholders by illustrating its commitment to corporate governance of the highest standard through its adherence to Premium Listing standards which include governance, regulatory and reporting compliance requirements;
- provide an appropriate platform for the continued growth of the Group and allow exposure to a wider investor base, enhancing the liquidity of the Company's shares; and
- enable the Company's ordinary shares to be considered for inclusion in the FTSE UK Index Series which are widely utilised investment benchmarks for institutional investors.

Following the Transfer, certain additional provisions of the Listing Rules will formally apply to the Company. These provisions, which are set out under Chapters 7-13 (inclusive) of the Listing Rules relate to the following matters:

- the application of the Premium Listing Principles set out in Listing Rule 7.2.1AR (Chapter 7);
- the requirement to appoint a sponsor in certain circumstances (Chapter 8);
- the requirement to comply with various continuing obligations, including to comply with all relevant provisions of the UK Corporate Governance Code published in April 2016 by the Financial Reporting Council (the "**Code**") (or provide an explanation for any non-compliance, if applicable, in its annual report) and requirements relating to notifications and contents of financial information (Chapter 9);
- the requirement to announce, or obtain shareholder approval for, transactions of a certain size or with "related parties" of the Company (Chapters 10 and 11);
- certain restrictions in relation to the Company dealing in its own securities and treasury shares (Chapter 12); and
- various specific form and contents requirements that will apply to circulars issued by the Company to its shareholders (Chapter 13).

### **3. Working capital**

The Company is of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this announcement (the "**Transfer Announcement**").

### **4. Corporate governance**

The Board is committed to, and recognises the importance and value of good corporate governance. Since the Company has been listed on the Standard Listing Segment of the Official List of the FCA, the Board has based its corporate governance approach on voluntarily reporting its compliance with the Code.

On 30 April 2018, the Company announced Andria Vidler's appointment as a non-executive director, who joined the Board following the Company's AGM on 7 June 2018. Andria also joined the Company's remuneration committee.

The Company continually reviews its policies and procedures to ensure its continued compliance with the Code. Following the Transfer, the Board will be required to report against the provisions of the Code, and to the extent the Company is unable to comply with any relevant provisions of the Code, it will seek to explain fully to its shareholders the reasons for such non-compliance in accordance with Listing Rule 9.8.6R(6).

The Company continues to be a "reporting issuer" under applicable Canadian securities laws. It is therefore obligated to comply with continuous and other timely disclosure requirements and other requirements under such laws in addition to complying with its other obligations. The Company's obligations under applicable Canadian securities laws are expected to continue for so long as more than 10% of the ordinary shares (on a fully-diluted basis) are held by Canadian resident shareholders.

## 5. City Code on Takeovers and Mergers (“UK Takeover Code”)

As the Company has its registered office in the UK and its ordinary shares are admitted to trading on the Main Market of the London Stock Exchange plc, it is currently and, following the Transfer, will remain subject to the UK Takeover Code.

## 6. Appointment of Sponsor

The Company has appointed Canaccord Genuity Limited (“**Canaccord Genuity**”) to act as its sponsor in relation to the Transfer pursuant to the requirement of Listing Rule 8.2.1AR(1) of the Listing Rules (the “**Sponsor**”). Canaccord Genuity is currently joint corporate broker to the Company.

## 7. Financial information of the Group

For the purposes of paragraphs 7, 8 and 9 of this Transfer Announcement, the “**Group**” shall mean Intertain and its subsidiary undertakings prior to Admission and Jackpotjoy plc and its subsidiary undertakings from Admission.

The Company released its audited financial statements for the year ended 31 December 2017 on 20 March 2018. The associated annual report was published on 27 April 2018. As such, the Company’s historical financial information period for the purposes of this Transfer Announcement comprises the three years ended 31 December 2015, 2016 and 2017, respectively (the “**Track Record Period**”).

The historical financial information for the Group for the Track Record Period is presented as follows:

- 1) the Group’s historical financial information for the years ended 31 December 2017 and 2016, in pounds sterling, which is accompanied by an accountant’s report (see Section A and B of this Transfer Announcement);
- 2) the Group’s historical financial information for the year ended 31 December 2015, in Canadian dollars, together with the accompanying accountant’s report. This is presented in Part 7 of the Prospectus which can be viewed on the Company’s website via the link: <http://www.jackpotjoyplc.com/investors/financial-reports-presentations/jackpotjoy-plc-prospectus/> and is incorporated by reference into the Transfer Announcement; and
- 3) a comparative table showing the Group’s historical financial information for the years ended 31 December 2016 and 2015, in Canadian dollars (see Section C of this Transfer Announcement).

As referenced in 2) above, information incorporated by reference is as follows:

<u>Information incorporated by reference into this Transfer Announcement</u>	<u>Reference document</u>	<u>Page number in reference document</u>
Consolidated audited financials of the Group for the financial year ended 31 December 2015 and the reporting accountant’s report thereon	Prospectus	Pages 193-240

Other than the specific information indicated above, no other information from the Prospectus forms a part of this Transfer Announcement.

## 8. Further financial information

On 8 April 2015, Intertain completed the acquisition (the “**Acquisition**”) of the entire issued share capital of Fifty States Limited (“**Fifty States**”), a wholly-owned subsidiary of Gamesys Limited. Fifty States was the then direct and indirect owner of the Jackpotjoy, Star spins and Botemania brands, together with associated rights in, or ownership of real money and social gaming player data related to such brands, trademarks, domain names and certain other related intellectual property rights (collectively, the “**Jackpotjoy Business**”).

The Jackpotjoy Business was consolidated into the Group accounts from the time of the Acquisition. In order to provide a complete three-year track record of the Group, as required by Chapter 6 of the Listing Rules, audited historical carve-out financial information for the Jackpotjoy Business from at least the start of the Track Record Period is included in this Transfer Announcement. As such, further financial information for the period 1 April 2014 to 8 April 2015 (being the date on which the Jackpotjoy Business was acquired and on which it was consolidated into the Company’s accounts), together with the year to 31 March 2014 (which was included in the Prospectus) as a comparative, accompanied by an accountant’s report thereon, are set out within this Transfer Announcement in Sections D and E below. This financial information is prepared in accordance with the accounting policies adopted in the Group’s own historical financial information.

## 9. **Jackpotjoy Earn-Out Period**

As a result of the acquisition by Intertain of the Jackpotjoy Business on 8 April 2015, the Company owns 100% of the Jackpotjoy Business. The Jackpotjoy Brands operate through proprietary software owned by the Gamesys Group. Subsidiaries of the Group have operating agreements in place with the Gamesys Group, namely, a real money gaming operating agreement and a social gaming operating platform (the “**Operating Agreements**”), under which the Gamesys Group provides platform services and gaming content for the Jackpotjoy Business. The Operating Agreements run until 2030 and there is a content licensing agreement between the parties which runs for 10 years after the platform services are terminated.

In addition to the initial purchase price paid by the Group as consideration for the Acquisition, Intertain agreed to pay further cash consideration pursuant to earn-outs based on the financial performance of the Jackpotjoy Business in various periods during the 5-year period following completion of the Acquisition (the “**Jackpotjoy Earn-Out Payments**”). These Jackpotjoy Earn-Out Payments comprised earn-out payments in relation to the Jackpotjoy and Starspins brands, the Botemania brand and an additional earn-out comprising performance-based milestone payments with the final such payment falling due in June 2020 (the “**Additional Earn-Out**”).

The period in which the earn-outs were payable in respect of the Jackpotjoy Brands themselves, being the Jackpotjoy and Starspins Earn-Out, the First Botemania Earn-Out, and the Second Botemania Earn-Out (but not the Additional Earn-Out) formed the “**Jackpotjoy Earn-Out Period**”. The last remaining payment in respect of the Jackpotjoy Earn-Out Period was the Second Botemania Earn-Out, which was paid to the Gamesys Group on 18 June 2018, and, as a result, the Jackpotjoy Earn-Out Period has ended.

As the Jackpotjoy Earn-Out Period has now ended, the Group has complete discretion and ultimate power of decisions regarding the overarching strategy to be adopted in relation to all branded sites of the Jackpotjoy Business (the Gamesys Group retains complete control in respect of the platform and the games of the Jackpotjoy Business). Therefore, the Group now has strategic control over the commercialisation of all its products and its strategy across the whole of the Group.

## 10. **FTSE eligibility and qualification**

The constituents of the FTSE UK Index Series, incorporating the FTSE 100, FTSE 250 and FTSE SmallCap indices are reviewed on a quarterly basis. It is anticipated that, subject to the Transfer becoming effective and other conditions being met, the Company will be considered for inclusion in the FTSE UK Index Series at its next quarterly review.

## 11. **Consents**

Canaccord Genuity has given and has not withdrawn its written consent to the inclusion of the reference to its name in the form and context in which it is included in this Transfer Announcement.

BDO LLP has given and has not withdrawn its written consent to the inclusion of its reports in Sections A and D of this Transfer Announcement, in the form and context in which they are included.

## 12. **Change of name**

The Board has resolved that the Company will change its name to JPJ Group plc effective on or around the date of this Transfer Announcement. The Company will retain its existing ticker, SEDOL and ISIN.

The change of name will not affect any shareholders’ rights. No new share certificates will be issued in respect of existing ordinary shares held in certificated form. Shareholders should retain their existing share certificates, which will remain valid.

The name change has been approved by the Board, in accordance with the Company's articles of association.

*The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain. The person responsible for arranging for the release of this announcement on behalf of the Company is Dan Talisman, Company Secretary.*

## **Enquiries**

For further information:

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### **About Jackpotjoy plc**

Jackpotjoy plc is the parent company of an online gaming group that provides entertainment to a global consumer base through its subsidiaries. Jackpotjoy plc currently offers bingo and casino games to its customers through its subsidiaries using the Jackpotjoy ([www.jackpotjoy.com](http://www.jackpotjoy.com)), Starspins ([www.starspins.com](http://www.starspins.com)), Botemania ([www.botemania.es](http://www.botemania.es)), Vera&John ([www.verajohn.com](http://www.verajohn.com)), Costa ([www.costabingo.com](http://www.costabingo.com)) and InterCasino ([www.intercasino.com](http://www.intercasino.com)) brands. For more information about Jackpotjoy plc, please visit [www.jackpotjoyplc.com](http://www.jackpotjoyplc.com).

### **IMPORTANT NOTICE:**

The contents of this Transfer Announcement have been prepared by and are the sole responsibility of the Company. The Company is not offering any ordinary shares or other securities in connection with the proposals described in this Transfer Announcement. This Transfer Announcement does not constitute or form part of, and should not be construed as, any offer for sale or subscription of, or solicitation of any offer to buy or subscribe for, any securities in the Company or securities in any other entity, in any jurisdiction, nor shall it, or any part of it, or the fact of its distribution, form the basis of, or be relied on in connection with, any contract or investment decision whatsoever, in any jurisdiction. This Transfer Announcement does not constitute a recommendation regarding any securities.

This Transfer Announcement may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "anticipates", "targets", "aims", "continues", "projects", "assumes", "expects", "intends", "may", "will", "would" or "should", or in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Transfer Announcement and include statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, the Group's result of operations, financial condition, prospects, growth strategies and the industries in which the Group operates. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including without limitation: conditions in the markets, market position, the Company's earnings, financial position, return on capital, anticipated investments and capital expenditures, changing business or other market conditions and general economic conditions. These and other

factors could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this Transfer Announcement based on past trends or activities should not be taken as a representation that such trends or activities will continue in the future. The contents of this paragraph relating to forward-looking statements are not intended to qualify the statement made as to the sufficiency of working capital in this Transfer Announcement.

Subject to the Company's regulatory obligations, including under the Listing Rules, the FCA's Disclosure Guidance and Transparency Rules, Regulation (EU) No 596/2014 (the "**Market Abuse Regulation**") and the Financial Services and Markets Act 2000 ("**FSMA**"), neither the Company nor Canaccord Genuity Limited undertakes any obligation to update publicly or revise any forward looking-statement whether as a result of new information, future events or otherwise. None of the statements made in this Transfer Announcement in any way obviates the requirements of the Company to comply with its regulatory obligations. The timetable to Transfer set out in this Transfer Announcement is subject to change and amendment. There can be no assurance that the Transfer will become effective in the timeframe set out in this Transfer Announcement or at all.

Save as expressly set out herein, the contents of the Company's website do not form part of this Transfer Announcement.

Canaccord Genuity Limited, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom, is acting for the Company and for no one else in connection with the Transfer and will not be responsible to any person other than the Company for providing the protections afforded to clients of Canaccord Genuity Limited, nor for providing advice in relation to the Transfer, the content of this Transfer Announcement or any matter referred to in this Transfer Announcement. Apart from the responsibilities and liabilities, if any, which may be imposed on Canaccord Genuity Limited by the FSMA or the regulatory regime established thereunder, neither Canaccord Genuity Limited nor any of its subsidiaries, branches or affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Canaccord Genuity Limited in connection with this Transfer Announcement, any statement contained herein or otherwise, nor makes any representation or warranty, express or implied, in relation to, the contents of this Transfer Announcement, including its accuracy, completeness or verification or for any other statement purported to be made by Canaccord Genuity Limited, or on behalf of Canaccord Genuity Limited in connection with the Company or the Transfer. Canaccord Genuity Limited accordingly disclaims to the fullest extent permitted by law all and any responsibility or liability to any person who is not a client of Canaccord Genuity Limited, whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise have in respect of this Transfer Announcement or any such statement.

**SECTION A: BDO REPORT ON THE CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE TWO YEARS ENDED 31 DECEMBER 2017**



BDO LLP  
55 Baker Street  
London  
W1U 7EU

The Directors  
Jackpotjoy plc  
35 Great St. Helen's  
London, EC3A 6AP  
United Kingdom

27 June 2018

Canaccord Genuity Limited  
88 Wood Street  
London  
EC2V 7QR

Dear Sir or Madam

**Jackpotjoy plc (the “Company”) and its subsidiary undertakings (together, the “Group”)**

**Introduction**

We report on the financial information set out in Section B. This financial information has been prepared for inclusion in the announcement dated 27 June 2018 of the Company (the “Announcement”) on the basis of the accounting policies set out in notes 2 and 3 to the financial information. This report is required by item 6.2.4R(1) of the listing rules made by the Financial Conduct Authority for the purposes of part VI of the Financial Services and Markets Act 2000 (the “Listing Rules”) and is given for the purpose of complying with that item and for no other purpose.

**Responsibilities**

The directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Announcement, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report.

**Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions outside the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion, the financial information gives, for the purposes of the Announcement, a true and fair view of the state of affairs of the Group as at 31 December 2016 and 31 December 2017 and of its results, cash flows and changes in equity for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Yours faithfully

**BDO LLP**

*Chartered Accountants*

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

**SECTION B: CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE TWO YEARS ENDED 31 DECEMBER 2017**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Year ended 31 December 2016 (£000's)	Year ended 31 December 2017 (£000's)
<b>Revenue and other income</b>		
Gaming revenue	266,938	304,646
Other income earned from revenue guarantee	1,181	–
Other income earned from platform migration	925	–
<b>Total revenue and other income</b>	<b>269,044</b>	<b>304,646</b>
<b>Costs and expenses</b>		
Distribution costs	130,735	147,483
Administrative costs	96,200	113,039
Severance costs	5,695	700
Transaction related costs	22,767	6,710
Foreign exchange loss	3,098	10,051
<b>Total costs and expenses</b>	<b>258,495</b>	<b>277,983</b>
<b>Gain on sale of intangible assets</b>	–	<b>(1,271)</b>
Fair value adjustments on contingent consideration	49,382	27,562
(Gain)/loss on cross currency swap	(34,070)	12,512
Interest income	(156)	(182)
Interest expense	18,243	30,189
Accretion on financial liabilities	17,857	25,049
<b>Financing expenses</b>	<b>51,256</b>	<b>95,130</b>
<b>Net loss for the year before taxes</b>	<b>(40,707)</b>	<b>(67,196)</b>
Current tax provision	347	1,128
Deferred tax recovery	(411)	(427)
<b>Net loss for the year attributable to owners of the parent</b>	<b>(40,643)</b>	<b>(67,897)</b>
<b>Other comprehensive income/(loss): Items that will or may be reclassified to profit or loss in subsequent periods</b>		
Foreign currency translation (loss)/gain	(18,382)	27,607
Loss on cross currency swap	–	(7,737)
Reclassification of loss on cross currency swap	–	7,737
<b>Total comprehensive loss for the year attributable to owners of the parent</b>	<b>(59,025)</b>	<b>(40,290)</b>
<b>Net loss for the year per share</b>		
Basic	£(0.57)	£(0.92)
Diluted	£(0.57)	£(0.92)

*The accompanying notes form an integral part of this financial information*

## CONSOLIDATED BALANCE SHEETS

		As at 1 January 2016 (£000's)	As at 31 December 2016 (£000's)	As at 31 December 2017 (£000's)
	Note			
<b>ASSETS</b>				
<b>Current assets</b>				
Cash	9	31,762	68,485	59,033
Restricted cash	9	175	253	208
Customer deposits		6,522	8,573	8,180
Trade and other receivables	10	17,269	16,763	19,379
Current portion of cross currency swap	12,18	762	38,171	–
Taxes receivable		7,375	6,832	6,432
<b>Total current assets</b>		<b>63,865</b>	<b>139,077</b>	<b>93,232</b>
Tangible assets		233	852	1,339
Intangible assets	13	380,443	352,473	292,223
Goodwill	13	288,326	296,352	296,781
Cross currency swap	12,18	3,972	–	–
Other long-term receivables	11,18	1,317	2,624	3,528
Other long-term assets	11,18	–	–	2,076
<b>Total non-current assets</b>		<b>674,291</b>	<b>652,301</b>	<b>595,947</b>
<b>Total assets</b>		<b>738,156</b>	<b>791,378</b>	<b>689,179</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	14	6,235	8,992	17,821
Other short-term payables	15	530	15,321	12,151
Interest payable		–	633	924
Payable to customers		6,522	8,573	8,180
Convertible debentures	20	–	–	254
Current portion of long-term debt	17	25,160	26,695	–
Current portion of contingent consideration	18	5,996	86,903	51,866
Provision for taxes		9,834	7,743	7,273
<b>Total current liabilities</b>		<b>54,277</b>	<b>154,860</b>	<b>98,469</b>
Contingent consideration	18	203,629	33,284	7,717
Other long-term payables	19	–	14,505	8,245
Deferred tax liability		1,953	1,897	1,204
Convertible debentures	20	7,266	3,266	–
Long-term debt	17	181,998	344,098	369,487
<b>Total non-current liabilities</b>		<b>394,846</b>	<b>397,050</b>	<b>386,653</b>
<b>Total liabilities</b>		<b>449,123</b>	<b>551,910</b>	<b>485,122</b>
<b>Equity</b>				
Share capital	20	7,051	7,298	7,407
Share premium and other reserves		281,982	232,170	196,650
<b>Total equity</b>		<b>289,033</b>	<b>239,468</b>	<b>204,057</b>
<b>Total liabilities and equity</b>		<b>738,156</b>	<b>791,378</b>	<b>689,179</b>

*The accompanying notes form an integral part of this financial information*

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		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)	Cross currency hedge reserve (£000's)	Retained (deficit)/ earnings (£000's)	Total (£000's)
	Note									
<b>Balance at 1 January 2016</b>		7,051	396,984	(6,111)	–	6,779	14,424	–	(130,094)	289,033
<b>Comprehensive loss for the year</b>										
Net loss for the year		–	–	–	–	–	–	–	(40,643)	(40,643)
Other comprehensive loss		–	–	–	–	–	(18,382)	–	–	(18,382)
<b>Total comprehensive loss for the year</b>		–	–	–	–	–	(18,382)	–	(40,643)	(59,025)
<b>Contributions by and distributions to shareholders</b>										
Conversion of debentures	20	185	5,484	–	–	–	–	–	–	5,669
Exercise of common share warrants	20	4	187	–	–	–	–	–	–	191
Exercise of options	20	58	1,228	–	–	(376)	–	–	376	1,286
Redeemable shares		–	–	–	50	–	–	–	–	50
Share-based compensation	20	–	–	–	–	2,264	–	–	–	2,264
<b>Total contributions by and distributions to shareholders</b>		247	6,899	–	50	1,888	–	–	376	9,460
<b>Balance at 1 January 2017</b>		7,298	403,883	(6,111)	50	8,667	(3,958)	–	(170,361)	239,468
<b>Comprehensive income/(loss) for the year:</b>										
Net loss for the year		–	–	–	–	–	–	–	(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
<b>Total comprehensive income/(loss) for the year</b>		–	–	–	–	–	27,607	–	(67,897)	(40,290)
<b>Contributions by and distributions to shareholders</b>										
Conversion of debentures	20	92	2,986	–	–	–	–	–	–	3,078
Exercise of options	20	17	405	–	–	(125)	–	–	125	422
Cancellation of redeemable shares		–	–	–	(50)	–	–	–	–	(50)
Cancellation of share premium		–	(405,932)	–	–	–	–	–	405,932	–
Share-based compensation	20	–	–	–	–	1,429	–	–	–	1,429
<b>Total contributions by and distributions to shareholders</b>		109	(402,541)	–	(50)	1,304	–	–	406,057	4,879
<b>Balance at 31 December 2017</b>		7,407	1,342	(6,111)	–	9,971	23,649	–	167,799	204,057

*The accompanying notes form an integral part of this financial information*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December 2016 (£000's)	Year ended 31 December 2017 (£000's)
Note		
<b>Operating activities</b>		
Net loss for the year	(40,643)	(67,897)
<i>Add (deduct) items not involving cash</i>		
Amortisation and depreciation	56,133	63,042
Share-based compensation expense	20 2,264	1,429
Current tax provision	22 347	1,128
Deferred tax recovery	22 (411)	(427)
Interest expense, net	7 35,944	55,056
Gain on sale of intangible assets	–	(1,271)
Fair value adjustments on contingent consideration	18 49,382	27,562
Unrealised/realised (gain)/loss on cross currency swap	12 (34,070)	12,512
Foreign exchange loss	3,098	10,051
	<u>72,044</u>	<u>101,185</u>
<i>Change in non-cash operating items</i>		
Trade and other receivables	3,434	(3,009)
Other long-term receivables	(1,161)	640
Accounts payable and accrued liabilities	1,851	6,363
Other short-term payables	7,987	(3,170)
	<u>84,155</u>	<u>102,009</u>
<b>Cash provided by operating activities</b>		
Income taxes paid	(6,680)	(6,899)
Income taxes received	5,530	5,860
	<u>83,005</u>	<u>100,970</u>
<b>Total cash provided by operating activities</b>		
<b>Financing activities</b>		
Restriction of cash balances	–	(72)
Proceeds from exercise of warrants	209	–
Proceeds from exercise of options	1,286	422
Proceeds from long-term debt, net of debt issue costs	17 150,726	367,743
Proceeds from cross currency swap settlements	12 3,645	26,094
Payment of non-compete liability	19 –	(5,333)
Interest repayment	(17,526)	(30,874)
Payment of contingent consideration	18 (156,308)	(94,218)
Principal payments made on long-term debt	17 (26,906)	(373,962)
	<u>(44,874)</u>	<u>(110,200)</u>
<b>Total cash used in financing activities</b>		
<b>Investing activities</b>		
Purchase of tangible assets	(638)	(981)
Purchase of intangible assets	(1,862)	(3,212)
Proceeds from sale of intangible assets	–	1,002
Secured convertible loan	11 –	(3,500)
	<u>(2,500)</u>	<u>(6,691)</u>
<b>Total cash used in investing activities</b>		
<b>Net increase/(decrease) in cash during the year</b>		
Cash, beginning of year	31,762	68,485
Exchange gain on cash and cash equivalents	1,092	6,469
	<u>68,485</u>	<u>59,033</u>
<b>Cash, end of year</b>		

*The accompanying notes form an integral part of this financial information*

## SUPPLEMENTARY NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE TWO YEARS ENDED 31 DECEMBER 2017

### 1. Corporate information

Jackpotjoy plc is an online gaming holding company and the parent company of The Intertain Group Limited (“Intertain”). Jackpotjoy plc was incorporated pursuant to the Companies Act 2006 (England and Wales) on 29 July 2016. Jackpotjoy plc’s registered office is located at 35 Great St. Helen’s, London, United Kingdom. Jackpotjoy plc became the parent company of Intertain on 25 January 2017, following a plan of arrangement transaction involving a one-for-one share exchange of all and the then outstanding common shares of Intertain shares for, at each shareholder’s election, ordinary shares of Jackpotjoy plc or exchangeable shares of Intertain. Unless the context requires otherwise, use of “Group” in these accompanying notes means Jackpotjoy plc and its subsidiaries, as applicable, and use of the “Company” refers to Jackpotjoy plc.

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

The Consolidated Financial Statements for the year ended 31 December 2017 were authorised for issue by the Board of Directors of Jackpotjoy plc (the “Board of Directors”) on 20 March 2018.

### 2. Basis of preparation

#### *Basis of presentation*

This consolidated financial information has been prepared under the historical cost convention, other than for the measurement at fair value of the Group’s cross currency swap, contingent consideration, and certain hedged loan instruments.

This consolidated financial information has been prepared by management on a going concern basis, are presented in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the EU.

As detailed in note 1, Jackpotjoy plc became the parent company of Intertain on 25 January 2017 by issuing 73,718,942 shares at a stated transaction value of £5.97, representing the Sterling equivalent of Intertain’s Canadian dollar share price on the Toronto Stock Exchange at close of business on 24 January 2017. This consolidated financial information has been prepared under the merger method of accounting as a continuation of the Intertain business. This method is commonly applied in such situations as the accounting for such transactions is not prescribed by IFRS 3 – Business Combinations, or other applicable IFRS, which instead prompts IFRS-reporting entities to look to alternative generally accepted accounting principles for guidance. The result of the application is to present the consolidated financial information as if Jackpotjoy plc has always been the parent company and owned all of the subsidiaries, and the comparatives have also been prepared on that basis. No fair value adjustments are made under the merger method of accounting. The balance on the Group’s merger reserve of £6,111,000 arises on recognition of the Company’s investment in Intertain recorded at the Intertain net asset value on 25 January 2017 as explained in note 1 above. This approach also gave rise to share premium recognised in the Company of £405.9 million, notwithstanding that the share premium on the basis of the transaction value of £5.97 above would have equated to £432.8 million.

On 1 February 2017, having been approved in the High Court, the Company’s share premium was cancelled. Accordingly, the balance was reallocated within equity reserves to the Company’s retained earnings account. This is now shown in the Statement of Changes in Equity and will be similarly reflected in the next financial statements of the Company. Neither the adoption of the merger method of accounting nor the cancellation of share premium had any impact on reported earnings per share.

The financial information for the year ended 31 December 2016 and the year ended 31 December 2017 does not constitute the Company’s UK statutory accounts for those years.

The auditors’ reports to the accounts for the year ended 31 December 2016 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.

As at 31 December 2017, the Group has consolidated current assets and current liabilities of £93.2 million and £98.5 million, respectively, giving rise to a net current liability of £5.3 million. Cash generated through future operating activities is sufficient to cover the net current liability.

### ***Basis of consolidation***

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

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

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

The subsidiaries of Jackpotjoy plc, all of which have been included in this consolidated financial information, are wholly owned by the Group and constitute investment in subsidiaries on the Company's Balance Sheets, are as follows:

<b><u>Name of business</u></b>	<b><u>Country of incorporation and principal place of business</u></b>
Intertain CallCo ULC	Canada
The Intertain Group Limited	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
Golden Hero Group Ltd.	Bahamas
JPJ Group Jersey Finance Ltd.	Jersey
JPJ Holdings 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 Holdings Ltd.	Malta
Cryptologic Operations Ltd.	Malta
Cryptologic Trading Ltd.	Malta
Wagerlogic Alderney Ltd.	Alderney
Wagerlogic Israel Ltd.	Israel
Jet Media Ltd.	Gibraltar
Fifty States (Gibraltar) Ltd.	Gibraltar
Ramona Investments Ltd.	Turks and Caicos
Intertain Management (UK) 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
Intertain Group Finance LLC	United States of America
Bei Jing Lang Chen Rui Bo Technology Co, Ltd.	China
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 Jackpotjoy 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 Jackpotjoy 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 Jackpotjoy 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 Executive Chairman and the Chief Financial Officer.

#### ***Revenue recognition***

Jackpotjoy plc earns its revenue from operating online bingo and casino websites, social gaming, and affiliate services. Revenue from online bingo and casino consists of the difference between total amount wagered by players less all winnings payable to players, bonuses allocated, and jackpot contributions ("Net Revenue"). Social gaming revenues are recognised at the consideration receivable from players at the point of the transaction, gross of platform fees deducted by platform operators. Affiliate revenue is calculated in line with the contracts, typically based on fixed price per player and is recognised to the extent that its probable economic benefits will flow to Jackpotjoy plc and the revenue can be reliably measured. Revenue is recognised in the accounting periods in which the transactions occur.

#### ***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.

Jackpotjoy 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 information 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***

#### *Functional and presentation currency*

Effective from 1 January 2017, the Group changed its presentation currency from Canadian dollars (“CAD” or “\$”) to pounds sterling (“GBP” or “£”). Comparative information has been restated in pounds sterling in accordance with the guidance defined in IAS 21 – *The Effects of Changes in Foreign Exchange Rates* and a statement of financial position as at the beginning of the previous financial year has been presented. The 2016 consolidated financial information has been retranslated from Canadian dollars to pounds sterling using the procedures outlined below:

- income and expenses were translated into pounds sterling at average quarterly rates of exchange (\$:£ – 0.6036). Differences resulting from the retranslation on the opening net assets and the results for the year have been taken to reserves;
- assets and liabilities were translated at spot rates in effect at the balance sheet closing dates (\$:£ 2016 – 0.6037 and 2015 – 0.4900);
- share capital and other reserves were translated at historic rates prevailing at the dates of transactions; and
- quarterly average exchange rates were used to convert changes in items not involving cash and cash provided by/(used in) operating activities, financing activities, and investing activities. Spot rates were used to convert cash balances, beginning of year and cash balances, end of year.

As a result of this change, no retranslation movement will be recorded in the Statements of Comprehensive Income for subsidiaries whose functional currency is GBP.

#### *Foreign currency transactions and balances*

Foreign currency transactions are translated into the functional currency of the respective entity of Jackpotjoy 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***

Financial assets and financial liabilities are recognised when Jackpotjoy 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 asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled, or when it expires.

The Group classifies its financial assets and liabilities under the following categories: fair value through profit or loss (“FVTPL”), loans and receivables, 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 FVTPL 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 FVTPL include contingent consideration and a cross currency swap derivative financial instrument. Any gains or losses are recorded in net income in the period in which they arise.

### *Loans and receivables*

Loans and receivables 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.

### *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, convertible debentures, 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 impaired when there is objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- a breach of contract such as a default of interest or principal payment; or
- increased probability that the borrower will enter into a bankruptcy or financial reorganisation.

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 convertible debentures that can be converted to equity at the option of the holder, and the number of shares to be issued does not vary with changes in fair value. As a result, the instrument is composed of a liability component and an equity component. The liability component is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The residual amount between the total fair value of the convertible debenture and the fair value of the liability component is allocated on initial recognition to equity and recognised as a reserve in equity. Any directly attributable transaction costs are allocated to the liability and the equity component in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the convertible debentures is measured at amortised cost using the effective interest method. The equity component of the convertible debentures is not remeasured subsequent to initial recognition.

The Group’s compound financial instruments further 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. As a result, the instrument is composed of an asset component and an embedded derivative component. The asset component is recognised initially at the fair value of a similar asset that does not have an equity conversion option. The embedded derivative component is separated from the host contract and is recognised initially at the fair value established using a risk-neutral simulation model.

Subsequent to initial recognition, both, the asset component and the embedded derivative component of the convertible loan receivable, are measured at amortised cost using the effective interest method.

### *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 Jackpotjoy plc uses derivative instruments for risk management purposes. Jackpotjoy 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.

### *Hedge accounting*

The Group uses derivative financial instruments, such as forward currency and interest rate swaps to hedge its foreign currency risk and interest rate risk, respectively. 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.

IAS 39 – *Financial Instruments: Recognition and Measurement* 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 hedge*

The change in the fair value of a hedging instrument is recognised in the Consolidated Statements of Comprehensive Income as a finance cost. 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 finance cost. 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 2017, the Group had no hedges designated as fair value hedges. Subsequent to year-end, the Group entered into an interest rate swap agreement and designated it as a fair value hedge.

### *Cash flow hedges*

The Group uses forward currency contracts as hedges of its exposure to foreign currency 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 foreign currency contracts is recognised in finance costs. 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 if the designation of the arrangement as a hedge is revoked, 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 31 March 2017, the Group designated its New Currency Swap (as defined in note 12) as a cash flow hedge.

#### *Hedge of net investments in foreign operations*

Hedges of a net investment in a foreign operation 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 2017, no material ineffectiveness arising on net investment hedge was included in the Consolidated Statement 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 and excludes restricted cash.

The effect on the Consolidated Statements of Cash Flows of restrictions either taking effect on, or being lifted from, cash balances is 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 in cash (such as cash, which is obtained for the financing of business combinations becoming restricted) are treated as a financing 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 licenses	5% per annum
Software	20% 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 cost 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.

### ***Investments in subsidiaries***

Investments comprise direct shareholdings of the ordinary share capital in the Group’s subsidiaries, all of which are included in this consolidated financial information. For a list of all the subsidiaries which are wholly owned by the Group, including name and country of incorporation, refer to note 2 of this consolidated financial information.

### ***Share-based compensation and long-term incentive plan***

Compensation expense for equity-settled stock options awarded under the Share Option Plan (as defined in note 20) 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 (as defined in note 20) is measured at the fair value at the grant date using the Black-Scholes valuation model for the EPS Tranche (as defined in note 20) and the Monte Carlo model for the TSR Tranche (as defined in note 20).

Compensation expense recognised is adjusted to reflect the number of options that has been estimated by management for which conditions attaching 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 Jackpotjoy 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.
- 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***

Jackpotjoy plc has classified its rental leases as operating leases. Operating lease payments are recognised on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed, in which case that systematic basis is used. 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.

## **4. Summary of significant accounting estimates and assumptions**

The preparation of Jackpotjoy plc's consolidated financial information 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, Jackpotjoy 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 annually for impairment, 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***

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

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 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.

### **5. Segment information**

Segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker has been identified as the management team comprising of the Executive Chairman and the Chief Financial Officer.

In March 2018 the Group determined that its reportable operating segments had changed such that the Mandalay segment is aggregated with the Jackpotjoy segment with effect from 1 January 2018, as Mandalay no longer met the criteria set out in IFRS 8 – Operating Segments for a reportable operating segment. Mandalay has therefore been aggregated with the Jackpotjoy segment in common with the Group’s other third-party platform hosted operations and all 2016 and 2017 segment figures have been restated accordingly.

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

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

**Year ended 31 December 2016:**

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated corporate costs (£000's)	Total (£000's)
<b>Gaming revenue</b>	<b>209,925*</b>	<b>57,013</b>	–	<b>266,938</b>
<b>Other income</b>	–	<b>2,106</b>	–	<b>2,106</b>
Distribution costs	102,119	28,349	267	130,735
Amortisation and depreciation	47,254	8,863	16	56,133
Compensation, professional, and general and administrative expenses	16,618	12,750	10,699	40,067
Severance costs	–	–	5,695	5,695
Transaction related costs	–	862	21,905	22,767
Foreign exchange	(380)	593	2,885	3,098
Financing, net	6	(83)	51,333	51,256
<b>Income/(loss) for the year before taxes</b>	<b>44,308</b>	<b>7,785</b>	<b>(92,800)</b>	<b>(40,707)</b>
Taxes	–	(64)	–	(64)
<b>Net income/(loss) for the year</b>	<b>44,308</b>	<b>7,849</b>	<b>(92,800)</b>	<b>(40,643)</b>
<b>Net income/(loss) for the year</b>	<b>44,308</b>	<b>7,849</b>	<b>(92,800)</b>	<b>(40,643)</b>
Interest (income)/expense, net	6	(83)	18,164	18,087
Accretion on financial liabilities	–	–	17,857	17,857
Taxes	–	(64)	–	(64)
Amortisation and depreciation	47,254	8,863	16	56,133
<b>EBITDA</b>	<b>91,568</b>	<b>16,565</b>	<b>(56,763)</b>	<b>51,370</b>
Share-based compensation	–	–	2,264	2,264
Severance costs	–	–	5,695	5,695
Independent Committee related expenses	–	–	1,693	1,693
Fair value adjustment on contingent consideration	–	–	49,382	49,382
Gain on cross currency swap	–	–	(34,070)	(34,070)
Transaction related costs	–	862	21,905	22,767
Foreign exchange	(380)	593	2,885	3,098
<b>Adjusted EBITDA</b>	<b>91,188</b>	<b>18,020</b>	<b>(7,009)</b>	<b>102,199</b>
<b>Net income/(loss) for the year</b>	<b>44,308</b>	<b>7,849</b>	<b>(92,800)</b>	<b>(40,643)</b>
Share-based compensation	–	–	2,264	2,264
Severance costs	–	–	5,695	5,695
Independent Committee related expenses	–	–	1,693	1,693
Fair value adjustment on contingent consideration	–	–	49,382	49,382
Gain on cross currency swap	–	–	(34,070)	(34,070)
Transaction related costs	–	862	21,905	22,767
Foreign exchange	(380)	593	2,885	3,098
Amortisation of acquisition related purchase price intangibles	47,254	8,251	–	55,505
Accretion on financial liabilities	–	–	17,857	17,857
<b>Adjusted net income/(loss)</b>	<b>91,182</b>	<b>17,555</b>	<b>(25,189)</b>	<b>83,548</b>

\*Jackpotjoy gaming revenue figure includes social gaming revenue £18,137,000 for 2016

**Year ended 31 December 2017:**

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated corporate costs (£000's)	Total (£000's)
<b>Gaming revenue</b>	<b>231,479*</b>	<b>73,167</b>	–	<b>304,646</b>
Distribution costs	110,755	36,582	146	147,483
Amortisation and depreciation	52,706	9,956	380	63,042
Compensation, professional, and general and administrative expenses	18,495	18,558	12,944	49,997
Severance costs	–	–	700	700
Transaction related costs	–	–	6,710	6,710
Foreign exchange	99	599	9,353	10,051
Gain on sale of intangible assets	(269)	(1,002)	–	(1,271)
Financing, net	4	(166)	95,292	95,130
<b>Income/(loss) for the year before taxes</b>	<b>49,689</b>	<b>8,640</b>	<b>(125,525)</b>	<b>(67,196)</b>
Taxes	–	701	–	701
<b>Net income/(loss) for the year</b>	<b>49,689</b>	<b>7,939</b>	<b>(125,525)</b>	<b>(67,897)</b>
<b>Net income/(loss) for the year</b>	49,689	7,939	(125,525)	(67,897)
Interest (income)/expense, net	4	(166)	30,169	30,007
Accretion on financial liabilities	–	–	25,049	25,049
Taxes	–	701	–	701
Amortisation and depreciation	52,706	9,956	380	63,042
<b>EBITDA</b>	<b>102,399</b>	<b>18,430</b>	<b>(69,927)</b>	<b>50,902</b>
Share-based compensation	–	–	1,429	1,429
Severance costs	–	–	700	700
Fair value adjustment on contingent consideration	–	–	27,562	27,562
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	99	599	9,353	10,051
<b>Adjusted EBITDA</b>	<b>102,229</b>	<b>18,027</b>	<b>(11,661)</b>	<b>108,595</b>
<b>Net income/(loss) for the year</b>	<b>49,689</b>	<b>7,939</b>	<b>(125,525)</b>	<b>(67,897)</b>
Share-based compensation	–	–	1,429	1,429
Severance costs	–	–	700	700
Fair value adjustment on contingent consideration	–	–	27,562	27,562
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	99	599	9,353	10,051
Amortisation of acquisition related purchase price intangibles and non-compete clauses	52,659	8,568	–	61,227
Accretion on financial liabilities	–	–	25,049	25,049
<b>Adjusted net income/(loss)</b>	<b>102,178</b>	<b>16,104</b>	<b>(42,210)</b>	<b>76,072</b>

\*Jackpotjoy gaming revenue figure includes social gaming revenue of £15,394,000 for 2017

The following table presents net assets per segment and unallocated corporate costs as at 31 December 2016:

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated corporate costs (£000's)	Total (£000's)
Current assets	21,542	38,870	78,665	139,077
Goodwill	240,960	55,392	–	296,352
Long-term assets	295,722	38,163	22,064	355,949
<b>Total assets</b>	<b>558,224</b>	<b>132,425</b>	<b>100,729</b>	<b>791,378</b>
Current liabilities	7,273	16,711	130,876	154,860
Long-term liabilities	–	1,897	395,153	397,050
<b>Total liabilities</b>	<b>7,273</b>	<b>18,608</b>	<b>526,029</b>	<b>551,910</b>
<b>Net assets</b>	<b>550,951</b>	<b>113,817</b>	<b>(425,300)</b>	<b>239,468</b>

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

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

During the years ended 31 December 2016 and 2017, substantially all of the revenue earned by the Group was in Europe. Revenues were earned from customers located in the following locations: United Kingdom – 63% (2016 – 65%), Sweden – 10% (2016 – 10%), rest of Europe – 14% (2016 – 12%), rest of world – 13% (2016 – 13%). Non-current assets by geographical location as at 31 December 2017 were as follows: Europe £87.7 million (31 December 2016 – £93.6 million) and the Americas £508.2 million (31 December 2016 – £558.7 million).

## 6. Costs and expenses

	Year ended 31 December 2016 (£000's)	Year ended 31 December 2017 (£000's)
<b>Distribution costs:</b>		
Selling and marketing	46,744	49,760
Licensing fees	42,653	47,067
Gaming taxes	29,769	37,851
Processing fees	11,569	12,805
	<b>130,735</b>	<b>147,483</b>
<b>Administrative costs:</b>		
Compensation and benefits	29,490	34,848
Professional fees	3,741	3,749
General and administrative	6,836	11,400
Tangible asset depreciation	338	424
Intangible asset amortisation	55,795	62,618
	<b>96,200</b>	<b>113,039</b>

## 7. Interest income/expense

	Year ended 31 December 2016 (£000's)	Year ended 31 December 2017 (£000's)
Interest earned on cash held during the year	156	182
<b>Total interest income</b>	<b>156</b>	<b>182</b>
Interest paid and accrued on long-term debt	17,825	30,144
Interest paid and accrued on convertible debentures	418	45
<b>Total interest expense</b>	<b>18,243</b>	<b>30,189</b>
Accretion of discount recognised on contingent consideration	15,545	6,052
Debt issue costs and accretion recognised on long-term debt*	1,919	17,095
Accretion recognised on non-compete clauses	77	1,860
Accretion recognised on convertible debentures	316	42
<b>Total accretion on financial liabilities</b>	<b>17,857</b>	<b>25,049</b>

\*Includes accelerated accretion of costs of £14.1 million as a result of debt refinancing that took place in December 2017

## 8. Earnings per share

	Year ended 31 December 2016 (£000's)	Year ended 31 December 2017 (£000's)
Numerator:		
Net loss – basic	(40,643)	(67,897)
Net loss – diluted <sup>1</sup>	(40,643)	(67,897)
Denominator:		
Weighted average number of shares outstanding – basic	71,239	73,865
Instruments, which are anti-dilutive:		
Weighted average effect of dilutive share options	726	453
Weighted average effect of convertible debentures <sup>2</sup>	2,312	238
Net loss per share <sup>3,4</sup>		
Basic	£(0.57)	£(0.92)
Diluted <sup>1</sup>	£(0.57)	£(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 years ended 31 December 2017 and 31 December 2016.

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

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

## 9. Cash and restricted cash

	As at 31 December 2016 (£000's)	As at 31 December 2017 (£000's)
Cash	33,558	58,725
Segregated cash*	34,927	308
Cash and cash equivalents	68,485	59,033
Restricted cash – other	253	208
<b>Total cash balances</b>	<b>68,738</b>	<b>59,241</b>

\* This balance consists of cash on deposit with payment service providers, as well as segregated funds held in accordance with the terms of the Jackpotjoy earn-out payment, where the Group was required to segregate 90% of its excess cash flow, less mandatory repayments of the Group's long-term debt and earn-out payments, in a non-operational bank account. Since the Group made a payment of £94.2 million for the final earn-out on the non-Spanish assets and the first earn-out instalment on the Spanish assets of the Jackpotjoy segment on 21 June 2017, no cash was required to be segregated for this purpose at 31 December 2017 (£34.7 million as at 31 December 2016). Segregated cash does not qualify as restricted cash and, as such, it is included in cash.

## 10. Trade and other receivables

	As at 31 December 2016 (£000's)	As at 31 December 2017 (£000's)
Due from the Gamesys group	9,242	8,634
Due from the 888 group	1,625	3,101
Affiliate revenue receivable	1,766	2,481
Receivable for intangible assets sold	–	1,450
Swap-related receivable	1,948	–
Prepaid expenses	967	2,375
Other	1,215	1,338
	<b>16,763</b>	<b>19,379</b>

## 11. Other long-term receivables and other long-term assets

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

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

In connection with this transaction, the Group recognised a long-term receivable of £1.4 million for the loan component of the convertible loan and a long-term asset of £2.1 for the Conversion Component of the convertible loan.

## 12. Cross Currency Swap

On 23 November 2015, the Group entered into a cross currency swap agreement (the “Currency Swap”) in order to minimise the Group’s exposure to exchange rate fluctuations between GBP and the US dollar (“USD”) as cash generated from the Group’s operations is largely in GBP, while a portion of the principal and interest payments on the credit facilities held by the Group at the time were denominated in USD. Under the Currency Swap, 90% of the Group’s USD term loan interest and principal payments were swapped into GBP. The Group paid a fixed 7.81% interest in place of floating USD interest payments of LIBOR plus 6.5% (LIBOR floor of 1%). The interest and principal payments were made at a GBP/USD foreign exchange rate of 1.5135 on a USD notional amount of \$294.0 million.

On 28 March 2017, the Group terminated the Currency Swap and realised total proceeds of approximately USD 42.6 million (£34.4 million) and subsequently entered into a new cross currency swap agreement (the “New Currency Swap”). Under the New Currency Swap, 50% of the Group’s term loan interest and principal payments were swapped into GBP. The Group paid a fixed 7.4% interest in place of floating USD interest payments of LIBOR plus 6.5% (LIBOR floor of 1%). The interest and principal payments were made at a GBP/USD foreign exchange rate of 1.2584 on a USD notional amount of \$136.8 million.

On 4 December 2017, the Group made a payment of £8.3 million to settle the New Currency Swap in full. As a result, the fair value of the Group’s currency swap agreements as at 31 December 2017 is £nil (31 December 2016 – asset of £38.2 million).

Excluding the termination settlements referred to above, the net cash flows arising on the cross currency swaps during the period were an outflow of £0.3 million. All other changes in the values of the cross currency swaps related to changes in the assessment of fair value.

Jackpotjoy plc elected to use hedge accounting (as described in note 3) for the purposes of recognising realised and unrealised gains and losses associated with the New Currency Swap. As a result, upon settlement of the hedged item, being the future foreign currency term loan cash payments as explained in note 17, the entire loss on the New Currency Swap in the amount of £12.5 million was reclassified to profit and loss, in accordance with IAS 39.

### 13. Intangible assets and goodwill

#### As at 31 December 2016

	Gaming licenses (£000's)	Customer relationships (£000's)	Software (£000's)	Revenue guarantee (£000's)	Brand (£000's)	Partnership agreements (£000's)	Non-competitive clauses (£000's)	Goodwill (£000's)	Total (£000's)
<b>Cost</b>									
Balance, 1 January 2016	76	337,502	17,175	4,010	68,284	12,900	–	306,295	746,242
Additions	–	–	1,836	–	–	–	20,434	–	22,270
Translation	18	3,425	2,659	783	1,770	–	–	11,534	20,189
Expiry	–	–	–	(4,793)	–	–	–	–	(4,793)
<b>Balance, 31 December 2016</b>	<b>94</b>	<b>340,927</b>	<b>21,670</b>	<b>–</b>	<b>70,054</b>	<b>12,900</b>	<b>20,434</b>	<b>317,829</b>	<b>783,908</b>
<b>Accumulated amortisation</b>									
Balance, 1 January 2016	23	47,956	3,279	–	2,681	1,558	–	17,969	73,466
Amortisation	9	47,405	3,683	–	3,466	1,232	–	–	55,795
Translation	2	1,450	452	–	376	34	–	3,508	5,822
<b>Balance, 31 December 2016</b>	<b>34</b>	<b>96,811</b>	<b>7,414</b>	<b>–</b>	<b>6,523</b>	<b>2,824</b>	<b>–</b>	<b>21,477</b>	<b>135,083</b>
<b>Carrying value</b>									
<b>Balance, 31 December 2016</b>	<b>60</b>	<b>244,116</b>	<b>14,256</b>	<b>–</b>	<b>63,531</b>	<b>10,076</b>	<b>20,434</b>	<b>296,352</b>	<b>648,825</b>

#### As at 31 December 2017

	Gaming licenses (£000's)	Customer relationships (£000's)	Software (£000's)	Brand (£000's)	Partnership agreements (£000's)	Non-competitive clauses (£000's)	Goodwill (£000's)	Total (£000's)
<b>Cost</b>								
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)
<b>Balance, 31 December 2017</b>	<b>93</b>	<b>337,655</b>	<b>25,211</b>	<b>70,019</b>	<b>12,900</b>	<b>20,434</b>	<b>316,386</b>	<b>782,698</b>
<b>Accumulated amortisation/impairment</b>								
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)
<b>Balance, 31 December 2017</b>	<b>81</b>	<b>139,333</b>	<b>12,551</b>	<b>10,005</b>	<b>4,458</b>	<b>7,661</b>	<b>19,605</b>	<b>193,694</b>
<b>Carrying value</b>								
<b>Balance, 31 December 2017</b>	<b>12</b>	<b>198,322</b>	<b>12,660</b>	<b>60,014</b>	<b>8,442</b>	<b>12,773</b>	<b>296,781</b>	<b>589,004</b>

\*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 22% (2016 – 22%) and cash flows beyond the five-year period are extrapolated using a 2.5% (2016 – 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% (2016 – 18%) and cash flows beyond the five-year period are extrapolated using a 2.5% (2016 – 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 2017, 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.

#### 14. Accounts payable and accrued liabilities

	As at 31 December 2016 (£000's)	As at 31 December 2017 (£000's)
Affiliate/marketing expenses payable	3,058	6,547
Payable to game suppliers	950	1,899
Compensation payable	2,989	4,868
Loyalty program payable	260	252
Professional fees	349	875
Gaming tax payable	526	2,101
Other	860	1,279
	<b>8,992</b>	<b>17,821</b>

#### 15. Other short-term payables

	As at 31 December 2016 (£000's)	As at 31 December 2017 (£000's)
Transaction related payables	9,321	3,484
Current portion of other long-term payables ( <i>Note 19</i> )	6,000	8,667
	<b>15,321</b>	<b>12,151</b>

#### 16. 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 2017, 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. Management monitors PSP balances on a weekly basis and promptly takes corrective action if pre-agreed limits are exceeded. As at 31 December 2017, none of the Group's 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 10 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:

<u>Financial Institution Rating</u>	As at 31 December 2016 (£000's)*	As at 31 December 2017 (£000's)
A+	6,931	7,677
A	39,124	7,307
A-	154	60
AA-	9,692	18,209
BBB+	42	289
BBB	6,026	7,893
BB	5,018	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.

*\*2016 ratings have been restated to match ratings of respective banks at 31 December 2017.*

### ***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. Jackpotjoy plc is exposed to cash flow interest rate risk on its credit facilities, described in note 17, 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 £3.5 million for the year ended 31 December 2017 (31 December 2016 – £3.7 million), with all other variables held constant. Management monitors movements in the interest rates by reviewing the LIBOR on a frequent basis.

Subsequent to 31 December 2017, Jackpotjoy plc entered into an Interest Rate Swap (as defined in note 29) to mitigate its exposure to interest rate volatility.

### ***Foreign exchange risk***

Foreign exchange risk arises when individual group entities enter into transactions denominated in a currency other than their functional currency. Jackpotjoy 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 Jackpotjoy 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 Jackpotjoy plc.

Apart from these particular cash flows, the Group aims to fund expenses and investments in the respective currency 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 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 2016**

	<b>Net foreign currency financial assets/ (liabilities) (£000's)</b>	<b>Effect of 10% strengthening in foreign exchange rates on comprehensive income (£000's)</b>	<b>Effect of 10% weakening in foreign exchange rates on comprehensive income (£000's)</b>
Canadian dollar	(7,522)	(752)	752
EURO	11,848	1,185	(1,185)
United States dollar	(202,757)	(20,276)	20,276

#### **At 31 December 2017**

	<b>Net foreign currency financial assets/ (liabilities) (£000's)</b>	<b>Effect of 10% strengthening in foreign exchange rates on comprehensive income (£000's)</b>	<b>Effect of 10% weakening in foreign exchange rates on comprehensive income (£000's)</b>
Canadian dollar	(816)	(82)	82
EURO	(109,095)	(10,910)	10,910
United States dollar	7,320	732	(732)

### ***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 2017 and 31 December 2016:

#### At 31 December 2016

	On demand (£000's)	Less than 1 year (£000's)	1-2 years (£000's)	3-5 years (£000's)	After 5 years (£000's)
Accounts payable and accrued liabilities	8,992	–	–	–	–
Other short-term/long-term payables	9,321	6,000	16,000	2,000	–
Payable to customers	8,573	–	–	–	–
Contingent consideration	–	89,386	33,602	3,750	–
Convertible debentures	–	–	3,585	–	–
Long-term debt	–	26,695	53,390	53,390	254,929
Interest payable on long-term debt	–	31,680	56,005	47,957	12,081
	<b>26,886</b>	<b>153,761</b>	<b>162,582</b>	<b>107,097</b>	<b>267,010</b>

#### At 31 December 2017

	On demand (£000's)	Less than 1 year (£000's)	1-2 years (£000's)	3-5 years (£000's)	After 5 years (£000's)
Accounts payable and accrued liabilities	17,821	–	–	–	–
Other short-term/long-term 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
	<b>30,152</b>	<b>82,227</b>	<b>58,211</b>	<b>39,407</b>	<b>413,753</b>

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 (with the exception of the Jackpotjoy earn-out payment, as it is dependent on the future performance of the Jackpotjoy segment), 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 the remaining Jackpotjoy earn-out payment and Term Facilities (as defined below) payments and interest repayments become due.

As at 31 December 2017, the Group believes it will be able to fund remaining obligations under the Jackpotjoy earn-out payment through internally generated cash. Subject to meeting certain financial covenants, the Group may have the ability to draw on the £13.5 million RCF (as defined below) as a further capital resource.

## 17. 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)
<b>Balance, 1 January 2016</b>	<b>207,158</b>	–	–	–	–	<b>207,158</b>
Principal	–	70,000	90,000	–	–	160,000
Repayment	(26,906)	–	–	–	–	(26,906)
Debt financing costs	–	(2,482)	(6,792)	–	–	(9,274)
Accretion <sup>1</sup>	1,868	16	35	–	–	1,919
Foreign exchange translation	37,896	–	–	–	–	37,896
<b>Balance, 31 December 2016</b>	<b>220,016</b>	<b>67,534</b>	<b>83,243</b>	–	–	<b>370,793</b>
Principal	–	–	–	122,574	250,000	372,574
Repayment	(218,793)	(70,000)	(90,000)	–	–	(378,793)
Debt financing costs	–	–	–	(1,397)	(3,434)	(4,831)
Accretion <sup>1</sup>	7,846	2,466	6,757	8	18	17,095
Foreign exchange translation	(9,069)	–	–	1,718	–	(7,351)
<b>Balance, 31 December 2017</b>	–	–	–	<b>122,903</b>	<b>246,584</b>	<b>369,487</b>
Current portion	–	–	–	–	–	–
<b>Non-current portion</b>	–	–	–	<b>122,903</b>	<b>246,584</b>	<b>369,487</b>

<sup>1</sup> Effective interest rates are as follows: Term Loan – 8.69%, Incremental First Lien Facility – 8.32%, Second Lien Facility – 11.75%, EUR Term Facility – 4.44%, GBP Term Facility – 6.01%.

On 8 April 2015, the Group entered into a credit agreement (as amended and restated from time to time, including on 27 October 2016 and 16 December 2016, the “Credit Agreement”) in respect of: (i) a seven-year USD 335.0 million first lien term loan credit facility (the “Term Loan”); and (ii) a USD 17.5 million revolving credit facility (the “Revolving Facility”, and together with the Term Loan, the “Credit Facilities”).

On 27 October 2016, the Credit Agreement was amended to, among other things, permit the plan of arrangement. On 16 December 2016, the Credit Agreement was further amended and restated to, among other things, establish a £53,276,000 incremental first lien term loan facility and the €20,000,000 first lien term loan facility under the Credit Agreement (collectively, the “Incremental First Lien Facility” and together with the Credit Facilities, the “First Lien Facilities”), permit the incurrence of a £90.0 million second lien term loan facility (the “Second Lien Facility”) pursuant to a second lien credit agreement (the “Second Lien Credit Agreement”), and permit the Jackpotjoy and Starspins contingent consideration pre-payment of £150.0 million.

On 6 December 2017, Jackpotjoy plc entered into a senior facilities agreement (“Senior Facilities Agreement”) pursuant to which debt facilities were made available to Jackpotjoy plc and certain of its subsidiaries in an aggregate sterling equivalent amount of approximately £388,492,000, comprised of (i) a €140,000,000 term facility (the “EUR Term Facility”, (ii) a £250,000,000 term facility (the “GBP Term Facility and, together with the EUR Term Facility, the “Term Facilities”) and (iii) a £13,500,000 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.

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.

Jackpotjoy plc was in compliance with the terms of the Senior Facilities Agreement as at 31 December 2017.

## 18. Financial instruments

### *Financial assets*

	<b>Loans and receivables</b>	
	<b>31 December 2016 (£000's)</b>	<b>31 December 2017 (£000's)</b>
Cash and restricted cash	68,738	59,241
Trade and other receivables	16,763	19,379
Other long-term receivables	2,624	3,528
Customer deposits	8,573	8,180
	<b>96,698</b>	<b>90,328</b>

### *Financial liabilities*

	<b>Financial liabilities at amortised cost</b>	
	<b>31 December 2016 (£000's)</b>	<b>31 December 2017 (£000's)</b>
Accounts payable and accrued liabilities	8,992	17,821
Other short-term payables	15,321	12,151
Other long-term payables	14,505	8,245
Interest payable	633	924
Payable to customers	8,573	8,180
Convertible debentures	3,266	254
Long-term debt	370,793	369,487
	<b>422,083</b>	<b>417,062</b>

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

### *Other financial instruments*

	<b>Financial instruments recognised at fair value through profit or loss – assets (liabilities)</b>	
	<b>31 December 2016 (£000's)</b>	<b>31 December 2017 (£000's)</b>
Cross currency swap	38,171	–
Contingent consideration	(120,187)	(59,583)
Other long-term assets	–	2,076
	<b>(82,016)</b>	<b>(57,507)</b>

### *Fair value hierarchy*

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

	Level 2		Level 3	
	31 December 2016 (£000's)	31 December 2017 (£000's)	31 December 2016 (£000's)	31 December 2017 (£000's)
Cross currency swap	38,171	–	–	–
Other long-term assets	–	2,076	–	–
Contingent consideration	–	–	(120,187)	(59,583)

Other long-term assets represent the fair value of the Conversion Component of the secured convertible 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 1.035%, and an estimated share price return volatility rate of Gaming Realms of 46.5%.

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

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

Without probability and discount factors, the fair value of the contingent consideration would be approximately 12% higher (£7.4 million), than its value at 31 December 2017, increasing the current portion of the contingent consideration, which is composed of the Botemania earn-out payment and the first Jackpotjoy milestone payment, by £5.1 million and increasing the long-term contingent consideration, which is composed of the final Jackpotjoy milestone payments due in 2019 and 2020, by £2.3 million. This assumes that the financial performance of the Jackpotjoy operating segment remains in line with management's expectations.

On 21 June 2017, Jackpotjoy plc made a payment in the amount of £94.2 million for the final earn-out on non-Spanish assets and a first earn-out instalment on the Spanish assets within its Jackpotjoy segment.

As at 31 December 2017, the contingent consideration balance related to the earn-out payment remaining on the Spanish assets included in the Jackpotjoy segment and milestone payments related to the Jackpotjoy segment.

The movement in level 3 financial instruments is detailed below:

	(£000's)
Contingent consideration, 1 January 2016	209,625
Addition	–
Fair value adjustments	49,382
Payments	(156,308)
Accretion of discount	15,545
Foreign exchange translation	1,943
Contingent consideration, 31 December 2016	120,187
Fair value adjustments	27,562
Payments	(94,218)
Accretion of discount	6,052
<b>Contingent consideration, 31 December 2017</b>	<b>59,583</b>
Current portion	51,866
Non-current portion	7,717

## 19. 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 (note 15, 31 December 2016 – £6.0 million), with the discounted value of the remaining balance, being £8.2 million (31 December 2016 – £14.5 million), included in other long-term payables. During the year ended 31 December 2017, the Group has paid a total of £5.3 million (31 December 2016 – £nil) in relation to the additional non-compete clauses.

## 20. Share capital

The share capital movements presented below for periods prior to the date of completion of the plan of arrangement discussed in note 1 are presented as if each common share of The Intertain Group Limited had the same nominal value as the ordinary shares of Jackpotjoy plc. The number of Jackpotjoy plc ordinary shares in issue at the date of the plan of arrangement was 73,718,942.

Jackpotjoy plc does not hold any shares in treasury and there are no shares in Jackpotjoy plc's issued share capital that do not represent capital.

	(£000's)	Ordinary shares of £0.10 #
Balance, 1 January 2016	7,051	70,511,493
Conversion of convertible debentures, net of costs	185	1,853,667
Exercise of options	58	577,492
Exercise of warrants	4	40,625
Balance, 31 December 2016	7,298	72,983,277
Conversion of convertible debentures, net of costs	92	916,498
Exercise of options	17	165,156
<b>Balance, 31 December 2017</b>	<b>7,407</b>	<b>74,064,931</b>

### *Convertible debentures*

During the year ended 31 December 2017 (and prior to completion of the plan of arrangement), debentures at an undiscounted value of £2.3 million were converted into 628,333 common shares of Intertain. Additionally, during the year ended 31 December 2017 (and following the completion of the plan of arrangement), debentures at an undiscounted value of £1.0 million were converted into 288,165 ordinary shares of Jackpotjoy plc.

### *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 Jackpotjoy plc on equivalent terms and subject to the same vesting conditions under Intertain's share option plan. The strike price of each grant has been 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 2017 were as follows:

	Number of options #	Weighted average exercise proceeds (£)
Outstanding, January 1, 2016	2,863,776	5.81
Granted*	1,340,000	6.79
Forfeited	(375,138)	7.48
Exercised	(577,492)	2.42
Outstanding, 31 December 2016	3,251,146	6.62
Forfeited	(58,000)	9.26
Exercised	(165,156)	2.71
<b>Outstanding, 31 December 2017</b>	<b>3,027,990</b>	<b>6.79</b>

\*Options granted expire 5 years from their grant date. The fair value of options granted is determined using the Black-Scholes options pricing model. The key inputs are as follows: expected volatility – 35%, risk-free interest rate – 0.61, term – 5 years, price on grant date and exercise price – £6.79.

#### *Share option plan*

As at 31 December 2017, 2,923,726 options are exercisable (31 December 2016 – 2,449,018). The weighted average remaining contractual life of share options outstanding as at 31 December 2017 is approximately 2.6 years (31 December 2016 – 3.5 years).

During the year ended 31 December 2017, the Group recorded £1.3 million (2016 – £2.3 million) in share-based compensation expense relating to the share option plan with a corresponding increase in share-based payment reserve.

#### *Long-term incentive plan*

On 24 May 2017, Jackpotjoy 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.

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.

Each award under the LTIP is equity-settled and LTIP compensation expense is based on the award’s estimated fair value. The fair value has been estimated using the Black-Scholes model for the EPS Tranche and the Monte Carlo model for the TSR Tranche.

During the year ended 31 December 2017, the Group recorded £0.1 million (2016 – £nil) in LTIP compensation expense, 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 Jackpotjoy 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 Jackpotjoy 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 Jackpotjoy plc has always been the parent company and owned all of the subsidiaries. The balance on the Group's merger reserve of £6,111,000 arises on recognition of the Company's investment in Intertain recorded at the Intertain net asset value on 25 January 2017 as explained in note 1.

#### *Redeemable shares*

The purpose of this reserve is to show redeemable shares issued by Jackpotjoy plc on 15 August 2016 and cancelled following the plan of arrangement transaction described in note 1.

#### *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 and LTIP and recognised in the Consolidated Statement of Comprehensive Income.

#### *Translation reserve*

The purpose of this reserve is to show gains and losses arising on retranslating balances denominated in currencies other than GBP.

#### *Retained (deficit)/earnings*

The purpose of this reserve is to show cumulative net gains and losses recognised in the Consolidated Statements of Comprehensive Income, together with cancelled share premium amounts.

## **21. Capital management**

Jackpotjoy plc defines the capital that it manages as its aggregate shareholders' equity. Its principal source of cash is operating activities, the issuance of common shares, and long-term debt. Jackpotjoy 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, Jackpotjoy plc may attempt to issue new shares, issue new debt, 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.

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 earn-out payments and debt prepayments). Jackpotjoy plc is not subject to any externally imposed capital requirements. Jackpotjoy 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 Jackpotjoy plc's approach to capital management or in the items the Group manages as capital during the year ended 31 December 2017.

## 22. Taxes and deferred taxes

	Year ended 31 December 2016 (£000's)	Year ended 31 December 2017 (£000's)
<b>Current tax expense</b>		
Total current tax on profits for the year	347	1,128
<b>Deferred tax</b>		
Origination and reversal of temporary differences related to business combinations	(411)	(427)
<b>Total tax (credit)/expense</b>	<b>(64)</b>	<b>701</b>

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 2016 (£000's)	Year ended 31 December 2017 (£000's)
Loss for the year before taxes	(40,707)	(67,196)
Tax using Jackpotjoy's domestic tax rate of 19.25% (2016 – 26%)	(10,584)	(12,935)
Effect of different tax rates applied in overseas jurisdictions	(1,726)	9,998
Non-capital loss for which no tax benefit has been recorded	12,374	3,638
<b>Total tax (credit)/expense</b>	<b>(64)</b>	<b>701</b>

As at 31 December 2017, taxes receivable and payable balances consist of taxes owing and recoverable related to the 2016 and 2017 fiscal years.

The Group has unused UK tax losses of approximately £18.9 million (2016 – £nil) 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.

## 23. Contingent liabilities

### *Indirect taxation*

Jackpotjoy plc subsidiaries may be subject to indirect taxation on transactions that have been treated as exempt supplies of gambling, or on supplies that have been zero rated where legislation provides that the services are received or used and enjoyed in the country where the service provider is located. Revenues 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 2017, the Group had recognised £nil liability (31 December 2016 – £nil) related to potential contingent indirect taxation liabilities.

## 24. 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 2016 (£000's)	Year ended 31 December 2017 (£000's)
Salaries, bonuses and benefits*	3,815	3,062
Severance costs	5,695	700
Stock-based compensation	1,147	936
	<b>10,657</b>	<b>4,698</b>

\*Compensation paid to management included in transaction related costs is included in this balance.

### Related party transactions

As disclosed in note 11, the Group entered into loan and services agreements with Gaming Realms plc. Jim Ryan is a Director of both Jackpotjoy plc and Gaming Realms plc. Mr. Ryan recused himself from all discussions related to these agreements.

## 25. Employees

	Year ended 31 December 2016 (£000's)	Year ended 31 December 2017 (£000's)
Wages and salaries*	15,822	12,534
Pensions	80	120
Social security	409	692
Benefits	85	52
	<b>16,396</b>	<b>13,398</b>

\*Wages and salaries figures include severance costs.

The average number of employees on a full-time equivalent basis during the year was as follows:

	31 December 2016 (#)	31 December 2017 (#)
Group	153	209

## 26. Auditors' remuneration

Remuneration of the Company's auditors for the auditing of the financial statements and for other services provided are as follows:

	Year ended 31 December 2016 (£000's)	Year ended 31 December 2017 (£000's)
Audit fees	386	316
Audit related assurance services	137	121
Taxation compliance services	6	10
Taxation advisory services	718	24
Other non-audit services fees	1,410	300
	<b>2,657</b>	<b>771</b>

## 27. 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.

	As at 31 December 2016 (£000's)	As at 31 December 2017 (£000's)
Within one year	664	1,043
Later than one year but not later than 5 years	387	998
	<b>1,051</b>	<b>2,041</b>

During year ended 31 December 2017, the Group incurred £0.9 million (2016 – £0.6 million) in operating lease expenses.

## 28. Recent accounting pronouncements

The Group has not adopted any new accounting standards since 31 December 2016.

### *Recent accounting pronouncements – not yet effective*

#### *IFRS 9 – Financial Instruments*

The IASB issued IFRS 9 relating to the classification and measurement of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (i.e. its business model) and the contractual cash flow characteristics of such financial assets. IFRS 9 also includes a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. IFRS 9 will be applied retrospectively for annual periods beginning on or after 1 January 2018, with early adoption permitted.

Management completed a review of the potential changes and impact of applying this standard on the Group's financial information and concluded that:

- it remains appropriate for the Group to continue measuring its loans and receivables, as well as its financial liabilities at amortised cost;
- it remains appropriate for the Group to continue measuring its contingent consideration at fair value through profit and loss; and
- in relation to its financial assets, the Group will no longer separate the embedded derivative from its host contract.

The Group will not be applying IFRS 9 prior to its effective date.

#### *IFRS 15 – Revenues from Contracts with Customers*

IFRS 15 affects any entity that enters into contracts with customers. This IFRS will supersede the revenue recognition requirements in IAS 18 and most industry-specific guidance. On 27 July 2015, the IASB decided to postpone the initial 1 January 2017 effective date to 1 January 2018 with early adoption permitted.

Management completed a review of the potential changes and impact of applying this standard on the Group's financial information and concluded that the new pronouncement will not impact the Group's revenue recognition policy as the Group's current policy is already in compliance with the key principles outlined in the new pronouncement.

#### *IFRS 16 – Leases*

In January 2016, the IASB issued IFRS 16 – *Leases*, which replaces IAS 17 – *Leases and related interpretations*. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. The distinction between operating leases and finance leases is removed from the perspective of a lessee. IFRS 16 will be applied retrospectively for annual periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 has also been applied.

Management completed a review of the potential changes and impact of applying this standard on the Group's financial information and concluded that, while the Group will have to start presenting its operating leases on its Consolidated Balance Sheets, the impact of this change will not be material as the Group does not have a large number of such leases.

The Group will not be applying IFRS 16 prior to its effective date.

## **29. Subsequent events**

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

On 18 June 2018 the Company made the final earnout payment for Botemania, its Spanish business within the Jackpotjoy division. This final payment as well as a first milestone payment amounted to £63.5 million and was comfortably met by existing cash resources.

**SECTION C: CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE TWO YEARS ENDED 31 DECEMBER 2016**

**CONSOLIDATED BALANCE SHEETS (Canadian dollars)**

	Note	As at 31 December 2015 (\$'000s)	As at 31 December 2016 (\$'000s)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	5	64,816	113,439
Restricted cash	5	357	419
Prepaid expenses		1,561	1,602
Customer deposits		13,309	14,201
Receivables	6	33,680	26,081
Current portion of cross currency swap	7,12	1,555	63,226
Taxes receivable		15,050	11,317
<b>Total current assets</b>		<b>130,328</b>	<b>230,285</b>
Tangible assets		475	1,411
Intangible assets	8	776,371	583,837
Goodwill	8	588,387	490,877
Cross currency swap	7	8,106	–
Other long-term receivables		2,687	4,346
<b>Total non-current assets</b>		<b>1,376,026</b>	<b>1,080,471</b>
<b>Total assets</b>		<b>1,506,354</b>	<b>1,310,756</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	9	12,720	14,894
Other short-term payables	10	1,083	25,377
Interest payable		–	1,049
Payable to customers		13,309	14,201
Current portion of long-term debt	11	51,345	44,218
Current portion of contingent consideration	12	12,237	143,946
Provision for taxes		20,069	12,825
<b>Total current liabilities</b>		<b>110,763</b>	<b>256,510</b>
Contingent consideration	12	415,545	55,131
Other long-term liabilities	13	–	24,026
Deferred tax liability		3,986	3,142
Convertible debentures	15	14,827	5,410
Long-term debt	11	371,404	569,964
<b>Total non-current liabilities</b>		<b>805,762</b>	<b>657,673</b>
<b>Total liabilities</b>		<b>916,525</b>	<b>914,183</b>
<b>Equity</b>			
Shareholders' equity		589,829	396,573
<b>Total equity</b>		<b>589,829</b>	<b>396,573</b>
<b>Total liabilities and equity</b>		<b>1,506,354</b>	<b>1,310,756</b>

*See accompanying notes*

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Canadian dollars)**

	Note	Share capital (\$'000s)	Contributed surplus (\$'000s)	Reserve (\$'000s)	Hedging reserve (\$'000s)	Retained earnings/ (deficit) (\$'000s)	Total (\$'000s)
<b>Balance at 1 January 2015</b>		<b>201,147</b>	<b>7,095</b>	<b>2,901</b>	–	<b>(27,504)</b>	<b>183,639</b>
<b>Comprehensive income/(loss) for the year</b>							
Net loss for the year		–	–	–	–	(226,873)	(226,873)
Foreign currency translation gain		–	–	–	3,017	–	3,017
Reclassification of realized gain		–	–	–	(3,017)	–	(3,017)
Other comprehensive income		–	–	66,950	–	–	66,950
<b>Total comprehensive income (loss) for the year</b>		–	–	<b>66,950</b>	–	<b>(226,873)</b>	<b>(159,923)</b>
<b>Contributions by and distributions to shareholders</b>							
Issuance of common shares, net of costs		588,398	–	–	–	–	588,398
Conversion of debentures		427	–	–	–	–	427
Exercise of common share warrants		3,501	–	–	–	–	3,501
Exercise of common share options		43	–	–	–	–	43
Normal course issuer bid		(31,880)	–	–	–	–	(31,880)
Share-based compensation		–	5,624	–	–	–	5,624
<b>Total contributions by and distributions to shareholders</b>		<b>560,489</b>	<b>5,624</b>	–	–	–	<b>566,113</b>
<b>Balance at 1 January 2016</b>		<b>761,636</b>	<b>12,719</b>	<b>69,851</b>	–	<b>(254,377)</b>	<b>589,829</b>
<b>Comprehensive loss for the year</b>							
Net loss for the year		–	–	–	–	(69,657)	(69,657)
Other comprehensive loss		–	–	(140,407)	–	–	(140,407)
<b>Total comprehensive loss for the year</b>		–	–	<b>(140,407)</b>	–	<b>(69,657)</b>	<b>(210,064)</b>
<b>Contributions by and distributions to shareholders:</b>							
Conversion of convertible debentures	15	10,179	–	–	–	–	10,179
Exercise of options	15	2,985	(675)	–	–	–	2,310
Exercise of common share warrants	15	376	–	–	–	–	376
Share-based compensation	15	–	3,943	–	–	–	3,943
<b>Total contributions by and distributions to shareholders</b>		<b>13,540</b>	<b>3,268</b>	–	–	–	<b>16,808</b>
<b>Balance at 31 December 2016</b>		<b>775,176</b>	<b>15,987</b>	<b>(70,556)</b>	–	<b>(324,034)</b>	<b>396,573</b>

*See accompanying notes*

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Canadian dollars)**

		Year ended 31 December 2015 (\$'000s)	Year ended 31 December 2016 (\$'000s)
	Note		
<b>Revenue and other income</b>			
Gaming revenue		365,492	477,864
Other income earned from revenue guarantee		18,973	2,320
Other income earned from platform migration		–	1,709
<b>Total revenue and other income</b>		<b>384,465</b>	<b>481,893</b>
<b>Costs and expenses</b>			
Distribution costs	18,20	200,050	233,732
Administrative costs	18	150,907	172,061
Severance costs	18,20	–	10,526
Transaction related costs	18,20	57,343	39,631
Goodwill impairment	8	36,670	–
Foreign exchange loss	20	1,423	5,708
<b>Total costs and expenses</b>		<b>446,393</b>	<b>461,658</b>
<b>Gain on sale of intangible assets</b>		<b>(430)</b>	<b>–</b>
Debt settlement expense		5,692	–
Fair value adjustments on contingent consideration	12	120,779	86,448
Unrealized gain on cross currency swap	7	(9,661)	(60,730)
Interest income	19	(619)	(276)
Interest expense	19	48,100	64,506
<b>Financing expenses</b>		<b>164,291</b>	<b>89,948</b>
<b>Net loss for the year before taxes</b>		<b>(225,789)</b>	<b>(69,713)</b>
Current tax provision	17	1,974	676
Deferred tax recovery	17	(890)	(732)
<b>Net loss for the year</b>		<b>(226,873)</b>	<b>(69,657)</b>
<b>Other comprehensive income (loss): items that will or may be reclassified to profit or loss in subsequent periods</b>			
Foreign currency translation gain (loss)		66,950	(140,407)
Gain on foreign exchange forward		3,017	–
Reclassification of gain on foreign exchange forward		(3,017)	–
<b>Total comprehensive loss for the year</b>		<b>(159,923)</b>	<b>(210,064)</b>
<b>Net loss for the year per share</b>			
Basic	21	\$(3.71)	\$(0.98)
Diluted	21	\$(3.71)	\$(0.98)

*See accompanying notes*

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Canadian dollars)**

		Year ended 31 December 2015 (\$'000s)	Year ended 31 December 2016 (\$'000s)
	Note		
<b>Operating activities</b>			
Net loss for the year		(226,873)	(69,657)
<i>Add (deduct) items not involving cash</i>			
Amortization		100,320	100,508
Share-based compensation	15	5,624	3,943
Tax provision		1,974	676
Deferred tax recovery		(890)	(732)
Interest expense, net	19	47,481	64,230
Gain on sale of intangible assets		(430)	–
Fair value adjustments on contingent consideration	12	120,779	86,448
Debenture settlement expense		5,692	–
Unrealized gain on cross currency swap	7	(9,661)	(60,730)
Goodwill impairment	8	36,670	–
Foreign exchange loss		1,423	5,708
		<b>82,109</b>	<b>130,394</b>
<b>Change in non-cash operating items</b>			
Prepaid expenses		(732)	132
Receivables		(21,806)	6,037
Other long term receivables		(2,753)	(2,086)
Accounts payable and accrued liabilities		(1,334)	3,324
Other short-term payables		(6,228)	14,346
		<b>49,256</b>	<b>152,147</b>
<b>Cash provided by operating activities</b>			
Income taxes paid		(991)	(11,998)
Income taxes received		–	9,933
		<b>48,265</b>	<b>150,082</b>

	Year ended 31 December 2015 (\$'000s)	Year ended 31 December 2016 (\$'000s)
<b>Financing activities</b>		
Restriction of cash balances	29	–
Proceeds from exercise of warrants	3,501	376
Proceeds from exercise of options	43	2,310
Proceeds from issuance of common shares, net	462,887	–
Normal course issuer bid	(31,880)	–
Proceeds from long-term debt	11 399,986	247,751
Proceeds from cross currency swap	–	6,547
Debenture redemption	(54,317)	–
Bridge loan redemption	(10,000)	–
Vendor take-back loans – repayment	(13,452)	–
Interest repayment	(24,666)	(31,480)
Payment of contingent consideration	12 (25,729)	(258,654)
Principal payments made on long-term debt	11 (21,418)	(48,329)
<b>Total cash provided by (used in) financing activities</b>	<b>684,984</b>	<b>(81,479)</b>
Investing activities		
Purchase of tangible assets	(282)	(1,146)
Purchase of intangible assets	(2,144)	(3,345)
Proceeds from sale of intangible assets	430	–
Cash paid to acquire license	(2,873)	–
Business acquisitions, net of cash acquired	(694,816)	–
<b>Total cash used in investing activities</b>	<b>(699,685)</b>	<b>(4,491)</b>
<b>Net increase in cash during the period</b>	<b>33,564</b>	<b>64,112</b>
Cash, beginning of period	31,252	64,816
Foreign exchange loss on cash and cash equivalents	–	(15,489)
<b>Cash, end of period</b>	<b>64,816</b>	<b>113,439</b>

*See accompanying notes*

## NOTES TO THE CONSOLIDATED HISTORICAL FINANCIAL INFORMATION OF THE GROUP FOR THE TWO YEARS ENDED 31 DECEMBER 2016

### 1. Corporate information

The Intertain Group Limited (“Intertain”) was incorporated pursuant to the provisions of the *Business Corporations Act* (Ontario) on 26 November 2010. Intertain’s registered office is located at 24 Duncan Street, Floor 2, Toronto, Ontario, Canada. Intertain is an online gaming company that provides entertainment to a global consumer base. Intertain currently offers bingo, casino and other games to its customers using the Costa Bingo, Vera&John, Vera&Juan, Jackpotjoy, Starspins, Botemania, InterCasino, and other brands. The Jackpotjoy, Starspins, and Botemania brands operate off proprietary software owned by the Gamesys group, Intertain’s B2B software and support provider. The Vera&John, Vera&Juan, and InterCasino brands operate off proprietary software owned by a wholly-owned subsidiary of Intertain. The Mandalay segment’s bingo offerings operate off the Dragonfish platform, a software service provided by the 888 Group. Additionally, Intertain receives fees for marketing services provided by its affiliate portal business.

On 23 September 2016, Intertain announced that its shareholders approved a plan of arrangement (the “Arrangement”) which would help facilitate the implementation of Intertain’s comprehensive UK-centred strategic initiatives (the “UK Strategic Initiatives”). These initiatives included a proposed London listing of the newly-incorporated London-headquartered UK company named Jackpotjoy plc, which entity would become the parent company for the Intertain group under the Arrangement.

On 25 January 2017, the Arrangement was completed, causing Intertain to become an indirect subsidiary of the new parent company, Jackpotjoy plc. Additionally, Jackpotjoy plc was admitted to the standard listing segment of the Official List of the UK’s Financial Conduct Authority and began trading on the Main Market for listed securities of the London Stock Exchange plc, under the ticker symbol “**JPJ**”. Intertain’s common shares were de-listed from the Toronto Stock Exchange (the “TSX”). Exchangeable shares issued by Intertain pursuant to the Arrangement also began trading on the TSX under the ticker symbol “**ITX**”.

The consolidated financial statements for the year ended 31 December 2016 were authorized for issue by the Board of Directors on 28 March 2017.

### 2. Basis of preparation

#### *Basis of presentation*

This consolidated financial information has been prepared under the historical cost convention other than for the measurement at fair value of certain financial liabilities.

This consolidated financial information has been prepared by management on a going concern basis, in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). As at 31 December 2016 Intertain has consolidated current assets and current liabilities of \$230.3 million and \$256.5 million respectively giving rise to a net current liability of \$26.2 million. Included in current liabilities is current contingent consideration of \$143.9 million. As detailed in note 12, Intertain is only required to fund this liability to the extent it has excess and available cash to do so.

#### *Basis of consolidation*

Intertain’s consolidated financial information consolidate the parent company and all of its subsidiaries. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All transactions and balances between companies are eliminated on consolidation.

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

Intercompany transactions, balances, income and expenses on transactions between Intertain’s subsidiaries are eliminated. Profit and losses resulting from intercompany transactions that are recognized in assets are also eliminated.

The principal subsidiaries of Intertain, all of which have been included in these consolidated financial information and are wholly owned by Intertain, are as follows:

<u>Name of business</u>	<u>Country of incorporation and principal place of business</u>
Intertain Holdings Inc.	Canada
JPJ Holding Jersey Limited	Jersey
JPJ Jersey Limited	Jersey
Wagerlogic Malta Holdings Ltd.	Malta
Cryptologic Operations Ltd.	Malta
Cryptologic Trading Ltd.	Malta
Wagerlogic Alderney Ltd.	Alderney
Wagerlogic Bahamas Ltd.	Bahamas
Wagerlogic Israel Ltd.	Israel
Mandalay Media Ltd.	Bahamas
Jet Management Group Ltd.	Bahamas
Jet Media Ltd.	Gibraltar
Ramona Investments Limited	Turks and Caicos
Intertain Management (UK) Ltd.	UK
Dumarca Holdings Ltd.	Malta
Dumarca Services Ltd.	Malta
Dumarca Gaming Ltd.	Malta
Plain Support SA	Costa Rica
Dumarca Asia Ltd.	Hong Kong
Simplicity V8 Hong Kong Ltd.	Hong Kong
Intertainment Asia Inc.	BVI
Silverspin AB	Sweden
Entserv Asia Ltd.	BVI
Intertain Financial Services AB	Sweden
Intertain Bahamas Ltd.	Bahamas
Fifty States Limited	Isle of Man
Fifty States (Gibraltar) Limited	Gibraltar
Intertain Group Finance LLC	USA
Bei Jing Chen Rui Bo Technology Co, Ltd.	China

### 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 Intertain, 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 finalized 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 Intertain. 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 recognized in net income. Acquisition-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 Intertain'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 Chief Executive Officer and the Chief Financial Officer.

### ***Revenue recognition***

Intertain earns its revenue from operating online casino and bingo websites, and affiliate services. Revenues from online bingo and casino consists of the difference between total amount wagered by players less all winnings payable to players, bonuses allocated, and jackpot contributions (“Net Revenue”). Affiliate services revenue is derived from affiliate services provided to gaming operators. The commission revenue is calculated in line with the contracts, typically based on fixed price per player and is recognized to the extent that its probable economic benefits will flow to Intertain and the revenue can be reliably measured. Revenue is recognized in the accounting periods in which the transactions occur.

### ***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 Intertain for the asset or liability.

Intertain uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial information are categorized 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.

Intertain determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

### ***Foreign currency translation***

#### ***Functional and presentation currency***

Intertain’s consolidated financial information is presented in Canadian dollars. Each company in the group determines its own functional currency and items included in the consolidated financial information of each subsidiary are measured using that functional currency. Differences arising on the retranslation of subsidiaries whose functional currency is not Canadian dollars are recorded in other comprehensive income.

#### ***Foreign currency transactions and balances***

Foreign currency transactions are translated into the functional currency of the respective entity of Intertain, using the exchange rates prevailing at the dates of the transactions (spot rate). 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 recognized 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***

Financial assets and financial liabilities are recognized when Intertain becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled, or when it expires.

Intertain classifies its financial assets and liabilities under the following categories: fair value through profit or loss (“FVTPL”), loans and receivables, and financial liabilities at amortized cost. All financial instruments are recognized initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of a financial instrument classified as other than at FVTPL are added to the carrying amount of the asset or liability.

#### *Fair value through profit or loss*

Financial instruments classified as FVTPL include contingent consideration and a cross currency swap derivative financial instrument. Any gains or losses are recorded in net income in the period in which they arise.

#### *Loans and receivables*

Loans and receivables 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 amortized cost using the effective interest rate (EIR) method, less impairment. Amortized 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 amortization is included in interest income or expense in the Consolidated Statements of Comprehensive Income. This category generally applies to cash, restricted cash, customer deposits, receivables, and long-term receivables.

#### *Financial liabilities at amortized cost*

With the exception of contingent consideration and derivatives, all financial liabilities are measured at amortized 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, convertible debentures, long-term debt, and other long term liabilities. All interest-related charges are reported in profit or loss within interest expense.

#### *Impairment of financial assets*

Intertain 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 impaired when there is objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- a breach of contract such as a default of interest or principal payment; or
- increased probability that the borrower will enter into a bankruptcy or financial reorganization.

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 Statements of Comprehensive Income within administrative costs, if applicable.

#### *Compound financial instruments*

Intertain’s compound financial instruments comprise of convertible debentures that can be converted to equity at the option of the holder, and the number of shares to be issued does not vary with changes in fair value. As a result, the instrument is composed of a liability component and an equity component. The liability component is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The residual amount between the total fair value of the convertible debenture and the fair value of the liability component is allocated on initial recognition to equity and recognized as a reserve in equity. Any directly attributable transaction costs are allocated to the liability and the equity component in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the convertible debentures is measured at amortized cost using the effective interest method. The equity components of the convertible debentures are not re-measured subsequent to initial recognition.

#### *Offsetting of financial instruments*

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

### *Derivative financial instruments*

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

### *Income taxes*

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized 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 recognized 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 recognized 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 realized or the liability settled.

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

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that Intertain 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 and excludes restricted cash.

The effect on the Consolidated Statements of Cash Flows of restrictions either taking effect on, or being lifted from, cash balances is 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 in cash (such as cash, which is obtained for the financing of business combinations becoming restricted) are treated as a financing 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 amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization 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 amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization expense is reflected in the Consolidated Statements of Comprehensive Income. Amortization 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 licenses	5% per annum
Software	20% 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 amortized, 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 cost to sell (measured according to level 3 in the fair value hierarchy) in 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 recognized 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.

#### ***Share-based compensation***

Compensation expense for equity settled stock options awarded under the plan is measured at the fair value at the grant date using the Black-Scholes valuation model and is recognized using the graded vesting method over the vesting period of the options granted. Compensation expense recognized is adjusted to reflect the number of options that has been estimated by management for which conditions attaching to service will be fulfilled as of the grant date until the vesting date so that the ultimately recognized expense corresponds to the options that have actually vested. The compensation expense credit is attributed to contributed surplus when the expense is recognized 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 Intertain 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 recognized when Intertain 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 recognized as an intangible asset when Intertain 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.
- 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 amortization and accumulated impairment losses. Amortization of the asset begins the same month the asset is recognized and is amortized over the period of expected future economic benefit to Intertain. During the period of development, the asset is tested for impairment annually.

### ***Leases***

Intertain has classified its rental leases as operating leases. Operating lease payments are recognized on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed, in which case that systematic basis is used. 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 capitalized.

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.

## **4. Summary of significant accounting estimates and assumptions**

The preparation of Intertain's consolidated financial information requires management to make judgments, 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 judgments 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 recognized 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 judgment 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 judgment 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, Intertain may include contingent consideration which is subject to the acquired company achieving certain performance targets. At each reporting period, Intertain 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 or amounts payable under these arrangements.

### ***Goodwill and intangible assets***

Goodwill and intangible assets are reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. Management uses judgment in estimating the recoverable values of Intertain'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***

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

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 Intertain 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 Intertain group, the contingency is not recognized as a liability at the balance sheet date.

## **5. Cash and restricted cash**

	<b>As at 31 December 2015 (\$'000s)</b>	<b>As at 31 December 2016 (\$'000s)</b>
Cash	43,645	55,586
Segregated cash*	21,171	57,853
Cash and cash equivalents	64,816	113,439
Restricted cash – other	357	419
<b>Total cash balances</b>	<b>65,173</b>	<b>113,858</b>

\* This balance consists of cash on deposit with payment service providers, as well as segregated funds held in accordance with the terms of the Jackpotjoy earn-out payment, where Intertain is required to segregate 90% (April 2015 – March 2016 – 65%) of Intertain's excess cash flow, less mandatory repayments of Intertain's long-term debt, and earn-out payments, in a non-operational bank account. £34.7 million is held in this account as at 31 December 2016 (£9.0 million as at 31 December 2015). Segregated cash does not qualify as restricted cash and, as such, it is included in cash.

The restricted cash balance as at 31 December 2016 totalled \$0.4 million and consisted of cash held as collateral on Intertain's leased premises.

## 6. Receivables

Receivables consist of the following items:

	As at 31 December 2015 (\$'000s)	As at 31 December 2016 (\$'000s)
Due from Amaya Inc.	10,661	–
Due from the Gamesys group	15,505	15,308
Due from the 888 Group	3,074	2,691
Affiliate revenue receivable	3,217	2,925
Short-term loans receivable	559	947
Swap-related receivable	–	3,226
Other	664	984
	<u>33,680</u>	<u>26,081</u>

## 7. Cross currency swap

On 23 November 2015, Intertain entered into a cross currency swap agreement (the “Currency Swap”) in order to minimize Intertain’s exposure to exchange rate fluctuations between the Great British Pound (“GBP”) and the US dollar (“USD”) as cash generated from Intertain’s operations is largely in GBP, while a portion of the principal and interest payments on Intertain’s Credit Facilities are in USD. Under the Currency Swap, 90% of Intertain’s USD Credit Facilities’ interest and principal payments will be swapped into GBP. Intertain will pay a fixed 7.81% interest in place of floating USD interest payments of LIBOR plus 6.5% (LIBOR floor of 1%). The interest and principal payments will be made at a GBP/USD foreign exchange rate of 1.5135 on a USD notional amount of \$293,962,500. The Currency Swap expires on 31 March 2017. Intertain has elected not to use hedge accounting in accounting for the Currency Swap.

During the year ended 31 December 2016, an unrealized gain of \$60.7 million, was recognized in the Consolidated Statements of Comprehensive Income related to the Currency Swap. As at 31 December 2016 a portion of the gain has been realized upon repayment of the mandatory minimum principal and interest balances owing on Intertain’s USD loan. The fair value of the Currency Swap at 31 December 2016 was \$63.2 million (31 December 2015 – \$9.7 million).

On 28 March 2017, Intertain terminated the Currency Swap and realized total proceeds of USD \$42.6 million and subsequently entered into a new cross currency swap agreement (the “New Currency Swap”) Under the New Currency Swap, 50% of Intertain’s USD Credit Facilities interest and principal payments will be swapped into GBP. Intertain will pay a fixed 7.4% interest in place of floating USD interest payments of LIBOR plus 6.5% (LIBOR floor of 1%). The interest and principal payments will be made at a GBP/USD foreign exchange rate of 1.2584 on a USD notional amount of \$136,768,333. The Currency Swap expires on 30 September 2019.

## 8. Intangible assets

### As at 31 December 2015

	Gaming licenses (\$000's)	Customer relationships (\$000's)	Software (\$000's)	Revenue guarantee (\$000's)	Brand (\$000's)	Partnership agreements (\$000's)	Goodwill (\$000's)	Total (\$000's)
<b>Cost</b>								
Balance, 1 January 2015	135	96,990	27,726	6,860	21,851	–	148,801	302,363
Additions	–	531,365	5,163	–	105,265	24,078	415,708	1,081,579
Translation	21	60,385	2,160	1,323	12,231	2,248	60,548	138,916
<b>Balance, 31 December 2015</b>	<b>156</b>	<b>688,740</b>	<b>35,049</b>	<b>8,183</b>	<b>139,347</b>	<b>26,326</b>	<b>625,057</b>	<b>1,522,858</b>
<b>Accumulated amortization</b>								
Balance, 1 January 2015	20	8,692	63	6,108	320	–	–	15,203
Amortization	25	84,876	6,273	828	4,889	3,083	–	99,974
Goodwill impairment	–	–	–	–	–	–	36,670	36,670
Translation	1	4,295	353	1,247	261	96	–	6,253
<b>Balance, 31 December 2015</b>	<b>46</b>	<b>97,863</b>	<b>6,689</b>	<b>8,183</b>	<b>5,470</b>	<b>3,179</b>	<b>36,670</b>	<b>158,100</b>
<b>Carrying value</b>								
<b>Balance, 31 December 2015</b>	<b>110</b>	<b>590,877</b>	<b>28,360</b>	<b>–</b>	<b>133,877</b>	<b>23,147</b>	<b>588,387</b>	<b>1,364,758</b>

### As at 31 December 2016

	Gaming licenses (\$000's)	Customer relationships (\$000's)	Software (\$000's)	Revenue guarantee (\$000's)	Brand (\$000's)	Partnership agreements (\$000's)	Non- compete clauses (\$000's)	Goodwill (\$000's)	Total (\$000's)
<b>Cost</b>									
Balance, 1 January 2016	156	688,740	35,049	8,183	139,347	26,326	–	625,057	1,522,858
Additions	–	–	3,296	–	–	–	33,998	–	37,294
Expiry	–	–	–	(8,183)	–	–	–	–	(8,183)
Translation	–	(124,028)	(2,453)	–	(23,310)	(4,957)	(158)	(98,604)	(253,510)
<b>Balance, 31 December 2016</b>	<b>156</b>	<b>564,712</b>	<b>35,892</b>	<b>–</b>	<b>116,037</b>	<b>21,369</b>	<b>33,840</b>	<b>526,453</b>	<b>1,298,459</b>
<b>Accumulated amortization</b>									
Balance, 1 January 2016	46	97,863	6,689	–	5,470	3,179	–	36,670	149,917
Amortization	17	85,150	6,615	–	6,225	2,213	–	–	100,220
Translation	(7)	(22,655)	(1,033)	–	(891)	(712)	–	(1,094)	(26,392)
<b>Balance, 31 December 2016</b>	<b>56</b>	<b>160,358</b>	<b>12,271</b>	<b>–</b>	<b>10,804</b>	<b>4,680</b>	<b>–</b>	<b>35,576</b>	<b>223,745</b>
<b>Carrying value Balance, 31 December 2016</b>									
	<b>100</b>	<b>404,354</b>	<b>23,621</b>	<b>–</b>	<b>105,233</b>	<b>16,689</b>	<b>33,840</b>	<b>490,877</b>	<b>1,074,714</b>

The above intangible assets and goodwill arose from business combinations, with the exception of the non-compete clauses (\$34.0 million), software developed by the Vera&John segment (\$5.4 million) and purchase of the Parlay source code (\$2.9 million).

During the year ended 31 December 2016, no amortization charge has been recognized on the non-compete clauses as the clauses do not come into effect until April 2017.

Intertain's revenue guarantee intangible asset was fully amortized prior to 31 December 2015 and expired in February 2016.

#### **Goodwill impairment testing**

For the purpose of the annual impairment test, goodwill has been allocated to each operating segment of the business.

In April 2016, the InterCasino brand migrated from the Amaya platform to the Plain Gaming platform, Vera&John's proprietary platform. As a result of this operational change, Intertain concluded that InterCasino no longer generated independent cash flows and, therefore, no longer met the definition of a CGU under IAS 36 —

*Impairment of Long-term Assets.* Due to this change, InterCasino's goodwill has now been coupled with Vera&John's and impairment is tested based on the combined value.

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 22% (2015 – 25%) and cash flows beyond the five-year period are extrapolated using a 2.5% (2015 – 2.5%) growth rate.

The recoverable amount of the Mandalay 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 16% (2015 – 20%) and cash flows beyond the five-year period are extrapolated using a 2.5% (2015 – 2.5%) growth rate. A 19% increase in pre-tax discount rate applied to the Mandalay cash flow projections would cause Mandalay's carrying value to equal its fair value.

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 18% (2015 – 19.5%) and cash flows beyond the five-year period are extrapolated using a 2.5% (2015 – 2.5%) growth rate.

As at 31 December 2016, there was no indication of impairment of goodwill.

## 9. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following items:

	As at 31 December 2015 (\$000's)	As at 31 December 2016 (\$000's)
Affiliate/marketing expenses payable	6,041	5,065
Payable to game suppliers	2,679	1,573
Compensation payable	1,394	4,951
Loyalty program payable	514	430
Professional fees	721	578
Gaming tax payable	379	871
Other	992	1,426
	<b>12,720</b>	<b>14,894</b>

## 10. Other short-term payables

Other short-term payables consist of:

	As at 31 December 2015 (\$000's)	As at 31 December 2016 (\$000's)
Transaction related payables	1,083	15,439
Current portion of other long-term payables ( <i>Note 13</i> )	–	9,938
	<b>1,083</b>	<b>25,377</b>

## 11. Credit facilities

On 8 April 2015, Intertain entered into a credit agreement (as amended and restated from time to time, including on 27 October 2016 and 16 December 2016, the "Credit Agreement") in respect of: (i) a seven-year U.S.\$335.0 million first-lien term loan credit facility (the "Term Loan"); and (ii) a U.S.\$17.5 million revolving credit facility (the "Revolving Facility", and together with the Term Loan, the "Credit Facilities").

On 27 October 2016, the Credit Agreement was amended to, among other things, permit the plan of arrangement. On 16 December 2016, the Credit Agreement was further amended and restated to, among other things, establish a £53,276,000 incremental first lien term loan facility and the €20 million first lien term loan facility under the Credit Agreement (collectively, the "Incremental First Lien Facility" and together with the Credit Facilities, the

“First Lien Facilities”), permit the incurrence of a £90 million second lien term loan facility (the “Second Lien Facility”) pursuant to a second lien credit agreement (the “Second Lien Credit Agreement”), and permit the contingent consideration pre-payment of £150 million.

The Credit Facilities bear an annual interest rate of either (i) the applicable LIBOR (adjusted to reflect any applicable mandatory statutory reserves and, in the case of the Term Loan and the term loans made under the Incremental First Lien Facility, subject to a 1% floor), plus a margin of 6.50%, if LIBOR is elected based on current market conditions; or (ii) an adjusted base rate (being the greater of the applicable prime rate, the applicable federal funds rate plus 0.05%, one month US\$ LIBOR plus 1% and, in the case of the Term Loans, 2%), plus a margin of 5.50%, if the base rate is elected based on current market conditions.

The Second Lien Facility bears an interest rate of applicable LIBOR (adjusted to reflect any applicable mandatory statutory reserves and subject to a 1% floor) plus a margin of 9% per annum.

The First Lien Facilities mature on 8 April 2022 and the Second Lien Facility matures on 16 December 2022.

The First Lien Facilities and the Second Lien Facility are guaranteed by each of Intertain’s existing and subsequently acquired or formed wholly-owned direct and indirect subsidiaries, subject to certain exceptions (together with Intertain, the “Credit Parties” and each, a “Credit Party”). The obligations of each Credit Party in respect of the First Lien Facilities and the Second Lien Facility are secured by a perfected first priority security interest and a perfected second priority security interest, respectively (subject to certain permitted liens) in each of the Credit Parties’ tangible and intangible assets (except for certain rights, to the extent prohibited by applicable law).

Intertain is required to repay the principal amount of the Term Loan by making quarterly instalment payments equal to 2.50% (being 10.00% per annum) of the initial principal amount with the remaining principal balance due on 8 April 2022. In addition to the quarterly instalment payments, Intertain is also required to apply, on an annual basis, an amount equal to 50% of the excess cash flow of Intertain to the principal repayment of the Term Loan and the term loans made under the Incremental First Lien Facility. Excess cash flow in any excess cash flow period (i.e. 30 September 2015 to 31 December 2015 and then each fiscal year thereafter) is calculated by determining the Earnings Before Income Taxes, Depreciation and Amortization (“EBITDA”) of Intertain on a consolidated basis for such period, less, without duplication, debt service, capital expenditures, permitted business acquisitions and investments, taxes paid in cash, increases in working capital, cash expenditures in respect of swap agreements, any extraordinary, unusual or nonrecurring loss, income or gain on asset dispositions, and plus, without any duplication, decreases in working capital, capital expenditures funded with the proceeds of the issuance of debt or the issuance of equity, cash payments received in respect of swap agreements, any extraordinary, unusual or nonrecurring gain realized in cash and cash interest income to the extent deducted in the computation of EBITDA.

The percentage of Intertain’s excess cash flow allocated to the principal repayment of the Term Loan may be reduced based on the total leverage ratio (i.e. consolidated debt to EBITDA) of Intertain at the end of the applicable cash flow period such that it will be:

- 25% if the total leverage ratio is less than 3.50 to 1.00 but is greater than 2.00 to 1.00.
- 0% if the total leverage ratio is less than or equal to 2.00 to 1.00.

The positive and negative covenants contained in the Credit Agreement include, among other things restrictions on Intertain and (subject to certain exceptions) its subsidiaries: (i) incurring further indebtedness (including preferred stock), liens and guarantees; (ii) fundamental changes to the nature of Intertain’s business (e.g. mergers, acquisitions, re-organisations and asset sales); (iii) payment of dividends, the making of distributions in respect of capital stock and certain other restricted payments (provided that other exceptions, dividends, distributions and certain other restricted payments are permitted in an unlimited amount subject to satisfaction of a total leverage ratio of no greater than 2.75:1 on a pro forma basis, payment in full of the Jackpotjoy and Starspins earn-out and there being no default (as defined in Credit Agreement) existing at the time of such dividend, distribution or other restricted payment being made and no default resulting therefrom); (iv) use of proceeds; (v) investment loans and advances; (vi) optional payments and modifications of contractually subordinated debt instruments and certain other debt instruments; (vii) transactions with affiliates; (viii) sale and leasebacks; (ix) changes in fiscal year; (x) changes in lines of business; (xi) pension matters; and (xii) speculative hedging, in each case subject to important exceptions.

The positive and negative covenants to which Intertain and certain of its subsidiaries are subject in respect of the Second Lien Facility are substantially consistent with those under the Credit Agreement, with adjustments to reflect the second lien nature of the facility. Certain prepayments and repayments during the first, second and third years following the closing of the Second Lien Facility are subject to a prepayment premium equal to a customary make-whole premium (for the first year), 2% (for the second year) and 1% (for the third year), in each case, on the amount prepaid or repaid.

Intertain was in compliance with covenants contained in the Credit Agreement and Second Lien Credit Agreement as at 31 December 2016 and throughout the year.

During the year ended 31 December 2016, Intertain incurred an interest cash expense of \$31.9 million (31 December 2015 – \$24.1 million) relating to the credit facilities and \$0.1 million (31 December 2015 – \$0.09 million) of unused commitment fees related to the \$17.5 million USD revolving facility, as Intertain did not draw any funds from the revolving facility.

Below is the breakdown of the credit facilities, net of unamortized transaction costs of \$28.0 million as at 31 December 2016 (31 December 2015 – \$17.8 million):

	<b>Term Loan</b>	<b>Incremental First Lien Facility</b>	<b>Second Lien Facility</b>	<b>Total</b>
	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Balance, 1 January 2015	–	–	–	–
Principal	418,348	–	–	418,348
Repayment	(21,418)	–	–	(21,418)
Transaction costs	(18,615)	–	–	(18,615)
Accretion <sup>1</sup>	2,880	–	–	2,880
Foreign exchange translation	41,554	–	–	41,554
Balance, 31 December 2015	422,749	–	–	422,749
Principal	–	115,061	147,936	262,997
Repayment	(48,329)	–	–	(48,329)
Transaction costs	–	(4,080)	(11,166)	(15,246)
Accretion <sup>1</sup>	3,335	27	57	3,419
Foreign exchange translation	(13,313)	852	1,053	(11,408)
<b>Balance, 31 December 2016</b>	<b>364,442</b>	<b>111,860</b>	<b>137,880</b>	<b>614,182</b>
Current portion	44,218	–	–	44,218
Non-current portion	320,224	111,860	137,880	569,964

<sup>1</sup> Effective interest rates are as follows: Term Loan – 8.69%, First Lien Facilities – 8.32%, Second Lien Facility – 11.75%

## 12. Financial instruments

The principal financial instruments used by Intertain are summarized below:

### Financial assets

	<b>Loans and receivables</b>	
	<b>As at 31 December 2015</b>	<b>As at 31 December 2016</b>
	(\$000's)	(\$000's)
Cash and restricted cash	65,173	113,858
Receivables	33,680	26,081
Other long-term receivables	2,687	4,346
Customer deposits	13,309	14,201
	<b>114,849</b>	<b>158,486</b>

### *Financial liabilities*

	Financial liabilities at amortized cost	
	As at 31 December 2015 (\$000's)	As at 31 December 2016 (\$000's)
Accounts payable and accrued liabilities	12,720	14,894
Other long-term liabilities	–	33,964
Other short-term payables	1,083	15,439
Payable to customers	13,309	14,201
Convertible debentures	14,827	5,410
Long-term debt	422,749	614,182
	<b>464,688</b>	<b>698,090</b>

The carrying values of the financial instruments noted above, with the exception of convertible debentures, approximate their fair values. The convertible debentures' fair value as at 31 December 2016 amounted to \$9.2 million. Fair value was determined based on a quoted market price in an active market.

### *Financial instruments*

	Financial instruments recognized at fair value through profit or loss – assets (liabilities)	
	As at 31 December 2015 (\$000's)	As at 31 December 2016 (\$000's)
Cross currency swap	9,661	63,226
Contingent consideration	(427,782)	(199,077)
	<b>(418,121)</b>	<b>(135,851)</b>

### *Fair value hierarchy*

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

	Level 2		Level 3	
	As at 31 December 2015 (\$000's)	As at 31 December 2016 (\$000's)	As at 31 December 2015 (\$000's)	As at 31 December 2016 (\$000's)
Cross currency swap	9,661	63,226	–	–
Contingent consideration	–	–	(427,782)	(199,077)

Contingent consideration represents the fair value of the cash outflows under earn-out agreements that would result from the performance of acquired businesses. The key inputs into the fair value estimation of these liabilities include the forecast performance of the underlying businesses, the probability of achieving forecasted results and the discount rate applied in deriving a present value from those forecasts. Significant increase (decrease) in the business' performance would result in a higher (lower) fair value of the contingent consideration, while significant increase (decrease) in the discount rate would result in a lower (higher) fair value of the contingent consideration. Additionally, as earn-out periods draw closer to their completion, the range of probability factors will decrease. Without probability and discount factors, the fair value of the contingent consideration would be approximately 20% higher, than its value at 31 December 2016. This assumes that the financial performance of the Jackpotjoy operating segment remains in line with management's expectations.

As at 31 December 2016, the entire contingent consideration balance related to the Jackpotjoy earn-out.

A discounted cash flow valuation model was used to determine the values of the Jackpotjoy contingent consideration. The model considers the present value of the expected payments, discounted using a risk-adjusted discount rate. The expected payments are determined by considering the possible scenarios of forecast EBITDA, the amount to be paid under each scenario and the probability of each scenario.

The movement in Level 3 financial instruments is detailed below:

	(\$000's)
Contingent consideration, 1 January 2015	26,353
Addition	262,504
Fair value adjustments	120,779
Payments	(25,729)
Accretion of discount	17,399
Foreign exchange translation	26,476
Contingent consideration, 31 December 2015	427,782
Fair value adjustments	86,448
Payments ( <i>Note 13</i> )	(258,654)
Accretion of discount	27,759
Foreign exchange translation	(84,258)
<b>Contingent consideration, 31 December 2016</b>	<b>199,077</b>
Current portion	143,946
Non-current portion	55,131

The current portion of contingent consideration relates to a current minimum estimate of the cash payment Intertain will make to Gamesys when part of the Jackpotjoy contingent consideration becomes due. In accordance with the share purchase agreement between Intertain and Gamesys, until the credit facilities have been paid or become payable, whichever is the earlier, Gamesys cannot enforce Intertain's obligation to pay the full portion of the contingent consideration when such payments are due. However, to the extent that Intertain does not pay any portion of the contingent consideration when due, Intertain will be required to pay interest on any unpaid contingent consideration payment at a monthly rate equal to 30-day LIBOR plus 110 basis points ("bps") for the first 6 months, 30-day LIBOR plus 160 bps per month for balances of any unpaid contingent consideration payment outstanding for greater than 6 months, and 30-day LIBOR plus 200 bps per month for balances of any unpaid contingent consideration payment outstanding for greater than 12 months. The estimated cash payment consists of the portion of excess cash Intertain is obligated to segregate in a non-operational bank account to pay the Jackpotjoy contingent consideration and an estimate of available cash when the Jackpotjoy contingent consideration becomes due.

### 13. Other long-term payables

On 6 September 2016, Intertain announced additional non-compete clauses and amendments to the long-term operating and other agreements between Intertain and Gamesys pursuant to deeds of amendment dated 5 September 2016 (together, the "Amendments"), subject to the satisfaction of certain conditions. One of the conditions was Intertain making a pre-payment to Gamesys of £150 million in respect of Intertain's earn-out obligations in connection with the Jackpotjoy and Starspins brands.

Key terms of the Amendments include: (a) two-year additional non-compete clauses from Gamesys (to April 2019; previously expiring in April 2017) (the "non-compete clauses"); (b) five-year extension of terms of the operating agreements (to April 2030; previously expiring in 2025), with a corresponding extension of the term of the content licensing agreement (to April 2040); and (c) aggregate cap of £375 million (excluding any interest) on Intertain's aggregate earn-out obligations in connection with the Jackpotjoy acquisition (previously uncapped). On 16 December 2016, the £150 million pre-payment of contingent consideration was made by Intertain.

In connection with the non-compete clauses described above, Intertain has agreed to pay Gamesys an aggregate of £24 million in equal monthly instalments in arrears over the period from April 2017 to April 2020. The consideration has been recognized by Intertain as a long-term payable, with the current portion reflected as a current liability. Intertain has also recognized the non-compete clauses as an intangible asset, as discussed in note 8.

### 14. 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 2016, Intertain is largely exposed to credit risk through its relationship with its service providers,

Gamesys, 888, and Macquarie Bank Ltd. who is the counterparty to Intertain's Currency Swap, as well as its cash and restricted 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. Management monitors PSP balances on a weekly basis and promptly takes corrective action if pre-agreed limits are exceeded. Quantitative analysis of Intertain's exposure to credit risk arising from its receivables is included in note 6 and analysis of Intertain's exposure to its credit risk arising from cash and restricted cash balances is presented below.

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

<u>Financial institution rating</u>	<u>As at 31 December 2015 (\$000's)</u>	<u>As at 31 December 2016 (\$000's)</u>
A+	6,852	11,480
A-	26,408	64,806
AA-	10,310	16,053
BBB+	8,052	6,612
BBB	–	3,616
BBB-	9,423	8,380

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

#### ***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. Intertain is exposed to cash flow interest rate risk on its credit facilities, described in note 11, 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 \$6.6 million for the year ended 31 December 2016 (31 December 2015 – \$4.5 million), with all other variables held constant. Management monitors movements in the interest rates by reviewing the Bank of Canada prime rate and LIBOR on a frequent basis.

#### ***Foreign exchange risk***

Foreign exchange risk arises when individual group entities enter into transactions denominated in a currency other than their functional currency. Intertain's policy is, where possible, to allow group's entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where Intertain'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 Intertain.

The group is predominantly exposed to currency risk as revenues are predominantly earned in Sterling, while interest and amortization payable on a portion of the First Term Facility is in USD. To mitigate this risk, Intertain entered into a Currency Swap as discussed in note 7.

Apart from these particular cash-flows, Intertain aims to fund expenses and investments in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred.

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

### At 31 December 2015

	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)
British pound sterling	(382,721)	(38,272)	38,272
EURO	5,308	531	(531)
United States dollar	(400,679)	(40,068)	40,068

### At 31 December 2016

	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)
British pound sterling	(387,866)	(38,787)	38,787
EURO	19,625	1,962	(1,962)
United States dollar	(357,981)	(35,798)	35,798

### *Liquidity risk*

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

Liquidity risk arises from Intertain's ability to meet its financial obligations as they become due. The following table summarizes Intertain's undiscounted financial liabilities and undiscounted (probability weighted) contractual obligations as at 31 December 2016:

### At 31 December 2015

	On demand (\$000's)	Less than 1 year (\$000's)	1-2 years (\$000's)	3-4 years (\$000's)	5 years and over (\$000's)
Accounts payable and accrued liabilities	12,341	–	–	–	–
Other short term payables	1,083	–	–	–	–
Payable to customers	13,309	–	–	–	–
Contingent consideration	–	12,237	455,023	5,102	–
Convertible debentures	–	–	–	17,060	–
Long-term debt	–	51,345	92,725	92,725	203,662
Provision for taxes	–	20,069	–	–	–
	<b>26,733</b>	<b>83,651</b>	<b>547,748</b>	<b>114,887</b>	<b>203,662</b>

## At 31 December 2016

	On demand (\$000's)	Less than 1 year (\$000's)	1-2 years (\$000's)	3-4 years (\$000's)	5 years and over (\$000's)
Accounts payable and accrued liabilities	14,894	–	–	–	–
Other short term payables	15,439	9,938	–	–	–
Payable to customers	14,201	–	–	–	–
Contingent consideration	–	148,059	55,658	6,212	–
Convertible debentures	–	–	5,938	–	–
Long-term debt	–	44,218	88,436	88,436	422,265
Other long-term liabilities	–	–	26,502	3,313	–
Provision for taxes	–	12,825	–	–	–
	<b>44,534</b>	<b>215,040</b>	<b>176,534</b>	<b>97,961</b>	<b>422,265</b>

Intertain manages liquidity risk by monitoring actual and forecasted cash flows in comparison with the maturity profiles of financial assets and liabilities. Intertain does not anticipate fluctuations in its financial obligations (with the exception of the Jackpotjoy earn-out payment, as it is dependent on the future performance of the Jackpotjoy segment), as they largely stem from the repayment, amortization and interest payments related to the First Lien Facilities and the Second Lien Facility. Management believes that the cash generated from Intertain'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 Intertain operates. Intertain is actively managing its capital resources to ensure sufficient resources will be in place when the Jackpotjoy earn-out payment, First Lien Facilities and Second Lien Facility, amortization payments and repayments become due.

Other than as described below, in accordance with the terms of the Jackpotjoy earn-out payment, it has been agreed that until the debt under the First Lien Facilities or the Second Lien Facility has been paid or becomes payable, whichever is the earlier, Gamesys cannot enforce Intertain's obligation to pay any portion of the earn out when such payments are due. However, to the extent that Intertain does not pay any portion of the earn-out when due, Intertain will be required to pay interest on any unpaid earn out payment at a rate equal to 30 day LIBOR plus 110 basis points ("bps") for the first 6 months, 30 day LIBOR plus 160 bps for balances of any unpaid earn out payment outstanding for greater than 6 months, and 30 day LIBOR plus 200 bps for balances of any unpaid earn out payment outstanding for greater than 12 months.

Notwithstanding the foregoing, Gamesys may take steps to realize any portion of the unpaid earn-out payment from Intertain during the standstill period described above, if: (a) Intertain's total leverage ratio (as calculated pursuant to the Credit Agreement) is less than or equal to 4.00 to 1 on a pro forma basis, and (b) no default or event of default is continuing or would result from such a payment, under the Credit Agreement, or the Second Lien Credit Agreement.

As at 31 December 2016, Intertain believes it will be able to fund the Jackpotjoy earn-out payment (and all other future obligations) through internally generated cash. Subject to meeting certain financial covenants, Intertain may have the ability to draw on the USD 17.5 million Revolving Facility as a further capital resource.

## 15. Share capital and contributed surplus

Intertain is authorized to issue an unlimited number of common shares without nominal or par value.

	(\$000's)	Common shares #
Balance, 1 January 2015	201,147	32,614,079
Issuance of shares, net of costs	588,398	39,561,365
Conversion of convertible debentures, net of costs	427	73,333
Exercise of options	43	10,700
Exercise of warrants	3,501	740,253
Normal course issuer bid	(31,880)	(2,488,237)
<b>Balance, 31 December 2015</b>	<b>761,636</b>	<b>70,511,493</b>
Conversion of convertible debentures, net of costs	10,179	1,853,667
Exercise of options	2,985	577,492
Exercise of warrants	376	40,625
<b>Balance, 31 December 2016</b>	<b>775,176</b>	<b>72,983,277</b>

### *Common shares*

On 26 February 2015, Intertain closed an offering of 32,200,000 subscription receipts of Intertain, at a price of \$15.00 per subscription receipt, for aggregate gross proceeds of \$483.0 million. With the closing of the Jackpotjoy acquisition on 8 April 2015, the subscription receipts were exchanged on a one-for-one basis for Intertain common shares without payment of additional consideration or further action. Additionally, on 8 April 2015, Intertain issued 7,361,365 common shares with a transaction date value of \$17.05 per share to satisfy part of the purchase price of Jackpotjoy.

During the year ended 31 December 2016, Intertain did not purchase any common shares under its normal course issuer bid.

### *Convertible debentures*

During the year ended 31 December 2016, debentures at par value of \$11.1 million were converted into 1,853,667 common shares of Intertain.

### *Share options*

Under the common share option plan ("Share Option Plan"), Intertain may grant options to acquire up to 10% of the issued and outstanding common shares of Intertain to directors, officers, employees, partners and service providers of Intertain or any of its subsidiaries. The maximum term of an option is ten years from the date of grant. Options may be granted by reference to Intertain's common share price on the TSX. The related vesting period over which share-based compensation expense is recognized is up to three years. Each share option awarded under the Share Option Plan is equity-settled and the share-based compensation expense is based on the fair value estimate on the business day prior to the grant date.

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

	Number of options #	Weighted average exercise proceeds \$
Outstanding, 1 January 2016	2,863,776	9.58
Granted*	1,340,000	11.20
Expired	—	—
Forfeited	(375,138)	12.34
Exercised	(577,492)	4.00
<b>Outstanding, 31 December 2016</b>	<b>3,251,146</b>	<b>10.92</b>

\* options granted expire 5 years from their grant date.

### *Share-based compensation expense*

For the year ended 31 December 2016, Intertain recorded \$3.9 million (2015 – \$5.6 million) in share-based compensation expense with a corresponding increase in contributed surplus.

The weighted-average fair value of the options granted and used in the Black-Scholes options pricing model is as follows:

	As at 31 December 2015	As at 31 December 2016
Weighted-average fair value	5.23	11.20
<b>Weighted-average of key assumptions:</b>		
Common share price on grant date	15.86	11.20
Exercise price	15.86	11.20
Risk-free interest rate <sup>1</sup>	1.25	0.61
Dividend yield <sup>2</sup>	–	–
Expected volatility <sup>3</sup>	35%	35%
Expected option life (years) <sup>4</sup>	5	5

*1 Determined using the yield on Government of Canada benchmark bonds with a remaining term equal to the expected option life.*

*2 Based on the annual dividend yield on the date of grant.*

*3 Estimated by considering comparable entities price volatility.*

*4 Estimated based upon the anticipated holding period of options between the grant and exercise dates, together with the assumption that a certain percentage of options will lapse due to forfeitures.*

As at 31 December 2016, 2,449,018 options are exercisable (31 December 2015 – 2,318,019). The range of exercise prices of share options issued is \$15.25 – \$18.46 for options granted in 2015 and \$11.20 for options granted in 2016. The weighted average remaining contractual life of share options outstanding as at 31 December 2016 is approximately 3.5 years (31 December 2015 – 4 years).

## **16. Capital management**

Intertain defines the capital that it manages as its aggregate shareholders' equity. Its principal source of cash is operating activities, the issuance of common shares, convertible debentures, and long-term debt. Intertain'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, Intertain may attempt to issue new shares, issue new debt, acquire or dispose of assets.

Intertain monitors its "Total Leverage Ratio", which is calculated in accordance with the Credit Facilities agreement on a frequent basis as this ratio impacts the amount of additional principal payments required on the Term Loan and restricts certain payments. Intertain's Total Leverage Ratio falls between 2.0 and 3.5, requiring Intertain to make a payment on the Term Facility equal to 25% of its excess cash flow, calculated in accordance to the Term Facility agreement which deducts certain cash items such as earn-out payments and debt amortization payments in its composition. Intertain does not have any externally imposed capital requirements, which it is subjected to. Intertain manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

There have been no changes to Intertain's approach to capital management during the year ended 31 December 2016.

## 17. Taxes and deferred taxes

	Year ended 31 December 2015 (\$000's)	Year ended 31 December 2016 (\$000's)
<b>Current tax expense</b>		
Total current tax on profits for the period	1,974	676
<b>Deferred tax</b>		
Origination and reversal of temporary differences related to business combinations	(890)	(732)
<b>Total tax expense/(credit)</b>	<b>1,084</b>	<b>(56)</b>

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 5% being the rate relevant in those jurisdictions, where recognized deferred tax liabilities arise. The reason for the difference between the actual tax charge for the year and the standard rate of corporation tax in Canada applied to profits for the year is as follows:

	Year ended 31 December 2015 (\$000's)	Year ended 31 December 2016 (\$000's)
Loss for the period before taxes	(225,789)	(69,713)
Tax using Intertain's domestic tax rate of 26%	(58,705)	(18,125)
Non-capital loss for which no tax benefit has been recorded	59,765	19,801
Different tax rates applied in overseas jurisdictions	(2,144)	(1,620)
<b>Total tax expense</b>	<b>1,084</b>	<b>(56)</b>

As at 31 December 2016, taxes receivable and payable balances consist of taxes owing and recoverable related to the 2015 and 2016 fiscal years.

As at 31 December 2015, taxes receivable and payable balances consisted of taxes owing and recoverable related to the 2014 and 2015 fiscal years.

A deferred tax asset has not been recognized on \$89.3 million (2015 – \$69.0 million) of unused tax losses earned in Canada which can be carried forward indefinitely. The unrealized gain earned on the cross currency swap discussed in note 7, triggers a deferred tax liability of \$7.9 million (2015 – \$1.3 million). The tax liability would arise in Canada and Intertain would be able to utilize tax losses incurred in this jurisdiction to offset this liability.

## 18. Costs and expenses

	Year ended 31 December 2015 (\$000's)	Year ended 31 December 2016 (\$000's)
Distribution costs:		
Selling and marketing	85,542	83,251
Licensing fees	60,343	76,423
Gaming taxes	38,222	53,270
Processing fees	15,943	20,788
	<b>200,050</b>	<b>233,732</b>
Administrative costs:		
Compensation and benefits	39,238	52,431
Professional fees	3,235	7,029
General and administrative	8,114	12,093
Tangible asset amortization	346	288
Intangible asset amortization	99,974	100,220
	<b>150,907</b>	<b>172,061</b>

Professional fees include Independent Committee related expenses (as defined below). As a result of a self-identified short seller of Intertain's common shares issuing a report on Intertain in Q4 2015, Intertain's Board of Directors established a committee of non-management directors (the "Independent Committee") to closely review the allegations contained within the report. On February 22, 2016, the Independent Committee completed its review and concluded that the allegations and innuendos of the short seller, related to the quality and financial performance of the underlying businesses of Intertain, were grossly erroneous. Costs related to the Independent Committee's review for the year ended 31 December 2016 amounted to \$3.3 million.

Severance costs relate to final severance payments owing to the former CEO of Intertain, in accordance with the terms of his employment agreement.

Transaction related costs consist of legal, professional, underwriting, due diligence, and special committee fees; bonuses paid to management; other direct costs/fees associated with transactions and acquisitions contemplated or completed; and costs associated with the UK strategic review undertaken by the Board of Directors (the "UK Strategic Review") and the UK Strategic Initiatives.

## 19. Interest expense/income

	Year ended 31 December 2015 (\$000's)	Year ended 31 December 2016 (\$000's)
Interest earned on cash held during the period	619	276
<b>Total interest income</b>	<b>619</b>	<b>276</b>
Interest paid and accrued on long-term debt	24,118	31,867
Accretion of discount recognized on contingent consideration	17,399	27,762
Interest paid on bridge loan	86	-
Interest paid and accrued on convertible debentures and debentures	2,195	755
Interest accrued related to the vendor take back loan	501	-
Interest accretion recognized on convertible debentures and debentures	921	575
Interest accretion recognized on long-term debt	2,880	3,419
Interest accretion recognized on other long-term liabilities	-	128
<b>Total interest expense</b>	<b>48,100</b>	<b>64,506</b>

## 20. Segment information

Segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the management team comprising of the Chief Executive Officer and the Chief Financial Officer.

On April 13, 2016, the InterCasino brand migrated from the Amaya platform to the Plain Gaming platform, Vera&John's proprietary platform. In conjunction with this operational change, Intertain reassessed its operating segments and concluded that the InterCasino segment should be aggregated with the Vera&John segment.

The Vera&John segment consists of the online casino operating results of various brands, including Vera&John and Vera&Juan. The Jackpotjoy segment consist of the real money and social gaming operating results of the Jackpotjoy, Starspins, and Botemania brands. The Mandalay segment consists of the operating results of various online bingo websites operated off the Dragonfish platform and the operating results of affiliate portal websites.

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

**Year ended 31 December 2015:**

	Jackpotjoy (\$000's)	Vera&John (\$000's)	Mandalay (\$000's)	Unallocated corporate costs (\$000's)	Total (\$000's)
Total revenue and other income	240,748	101,671	42,046	–	384,465
Debt settlement expense and gain on sale of intangibles	–	(430)	–	5,692	5,262
Distribution costs	123,669	52,687	23,424	270	200,050
Amortization and depreciation	69,162	18,473	12,655	30	100,320
Compensation, professional, and general and administrative expenses	21,218	16,823	1,891	10,655	50,587
Transaction related costs	671	776	–	55,896	57,343
Goodwill impairment	–	36,670	–	–	36,670
Foreign exchange loss (gain)	(629)	147	–	1,905	1,423
Financing, net	–	(58)	26	158,631	158,599
<b>Income (loss) for the period before taxes</b>	<b>26,657</b>	<b>(23,417)</b>	<b>4,050</b>	<b>(233,079)</b>	<b>(225,789)</b>
Taxes	590	494	–	–	1,084
<b>Net income (loss) for the period</b>	<b>26,067</b>	<b>(23,911)</b>	<b>4,050</b>	<b>(233,079)</b>	<b>(226,873)</b>
<b>Net income (loss) for the period</b>	<b>26,067</b>	<b>(23,911)</b>	<b>4,050</b>	<b>(233,079)</b>	<b>(226,873)</b>
Interest expense, net	–	(58)	26	47,513	47,481
Taxes	590	494	–	–	1,084
Amortization and depreciation	69,162	18,473	12,655	30	100,320
<b>EBITDA</b>	<b>95,819</b>	<b>(5,002)</b>	<b>16,731</b>	<b>(185,536)</b>	<b>(77,988)</b>
Share-based compensation	–	–	–	5,624	5,624
Debt settlement expense and gain on sale of intangibles	–	(430)	–	5,692	5,262
Fair value adjustment on contingent consideration	–	–	–	120,779	120,779
Gain on cross currency swap	–	–	–	(9,661)	(9,661)
Transaction related costs	671	776	–	55,896	57,343
Goodwill impairment	–	36,670	–	–	36,670
Foreign exchange loss (gain)	(629)	147	–	1,905	1,423
<b>Adjusted EBITDA</b>	<b>95,861</b>	<b>32,161</b>	<b>16,731</b>	<b>(5,301)</b>	<b>139,452</b>
<b>Net income (loss) for the period</b>	<b>26,067</b>	<b>(23,911)</b>	<b>4,050</b>	<b>(233,079)</b>	<b>(226,873)</b>
Share-based compensation	–	–	–	5,624	5,624
Debt settlement expense and gain on sale of intangibles	–	(430)	–	5,692	5,262
Fair value adjustment on contingent consideration	–	–	–	120,779	120,779
Gain on cross currency swap	–	–	–	(9,661)	(9,661)
Transaction related costs	671	776	–	55,896	57,343
Goodwill impairment	–	36,670	–	–	36,670
Foreign exchange	(629)	147	–	1,905	1,423
Amortization of acquisition related purchase price intangibles	69,162	18,157	12,655	–	99,974
Accretion	–	–	–	21,023	21,023
<b>Adjusted net income/(loss)</b>	<b>95,271</b>	<b>31,409</b>	<b>16,705</b>	<b>(31,821)</b>	<b>111,564</b>

**Year ended 31 December 2016:**

	<b>Jackpotjoy (\$000's)</b>	<b>Vera&amp;John (\$000's)</b>	<b>Mandalay (\$000's)</b>	<b>Unallocated corporate costs (\$000's)</b>	<b>Total (\$000's)</b>
Total revenue and other income	336,581	106,151	39,161	–	481,893
Distribution costs	157,089	50,923	25,229	491	233,732
Amortization and depreciation	74,169	15,765	10,545	29	100,508
Compensation, professional, and general and administrative expenses	27,815	22,595	1,977	19,166	71,553
Severance costs	–	–	–	10,526	10,526
Transaction related costs	–	1,534	–	38,097	39,631
Foreign exchange loss (gain)	(490)	1,097	(237)	5,338	5,708
Financing, net	–	(149)	11	90,086	89,948
<b>Income (loss) for the period before taxes</b>	<b>77,998</b>	<b>14,386</b>	<b>1,636</b>	<b>(163,733)</b>	<b>(69,713)</b>
Taxes	–	(56)	–	–	(56)
<b>Net income (loss) for the period</b>	<b>77,998</b>	<b>14,442</b>	<b>1,636</b>	<b>(163,733)</b>	<b>(69,657)</b>
<b>Net income (loss) for the period</b>	<b>77,998</b>	<b>14,442</b>	<b>1,636</b>	<b>(163,733)</b>	<b>(69,657)</b>
Interest expense, net	–	(149)	11	64,368	64,230
Taxes	–	(56)	–	–	(56)
Amortization and depreciation	74,169	15,765	10,545	29	100,508
<b>EBITDA</b>	<b>152,167</b>	<b>30,002</b>	<b>12,192</b>	<b>(99,336)</b>	<b>95,025</b>
Share-based compensation	–	–	–	3,943	3,943
Severance costs	–	–	–	10,526	10,526
Fair value adjustment on contingent consideration	–	–	–	86,448	86,448
Independent committee related expenses	–	–	–	3,326	3,326
Gain on cross currency swap	–	–	–	(60,730)	(60,730)
Transaction related costs	–	1,534	–	38,097	39,631
Foreign exchange	(490)	1,097	(237)	5,338	5,708
<b>Adjusted EBITDA</b>	<b>151,677</b>	<b>32,633</b>	<b>11,955</b>	<b>(12,388)</b>	<b>183,877</b>
<b>Net income (loss) for the period</b>	<b>77,998</b>	<b>14,442</b>	<b>1,636</b>	<b>(163,733)</b>	<b>(69,657)</b>
Share-based compensation	–	–	–	3,943	3,943
Severance costs	–	–	–	10,526	10,526
Fair value adjustment on contingent consideration	–	–	–	86,448	86,448
Independent committee related expenses	–	–	–	3,326	3,326
Gain on cross currency swap	–	–	–	(60,730)	(60,730)
Transaction related costs	–	1,534	–	38,097	39,631
Foreign exchange	(490)	1,097	(237)	5,338	5,708
Amortization of acquisition related purchase price intangibles	74,169	14,685	10,545	–	99,399
Accretion	–	–	–	31,884	31,884
<b>Adjusted net income/(loss)</b>	<b>151,677</b>	<b>31,758</b>	<b>11,944</b>	<b>(44,901)</b>	<b>150,478</b>

The following table presents net assets per segment and unallocated corporate costs as at 31 December 2015:

	Jackpotjoy (\$000's)	Vera&John (\$000's)	Mandalay (\$000's)	Unallocated corporate costs (\$000's)	Total (\$000's)
Current assets	30,736	69,857	10,315	19,420	130,328
Goodwill	457,828	96,659	33,900	–	588,387
Long-term assets	651,072	76,438	48,842	11,287	787,639
Total assets	1,139,636	242,954	93,057	30,707	1,506,354
Current liabilities	11,217	30,740	2,706	66,100	110,763
Long-term liabilities	–	3,985	–	801,777	805,762
Total liabilities	11,217	34,725	2,706	867,877	916,525
<b>Net assets</b>	<b>1,128,419</b>	<b>208,229</b>	<b>90,351</b>	<b>(837,170)</b>	<b>589,829</b>

The following table presents net assets per segment and unallocated corporate costs as at 31 December 2016:

	Jackpotjoy (\$000's)	Vera&John (\$000's)	Mandalay (\$000's)	Unallocated corporate costs (\$000's)	Total (\$000's)
Current assets	24,900	64,384	10,781	130,220	230,285
Goodwill	371,610	91,751	27,516	–	490,877
Long-term assets	459,986	63,214	29,849	36,545	589,594
Total assets	856,496	219,349	68,146	166,765	1,310,756
Current liabilities	9,592	27,679	2,457	216,782	256,510
Long-term liabilities	–	3,142	–	654,531	657,673
Total liabilities	9,592	30,821	2,457	871,313	914,183
<b>Net assets</b>	<b>846,904</b>	<b>188,528</b>	<b>65,689</b>	<b>(704,548)</b>	<b>396,573</b>

During the year ended 31 December 2016 and 2015, substantially all of the revenue earned by Intertain was in Europe. Non-current assets by geographical location as at 31 December 2016 were as follows: Europe \$155.0 million (31 December 2015 – \$173.1 million) and Americas \$925.5 million (31 December 2015 – \$1.203 billion).

## 21. Earnings per share

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

	Year ended 31 December 2015 (000's)	Year ended 31 December 2016 (000's)
Numerator:		
Net loss – basic	(226,873)	(69,657)
Net loss – diluted	(226,873)	(69,657)
Denominator:		
Weighted average number of common shares outstanding – basic	61,222	71,239
Instruments, which are anti-dilutive:		
Weighted average effect of dilutive share options	1,105	726
Weighted average effect of dilutive warrants	–	–
Weighted average effect of convertible debentures <sup>2</sup>	2,843	2,312
Net loss per share <sup>3,4</sup>		
Basic	\$(3.71)	\$(0.98)
Diluted <sup>1</sup>	\$(3.71)	\$(0.98)

<sup>1</sup> In the case of a net loss, the effect of common share options and warrants potentially exercisable on diluted loss per common share will be anti-dilutive; therefore, basic and diluted net loss per common 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 2016.*
- 3 *Basic loss per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding during the year.*
- 4 *Diluted loss per share is calculated by dividing the net loss attributable to ordinary shareholders by the weighted average number of common shares outstanding during the period and adjusted for the number of potentially dilutive share options and contingently issuable instruments.*

## 22. Contingent liabilities

### *Indirect taxation*

Intertain 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. Revenues 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 Intertain 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 Intertain, the contingency is not recognised as a liability at the balance sheet date. As at 31 December 2016, Intertain had recognized \$nil liability (31 December 2015 – \$nil) related to potential contingent indirect taxation liabilities.

## 23. Related party transactions

During the year ended 31 December 2016, Intertain incurred \$0.3 million (31 December 2015 – \$0.4 million) in legal fees for services provided by a law firm whose partner is a Director of Intertain and \$0.2 million (31 December 2015 – \$nil) in professional fees from an accounting firm whose partner is a Director of Intertain.

Additionally, during the year ended 31 December 2016, Intertain incurred \$0.4 million (31 December 2015 – \$2.6 million) in legal fees for services provided by a law firm of which the spouse of a former Director and senior member of management is a partner. The amount for the year ended 31 December 2016 reflects fees incurred in the period during which the former Director and senior member was still working for Intertain. The arrangements with such firms specify that the spouse is not to provide legal services to Intertain.

During the year ended 31 December 2016, Intertain paid an aggregate of \$1.7 million (2015 – \$nil) in director fees to members of the Special Committee of the Board of Directors overseeing the UK Strategic Review. During the year ended 31 December 2016, a further \$0.7 million has been paid to the members of the independent committee in connection with their work relating to the investigation of the short-seller report discussed in note 18 of the consolidated financial information for the year ended 31 December 2016. Additionally, fees of approximately \$0.2 million were paid to Chitiz Pathak LLP for work in connection with such investigation during the same period.

## 24. Compensation of key management

Key management is comprised of the Board of Directors, Officers, and Members of Management of Intertain. Key management personnel compensation for service rendered is as follows:

	Year ended 31 December 2015 (\$000's)	Year ended 31 December 2016 (\$000's)
Salaries, bonuses and benefits*	18,491	6,709
Severance costs	–	10,526
Stock-based compensation	2,799	2,060
	<b>21,290</b>	<b>19,295</b>

\* *Compensation paid to management included in transaction related costs is included in this balance.*

## 25. Operating leases

Intertain 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.

	Year ended 31 December 2015 (\$000's)	Year ended 31 December 2016 (\$000's)
Within one year	491	1,100
Later than one year but not later than 5 years	404	641
	<u>895</u>	<u>1,741</u>

During year ended 31 December 2016, Intertain incurred \$1.0 million (2015 – \$0.7 million) in operating lease expenses.

## 26. Business combinations

### *Business combinations completed in 2016*

For the year ended 31 December 2016, no new acquisitions occurred.

### *Business combinations completed in 2015*

#### *Jackpotjoy purchase*

On 8 April 2015, Intertain completed the acquisition of the entire issued share capital of a wholly-owned subsidiary of Gamesys, which included, directly or indirectly, the Jackpotjoy, Starspins, and Botemania brands, and related assets from Gamesys. The purchase was completed for \$691 million cash (prior to offsetting gains from hedging the foreign exchange rate movements on the purchase price), 7,361,365 common shares of Intertain, plus an earn-out. The earn-out is contingent on future Earnings Before Income Taxes, Depreciation and Amortization performance of the Jackpotjoy Group of Companies. The transaction was funded through a combination of proceeds from Subscription Receipts (\$483 million), a seven-year US\$335 million first-lien term loan credit facility, and issuance of common shares of Intertain. This acquisition has been accounted for as a business combination. The purchase price allocation set forth below represents the allocation of the purchase price and the fair value of assets acquired.

	(\$000's)
<b>Assets acquired</b>	
Intangible assets	660,705
Goodwill	415,708
Customer deposits	8,369
	<u>1,084,782</u>
<b>Liabilities assumed</b>	
Payable to customers	8,369
<b>Net assets acquired</b>	<u><b>1,076,413</b></u>
<b>Consideration</b>	
Cash*	688,397
Share capital	125,512
Fair value of contingent consideration	262,504
	<u><b>1,076,413</b></u>

\* This balance is net of gains from hedging the foreign exchange rate movements on the purchase price.

The excess purchase consideration over the net fair value of financial and intangible assets acquired has been allocated to goodwill. Goodwill is attributed to post-acquisition synergies. None of the goodwill is expected to be deductible for income tax purposes. The fair value of the assets acquired and liabilities assumed may be subject to adjustments pending the completion of final valuations and post-closing adjustments.

The amount due for contingent consideration is management's best estimate considering all relevant information available to date, including a probability based assessment, and was determined using a discount factor of 7%. During the year ended 31 December 2016, a fair value adjustment of \$86.4 million (2015 – \$108.8 million) was recognized. Management compensation of \$16.4 million was included in transaction related costs for the year ended 31 December 2015.

## **27. Recent accounting pronouncements**

### ***New standards and interpretations adopted***

The following accounting standards are effective and implemented as of 1 January 2016:

#### *Amendment to IAS 1 – Presentation of Financial Information*

On December 18, 2014, the IASB issued amendments to IAS 1 – Presentation of Financial Information. These amendments are part of a major initiative to improve disclosure requirements in IFRS financial information. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary provide options on the ordering of financial information and additional guidance on the presentation of other comprehensive income related to equity-accounted investments. The effective date for these amendments was 1 January 2016. The implementation of these amendments to IAS 1 did not have an impact on Intertain's financial information.

#### *Amendment to IAS 16 – Property, Plant and Equipment*

On May 12, 2014, the IASB issued amendments to IAS 16 – Property, Plant and Equipment. The amendment to IAS 16 clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstance. The implementation of these amendments to IAS 16 did not have an impact on Intertain's financial information.

### ***Recent accounting pronouncements – not yet effective***

#### *IFRS 9 – Financial Instruments*

The IASB issued IFRS 9 relating to the classification and measurement of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (i.e., its business model) and the contractual cash flow characteristics of such financial assets. IFRS 9 also includes a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. An entity shall apply IFRS 9 retrospectively for annual periods beginning on or after 1 January 2018 with early adoption permitted.

Intertain is currently evaluating the impact of applying this standard, but does not anticipate applying it prior to its effective date.

#### *IFRS 15 – Revenues from Contracts with Customers*

IFRS 15 affects any entity that enters into contracts with customers. This IFRS will supersede the revenue recognition requirements in IAS 18 and most industry-specific guidance. On July 27, 2015, the IASB has decided to postpone the initial 1 January 2017 effective date to 1 January 2018 with early adoption permitted.

Intertain is currently evaluating the impact of applying this standard, but does not anticipate applying it prior to its effective date.

#### *IFRS 16 – Leases*

In January 2016, the IASB issued IFRS 16 – Leases, which replaces IAS 17 – Leases and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12-months or less or the underlying asset has a low value. The distinction between operating leases and finance leases is removed from the perspective of a lessee. IFRS 16 will be applied retrospectively for annual periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 has also been applied. Intertain is assessing the potential impact of this standard.

## **28. Subsequent events**

On January 25, 2017, Intertain became an indirect subsidiary of the new parent Company, Jackpotjoy plc and 73,718,943 ordinary shares of Jackpotjoy plc have been admitted to the standard listing segment of the Official List of the UK's Financial Conduct Authority and to trading on the Main Market for listed securities of the London Stock Exchange plc under the ticker symbol "JPJ".

The former Intertain common shareholders received in exchange for each common share held by them either one Jackpotjoy plc ordinary share or, for those eligible Canadian resident shareholders who made a valid election, one exchangeable share issued by Intertain. The Intertain common shares (TSX:IT) are no longer trading on the TSX.

On March 28, 2017, Intertain terminated the Currency Swap and realized total proceeds of USD \$42.6 million and subsequently entered into a new cross currency swap agreement (the "New Currency Swap") Under the New Currency Swap, 50% of Intertain's USD Credit Facilities interest and principal payments will be swapped into GBP. Intertain will pay a fixed 7.4% interest in place of floating USD interest payments of LIBOR plus 6.5% (LIBOR floor of 1%). The interest and principal payments will be made at a GBP/USD foreign exchange rate of 1.2584 on a USD notional amount of \$136,768,333. The Currency Swap expires on 30 September 2019.

**SECTION D: BDO REPORT ON THE CONSOLIDATED FINANCIAL INFORMATION OF THE JACKPOTJOY, STARSPINS AND BOTEMANIA BUSINESS UNIT OF GAMESYS LIMITED FOR THE YEAR ENDED 31 MARCH 2014 AND THE PERIOD ENDED 8 APRIL 2015**



BDO LLP  
55 Baker Street  
London  
W1U 7EU

The Directors  
Jackpotjoy plc  
35 Great St. Helen's  
London  
EC3A 6AP

27 June 2018

Canaccord Genuity Limited  
88 Wood Street  
London  
EC2V 7QR

Dear Sir or Madam

**The Jackpotjoy, Starspins and Botemania business unit of Gamesys (the "Jackpotjoy Business")**

**Introduction**

We report on the financial information set out in Section E. This financial information has been prepared for inclusion in the announcement dated 27 June 2018 of Jackpotjoy plc (the "Company") (the "Announcement") on the basis of the accounting policies set out in notes 1 and 2 to the financial information. This report is required by item 6.2.4R(1) of the listing rules made by the Financial Conduct Authority for the purposes of part VI of the Financial Services and Markets Act 2000 (the "Listing Rules") and is given for the purpose of complying with that item and for no other purpose.

**Responsibilities**

The directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Announcement, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report.

**Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions outside the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion, the financial information gives, for the purposes of the Announcement, a true and fair view of the state of affairs of the Jackpotjoy Business as at 31 March 2014 and 8 April 2015 and of its results, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Yours faithfully

**BDO LLP**

*Chartered Accountants*

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

**SECTION E: HISTORICAL FINANCIAL INFORMATION OF THE JACKPOTJOY, STARSPINS AND BOTEMANIA BUSINESS UNIT OF GAMESYS LIMITED FOR THE YEAR ENDED 31 MARCH 2014 AND THE PERIOD ENDED 8 APRIL 2015**

**Carve-out statements of comprehensive income**

	Year ended 31 March 2014 £000's	Period ended 8 April 2015 £000's
Note		
<b>Revenue</b>	130,944	146,304
Cost of sales	–	(7,834)
<b>Gross profit</b>	<b>130,944</b>	<b>138,470</b>
Distribution expenses	(40,735)	(39,297)
Administration expenses	(26,953)	(30,611)
<b>Profit from operations and before taxation</b>	<b>63,256</b>	<b>68,562</b>
Taxation	5 (11,239)	(11,678)
<b>Profit after taxation for the period and total comprehensive income attributable to the equity owners of Gamesys Limited</b>	<b>52,017</b>	<b>56,884</b>

**Carve-out statements of financial position**

	As at 31 March 2014 £000's	As at 8 April 2015 £000's
Note		
<b>Assets</b>		
<b>Current assets</b>		
Trade and other receivables	6 13,367	23,844
	<b>13,367</b>	<b>23,844</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	7 23,445	35,801
	<b>23,445</b>	<b>35,801</b>
<b>Net liabilities</b>	<b>(10,078)</b>	<b>(11,957)</b>
<b>Business Unit deficit</b>	<b>(10,078)</b>	<b>(11,957)</b>

The notes below form part of this financial information.

### Carve-out statements of changes in Business Unit deficit

	Year ended 31 March 2014 £000's	Period ended 8 April 2015 £000's
<b>Business Unit deficit brought forward</b>	<b>(10,685)</b>	<b>(10,078)</b>
Total comprehensive income for the period	52,017	56,884
Net distributions	(51,410)	(58,763)
<b>Business Unit deficit carried forward</b>	<b>(10,078)</b>	<b>(11,957)</b>

### Carve-out statements of cashflow

	Year ended 31 March 2014 £000's	Period ended 8 April 2015 £000's
Profit before tax	63,256	68,562
Increase in trade and other receivables	(62,217)	(80,918)
(Decrease)/increase in trade and other payables	(1,039)	12,356
<b>Net cash from operating activities and cash and cash equivalents</b>	<b>–</b>	<b>–</b>

The Business Unit did not have its own bank account or cashflows of its own during the period covered by this financial information. Operating cashflows were accounted for through an adjustment to the related inter-company balances less notional net distributions.

The notes below form part of this financial information.

## Notes forming part of the financial information

### 1. Basis of preparation

#### *The Business Unit and its core business*

The carve-out financial information includes the business operations of the Jackpotjoy, Starspins and Botemania brands, then operated through Gamesys Limited and its subsidiary undertakings, hereafter the “Business Unit”.

The parent company of the Business Unit for the period covered by this financial information, Gamesys Limited, is a company established and domiciled in the United Kingdom. The principal activity of the Business Unit is the development and operation of online instant win, casino and bingo games.

#### *Basis of preparation of the carve-out financial information*

The carve-out financial information has been prepared in accordance with International Financial Reporting Standards including International Accounting Standards (IASs) and interpretations, (collectively IFRS), as adopted by the EU and in accordance with the Group’s accounting policies.

The carve-out financial information has been derived from the accounting records of the Gamesys Group.

Carve-out financial information is generally not precise, since it includes certain amounts based on estimates and judgements. When alternative methods of calculating figures exist, those methods have been chosen which are deemed most appropriate in the circumstances, in order to ensure that the carve-out financial information is presented fairly, in all material respects.

Criteria applied in preparing the carve-out financial information were as follows:

- The assets and liabilities that relate to the Business Unit have been included where directly identifiable and on an allocation basis following specific analysis where the assets and liabilities relate to the Business Unit and the wider Gamesys Group.
- The assets and liabilities included within the carve-out statement of financial position excludes any balances relating to property plant and equipment or cash which remained with the Gamesys Group; and
- Income statement revenues and expenditure have been included on the basis that they are either specific to the Business Unit or have been allocated based on either headcount or proportion of overall gross win as appropriate.

No cashflows relate to the separation of the Business Unit in the financial periods presented.

Below are the financial statement items for which specific attribution criteria were adopted, in addition to that already specified in the general criteria above.

#### *Carve-out statement of comprehensive income*

- Revenue: The Business Unit’s revenue relates to its Jackpotjoy, Starspins and Botemania operations. These revenues were accounted for through a number of subsidiary companies of the Gamesys Group. Revenues recognised in other Gamesys Group companies not relating to the Business Unit have been excluded.
- Cost of sales: Relates to gaming taxes specifically incurred in respect of revenue generated from the Jackpotjoy, Starspins and Botemania operations.
- Distribution and administrative expenses: Not all of the Business Unit’s operating costs can be directly attributed to the Business Unit. Therefore different allocation methodologies have been used as follows:
  - Directly identifiable expenses: Those costs which relate in their totality directly to the Business Unit. Certain marketing and distribution costs were incurred in respect of the wider group’s “owned” gaming platform and brands and have been excluded from the carve-out financial information;
  - Allocated costs: Certain employee, contractor, accommodation, technical, professional and other Gamesys Group costs where not directly identifiable to the Business Unit have been allocated to the Business Unit based on the best estimate by management. The allocation basis used is a proportion of gross win or headcount. Employee costs exclude any amounts in respect of the Gamesys long term bonus plan.

### ***Statement of financial position***

All assets and liabilities directly associated with the Business Unit have been included in the statement of financial position. Cash held within the Gamesys Group has not been included as cash balances of the Business Unit.

Client liabilities and progressive prize pools have been recognised as other payables with a corresponding receivable balance included in other receivables due from Gamesys Limited where they are directly attributable to players from the Business Unit. Progressive prize pools that have been accrued on a pooled basis and may also be won by players not from the Business Unit have been recognised in their entirety on the basis that a player from the Business Unit is capable of winning the prize pool amount in full.

The Business Unit has reflected a notional distribution which has been estimated and used as a balancing entry in the statement of financial position for each period presented. For the purposes of the carve-out financial information, the cumulative notional dividend is a balancing entry at the start of the earliest period presented. The directors of Gamesys believe that the balances included in the Statement of financial position are the most accurate that can be derived given the complexities of carving-out balances from a number of entities.

### ***Statement of compliance***

This carve-out financial information was prepared in accordance with the International Financial Reporting Standards (“IFRS”) as adopted by the EU and according to the specific carve-out criteria explained above for the purposes set forth in the introduction. The term “IFRS” is also used to refer to all revised International Accounting Standards (“IAS”) and all interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

### ***Significant accounting judgements, estimates and assumptions***

The preparation of carve-out financial statement conforming to IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

At no point in time during the period covered by this financial information was the Business Unit a separately established legal entity and therefore this carve-out financial information has been prepared from the records of other entities which contain evidence of transactions entered in to by the Business Unit and its financial position. Certain assumptions and estimates have been made. In the opinion of management, the accounting estimates and judgements made in the course of preparing this carve-out financial information are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised).

## **2. Significant accounting policies**

### ***Revenue***

Net gaming revenue derives from online and social gaming operations and is defined as the difference between the amounts of bets placed by the players less the amount won by players. It is stated after deduction of certain bonuses, jackpots and prizes granted to players. Net gaming revenue is recognised to the extent that it is probable that economic benefits will flow to the business units and the revenue can be reliably measured. Revenue is recognised in the accounting periods in which the transactions occur.

### ***Cost of sales***

Cost of sales relates to gaming taxes.

### ***Distribution costs***

Distribution costs represent the costs of delivering the service to the customer and primarily consist of technology infrastructure royalties, gaming taxes, promotional and advertising together with gaming and regulatory testing all of which are recognised on an accruals basis.

### ***Administrative expenses***

Administrative expenses consist primarily of staff costs, corporate and professional expenses, all of which are recognised on an accruals basis.

### ***Functional currency***

Items included in the financial information are measured using the currency of the primary economic environment in which the Business Unit operates (“the functional currency”) which is UK Pound Sterling. The financial information is presented in UK Pound Sterling, which is the Business Unit’s presentational currency and rounded to the nearest £1,000.

Transactions entered into by the Business Unit in a currency other than the currency of the primary economic environment in which it operates (its “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

### ***Financial instruments***

Financial assets and financial liabilities are recognised on the Business Unit’s carve-out statement of financial position when the Business Unit becomes party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expired. Financial assets are either categorised as loans or receivables or available for sale, there are no assets classified as held-to-maturity or fair value through profit or loss. All financial liabilities are classified as amortised cost and no liabilities are classified as fair value through profit or loss.

### ***Trade and other receivables***

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. Appropriate provisions for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the assets are impaired. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

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

### ***Trade and other payables***

Trade payables are initially measured at their fair value and are subsequently measured at their amortised cost using the effective interest rate method; this method allocates interest expense over the relevant period by applying the ‘effective interest rate’ to the carrying amount of the liability.

### ***Current tax***

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit reported in the carve-out statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Business Unit’s liability for current tax is calculated using UK corporate tax rates that have been enacted or substantively enacted by the carve-out statement of financial position date. Had the carve-out Business Unit operated as a separate entity, income tax could have been attributable at different rates. The rates used are therefore not an indication of future tax rates that may apply to the Business Unit, the tax charge and provision has been provided for illustrative purposes only.

### ***Carve-out statement of cashflow***

The Business Unit did not have its own bank account or cashflows of its own during the period covered by the financial information. Operating cashflows were accounted for through an adjustment to the related inter-company balances less notional net distributions.

### *Carve-out statement of other comprehensive income*

There were no other comprehensive income transactions in any of the periods.

### *Earnings per share*

The Business Unit is not within the scope of IAS 33 as it is not a statutory entity and has no share capital.

### **3. Financial instruments – risk management**

The Business Unit is exposed through its operations to the following financial risks:

- Liquidity risk
- Credit risk
- Foreign exchange risk

In common with all other businesses, the Business Unit is exposed to risks that arise from its use of financial instruments. This note describes the carve-out operation's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout this financial information.

There have been no substantive changes in the Business Unit's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them during the periods presented unless otherwise stated in this note.

### *Principal financial instruments*

The principal financial instruments used by the Business Unit, from which financial instrument risk arises, are as follows:

- Trade and other receivables
- Trade and other payables
- Client liabilities and progressive prize pools

### *Financial assets – loans and receivables*

	As at 31 March 2014 £000's	As at 8 April 2015 £000's
Trade and other receivables	11,628	21,647

### *Financial liabilities – amortised cost*

	As at 31 March 2014 £000's	As at 8 April 2015 £000's
Trade and other payables	7,687	19,003
Client liabilities and progressive prize pools	4,519	5,120
	<b>12,206</b>	<b>24,123</b>

None of the financial instruments are measured at fair value. Due to their short-term nature their fair value approximates the carrying value. All of the financial instruments are classified in level 3 of the fair value hierarchy and there have been no transfers between levels in any of the above periods.

### *Liquidity risk*

Liquidity risk reflects the risk that the Business Unit will have insufficient resources to meet its financial obligations as they fall due. Management monitors liquidity to ensure that sufficient liquid resources are available. All liabilities within the carve-out statement of financial position fall due for payment within one month of the period end.

#### *Credit risk*

The Business Unit's principal financial assets are trade and other receivables, principally amounts due from payment processors. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the carve-out statement of financial position. There is no significant concentration of credit risk and as such the Business Unit's exposure to credit risk is limited. Management believes there are no doubtful receivables, to provide for and accordingly the allowance account has not been used.

#### *Foreign currency risk*

The Business Unit's functions give rise to foreign currency risk on transactions denominated in a currency other than pounds sterling. In respect of such transactions and other monetary assets and liabilities held in currencies other than pounds sterling, the amounts involved have historically been immaterial. Currently, to reduce foreign currency risk arising on transactions, the Business Unit has a number of foreign currency accounts. Going forward, the Business Unit will continue to monitor the position and will take steps to ensure that the net exposure is kept to an acceptable level.

#### *Capital management*

The Business Unit is not deemed to have issued any capital and therefore the capital management disclosures as required by IAS 1 *Presentation of Financial Statements* are not applicable. The directors do not have a formal policy for managing the level of divisional deficit or surplus maintained by the Business Unit.

### **4. Segment information**

Information reported to the strategic chief operating decision-makers, for the purposes of resource allocation and assessment of the Business Unit's segmental performance is primarily focussed on the origination of the revenue stream. As the Business Unit has only one revenue stream there is one reporting segment only.

#### *Geographical analysis of revenues*

	Year ended 31 March 2014 £000's	Period ended 8 April 2015 £000's
United Kingdom	104,811	119,952
Rest of the World	26,133	26,352
	<b>130,944</b>	<b>146,304</b>

#### *Information about major customers*

There are no customers that account for greater than 10 per cent. of net revenues.

### **5. Tax**

The tax charge for the period relates to current tax only as no deferred tax or potential deferred tax arises. The reconciliation from profit before tax to the tax charge for the period is as per below.

	Year ended 31 March 2014 £000's	Period ended 8 April 2015 £000's
Profit before taxation	63,256	68,562
Profit on ordinary activities at the standard rate of corporation tax in the UK of 21 per cent. (2014 – 23 per cent.)	14,549	14,398
Effects of: Difference in UK and overseas tax rate on overseas operations	(3,310)	(2,720)
<b>Current tax charge</b>	<b>11,239</b>	<b>11,678</b>

## 6. Trade and other receivables

	As at 31 March 2014 £000's	As at 8 April 2015 £000's
Trade receivables	7,002	8,523
Other receivables	107	110
Prepayments	1,739	2,197
Amounts due from related undertakings	4,519	13,014
	<b>13,367</b>	<b>23,844</b>

The fair values of trade and other receivables classified as loans and receivables are not materially different to their carrying values.

The Business Unit does not hold any collateral as security.

At all period ends there were no receivables past due and no bad debt allowances had been recognised.

## 7. Trade and other payables

	As at 31 March 2014 £000's	As at 8 April 2015 £000's
Trade payables	4,052	10,633
Client liabilities and progressive prize pools	4,519	5,120
Other payables	3,635	8,370
Corporation tax	11,239	11,678
	<b>23,445</b>	<b>35,801</b>

The directors consider that the carrying amount of trade and other payables approximates to their fair values which are based on the net present values of expected future cash flows.

## 8. Related party transactions

The Business Unit is not a legal entity and therefore does not have any formal related parties with whom it would transact. There is no related party disclosure as the Business Unit represented by the carve-out financial information was, at the time, part of a larger enterprise, with which it has subsequently dealt at arm's length.

## 9. Explanation of methodologies used in producing the Business Unit's carve-out financial information

*Carve-out statement of comprehensive income*

- Revenue: The Business Unit's revenue relates to its Jackpotjoy, Starspins and Botemania operations. These revenues are accounted for through a number of subsidiary companies of the Gamesys Group. Revenues recognised in other group companies not relating to the Business Unit have been excluded.
- Cost of sales: Relates to gaming taxes specifically incurred in respect of revenue generated from the Jackpotjoy, Starspins and Botemania operations.
- Distribution and administrative expenses: Not all of the Business Unit's operating costs can be directly attributed to the Business Unit. Therefore different allocation methodologies have been used as follows:
  - Directly identifiable expenses: Those costs which relate in their totality directly to the Business Unit. Certain marketing and distribution costs were incurred in respect of the wider Gamesys Group's "owned" gaming platform and brands. These costs have been excluded from the carve-out financial information;
  - Allocated costs: Certain employee, contractor, accommodation, technical, professional and other Gamesys Group costs where not directly identifiable to the Business Unit have been allocated to the Business Unit based on the best estimate by management. The allocation basis used is gross win or headcount. Employee costs exclude any amounts in respect of the Gamesys long term bonus plan.

### ***Statement of financial position***

All assets and liabilities directly associated with the Business Unit have been included in the statement of financial position. Cash held within the Gamesys Group has not been included as cash balances of the Business Unit.

Client liabilities and progressive prize pools have been recognised as other payables with a corresponding receivable balance included in other receivables due from Gamesys Limited where they are directly attributable to players from the Business Unit. Progressive prize pools that have been accrued on a pooled basis and may also be won by players not from the Business Unit have been recognised in their entirety on the basis that a player from the Business Unit is capable of winning the prize pool amount in full.

The Business Unit has reflected a notional distribution which has been estimated and used as a balancing entry in the Statement of financial position for each period presented. For the purposes of the carve-out financial information, the cumulative notional dividend is a balancing entry at the start of the earliest period presented. Management believes that the balances included in the statement of financial position are the most accurate that can be derived given the complexities of carving-out balances from a number of entities.

