Annual Report and Financial Statements

For the year ended December 2021

Company Registration No. 06475845 (England and Wales)

About Smarkets

Smarkets operates one of the world's largest regulated exchange platforms for betting and trading on sports and politics. Our software operates like a financial exchange, while our focus on price and technology means that we often have the best odds in the world on the biggest sporting and political events. Customers can use either the Smarkets exchange - for a sophisticated betting and trading experience - or our SBK sportsbook app for a simpler presentation of our market-leading prices.

Our mission is to make betting and trading on events fairer, and we believe that betting should be priced like a commodity, because it is one. Founded in 2008, Smarkets is an innovator in the industry, pioneering the use of financial technology in betting. Our state-of-the-art platform is capable of processing hundreds of bets per second and has allowed us to maintain our industry-leading commission rates. Our platform is powered by sophisticated proprietary technology that has been built in-house by world-class engineers and this enables us to run a leaner and more efficient business than any of our competitors.

As an organisation, Smarkets is driving innovation in the workplace and currently employs over 120 individuals in a dynamic structure across our offices in London, Los Angeles and Malta.

Company Information

Director	Jason R. Trost
Secretary	Jason R. Trost
Company number	06475845
Registered office	1 Commodity Quay, Floor 7 St Katharine Docks London United Kingdom E1W 1AZ
Auditor	KPMG LLP 15 Canada Square London UK E14 5GL

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Chief Executive Officer's Review

for the year ended 31 December 2021

In 2021 Smarkets had an amazing year. We completed a significant Series B investment round in May from Susquehanna Growth Equity ("SGE"). Our Series A round came back in 2013, a long time ago, and we've come so far since then. This raise will really allow us to push to the next level as we take SBK into more US states and further its profile in the UK sportsbook market, and I am thrilled to have such great backing from SGE as we do so.

Revenue for 2021 was over £20m, our first time above that threshold since 2017 as we make our way out of the effects of the pandemic and continue our progress. March was our busiest month ever, as we surpassed 50,000 active users for the first time in the company's history - we managed over 56,000 that month. We also hit £25 billion in lifetime traded volume this year, and have now had over 600,000 lifetime sign-ups, of which 125,000 have been for SBK alone.

This year also saw us release a number of key product features, including Cash Out on SBK - a project that took a huge company-wide effort but was completed to our usual high standards in very little time, perfectly illustrating the technical and operational agility that has helped propel this business to where it is today. There is so much more to come, and in our mission to fix betting with price and product, both SBK and Smarkets are in their best shape ever.

There's been a great deal of other exciting change at the company. The organisation is larger than at any time in our history with around 130 employees and growing. We have also introduced new company values as we attempt to not only take our tech stack and products to the next level but also the collective mindset and performance of our human capital.

There have been many ups and downs with Covid still posing so many challenges, but I'm proud of how productive the company has remained and how we've found new ways of working in the hybrid era. I couldn't be more excited about where we are heading after all the progress and achievements this year, as we position ourselves to make massive waves in this fuddy old industry.

Next year SBK will go from strength to strength: We will go live in our second US state when we launch in Indiana (with more to come). We are aiming to make key personnel appointments that should prove critical in the journey we are on. And as ever we will be undertaking vital work on our tech stack to continue leading the way in this industry. The next part of our story is going to be so exciting, and I expect 2022 to bring yet more huge strides towards achieving our mission.

Jason R. Trost
Chief Executive Officer


SBK

Strategic Report

for the year ended 31 December 2021

How we operate and who we are

Smarkets Limited (the "Company") and its subsidiaries (together "Smarkets" or the "Group") own and operate an online betting exchange platform which enables users to set prices and bet against other traders, rather than against a bookmaker, on sporting and other events. An exchange offers buy and, unlike bookmakers, also sell prices, and these both continually change during the events themselves up until their conclusion. The platform is state of the art - secure, transparent, highly responsive and efficient, and with rapid access to deep resources of market data.

In 2019, Smarkets also released its sportsbook app, SBK, which takes the industry-leading exchange pricing and places it in a sleek and easy-to-use sportsbook format. SBK has been built on top of the exchange, so users of both products enjoy the same odds and variety of markets, but can choose whether they prefer the extra functionality provided by the exchange or the simpler display of a sportsbook which only shows back prices. Ultimately, with sportsbooks accounting for the vast majority of market share in the UK betting industry, SBK allows the company to target a much wider audience and will be a key tool for growth moving forward.

Online betting on sports, politics, and current affairs continues to be a popular and rapidly growing activity in the UK, and more recently in the US as a result of the May 2018 overturning of PASPA (Professional and Amateur Sports Protection Act of 1992) by the US Supreme Court. This decision means that all states can choose to legalise sports betting, whereas before it was mostly limited to only Nevada.

To remain competitive and in order to attract users, the Group has to offer a market-differentiable experience and provide a reliable and robust service. To meet these challenges, Smarkets has developed a website and mobile applications with an innovative underlying betting engine, which are each continually refined and evolving. In particular, the software engineering team at Smarkets works to find faster ways of handling the large volumes of customer, market and transaction data and making it accessible to the community, thus democratising event trading for all.

Technology

In 2021 we made several improvements to our technology and engineering process - both launching new features and improving our existing product offerings. The defining theme of the year was our improvement in planning and execution, transforming our combined efforts into a clear direction for the engineering department, and allowing us to drive forward several major projects.

One such major technical achievement in 2021 was our efforts to prepare for the launch of SBK in Indiana. We launched a new reporting portal for regulators, improved our geolocation services, configured new provider infrastructure within the state, and made a whole host of improvements to our services in order to facilitate this expansion.

Internally, we have made numerous significant improvements to aid our workflow and stability - from upgrading our monitoring stack and improving our isolated staging environment, to building new integration-testing pipelines and improving our request tracing. While these changes may not be immediately visible to our customers, the stability they bring certainly is, and will be instrumental in helping us build the best product in the industry.

Our new Data team took on a number of new initiatives throughout the year, leveraging the wealth of data Smarkets produces to drive business impact. These included the real-time 'Browsed-But-Not-Bet' campaign, coordinated with our marketing department, and the creation of new ETL (Extract, Transform, and Load) pipelines to identify, capture, and transform important data in our ecosystem.

In Q4 we proudly launched our Cash Out feature, a major engineering initiative and huge company-wide effort bringing SBK into feature-parity with major sportsbooks. Cash Out allows users to get guaranteed profits or cut their losses from their bets ahead of market settlement. This project encapsulated our desire to build features in-house rather than relying on third-party services.

Rounding up the year, we launched a new, cross-team, real-time Kafka data-streaming service to allow us to build a huge variety of components in our stack. The new service powers everything from marketing promotions to a suite of Safer Gambling controls, and puts us in a great position to launch a number of key initiatives in 2022.

Review of the business

Business model

Smarkets generates revenue from most exchange customers by levying a transaction fee, or commission, which is paid on net winnings on individual markets. Thanks to our technology, we are able to offer what is still an industry-low flat commission rate of 2% and some bettors introduced from affiliate partners pay no commission at all. Customers who only use SBK also pay no commission. This represents exceptional value to our customers and, in turn, attracts more users and liquidity to our exchange.

For institutional customers who are connecting to the exchange through our API we have an alternative model to generate revenue. Some of these users contribute to the ecosystem by seeding markets and are on our Market Making Tier, paying 20% commission on their lifetime profits. Some others, with no obligation to market make, go onto our Pro Tier where 1% commission is charged on winnings or losses from each individual trade that settles. A customer whose account exceeds £25,000 in net profit over the previous 12 calendar months, whether trading through our API or not, goes onto our Select Tier where 3% commission is charged on winnings or losses per each individual trade that settles, unless that account is providing value by seeding a large number of markets on the exchange and is thus already on the Market Making Tier.

The Group, through its 100%-owned subsidiary Hanson Applied Sciences Limited, also provides liquidity on the exchange - and therefore SBK - by entering into algorithmic trades on various markets to enhance the user experience and for profit-making purposes. The positions arising from these activities are closely risk managed. As we continue to grow, our aim is to offer better prices and further enhance the liquidity of existing and new markets.

Whilst Smarkets has a diverse customer base by channel and by nature, a significant proportion of our revenue is currently derived from institutional traders or market professionals. Our products also appeal to sports fans and recreational punters, and our sportsbook app SBK is specifically aimed at bringing our market-leading pricing to the mainstream market, increasing the amount of volume from those more recreational users. The overall customer base is expanded through a number of delivery channels including, notably, our affiliate network, a data-driven approach to digital advertising, and carefully selected agency partners who focus on customer acquisition.

In 2021, we continued to focus more of our customer acquisition efforts towards the larger, recreational market and attracting users to SBK. Irrespective of the delivery channel or product, Smarkets continues to attract new users by offering unparalleled value.

Market context

Remote gambling (online) is the largest gaming industry sector in the UK with Gross Gambling Yield (“GGY”) of £6.9bn, growing by 18.4% year on year according to the latest annual UK Gambling Commission Industry Statistics, April 2020 - March 2021. The size and growth of the remote sector, despite an overall decrease in total GGY for the UK gambling industry (-1.4%) over the same period, demonstrates the appetite for online and digital platforms. This presents an opportunity for technology companies like Smarkets to acquire market share through innovation. Our proprietary technology platform allows us to deliver faster solutions than our competitors and offer an enhanced customer experience as a result.

The total remote betting industry GGY (only betting, not remote casino and bingo) was £2.6bn, an increase of 13.5%, which further illustrates the growing opportunity for online-only betting companies like Smarkets. The continued growth of our new sportsbook app SBK allows us to scale our success with the exchange by properly addressing the mainstream UK market, which is approximately 13 times the size of the exchange industry in Great Britain, pitting our superior pricing against industry leaders such as Bet365 and Sky Bet and greatly increasing our ability to generate revenue.

Total sports betting revenue in the United States in 2020 was $4.33bn. In Colorado, where sports betting was launched on 1 May 2020, total Gross Gaming Revenue (“GGR”) from sports betting was $250.1m in the 12 months to 31 December 2021, with online wagering accounting for 99% of all bets in 2021. Colorado was the sixth-largest US state in terms of 2021 betting handle at $3.85bn, up from $1.2bn for 2020.

Indiana - where sports betting was introduced in September 2019 - was just behind Colorado in 2021 betting handle at $3.8bn, up 116% from $1.8bn in 2020. Sportsbooks generated $307.6 million in revenue in 2021, up 125% compared to the $136.4 million in the year prior. Subsequent to the report date, Smarkets launched SBK in Indiana in Q1 2022.

The Group, through its subsidiary Smarkets (Malta) Limited, holds licences to operate in the UK, Malta, Sweden and Ireland, as well as the US states of Colorado and Indiana through a US subsidiary. In 2021, 93% of betting volume was generated in the UK where the main competition is provided by the exchange industry leader Betfair, as well as other smaller exchange operators such as Betdaq and Matchbook. We look forward to growing SBK’s user base in the exciting and high-potential US market in 2022, providing another opportunity to grow Group revenues in new markets.

Financial review

The Group made a loss before taxation of £17,023,000 in the year ended 31 December 2021 which resulted in an increase in losses from £3,829,000 made in the previous year.

An overview of the 2021 performance is as follows:

	2021	2020	2019	Increase 2021/20
	£000	£000	£000	
Average monthly active traders	45,439	35,239	32,040	28.95%
Trading volume (bets placed)	5,224,000	3,881,000	3,795,000	34.60%
Revenue	20,250	15,793	19,267	28.22%
Cost of sales	(7,549)	(5,220)	(4,405)	
Gross Profit	**12,702**	**10,573**	**14,862**	20.13%
Administrative expenses	(30,059)	(14,873)	(15,621)	
Other income and expense	334	471	87	
(Loss)/profit before tax	**(17,023)**	**(3,829)**	**(672)**	
Customer deposits held	30,390	25,818	27,124	17.71%

Customer activity: In 2021, active users across both Smarkets and SBK rose 16% from 2020. First-time depositors increased by 19% year on year, while betting volume on the platform increased by 23%.

On SBK, new customer acquisition followed an expected pattern with spikes for the Cheltenham Festival in March and European Football Championship in the summer. We tried a more aggressive approach with our welcome offer during September-December, as well as experimenting with new digital channels, which caused spikes in activity but also drove inefficiencies in our cost per depositing user (CPDU). However, the learnings we got from that were vital and since then we've managed to control CPDU back to normal levels whilst maintaining a higher rate of first-time depositors (FTDs) to become more efficient than we were previously, showing that we can scale our business.

We also implemented tools to identify fraudulent traffic and block these from any activity, saving us acquisition costs and welcome bonus abuse costings.

Meanwhile, on the Smarkets exchange, CPDU dropped 7% to £26 with 64.8k first-time depositors in 2021 (up 18% year on year). We saw record-high volumes at the start of the year, helped by the boosted FTDs, leading to a March volume of £452m - the highest for a single month in the company's history - and a total of 49k active users (again a company record).

As we move into 2022, we hope to continue to deliver customer growth at low cost whilst improving product features as well as launching a major brand campaign for SBK.

Revenues: During 2021, through the introduction of new features and continued improvement of our products, the Group saw an increase in volume and thus revenues. The Group continued to offer zero-percent commission for selected customers, while not introducing new commission tiers. However, the effects of introducing a new commission tier in Q4 2020, for higher volume traders, allowed the company to realise the full-year benefit in 2021. Despite the continued global lockdowns resulting from the Covid-19 pandemic persisting in the first half of 2021, the company was able to increase customer numbers across all products, thus increasing traded volume. This resulted in commission revenue increasing to £8.7m, up from £7.2m in 2020. The increased customer activity also allowed for an increase in net revenue from betting activity to £13.1m up from £10.3m in 2020. As a result, our total revenue increased by 25% to £21.8m in 2021 up from £17.4m in 2020.

Costs: Total costs of the Group comprise cost of sales, which includes betting taxes, payment service provider costs for processing customer deposits and withdrawals, and affiliate costs. Administrative expenses, largely consisting of employment costs, hosting fees, and office-related costs.

Cost of sales increased 19% from £5,220,000 in 2020 to £7,549,000 largely due to increased payment processing costs due to volume and gaming taxes due to increased commission. Administrative expenses increased to £30,059,000 from £14,873,000 in 2020. While other expenses such as advertising and data costs related to customer acquisition did increase, the overall increase was largely due to the provision discussed in note 24.

Profitability: As a result of the factors discussed, the Group made a loss before taxation of £17,023,000 for 2021 compared to a loss of £3,829,000 for 2020. As a result of a catch-up in Research and Development tax credit claims in 2020, the loss after taxation was £16,445,000 up from a loss of £2,570,000 in 2020.

Balance sheet: Total assets of the Group at 31 December 2021 were £61.8m compared to £41.4m at the previous year-end. Included in these balances are segregated short-term bank accounts which hold the monies deposited by customers to allow them to make bets which increased given the increase in customers to £37.5m from £31.4m at the previous year-end.

Capital: Shareholders' Equity at 31 December 2021 was £13.7m as compared to £7.4m at the previous year end, with the increase largely arising from the capital injection received during the year, as noted in note 27.

The capital position remained strong at 31 December 2021 and able to absorb the possibility of future series of unexpectedly adverse betting outcomes as happened in 2020. Further, the Group is in a position to leverage the higher user numbers as a basis for returning to profitability and would, other things being equal, have been able to conclude that the Group would be able to fully finance its operations with adequate contingency available for unexpected events for the foreseeable future.

Effect of Covid-19 pandemic: From early 2020, the Group was adversely affected by the coronavirus ("Covid-19") pandemic and, in particular, the resulting postponement and cancellation of sporting events for several months which had an adverse impact on volumes and revenues. Once the holding of sporting events largely returned to normal in mid-2020, business rebounded and betting volumes and revenues recovered to exceed pre-pandemic levels. Subsequent government interventions around the globe have had little impact on the holding of sporting events nor, as a result, on volumes and commission income levels achieved. Further, the success of vaccination programmes during 2021 and the virus becoming more endemic across society reduces the potential for a repeat of such eventualities.

Although there has been no indication of any further future adverse consequences of the pandemic, the Director has prepared forecasts of future profitability, cash flow and capital adequacy of the Group for the period up to 31 July 2023 incorporating the modelling of scenarios including consideration of the potential impact of any further restrictions on sporting activities as well as the increased expenditure in the US, heightened expectations of inflation and other factors. None of the scenarios modelled resulted in any expectation that management would need to take extreme mitigating action, such as significant staff reductions to keep the business operating.

Risks

The Company maintains a register of risks that may impact operations or future activities and results. Key risks identified include:

Technology: Smarkets is primarily a technology company, with all bets taking place digitally. This exposes the business to the risk of technological failure for whatever reason. To mitigate this, the group invests in its technical workforce and the robustness of its technology and delivery mechanisms, including disaster recovery.

Regulatory: License requirements and other regulatory changes can affect the ability of the Group to conduct business in particular jurisdictions or by limiting activities. Further, regulation imposed on Group companies or customers can increase compliance and regulatory maintenance costs, and thus impact profits. To mitigate these risks, the Group monitors key markets for regulatory changes, and works with regulators in a proactive fashion to facilitate adherence to new requirements as they evolve.

Events: The Group derives part of its revenues from the outcomes of sporting events, with some outcomes being more favourable than others. As such, poor results can negatively impact profits over a reporting period. The level of exposure to events is actively monitored and managed on a real-time basis throughout the day by risk managers who adjust parameters and hedge positions when it is considered prudent to do so.

Pandemic: In the event of a global pandemic, there is a high likelihood that sporting events might be halted, held behind closed doors, and even cancelled. Since the Group relies heavily on the existence of sporting events, any global cessation of sports or events would affect revenue significantly.

Competition: The online betting market has many providers and the Smarkets customer base and plans for growth are at risk from competitors attracting existing customers and from not being able to attract new customers.

Taxation: Governments may change their approach to the taxation of businesses either generally or with regard to betting markets specifically, and such changes in individual jurisdictions could have a material impact on the cash-flow and profitability of the Group.

People: Although management prioritises staff incentives, the working environment, and a progressive company culture, there remains a risk that Smarkets may not be able to continue to attract or retain key employees should circumstances change or attitudes to the Group or betting industry change.

Geopolitical: Smarkets is exposed to developments in the European Union ("EU") as some of the customer base and workforce are based in countries that are members of the EU. While the UK and EU have agreed a withdrawal agreement, it still remains unknown what the longer-term wider regulatory and legal consequences of the UK leaving the EU will be and whilst the risk to Smarkets is mitigated to an extent by the holding of licences both in the UK and elsewhere in the EU (including Malta and Ireland), there remains a risk that the activities of Smarkets might be affected under such circumstances.

Management performs a review of all customers, suppliers, and partners to ensure they are not on any sanction lists and periodically reviews this for upcoming sanctions. This is deemed a low risk.

Reliance on third parties: Smarkets is reliant on certain third-party services, such as those provided by financial institutions, banking and payment suppliers and hosting providers to provide its services. Any withdrawal of such services can have an impact on the Group's ability to operate efficiently.

Financial: The Group is exposed to credit risk, liquidity risk, market risk (including open-betting-position risk), foreign currency risk and interest-rate risk arising from its day-to-day operations. These are discussed further in note 29 to the financial statements.

Economic: While consumer sentiment is currently down in the UK and other markets, with fears of inflation, this has been accounted for in management forecasts. Management does not believe any decrease in discretionary spend will affect gambling.

Safer Gambling

Smarkets takes its commitment to ensuring the maintenance and development of our platform through player safety measures seriously. Therefore, we have invested and continue to invest in technological innovations to facilitate us in this effort. In particular, we have fully established:

- Automated verification of customers' age before any gambling can occur, as well as checks against national databases of self-excluded customers.
- Proactive automated screening for signs of financial stress in our customer base, ensuring those customers who are experiencing affordability concerns with their gambling receive the support and advice they need.
- A Safer Gambling behavioural model that utilises a variety of methods and live wagering data to identify customers who are potentially at risk of engaging in problematic betting behaviour.
- A specialist Safer Gambling team responsible for interacting with potentially at-risk customers to ensure they have access to the information and tools needed to bet safely.
- A wide variety of customer-facing tools to place our players in control of their betting including deposit and loss limits, "Time-out" options for customers to take a short break from their gambling as well as self-exclusion tools for customers who would like their account closed for a minimum of six months or over a longer period.
- Delivery of Safer Gambling training for customer-facing and product staff, including working with charity BetKnowMore to deliver advanced training to our Safer Gambling team.
- Information sources directing employees and customers to organisations that can help people work through their concerns

Smarkets makes annual financial contributions to one or more organisations that research the prevention and treatment of gambling-related harm, develop harm prevention approaches and identify and find treatment for those harmed by gambling.

People

Recruitment and retention: Recruiting, developing, and retaining talented and motivated technical and non-technical employees are management priorities. It is essential in a competitive market that we continue to recruit engineers, researchers, mathematicians, quantitative analysts and other specialists to help us to continue to evolve and add fresh perspectives to our innovations. Since moving all our recruiting efforts in-house in 2018 to streamline costs we have managed to capture global talent ahead of the curve and supercharge growth. In 2021 we removed our transparent salary policy to allow us to move faster internally and boost our hiring pipeline due to the increasingly competitive recruitment market.

Diversity: We pride ourselves on having a workforce with employees from over 30 nationalities who have made Smarkets their home. Our hiring efforts are aimed at capturing the brightest talent from around the world, irrespective of gender, age, disability, ethnicity, nationality, sexual orientation, and religion or other beliefs. Despite the removal of transparent salaries in 2021, our five-year period with this policy means that fairness is still a key part of the salary decision-making process.

In 2020 we formed our first Diversity and Inclusion committee. As well as offering a regular space for members to share and learn about D&I issues, the group comprises a collection of employees, ranging from those at the start of their career right up to the C-suite, who are committed to carrying out D&I-related projects that will make a difference to those who work at Smarkets and also to technology industry more broadly.

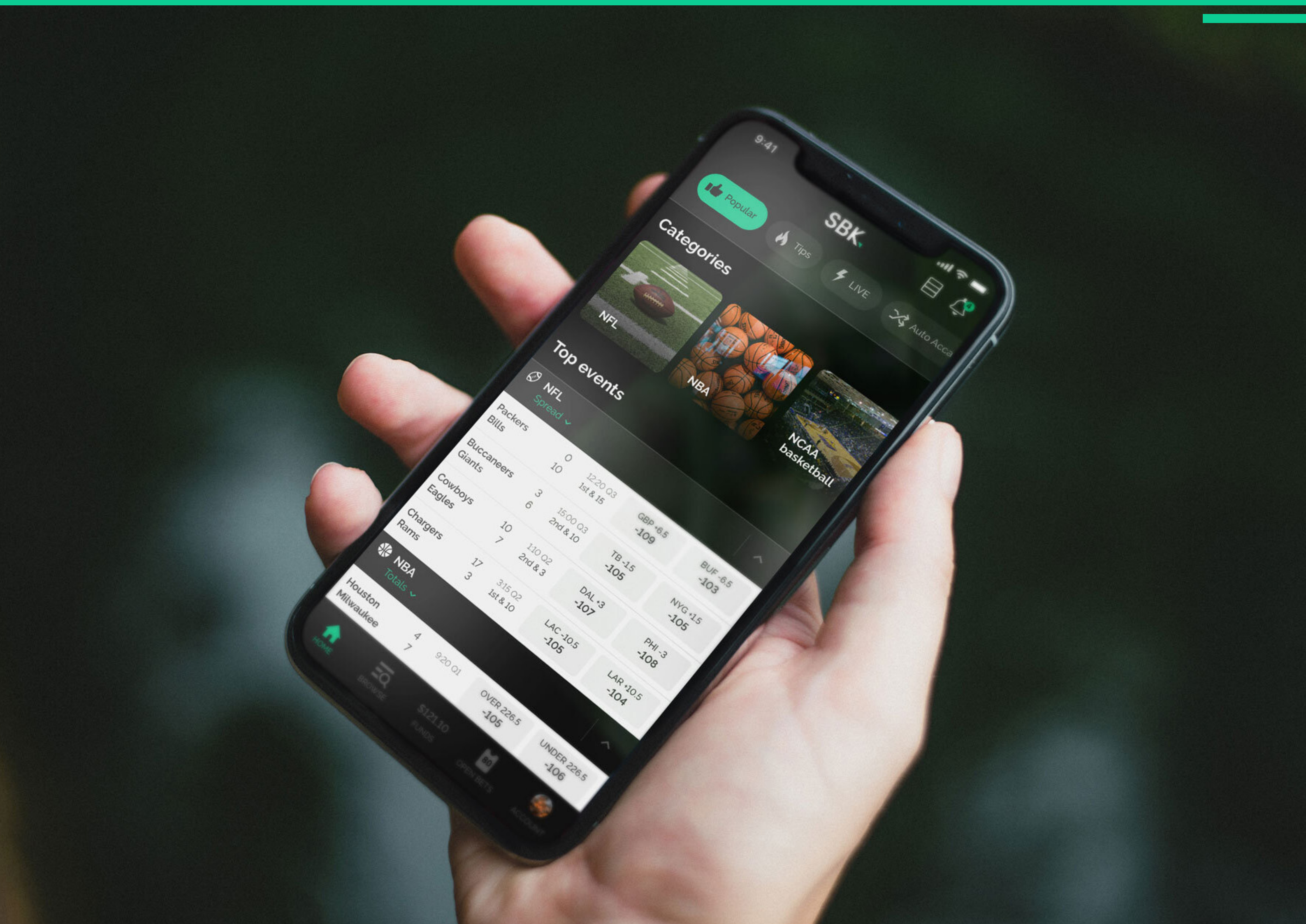
Culture: Organisational values are guiding principles. They ensure clarity, consistency and accountability. They help us understand what it feels like to be part of our culture and at Smarkets, we have a rare degree of transparency.

In 2021 we refreshed our internal values and now have five which the company uses as a lens when hiring, working, reflecting and improving: Be A Pro, Push To Win, Make Others Better, Give A Shit, and Bring The Energy.

On behalf of the board

Jason R. Trost
Director
8 November 2022


Smarkets
Chelsea
Everton
To Win
Football
Horse Racing
Politics
Tennis
American Football
Baseball
Basketball
Boxing
Cricket
Golf
Ice Hockey
Rugby League
Rugby Union
Snooker
Current Affairs
TV and Entertainment
Draw
To Half-time/full-time
Chelsea vs Everton / Winner
All Activity
Popular events right now
Southampton
Liverpool
Manchester City
UK to leave the EU by March 29, 2019?
14:35 Champion Hurdle
MacBook Pro


9:41
SBK
Popular
Tips
LIVE
Auto Acca
Categories
NFL
NBA
NCAA basketball
Top events
NFL
Spread
Packers
Bills
Buccaneers
Giants
Cowboys
Eagles
Chargers
Rams
GBP -6.5
-109
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LAR -10.5
-104
NBA
Totals
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Milwaukee
OVER 226.5
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UNDER 226.5
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Directors' Report

for the year ended 31 December 2021

The Director presents his Annual Report and Financial Statements for the year ended 31 December 2021.

The Chief Executive Officer's review set out on page 1 forms part of this report.

Principal activities
The Group Director's Report should be read in conjunction with the other sections of this Annual Report including the Group Strategic Report on pages 2 to 8 in which the principal activities of the Group and those factors likely to affect its future development, together with a description of its financial position are described. The following also form part of this report:

- The information relating to financial instruments, as provided in the notes to the financial statements.
- The related party transactions as set out in the notes to the financial statements.
- An indication of likely future developments in the business and details of significant events which have occurred since 31 December 2021.

Results and dividends
The results for the year are set out on page 18.

No ordinary dividends were paid. The Director does not recommend payment of a final dividend.

Share capital

During the year ended 31 December 2021, 205,336 Ordinary Shares were issued as a result of the exercising of share options (2020 – no Ordinary Shares were issued). There were no changes to the authorised share capital of the Company during the period.

On 14 May 2021, the Company issued 1,314,752 Series B Preference Shares of £0.0005 each at a premium of £5.59 per share, and 2,616,768 convertible loan notes at a price of £5.59 each carrying an annual interest rate of 1%, both to SGE to provide funding for the expansion of the Group's operations. On 18 November 2021, the Company issued a further 357,410 convertible loan notes at a price of £5.59 each carrying an annual interest rate of 1% to the aforementioned investor. On 23 December 2021, all 2,974,178 convertible loan notes were converted into 2,974,178 Series B Preference Shares.

Directors
The Director who held office during the year and up to the date of signature of the financial statements was as follows:

Jason R. Trost

Research and development
In developing the online betting exchange platform discussed in the Group Strategic Report on pages 2 to 8, the Group has continued to refine and develop the underlying software and infrastructure that supports its operations. In particular, the Company's technical development team has to continually work to find innovative ways of handling the increasingly large volumes of customer, market and transaction data and making it reliably accessible via its website promptly and completely to the user community.

Research and Development expenditure in this respect for the year ended 31 December 2021 was £801,000 (2020 - £801,000).

Auditor
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Statement of disclosure to auditor
The Director in office at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the Director has taken all the steps that he ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Going Concern – Basis of Preparation of Accounts
The Director has at the time of approving the financial statements, a reasonable expectation that the group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. Thus the Director continues to adopt the going concern basis of accounting in preparing the financial statements.

The Group had net assets of £13.8m (2020 - £7.4m) and net current assets of £11.3m (2020 - £5.0m) as at 31 December 2021. This was due to an increase in equity capital arising from the subscription by an investor of £23.9m offset, to an extent, by a loss for the year of £16.4m (2020 – loss of £2.6m). Given this and for the reasons set out below, the financial statements have been prepared on a going concern basis which the Director considers to be appropriate.

From early 2020, the Group was adversely affected by the coronavirus ("Covid-19") pandemic and, in particular, the resulting postponement and cancellation of sporting events for several months which had an adverse impact on volumes and revenues. Once the holding of sporting events largely returned to normal in mid-2020, business rebounded and betting volumes and revenues recovered to exceed pre-pandemic levels. Subsequent Government interventions around the globe have had little impact on the holding of sporting events nor, as a result, on volumes and commission income levels achieved. Further, the success of vaccination programmes during 2021 and the virus becoming more endemic across society reduces the potential for a repeat of such eventualities.

Although there has been no indication of any further future adverse consequences of the pandemic, the Director of the Group has prepared forecasts of future profitability, cash flow and capital adequacy of the Group for the period up to 30 November 2023 to assess whether the Company and the Group will have sufficient funds to meet its liabilities as they fall due for that period.

These forecasts included the modelling of scenarios including consideration of the potential impact of any further pandemic-related restrictions on sporting activities as well as the increased expenditure in the US and other factors which the Director considered prudent to consider the downside risks of. As such, scenarios modelled have included:

- Revenue shocks from a repeat of sporting event postponements or cancellations due to the pandemic
- Reductions in trade volume due to economic conditions
- Constraints on ability to spend on customer acquisition
- Significant levels of inflation impacting cost levels
- Strategic expenditure relating to expansion into the US, without any corresponding upsides from potential increases in revenue

None of the scenarios modelled resulted in any expectation that management would need to take extreme mitigating action, such as significant staff reductions to keep the business operating.

Following the increase in equity capital in 2021, the Group maintains a strong cash position, resulting in a reduced reliance on external funding, under normal operations.

Should the uncertain tax provision disclosed in note 24 materialise, the Company's and Group's ability to continue as a going concern would be dependent on it securing additional funding.

The Director is confident that the Group would be able to obtain the additional funding required to settle the tax liability and continue operations for at least 12 months from the date of signing the financial statements. However, it is uncertain that the Group will be able to raise additional funding although, at the date of approval of these financial statements, the director has no reason to believe that it will not do so.

The director therefore believes that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern and therefore to continue realising their assets and discharging their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Post Reporting Date Events
Events occurring after the reporting date, including the impact of the coronavirus pandemic, are discussed in note 31 to the financial statements.

Annual Report and Accounts
The Director is aware of his responsibilities in respect of the Annual Report. The Director considers that the Annual Report taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Director's Responsibilities Statement appears on page 13.

On behalf of the board

Jason R. Trost
Director
8 November 2022

Directors’ Responsibilities Statement

for the year ended 31 December 2021

The Director is responsible for preparing the Strategic Report, the Director’s Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Director to prepare Group and parent company financial statements for each financial year. Under that law the Director has elected to prepare the group and parent company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and has elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the Group’s profit or loss for that period. In preparing each of the Group and parent company financial statements, the Director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Director is responsible for keeping adequate accounting records that are sufficient to show and explain the company’s transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. He is also responsible for such internal control as he deems necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to him to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Director is also responsible for preparing a Strategic Report and a Directors’ Report, that complies with that law and those regulations.

Responsibility statement of the directors in respect of the annual financial report

I confirm that to the best of my knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The strategic report and directors’ report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Independent Auditors’ Report

for the year ended 31 December 2021

KPMG

Opinion
We have audited the financial statements of Smarkets Limited (the ‘parent company’) and its subsidiaries (the ‘group’) for the year ended 31 December 2021 which comprise the group statement of comprehensive income, the group and parent company statement of financial position, the group and parent company statement of changes in equity, the group statement of cash flows and the group and parent company notes to the financial statements, including the accounting policies in notes 1 and 34.

In our opinion:

- the financial statements give a true and fair view of the state of the group’s and of the parent company’s affairs as at 31 December 2021 and of the group’s loss for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern
Material uncertainty related to going concern

We draw attention to note 1.3 to the financial statements which indicates that the ability of the Group and Company to continue as a going concern is dependent on its ability to raise additional funding in the event the tax liability materialises. These events and conditions, along with the other matters explained in note 24, constitute a material uncertainty that may cast significant doubt on the Group’s and the parent company’s ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

The director has prepared the financial statements on the going concern basis as he does not intend to liquidate the Group or the company or to cease their operations, and as he has concluded that the Group and the company’s financial position means that this is realistic. As stated above, he has concluded that a material uncertainty related to going concern exists.

In our evaluation of the director’s conclusions, we considered the inherent risks to the Group’s business model and analysed how those risks might affect the group and company’s financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the director’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified, and concur with the director’s assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the group or the company’s ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect
Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the director, and inspection of policy documentation as to the group's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board meeting minutes;
- Using analytical procedures to identify any usual or unexpected relationships; and
- Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the group and company.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group audit team to full scope component audit teams of relevant fraud risks identified at the group level and a request to full scope component audit teams to report to the group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that fictitious revenue transactions have been recorded throughout the period and that group management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included journals posted to unusual accounts.
- Performing a control testing over the automatic calculation of revenue recorded through gaming commission with involvement of IT specialists.
- Reconciliation of the commission automatically calculated on the backend platform to the general ledger.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations.

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the director and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the director and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements. These procedures included:

- Review of the relevant gambling licenses in place.
- Review of company's risk register and mitigation factors identified by the management.
- Testing controls over Know Your Customer procedures performed for a sample of new customers.
- Review of compliance with relevant regulatory requirements through search performed on the UK Gambling commission website for any sanctions or non-compliance and requests made directly to the Malta Gaming Authority ("MGA") and Independent Betting Adjudication Service ("IBAS") for log of any disputes or complaints made during audited year.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group audit team to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

For the tax matter arising from prior years discussed in note 1.3, we consulted with tax specialists and inspected the group's external legal counsel's correspondence. We assessed the disclosures made in the context of the correspondence received from these specialists and the tax authorities and the tax environment. We discussed the uncertain tax provision with our internal specialists and concluded that the matter was adequately disclosed within the note and that the matter had been adequately reported to the authorities in good time once a sufficiently clear picture of the authorities' expectations in relation to the matter had been established.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the investigation performed by UK Gambling commission ("UKGC") matter discussed in note 1.3, we assessed, with the support of our own AML specialist and as appropriate the group's external legal counsel, disclosures made in the context of the correspondence received from the UKGC, the matters identified, the regulatory environment and the likely outcome of the matter.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and director's report
The director is responsible for the strategic report and the director's report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the director's report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the director's report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception
Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Responsibilities of Director
As explained more fully in the Director's responsibilities statement, the Director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

The purpose of our audit work and to whom we owe our responsibilities
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to him in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

For and on behalf of KPMG LLP

Chartered Accountants
Statutory Auditor

8 November 2022

15 Canada Square
London
UK
E14 5GL

KPMG

Group Consolidated Income Statement and Consolidated Statement of Comprehensive Income

for the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Revenue	**4**	20,250	15,793
Cost of sales		(7,549)	(5,220)
Gross profit		12,701	10,573
Other operating income	**5**	584	620
Administrative expenses		(30,059)	(14,873)
Operating Loss	**6**	(16,774)	(3,680)
Financial Income	**10**	11	42
Financial expense	**11**	(260)	(191)
Loss before taxation		(17,023)	(3,829)
Taxation	**12**	578	1,259
Loss and total comprehensive loss for the year		(16,445)	(2,570)

All income and expenditure is related to continuing operations of the Company.

The notes on pages 22 - 61 form an integral part of these financial statements.

Group Consolidated Statement of Financial Position

for the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Non-current assets			
Intangible assets	**13**	1,385	1,577
Property, plant and equipment	**14**	2,836	3,401
		4,221	4,978
Current assets			
Trade and other receivables	**16**	2,094	1,256
Tax receivable	**12**	1,602	1,949
Cash and cash equivalents	**18**	53,771	33,152
Other financial assets	**17**	96	59
		57,563	36,416
Total Assets		**61,784**	**41,394**
Current liabilities			
Trade and other payables	**22**	44,908	29,774
Current tax liabilities		299	383
Borrowings	**19**	-	146
Lease liabilities	**20**	972	1,140
Other financial liabilities	**17**	43	18
		46,222	31,461
Net current assets		11,344	4,955

Non-current liabilities			
Lease liabilities	**20**	1,782	2,511
Net assets		**13,782**	**7,422**
Equity attributable to equity holders of the Parent			
Share capital	**27**	15	13
Share premium	**28**	27,813	3,791
Capital redemption reserve	**30**	3	2
Retained earnings		(14,049)	3,616
Total equity		**13,782**	**7,422**

The notes on pages 22 - 76 form an integral part of these financial statements.

The financial statements were approved and signed by the Director and authorised for issue on 8 November 2022.

J~R Trost

Jason R. Trost
Director

Group Consolidated Statement of Changes in Equity

for the year ended 31 December 2021

	Notes	Share capital	Share premium account	Capital redemption reserve	Retained earnings	Total
		£000	£000	£000	£000	£000
Balance at 1 January 2020		13	3,791	2	6,125	9,931
Year ended 31 December 2020:						
Loss and total comprehensive income for the year		-	-	-	(2,570)	(2,570)
Share-based payments transactions	**25**	-	-	-	16	16
Other movements		-	-	-	45	45
Balance at 31 December 2020		13	3,791	2	3,616	7,422
Year ended 31 December 2021:						
Loss and total comprehensive loss for the year		-	-	-	(16,445)	(16,445)
Issue of share capital and share premium	**27**	2	24,022	-	-	24,024
Own shares acquired		-	-	-	(1,275)	(1,275)
Share-based payment transactions	**25**	-	-	-	113	113
Redemption of shares	**27**	-	-	1	-	1
Exchange movements		-	-	-	(57)	(57)
Balance at 31 December 2021		15	27,813	3	(14,049)	13,783

The notes on pages 22 - 76 form an integral part of these financial statements.

Group Consolidated Statement of Cash Flows

for the year ended 31 December 2021

	Notes	2021	2020
		£000	£000
Cash flows from operating activities			
Loss for the year		(16,445)	(2,570)
Adjustments for:			
Depreciation and amortisation	**13, 14**	1,033	1,036
Share option expense		113	16
Net financial expense		252	149
Effect of foreign exchange movements		(145)	33
Taxation	**12**	(578)	(1,259)
		(15,770)	**(2,595)**
(Decrease)/increase in trade and other receivables		(837)	179
(Increase) in other financial assets		(34)	(20)
Increase in trade and other payables		14,991	420
Decrease/(increase) in other financial liabilities		25	(89)
		(1,625)	**(2,105)**
Tax recovered		841	966
Net cash (outflow) from operating activities		**(784)**	**(1,139)**
Purchase of intangible assets	**13**	-	(168)
Proceeds on disposal of intangibles		60	-
Purchase of property, plant and equipment	**14**	(322)	(14)
Proceeds on disposal of property, plant and equipment	**14**	-	23
Interest received	**10**	8	42
Net cash used in investing activities		**(254)**	**(117)**

	Notes	2021	2020
		£000	£000
Proceeds from an issue of shares	**27**	24,024	-
Purchase of treasury shares	**27**	(1,275)	-
Interest paid	**11**	(260)	(191)
Payment of lease liabilities		(878)	(709)
Net cash generated from/(used in) financing activities		21,611	(900)
Net increase/(decrease) in cash and cash equivalents		**20,573**	**(2,156)**
Cash and cash equivalents at beginning of year		33,152	35,239
Effect of foreign exchange rates		46	69
Cash and cash eqiuvalents at end of year	**18**	53,771	33,152

The notes on pages 22 - 76 form an integral part of these financial statements.

Notes to the Group Financial Statements

for the year ended 31 December 2021

1. Accounting policies

Company information
Smarkets Limited (the "Company" or the "Parent") is a private company limited by shares incorporated in England and Wales. The registered office is 1 Commodity Quay, Floor 7, St Katharine Docks, London, United Kingdom, E1W 1AZ. The Company's principal activities and nature of its operations are disclosed in the Director's report.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its group.

1.1 Accounting convention

The Group consolidated financial statements have been prepared and approved by the Director in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs").

The Company has elected to prepare its parent company financial statements in accordance with FRS 101; these are presented on pages 59 to 74.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group consolidated financial statements.

The preparation of financial statements in conformity with Adopted IFRSs requires management to exercise its judgement in the process of applying the Group's accounting policies. However, the Director has not had to make any judgements resulting in a material financial impact on the financial statements as a result of the application of these accounting policies.

The financial statements are prepared in Pound Sterling, which is the functional currency of the Group.

The financial statements are prepared under the historical cost basis, except that are stated at their fair value. The principal accounting policies adopted are set out below.

1.2 Basis of consolidation

Subsidiaries
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Subsidiaries are consolidated in the Group's financial statements from the date that control commences until the date that control ceases.

1.3 Going concern

The Director has, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. Thus the Director continues to adopt the going concern basis of accounting in preparing the financial statements.

The Group had net assets of £13.8m (2020 - £7.4m) and net current assets of £11.3m (2020 - £5.0m) as at 31 December 2021. This was due to an increase in equity capital arising from the subscription by an investor of £23.9m offset, to an extent, by a loss for the year of £16.4m (2020 – loss of £2.6m). Given this and for the reasons set out below, the financial statements have been prepared on a going concern basis which the Director considers to be appropriate.

From early 2020, the Group was adversely affected by the coronavirus ("Covid-19") pandemic and, in particular, the resulting postponement and cancellation of sporting events for several months which had an adverse impact on volumes and revenues. Once the holding of sporting events largely returned to normal in mid-2020, business rebounded and betting volumes and revenues recovered to exceed pre-pandemic levels. Subsequent Government interventions around the globe have had little impact on the holding of sporting events nor, as a result, on volumes and commission income levels achieved. Further, the success of vaccination programmes during 2021 and the virus becoming more endemic across society reduces the potential for a repeat of such eventualities.

Although there has been no indication of any further future adverse consequences of the pandemic, the Director of the Group has prepared forecasts of future profitability, cash flow and capital adequacy of the Group for the period up to 30 November 2023 to assess whether the Company and the Group will have sufficient funds to meet its liabilities as they fall due for that period.

These forecasts included the modelling of scenarios including consideration of the potential impact of any further pandemic-related restrictions on sporting activities as well as the increased expenditure in the US and other factors which the Director considered prudent to consider the downside risks of. As such, scenarios modelled have included:

- Revenue shocks from a repeat of sporting event postponements or cancellations due to the pandemic
- Reductions in trade volume due to economic conditions
- Constraints on ability to spend on customer acquisition
- Significant levels of inflation impacting cost levels
- Strategic expenditure relating to expansion into the US, without any corresponding upsides from potential increases in revenue

None of the scenarios modelled resulted in any expectation that management would need to take extreme mitigating action, such as significant staff reductions to keep the business operating.

Following the increase in equity capital in 2021, the Group maintains a strong cash position, resulting in a reduced reliance on external funding, under normal operations.

Should the uncertain tax provision disclosed in note 24 materialise, the Company's and Group's ability to continue as a going concern would be dependent on it securing additional funding.

The Director is confident that the Group would be able to obtain the additional funding required to settle the tax liability and continue operations for at least 12 months from the date of signing the financial statements. However, it is uncertain that the Group will be able to raise additional funding although, at the date of approval of these financial statements, the director has no reason to believe that it will not do so.

The director therefore believes that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern and therefore to continue realising their assets and discharging their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

1.4 Revenue

The Group recognises Revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group has applied the five-step model set out in IFRS 15, Revenue from Contracts with Customers, in order to determine the revenues to be recognised, the five steps being: Identify the contract, Identify the performance obligations in the contract, Determine the transaction price, Allocate the transaction price to the performance obligations in the contract, and Recognise the revenue when the entity satisfies the performance obligation.

The Group recognises revenue from the following major sources:

- Commission revenue
- Net gaming revenue
- Customer bonuses granted (reduction to revenue)

The nature, timing of satisfaction of performance obligations and significant payment terms of the Group's major sources of revenue are as follows:

Commission revenue
Revenue from the Group's online betting exchange arises from the commission earned on betting transactions on individual sporting and other events entered into by customers of the exchange. The obligation of the exchange is to facilitate and settle these bets to the respective customer accounts once the outcome of the sporting or other event is known and hence the amount of the winning and losing customer bets is determinable. The commission, calculated on the amount of the winning customer bets, is recognised on this settlement date. The commission is recognised and measured in accordance with IFRS, 15 Revenue from Contracts with Customers, and as such the commissions are not accounted for as derivatives, because the fair value of such contracts does not fluctuate based on an underlying variable.

Net gaming revenue
Revenue from betting activities on individual sporting and other events comprises income from remote gaming transactions i.e. bets entered into on sporting and other events made with counterparties, these being either online betting exchanges or other gaming transaction providers. This income comprises the aggregate amount due in respect of winning bets shown after deduction of the amounts lost on losing bets and any commissions incurred. This revenue is recognised once the outcome of the sporting or other event is known and hence the amount of the winning and losing bets is determinable.

The value of open betting positions is recognised in revenue based on the best estimate of the amount that will be required to settle the position at the balance sheet date. The transactions are accounted for as derivatives at fair value in accordance with note 1.12 below with the change in value being recognised in revenue.

Customer bonuses granted (reduction to revenue)
Bonuses granted to customers of the exchange are recognised as a liability when the customer fulfils the criteria to qualify for the bonus offered and the cost is accounted for as an offset to revenue.

1.5 Intangible assets other than goodwill

Expenditure on internally generated software, goodwill and other intangibles is recognised in the income statement as an expense as incurred.

Expenditure on research activities is recognised in the income statement as an expense as incurred.

All intangible assets acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the intangible assets.

The estimated useful lives are as follows:

Access intangibles	Contractual period of the market access rights granted
Other intangibles	3 years

Amortisation methods, useful lives and residual values are reviewed at each balance sheet date.

1.6 Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets are recognised and measured as described in note 1.18.

Depreciation is recognised on a straight-line basis so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Leasehold land and buildings	Life of lease
Leasehold improvements	10 years or the remaining life of the lease, if shorter
Fixtures and fittings	5 years
Computers	3 years

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset and is recognised in the income statement.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.7 Impairment of tangible and intangible assets

At each reporting end date, the group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell 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 cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, deposits with payment providers, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Amounts deposited with banks and payment service providers that are held on behalf of customers, and which represent the amounts that those customers have deposited in order to transact on the group's betting exchange, are recognised as Cash and Cash Equivalents.

1.9 Financial assets

Financial assets are recognised in the group's statement of financial position when the group becomes party to the contractual provisions of the instrument. The Group recognises financial assets at either Amortised cost, Fair value through other comprehensive income ("FVOCI") and Fair value through profit and loss ("FVTPL"). The classification of financial assets is generally based on the business model on which a financial asset is managed and its contractual cash flow characteristics.

On initial recognition, a financial asset is classified as being measured at either Amortised cost, FVOCI – debt investment, FVOCI – equity investment or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at fair value through profit or loss
When any of the above-mentioned conditions for classification of financial assets is not met, a financial asset is classified as measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised initially at fair value and any transaction costs are recognised in profit or loss when incurred. A gain or loss on a financial asset measured at fair value through profit or loss is recognised in profit or loss, and is included within finance income or finance costs in the statement of income for the reporting period in which it arises.

Financial assets held at amortised cost
Financial instruments are classified as financial assets measured at amortised cost where the objective is to hold these assets in order to collect contractual cash flows, and the contractual cash flows are solely payments of principal and interest. They arise principally from the provision of goods and services to customers (eg trade receivables). They are initially recognised at fair value plus transaction costs directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment where necessary.

Financial assets at fair value through other comprehensive income
Debt instruments are classified as financial assets measured at fair value through other comprehensive income where the financial assets are held within the group's business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument measured at fair value through other comprehensive income is recognised initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, each asset is measured at fair value, with changes in fair value included in other comprehensive income. Accumulated gains or losses recognised through other comprehensive income are directly transferred to profit or loss when the debt instrument is derecognised.

The parent company has made an irrevocable election to recognise changes in fair value of investments in equity instruments through other comprehensive income, not through profit or loss. A gain or loss from fair value changes will be shown in other comprehensive income and will not be reclassified subsequently to profit or loss. Equity instruments measured at fair value through other comprehensive income are recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, each asset is measured at fair value, with changes in fair value included in other comprehensive income. Accumulated gains or losses recognised through other comprehensive income are directly transferred to retained earnings when equity instrument is derecognised or its fair value substantially decreased. Dividends are recognised as finance income in profit or loss.

Impairment of financial assets
The Group recognises loss allowances for Expected Credit Losses ("ECLs") on financial assets at amortised cost.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset. In the case of interest free financial assets, such as trade receivables, ECLs are not discounted. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Loss allowances are measured on either of the following bases:

- 12-month ECLs - these are ECLs that result from possible default events within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and
- lifetime ECLs - these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances for trade receivables without a significant financing component and contract assets at an amount equal to lifetime ECLs. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, and considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of profit or loss and OCI.

Derecognition of financial assets
Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Classification of financial instruments issued by the Group
Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:
(a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.10 Financial liabilities

The group recognises financial debt when the group becomes a party to the contractual provisions of the instruments. Financial liabilities are classified as either 'financial liabilities at fair value through profit or loss' or 'other financial liabilities'.

Financial liabilities at fair value through profit or loss
Financial liabilities are classified as measured at fair value through profit or loss when the financial liability is held for trading. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of selling or repurchasing it in the near term, or
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and has a recent actual pattern of short-term profit taking, or
- it is a derivative that is not a financial guarantee contract or a designated and effective hedging instrument.

Financial liabilities at fair value through profit or loss are stated at fair value with any gains or losses arising on remeasurement recognised in profit or loss.

Other financial liabilities
Other financial liabilities, including borrowings, trade payables and other short-term monetary liabilities, are initially measured at fair value net of transaction costs directly attributable to the issuance of the financial liability. They are subsequently measured at amortised cost using the effective interest method. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Derecognition of financial liabilities
Financial liabilities are derecognised when, and only when, the Group's obligations are discharged, cancelled, or they expire.

Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legally enforceable right to set off the amounts and it intends to either settle them on a net basis or to realise the asset and settle the liability simultaneously.

Ordinary share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, net of tax effects, are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12 Income taxes.

1.11 Classification of financial instruments issued by the Group
Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.2 Derivative financial instruments

Derivatives are recognised at fair value. Gains or losses on re-measurement are recognised in profit or loss immediately unless the derivative is designated and is effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

1.13 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or other comprehensive income.

Current tax
Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The Company incurs research and development expense for which it is entitled to UK Corporation Tax relief on eligible expenditure enhanced in accordance with the rules of the scheme. Historically, the Company has calculated the amounts reclaimable and booked the associated tax receivable at the time of submission. During the year ended 31 December 2020, this policy was amended so that the tax receivables arising are accrued in the year to which they relate. See note 12 for further details.

Deferred tax
Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.14 Employee benefits

Short-term employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related

service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.15 Retirement benefits

Defined contribution pension plans
A defined contribution pension plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

1.16 Share-based payments

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

1.17 Leases

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee
At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Group accounts for each lease component separately from the non-lease components. The Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise,
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

From 1 January 2021, where the basis for determining future lease payments changes as required by interest rate benchmark reform, the Group remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

In 2020, the Group applied Covid-19-Related Rent Concessions – Amendment to IFRS 16. The Group applied the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the Covid-19 pandemic are lease modifications. The Group applied the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Group chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Group assesses whether there is a lease modification.

1.18 Grants

In March 2020, in response to the Covid-19 coronavirus pandemic the government of the United Kingdom introduced a wage subsidy programme for companies that had to shut or curtail their operations and furlough staff. The Group has recognised this wage subsidy in the statement of profit or loss and other comprehensive income as "other operating income" in full as the conditions of the wage subsidy were met for the periods ended 31 December 2021 and 2020.

Also in March 2020, the government of the United States via the Small Business Administration introduced a non-repayable Economic Injury Disaster Loan Program (EIDL) advance for companies that were able to demonstrate a reduction in revenue. The Company has recognised this advance in the statement of profit or loss and other comprehensive income as "other operating income" to the extent that the conditions of the EIDL advance were met.

1.19 Foreign exchange

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement [except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognised directly in other comprehensive income]. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of othercomprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be. When a foreign operation is disposed of, such that control, joint control or significant influence (as the case may be) is lost, the entire accumulated amount in the FCTR, net of amounts previously attributed to non-controlling interests, is recycled to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while still retaining significant influence or joint control, the relevant proportion of the cumulative amount is recycled to profit or loss.

1.20 Financing income and expense

Financing expense comprises interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.21 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation arising from a past event that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.22 Other operating income

Other operating income normally comprises predominantly inactive account fees. During the period of the Covid-19 pandemic during 2020, various Government support schemes were implemented and grant income from such schemes has been accounted for as other operating income. Inactive account fees are charged in arrears at a fixed amount each month following 12 months of account inactivity, in accordance with the terms and conditions of account usage.

2 Adoption of new and revised standards and changes in accounting policies

In the current year, the following UK-adopted IFRSs have been issued but have not been applied by the Group in these consolidated financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Annual Improvements to IFRS Standards 2018-2020 (effective 1 January 2022).
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to introduce a new definition for accounting estimates (effective 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statements 2 Making Materiality Judgements (effective 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current (effective 1 January 2024).

Implementation of new accounting policy
The Group has early adopted Covid-19-Related Rent Concessions – Amendment to IFRS 16 issued on 28 May 2020. The amendment introduced an optional practical expedient for leases in which the Group is a lessee – i.e. for leases to which the Group applies the practical expedient, the Group is not required to assess whether eligible rent concessions that are a direct consequence of the Covid-19 coronavirus pandemic are lease modifications. The Group has applied the amendment retrospectively. The amendment has no impact on retained earnings at 1 January 2020.

3 Critical accounting estimates and judgements

The preparation of financial statements in accordance with the Group's accounting policies, may require the Director to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions used are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular for the years ended 31 December 2021 and 2020, the Director has been required to estimate the amount of Research and Development tax credit receivable for that year. He has done this based on experience of such claims from previous years and the percentage that these claims formed of relevant payroll totals. Other than this, the Director has not had to make any judgements resulting in a material financial impact on the financial statements as a result of the application of the Group's accounting policies.

4 Revenue

	2021	**2020**
	£000	**£000**
Revenue analysed by class of business		
Commission earned from betting activity on sporting and other events	8,712	7,199
Net revenue from betting activity on sporting and other events	13,081	10,241
Customer bonuses granted	(1,543)	(1,647)
	20,250	15,793

In 2021 , 88% of revenue was generated in the UK (2020 - 92%) with 4% of revenue generated from Malta, Ireland, and Sweden and the remaining from other jurisdictions.

5 Other operating income

	2021	2020
	£000	£000
Grants received	227	391
Inactive account fees	149	156
Other	208	73
	584	620

Refer to note 8 for explanation on Government Grants received.

6 Operating loss

	2021	2019
	£000	£000
Included in operating loss for the period are the following:		
Exchange (gains)/losses	(101)	145
Government grants	(227)	(391)
Depreciation of property, plant and equipment (note 14)	887	940
Amortisation of intangible fixed assets (note 13)	146	96
Share-based payments (note 14)	113	-

See note 8 for further explanation on Government Grants received.

7 Auditor's remuneration

	2021	2020
	£000	£000
Fees payable to the Company's auditor and associates:		
For audit services		
Audit of the financial statements of the Group and Company	113	52
Audit of the financial statements of the Company's subsidiaries	91	44
	204	96
For other services		
Tax services	33	40
Other services	25	22
Total non-audit fees	58	62

8 Employees

The average monthly number of persons (including the Director) employed by the Company during the year was:

	2021 Number	2020 Number
Software Engineers	70	56
Business Operations	34	43
Management and Administration	11	10
Total	115	109

Their aggregate remuneration comprised:

	2021 £000	2020 £000
Wages and salaries	7,565	7,312
Share based payments (note 25)	113	16
Social security costs	810	823
Pension costs	181	151
	8,669	8,302

In March 2020, in response to the Covid-19 coronavirus pandemic, the government of the United Kingdom introduced a wage subsidy programme for companies that had to shut or curtail their operations and furlough staff. Under the programme, an eligible company could apply for the subsidy in an amount of up to 80% of each furloughed employee's salary, subject to a maximum of £2,500 per employee per month, as a contribution towards continuing to pay monthly salaries to the furloughed employees.

The Group benefited from the programme from April to December 2020, receiving a grant of £125,000 under the programme. The Group further took advantage of this programme from January 2021 to August 2021, receiving a grant of £42,000.

Also in March 2020, the government of the United States introduced a Paycheque Protection Program as part of the CARES Act, to allow entities to apply for low-interest private loans to support the continued payment of payroll and certain other costs. The Group entered into a bank loan of $400,000 in April 2020 with an annual interest rate of 1%, which matures on 22 April 2022 (Note 19). The government allowed for partial or full forgiveness of the loan if the business met certain conditions, including employee count and stable wages. A total of USD353,000 of the bank loan qualified for this forgiveness with the remaining balance repaid in 2021. The Group further entered into a bank loan, under the same program of $250,000 in March 2021, with the full balance forgiven in December 2021.

Further in March 2020, the government of Malta introduced a wage subsidy programme for companies that had suffered a reduction in turnover due to the Covid-19 pandemic. Under the programme, an eligible company could apply for the subsidy in an amount of €1,162.98 per month per employee conditional on the employer continuing to pay the employee their salary. The Group received a wage subsidy of EUR2,100 (2020 - EUR23,000) under the programme.

The Group presents grant income as Other operating income in the income statement (Note 5).

9 Director's remuneration

The compensation of Jason Trost, the Chief Executive Officer of the Company, was as follows:	2021 £000	2020 £000
Remuneration for qualifying services	163	167
Social security costs	17	13
Medical insurance	4	10
	184	190

The Director did not contribute to the Company's defined contribution scheme for the years ended 31 December 2021 and 2020.

10 Financial income

	2021 £000	2020 £000
Interest income		
Bank deposits	11	8
Other interest income on financial assets	-	34
Total financial income	11	42

11 Financial expense

	2021 £000	2020 £000
Interest on lease liabilities	152	188
Other interest payable	108	3
Total financial expense	260	191

12 Income Tax

	2021	2020
	£000	£000
Current Tax		
UK corporation tax on profits for the current period	(578)	(1,259)

The charge for the year can be reconciled to the loss per the income statement as follows:

	2021	2020
	£000	£000
Loss before taxation	(17,023)	(3,829)
Expected tax credit based on a corporation tax rate of 19% (2020: 19%)	(3,234)	(727)
Effect of expenses not deductible in determining taxable profit	669	27
Utilisation of tax losses not previously recognised	-	(307)
Unutilised tax losses carried forward	2,445	1,950
Change in unrecognised deferred tax assets	(693)	-
Adjustment in respect of prior years	(12)	(359)
Permanent capital allowances in excess of depreciation	-	(409)
Research and development tax credit	(801)	(801)
Effect of overseas tax rates	1,071	(565)
Foreign exchange differences	(4)	-
Effect of Government Covid-19 schemes	(38)	(60)
Other	19	(8)
Taxation charge/(credit) for the year	(578)	(1,259)

UK Corporation Tax was charged at 19% (effective from 1 April 2017). In the 3rd March 2021 Budget, it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the Company's future tax charge.

Maltese income taxes are initially levied on Maltese tax resident companies at 35% of taxable income (2020 – 35%). The Group has formed an income tax grouping, encompassing all of the Maltese activities of the Group. As a result of this, as done previously, the reclaiming of tax credits on dividends paid within the grouping, no longer requires a separate process of reclaiming the six sevenths of the income taxes originally paid and tax liabilities are calculated and accounted for net of the reclaim amount.

Further, the formation of the Maltese tax grouping allowed for the recognition and utilisation of cumulative unitised tax losses by entities within the grouping against taxable profits made elsewhere in the grouping, resulting in the adjustment in 2020 of £359k.

	2021	2020
	£000	£000
Tax Receivable		
Research and development tax credits receivable	1,602	801
Other	-	20
	1,602	**821**

13 Intangible Assets

	Patents & Licences	Access Intangibles	Total
	£000	£000	£000
Cost			
At 1 January 2020	71	1,507	1,578
Additions	168	-	168
Foreign currency adjustments	-	(44)	(44)
At 31 December 2020	239	1,463	1,702
Disposals	(168)	-	(168)
Foreign currency adjustments	-	14	14
At 31 December 2021	71	1,477	1,548
Amortisation and impairment			
At 1 January 2020	32	-	32
Charge for the year	44	52	96
Foreign currency adjustments	-	(3)	(3)
At 31 December 2020	76	49	125
Charge for the year	66	80	146
Foreign currency adjustments	(108)	-	(108)
At 31 December 2021	34	129	163
Carrying amount			
At 31 December 2021	**36**	**1,349**	**1,385**
At 31 December 2020	163	1,414	1,577
At 31 December 2019	39	1,507	1,546

The amortisation charge is recognised in the Administrative Expenses line in the Income Statement.

Access intangibles represent rights acquired from licensed sports gaming market participants in the United States to access those markets in individual states for periods of 10 years. The assets were acquired in 2019 with the amortisation commencing at the launch of the Group's operations in those states in 2020.

14 Property, plant and equipment

	Leasehold land and buildings	Leasehold improvements	Fixtures and fittings	Computers	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2020	5,936	688	302	329	7,255
Additions	-	-	1	13	14
Disposals	(29)	-	-	-	(29)
Foreign currency adjustments	(8)	-	(1)	(1)	(10)
At 31 December 2020	5,899	688	302	341	7,230
Additions	130	-	38	154	322
Foreign currency adjustments	2	-	-	-	2
At 31 December 2021	6,031	688	340	495	7,554

All Leasehold land and buildings are a right-of-use assets.

15 Subsidiaries

The investments in subsidiaries by the Group, the financial statements of which have been included in these consolidated financial statements at 31 December 2021, are as follows:

Name of undertaking	Address	Principal Activities	Class of shares held	% Held Direct
2. Smarkets Holdings (Malta) Limited	Malta	Holding Company	Ordinary Shares	100.00
3. Smarkets (Clients) Limited	United Kingdom	Customer funds trust	Ordinary Shares	100.00
4. Smarkets Holdings (USA) Inc.	United States	Holding company	Ordinary Shares	100.00
5. Smarkets (Malta) Limited	Malta	Operate remote gaming license	Ordinary Shares	100.00
6. Smarkets Inc.	United States	Software development	Ordinary Stock	100.00
7. Smarkets USA Op Co	United States	Operate remote gaming license	Ordinary Stock	100.00
8. OddsIndex Holdings, LLC	United States	Holding company	Ordinary Stock	100.00
9. OddsIndex, LLC	United States	Marketing	Ordinary Stock	100.00

Registered office addresses (all UK unless otherwise indicated):

1, 3	7th floor Commodity Quay, St. Katharine Docks, London, E1W 1AZ, United Kingdom
2, 5	Level 7, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta
6	527 W. 7th St., Suite 601, Los Angeles, CA 90014, United States
4, 7, 8, 9	251 Little Falls Drive, Wilmington, Delaware, 19808, United States

The activities of Smarkets (Malta) Limited are operated under a B2C Type 3 remote gaming licence granted by the Malta Gaming Authority, as well as licences granted by the UK Gambling Commission, the Irish Office of the Revenue Commissioners, and the Swedish Spelinspektionen.

Both Smarkets Holdings (USA) Inc. and Smarkets USA OpCo were incorporated in Delaware on 3 September 2019. On 6 September 2019, Smarkets Limited transferred its holding of common stock of Smarkets Inc. to Smarkets Holdings (USA) Inc. None of the subsidiary companies incorporated in the United States required an audit for the years ended 31 December 2021 and 2020.

16 Trade and other receivables

	2021	**2020**
	£000	**£000**
Trade receivables	271	-
VAT recoverable	231	93
Other receivables	728	523
Prepayments	864	640
	2,094	1,256

At 31 December 2021, there were no receivables that were past due nor considered to be impaired (2020 - £Nil).

17 Other financial assets and liabililties

	2021	**2020**
	£000	**£000**
Current assets		
Fair value of open betting positions	96	59
Current liability		
Fair value of open betting positions	(43)	(18)
	53	41

Open betting asset and liability positions are derivative transactions which are valued at fair value in the balance sheet. These fair values are calculated based upon the latest open market prices on the relevant underlying sporting or other events available at the close of business at the valuation date. The profit for the year ended 31 December 2021 on other financial assets and liabilities was £12,000 (2020 – £109,000).

18 Cash and cash equivalents

	2021	2020
	£000	£000
Cash at bank	53,771	33,152

Cash and cash equivalents comprised short-term interest-bearing bank deposits and includes £30,389,000 (2020 - £25,818,000) of assets held in separate bank accounts on behalf of customers and which represent the amounts that those customers have deposited in order to transact on the Group's betting exchange.

19 Borrowings

	2021	2020
	£000	£000
Borrowings held at amortised cost:		
Bank loans	-	146
Secured borrowings included above:		
Bank loans	-	(146)

The Group entered into a bank loan of $400,000 in April 2020 with an annual interest rate of 1.00%, which matures on 25 April 2022. The government of the United States via the US Small Business Administration (SBA) introduced a general financial support scheme in response to the economic impacts of the COVID-19 pandemic, which provided a guarantee of the full amount of qualifying new corporate loans issued by banks in the United States under the Paycheck Protection Program (PPP). The loan qualified for this financial support scheme and is guaranteed by the government of the United States. No payments are due on this loan for 6 months from the date of first disbursement of this loan. Interest will continue to accrue during the deferment period.

The PPP loan was subject to forgiveness criteria which the company satisfied in November 2020 and submitted for SBA approval, which was subsequently received in June 2021. The company has recognised $353,000 of income as 'other operating income' in the statement of profit or loss and other comprehensive income, relating to this forgiveness. The remaining balance of the loan was paid down by the Group in June 2021.

The Group entered into an Economic Injury Disaster Loan (EIDL) of $150,000 in June 2020 with an annualinterest rate of 3.75%, which matures on 25 April 2022. The government of the United States via the US Small Business Administration (SBA) introduced a general financial support scheme in response to the economic impacts of the COVID-19 coronavirus pandemic, which provided a guarantee of the full amount of qualifying new corporate loans issued for companies which have suffered a loss of revenue.

The loan was subject to collateral filed under a UCC lien over assets held in the United States. Payments for the loan were deferred 12 months from the date of the loan, whilst the loan continued to accrue interest. The balance of the loan was paid down by the Group in June 2021.

20 Lease liabilities

Lease liabilities are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

	2021	2020
	£000	£000
Current Liabilities	972	1,140
Non-current liabilities	1,782	2,511
	2,754	3,651

	2021	2020
	£000	£000
Amounts recognised in profit or loss include the following:		
Interest on lease liabilities	152	188

The borrowing rate implicit in the leases is 4.75%.

21 Other leasing information

Set out below are the future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities:

	2021	2020
	£000	£000
Contractual undiscounted cash flows		
Within one year	(961)	(1,135)
Between two and five years	(2,092)	(2,880)
	(3,053)	(4,015)

On 4 September 2015, the Company entered into a 10-year lease, with a tenant exercisable break clause after 7 years, for the 7th floor of Commodity Quay, St. Katharine Docks, London, E1W 1AZ. The lease commenced on 25 September 2015 with an annual rental of £580,000, but with the first nine months being rent free.

On 13 January 2017, the Company entered into a 5-year lease, terminatable by the tenant with 6 months' notice, for part of the 1st floor of Commodity Quay, St. Katharine Docks, London, E1W 1AZ. The lease commenced on 2 February 2017 with an annual rental of £282,948, which is subject to annual review. The lease was terminated on 12 August 2019 and replaced with a new 5-year lease commencing on the same date, with an unchanged annual rental of £282,948.

On 5 February 2016, Smarkets (Malta) Limited entered into a 5-year lease, with a tenant exercisable break clause after 1 year, for office space on Level 7, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta. The lease commenced on 15 February 2016 with an annual rental of €35,400 increasing by 3% on an annual basis.

On 1 August 2018, Smarkets (Malta) Limited entered into a 7-year and 2-month lease, with a tenant exercisable break clause after 1 year, for office space on Level 2, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta. The lease commenced on 1 August 2018 with an annual rental of €43,800 increasing by 3% on an annual basis.

On 17 February 2021, Smarkets (Malta) Limited entered into a lease addendum for a 4-year lease, with a tenant exercisable break clause after 1 year, for office space on Level 7, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta. The lease commenced on 15 February 2021 with an annual rental of €35,000 increasing by 3% on an annual basis.

On 16 September 2016, Hanson Applied Science Limited entered into a 5-year lease, with a tenant exercisablebreak clause after 2 years, for office space on Level 1, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta. The lease commenced on 1 February 2017 with an annual rental of €27,260.

On 01 October 2021, Hanson Applied Science Limited entered into a 3-year and 8-month lease, replacing the lease noted above, with a tenant exercisable break clause after 1 years, for office space on Level 1, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta. The lease commenced on 1 February 2022 with an annual rental of EUR30,682. The borrowing rate implicit in the lease is 4.75%.

The lease liabilities are denominated in Euro and Euro interest rates have not varied sufficiently in the period from lease inception to 31 December 2021 for the fair value of the lease contracts to diverge materially from carrying value.

The Group negotiated rent concessions with its landlord for one office lease as a result of the severe impact of the Covid-19 pandemic during the year. The amount recognised in profit or loss for the reporting period to reflect changes in lease payments arising from rent as negotiated is £15,000 (2020: £71,000).

Information relating to lease liabilities is included in note 20.

22 Trade and other payables

	2021	2020
	£000	£000
Customer account liabilities	28,026	25,818
Trade payables	720	418
Amount owed to parent undertaking	1	-
Accruals	1,369	574
Social security and other taxation	107	101
Other payables	12,100	-
Provision – see note 24		
	44,908	29,774

The customer account liabilities are matched by assets held in separate bank accounts as discussed in note 18.

23 Deferred Taxation

Deferred tax assets and liabilities were attributable to the following:

	2021 £000	2020 £000
Tax effected temporary timing differences		
Property, plant and equipment	(73)	(34)
Short term temporary differences	73	34
Net deffered tax	-	-
Movement recognised in income		
Property, plant and equipment	(39)	(31)
Short term temporary differences	10	11
Tax value of loss carry-forwards utilised	29	20
	-	-

Unused tax losses in the Group for which no deferred tax asset was recognised amounted to £35,218,000 (2020 - £23,931,000).

24 Regulatory and other matters

Possible tax matter arising from prior years
In the periods 2012 to 2017 the Company operated in one jurisdiction where the local authorities, following a court process against a competitor business and following submission by the Company to the authorities of all relevant information in relation to its activities in that jurisdiction from 2012 to 2017, claim that additional tax is outstanding. The Company contests both the existence and quantum of the amount claimed by the authorities. Based on the latest correspondence from the authorities requesting submission of tax fillings the Company has recorded an estimated provision of £12.1m (€14.4m) as at 31 December 2021, being the full amount currently claimed by the tax authority.

The Board continues to monitor the impact of any new regulatory or fiscal arrangements and their potential impact on the business, however due to exiting the aforementioned jurisdiction in 2017, these uncertain tax positions are not expected in the future.

General regulatory matters
In July 2022 the Gambling Commission concluded its review into Smarkets Malta Limited's operating licence. The outcome of this review included the identification of several historic failings in relation to compliance with the Company's operating licence conditions, and as a result a financial penalty of £630,000 was imposed. This penalty was recorded as a provision as at 31 December 2021. At all times the Company co-operated fully with the Commission and took corrective steps to address all identified failings.

25 Share-based payment transactions

The Company operated an employee share-based incentive scheme granting options to eligible employees of the Group during the two years ended 31 December 2021.

The options grant the holder the right to acquire Ordinary shares in the Company and vest over a four-year period commencing from the employee's employment start date. The first 25% of the number of options granted vest after 1 year of service, and the remainder vest in equal monthly tranches over the following three years of service. If the employee leaves the employment of the Company during this period, then all unvested options are forfeited.

On 23 February 2021, the Company carried out a share split to subdivide the Ordinary and Preference shares of £0.005 each into 10 shares of £0.0005 each, such shares having the same rights and being subject to the same restrictions. The effects of the stock split are shown below, and when applicable prices disclosed are post stock split.

Options granted in the year ended 31 December 2021 have an exercise price of £0.10 and £1.995, or pre stock split £1.00 and £19.95, respectively. Options granted in the year ended 2020 have a post stock split exercise price of £1.995, with grants in 2017 and 2018 also having an exercise price of £1.995, with grants in years up to 2016 having an exercise price of £0.10.

During the year ended 31 December 2021 holders exercised 205,336 options resulting in a payment of £24,253 to receive 205,336 Ordinary shares. In 2020 no options were exercised. The weighted average exercise price for these exercised options was £2.45.

The options issued under this scheme to UK resident employees have been issued under the Enterprise Management Initiative ('EMI') arrangements as the Company has met and continues to meet the qualifying criteria. These EMI arrangements provide tax advantages to the option holders.

	Number of share options	
	2021	2020
Outstanding at 1 January 2021	55,125	45,000
Granted in the period	57,475	35,000
Effect of stock split (10:1)	1,013,400	-
Exercised in the period	(205,336)	-
Expired in the period	(93,414)	(24,875)
Outstanding at 31 December 2021	827,250	55,125
Exercisable at 31 December 2021	442,594	11,834

The options outstanding at 31 December 2021 had an exercise price ranging from £1.00 to £19.95, and a remaining contractual life of 2.5 years.

During 2021, options were granted on 08 February 2021 and 23 February 2021. The weighted average fair value of both options grants on the measurement date was £5.59. During 2020 options were granted on 05 February 2020 with a weighted average fair value on the date of measurement of £4.62. Fair value was measured using the Black-Scholes model.

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) as determined using a Black-Scholes model. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the relevant vesting period based upon provision of service by the employees and an estimate of the number of share options that will eventually vest.

Inputs were as follows:

	2021 08 February	2021 23 February	2020
Weighted average share price	£5.59	£5.59	£4.62
Weighted average exercise price	£1.995	£0.10	£19.95
Expected volatility	20.36%	20.36%	9.00%
Expected option life	4.0 years	4.0 years	5.0 years
Weighted average contractual life of outstanding share options	2.5 years	2.5 years	5.8 years
Risk free rate	0.50%	0.50%	0.50%
Expected dividend yield	0.00%	0.00%	0.00%

Volatility for the options issued in 31 December 2021 was determined by reference to movements in the share prices of the FTSE 350 index for the previous 12 months adjusted for the increased risk of a private company.

The total expense recognised for the year and the total liabilities recognised at the end of the year arising from share-based payments was £113,000 for the year ended 31 December 2021 (2020 - £16,000).

The Director did not exercise any share options for the years ended 31 December 2021 and 2020.

Subsequent to the period covered by these financial statements, the Company granted the following share options:

- On 17 March 2022, 10,000 options with an exercise price of £5.59.
- On 23 March 2022, 5,000 options with an exercise price of £5.59.

26 Retirement benefit schemes

Defined contribution schemes
From 1 April 2016, the Company has operated a defined contribution pension plan for the benefit of qualifying UK based employees. Up until 5 April 2018, the Company made contributions to the plan of up to 1% of salary with employees also contributing 1%. From 6 April 2018, the Company has made contributions of 3% of salary with employees contributing 5% in accordance with relevant legislation. From 01 November 2021, the Company increased the contributions to 6% of salary with employees contributing 6%.

Also on 01 November 2021, the Group introduced a defined contribution pension plan for qualifying Maltese and US based employees, with the same terms as above.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

The total expense relating to this plan for the year ended 31 December 2021 was £181,000 (2020 - £151,000). The total unpaid balance to the scheme is included in creditors and at 31 December 2021 was £58,000 (2020 - £27,000).

27 Share Capital

	2021	2020	2021	2020
Ordinary share capital	Number	Number	£000	£000
Issued and fully paid				
Ordinary shares of 0.5p each	1,746,959	1,751,741	8	8
Deferred shares of 0.5p each	-	124,144	1	1
	1,746,959	1,875,885	9	9

	2021	2020	2021	2020
Preference share capital	Number	Number	£000	£000
Issued and fully paid				
Series A of 0.5p each	751,468	751,468	4	4
Series B of 0.5p each	428,893	-	2	-
	1,180,361	751,468	6	4
Preference shares classified as equity			6	4
Total equity share capital			15	13

On 23 February 2021, the Company carried out a share split to subdivide the Ordinary and Preference shares of £0.005 each into 10 shares of £0.0005 each, such shares having the same rights and being subject to the same restrictions. On the same day, the deferred shares of the Company were cancelled. The effects of this are shown as follows:

	Number	Number	Number	Number
	Ordinary shares	Deferred shares	Series A shares	Series B shares
At 1 January 2021	1,751,741	124,144	751,468	-
Issue of fully paid shares	20,534	-	-	428,893
Share buyback/cancellation	(25,316)	(124,144)	-	-
	1,746,959	-	751,468	428,893
Effects of share split (10:1)	15,722,627	-	6,763,212	3,860,037
At 31 December 2021	**17,469,586**	**-**	**7,514,680**	**4,288,930**

During the year ended 31 December 2021, 205,336 shares were issued as a result of the exercise of share options. In 2020 the Company issued no shares.

On 14 May 2021, the Group issued 1,314,752 Series B Preference shares of £0.0005 each at a premium of £5.59 per share, and 2,616,768 convertible loan notes at a price of £5.59 each carrying an annual interest rate of 1%, both to new investors to provide funding for the expansion of the Group's US operations. On 18 November 2021, the Company issued a further 357,410 convertible loan notes at a price of £5.59 each carrying an annual interest rate of 1% to the aforementioned investor. Conversion of the loan notes into fully paid Series B Preference Shares is dependent on the granting of certain licences relating to operating in US markets. On 23 December 2021, following granting of these licences, all 2,974,178 convertible loan notes were converted into 2,974,178 Series B Preference Shares.

On 18 November 2021, the Company agreed to buy back 253,166 Ordinary Shares of the Company at a price of £5.04 per share from the Director for a total consideration of £1,275,000. The shares acquired were cancelled by the Company.

Subsequent to 31 December 2021, on 31 January 2022, the Company agreed to buy back 143,956 Ordinary Shares of the Company at a price of £5.04 per share from the Director for a total consideration of £725,000. The shares acquired were cancelled by the Company.

Classes of share
The Ordinary Shares, the Series A Preference Shares, and the Series B Preference Shares each constitute a separate class of shareholders of Ordinary Shares in the Company and, except as set out below, rank pari passu in all respects. All such shares confer equal rights to dividend payments and equal rights to vote at meetings of the Company on a show of hands, each holder of such shares having one vote. On a poll, each holder shall have one vote for each such share held.

The Deferred Shares confer no rights to vote or any right to receive dividends.

The Series A Preference Shares and Series B Preference Shares are automatically converted into Ordinary Shares immediately upon the occurrence of a qualifying IPO otherwise they may be converted at the option of the holder at the issue price of the shares held. They are not redeemable for cash.

In the event of liquidation, dissolution or winding up of the Company, the deferred shareholders will receive £1 for the entire issue and the remaining proceeds shall be distributed among the holders of the Ordinary, Series A Preference Shares, and Series B Preference Shares pro rata to the number of shares held plus any arrears of dividend, provided that the amount of the distribution per share exceeds £15.54. Below this threshold amount, holders of the Series A Preference shares will receive an amount of up to £0.3108 per share, the holders of the Series B Preference shares will receive an amount of up to £5.59 per share, and then the deferred shareholders will receive £1 for the entire issue. Any remaining proceeds, if any, will then be distributed among the holders of the Ordinary Series A Preference Shares, and Series B Preference Shares pro rata to the number of shares held plus any arrears of dividend.

Dividends
No dividends were paid during the year or the preceding year. No dividends have been proposed by the Director.

28 Share premium account

	2021	2020
	£000	£000
At the beginning of the year	3,791	3,791
Issue of new shares	24,022	-
At the end of the year	27,813	3,791

29 Financial Instruments

Fair values of financial instruments
Financial assets and liabilities of the Group comprise trade and other receivables, cash and cash equivalents and other betting related financial assets and liabilities including open betting transactions, assets held on trust for customers and amounts owing to customers.

The fair values of all financial assets and financial liabilities together with their carrying amounts shown in the balance sheet are as follows:

	Carrying amount	Fair Value	Carrying Amount	Fair Value
	2021	2021	2020	2020
	£000	£000	£000	£000
Trade and other receivables (note 16)	1,006	1,006	543	543
Cash and cash equivalents (note 18)	53,771	53,771	33,152	33,152
Other financial assets (note 17)	96	96	59	59
Total financial assets	54,873	54,873	33,754	33,754
Trade and other payables (note 22)	(30,636)	(30,636)	(28,433)	(28,433)
Other financial liabilities (note 17)	(43)	(43)	(18)	(18)
Non-current liabilities (note 20)	(1,782)	(1,719)	(2,511)	(2,567)
Total Financial liabilities	(32,461)	(32,398)	(30,962)	(31,018)
Net Financial assets	22,412	22,475	2,792	2,736

The carrying value of open betting transactions equates to fair value as such transactions are accounted for as derivatives. Non-current liabilities comprise lease liabilities (note 20) for which fair value has been calculated using a discounted cashflow model. For all other financial assets and liabilities, carrying value approximates to fair value because of their short-term nature.

Open betting asset and liability transactions are derivative positions which are valued at fair value in the balance sheet. These fair values are calculated based upon the latest open market prices on the relevant underlying sporting or other events available at the close of business at the valuation date. As such, the valuation method used falls into Level 2 of the standard financial instruments fair value hierarchy, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The financial instrument credit risk of the Group arises principally from the Group's receivables from other betting businesses. Customers of the Group are required to deposit monies with the Group sufficient to cover any exposure arising from betting transactions that they then proceed to undertake and, as such, no credit risk arises from such activities.

The exposure to credit risk of other betting businesses comprises deposits made with such businesses so that the Group can undertake betting transactions. These funds, classified as other debtors, may be withdrawn at will to the extent that the amount exceeds the exposure created by open betting transactions entered into with the particular counterparty. As most betting activity occurs on the day of the event to which the transaction relates, the amount of outstanding transactions at the end of any trading day tends to be small.

The credit risk arising from deposits with other betting businesses is best represented by their balance sheet carrying value which at 31 December 2021 amounted to £669,000 (2020 - £472,000).

No impairment losses have been recognised against such assets.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, to the extent practicable, that there will always be sufficient liquid resources to meet any liabilities or other contractual obligations as they fall due.

The betting transactions of the Group are to a very large extent of a short-term nature, much of it occurring on the day of the sporting or other event to which the transactions relate. As such, the Group is well able to monitor its potential liquidity risks and take action accordingly if those risks become exacerbated by stressed conditions.

Further, as customers of the Group are required to deposit monies with the Group sufficient to cover any exposure arising from betting transactions that they then proceed to undertake, and these customer assets are held in segregated cash accounts, the risk of failing to meet the obligations arising on the customer transactions is minimised.

With the exception of long-term finance lease liabilities (note 20) and other borrowings (note 19), the Group has no outstanding borrowings, nor financial liabilities for which the contractual maturity extends beyond one year.

Market Risk
Market risk is the risk that changes in market prices, such as betting prices, foreign exchange rates, and interest rates, will affect the Group's income or the value of its holdings of financial instruments.

Betting position risk
The Group monitors its price risks to open events on an ongoing basis.

Open betting positions on individual events tend to remain limited until the day of the sporting or other event concerned but can then expand rapidly, in the immediate period before the event takes place. When positions arise that exceed the risk appetite of the Risk Manager, hedging transactions are undertaken with other betting businesses to mitigate the exposure.
Management of the Group actively discusses the extent of risk to be taken and also monitors the performance of the risk taking and hedging activities on a daily basis.

Interest rate risk
Subsequent to the period covered by these financial statements, central banks across the world began to raise interest rates to address inflation. The Group has no borrowings nor other financial instruments linked to interest rates and, as such, is only affected to a limited extent by these rises through interest earned on customer deposits invested with financial institutions. The effect of this is slightly positive to profit and loss. Similarly, the effect of interest rate benchmark reforms is of only marginal impact to the Group.

Foreign currency risk
The Group is exposed to foreign currency risk primarily from:

- Commissions earned from betting transaction activity where the customer has a settlement currency other than GBP.
- Expenses incurred in operations in jurisdictions in which the local currency is not GBP. In particular, the Group incurs expenses in EUR in connection with the operation of the betting exchange in Malta.

Assets deposited by customers are retained in the currencies in which they were deposited so mitigating the outstanding liabilities to the customers. All betting risk is monitored, and settlements are calculated, in GBP.

At 31 December 2021, the Group's exposure to foreign currency risk was as follows. This is based on the carrying amount for monetary financial instruments.

31 December 2021	**GBP**	**EUR**	**USD**	**Other**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Other financial assets	96	-	-	-	96
Trade and other receivables	461	511	34	-	1,006
Cash and cash equivalents	51,334	1,152	962	323	53,771
Non-current liabilities	(1,590)	(192)	-		(1,782)
Other financial liabilities	(43)	-	-	-	(43)
Trade and other payables	(28,218)	(1,641)	(688)	(90)	(30,637)
	22,040	(170)	308	233	22,411

31 December 2020	**GBP**	**EUR**	**USD**	**Other**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Other financial assets	59	-	-	-	59
Trade and other receivables	249	260	34	-	543
Cash and cash equivalents	31,473	802	547	330	33,152
Non-current liabilities	(2,308)	(167)	(36)	-	(2,511)
Other financial liabilities	(18)	-	-	-	(18)
Trade and other payables	(26,138)	(1,189)	(1,016)	(90)	(28,433)
	3,317	(294)	(471)	240	2,792

A 10% weakening of GBP against all other currencies at 31 December 2021 would have increased equity and profit and loss by £42,000 (2020 – decrease of £58,000). This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date and assumes that all other variables and other exchange rates remain constant.

A 10% strengthening of GBP against all other currencies at 31 December 2021 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Capital Management
The capital structure of the Group consists of the equity attributable to equity holders of the Company comprising Capital and Reserves and Retained Earnings. The Group finances its operations through generation of retained earnings and management of the cash and cash equivalent balances and has sufficient capital to meet its regulatory and operational needs.

From early 2020, the Group was adversely affected by the coronavirus (“Covid-19”) pandemic and, in particular, the resulting postponement and cancellation of sporting events for several months which had an adverse impact on volumes and revenues. Once the holding of sporting events largely returned to normal in mid-2020, business rebounded and betting volumes and revenues recovered to exceed pre-pandemic levels. Subsequent Government interventions around the globe have had little impact on the holding of sporting events nor, as a result, on volumes and commission income levels achieved. Further, the success of vaccination programmes during 2021 and the virus becoming more endemic across society reduces the potential for a repeat of such eventualities.

During 2021, the equity capital of Smarkets Limited was increased by the subscription by an investor of £23.97million which has allowed the Group to increase its funding for the expansion of it’s US operations. The costs of this expansion during the period are reflected in the Group’s loss for the year of £4million. The overall result is that the Group had equity of £26.2m (2020 - £7.4m) at 31 December 2021 and remained in a strong capital position.

Although there has been no indication of any further future adverse consequences of the pandemic, the Director has prepared forecasts of future profitability, cash flow and capital adequacy of the Group for the period up to 31 July 2023 incorporating the modelling of scenarios including consideration of the potential impact of any further restrictions on sporting activities as well as the increased expenditure in the US, heightened expectations of inflation and other factors. None of the scenarios modelled resulted in any expectation that management would need to take extreme mitigating action, such as significant staff reductions to keep the business operating.

As a result, the Director has no expectation that under any reasonable scenario, that the financing of the Company and of the Group would be insufficient to fully finance its operations with adequate contingency available for unexpected events for the foreseeable future.

Dividends
Management do not propose any dividends or other distributions for the year ended 31 December 2021 (2020 - £Nil).

30 Capital redemption reserve

	2021	2020
	£000	£000
At the beginning of the year	2	2
Transfers	1	-
At the end of the year	3	2

31 Events after the reporting date

Effects of the global Covid-19 pandemic continued to be experienced post 31 December 2021 albeit with less impact in most jurisdictions than in the prior year. The effect of this on the Group is discussed in the Director's Report and in note 1.3.

Other than the matters discussed in note 27 in respect of share buy backs and note 24 in respect of the issuance of share options, no other matters arose in the period from the balance sheet up to the date of approval of these financial statements that require further disclosure.

32 Related parties

At 31 December 2021 the Director of the Company and his immediate relatives controlled 24.5 per cent of the voting shares of the Company (2020 – 29.7 per cent).

33 Ultimate parent company

The Company is the ultimate parent company of the Group. There is no one ultimate controlling party.

Company Statement of Financial Position

for the year ended 31 December 2021

	Notes	2021	2020
		£000	£000
Non-current assets			
Intangible assets	**37**	6	8
Property, plant and equipment	**39**	2,498	3,027
Investments	**40**	95	84
Trade and other receivables	**41**	16,419	8,436
		19,018	11,555
Current assets			
Trade and other receivables	**41**	8,923	3,147
Tax recoverable		1,602	1,929
Cash at bank and in hand		12,144	911
		22,669	5,987
Current liabilities			
Trade and other payables	**43**	1,342	1,557
Lease liabilities	**42**	854	995
		2,196	2,552
Net current assets		20,473	3,435
Non-current liabilities			
Lease liabilities	**42**	1,590	2,308
Net assets		37,901	12,682
Equity			
Called up share capital	**45**	15	13
Share premium account		27,813	3,791
Capital redemption reserve		3	2
Profit and loss account		10,070	8,876
Total equity		37,901	12,682

The notes on pages 64 - 76 form an integral part of these financial statements.
The financial statements were approved and signed by the Director and authorised for issue on 8 November 2022.

Jason R. Trost
Director
Company Registration No. 06475845

J~R Trost

Company Statement of Changes in Equity

for the year ended 31 December 2021

	Notes	Share capital £000	Share premium account £000	Capital redemption reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2020		13	3,791	2	6,826	10,632
Year ended 31 December 2020:						
Profit and total comprehensive income for the year		-	-	-	2,034	2,034
Share based payment transactions		-	-	-	16	16
Balance at 31 December 2019 as restated		13	3,791	2	8,876	12,682
Year ended 31 December 2021:						
Profit and total comprehensive income for the year		-	-	-	2,356	2,356
Issue of share capital and share premium	**45**	2	24,022	-	-	24,024
Own shares acquired		-	-	-	(1,275)	(1,275)
Share based payment transactions		-	-	-	113	113
Redemption of shares	**45**	-	-	1	-	1
Balance at 31 December 2021		15	27,813	3	10,070	37,901

The notes on pages 64 - 76 form an integral part of these financial statements.

Notes to the Company Financial Statements

for the year ended 31 December 2021

34 Accounting policies

Company information
The following accounting policies below have, unless otherwise stated, been applied consistently in dealing with items which are considered material in relation to the financial statements.

34.1 Accounting convention

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements have been prepared on a going concern basis. For full details of the going concern assessment performed by the Director please see note 1.3 to the Consolidated Financial Statements.

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account. The Company's profit for the financial year was £2,356,000 (2020 – profit of £2,034,000).

The financial statements are prepared in Pound Sterling, which is the functional currency of the company.

The company applies accounting policies consistent with those applied by the group. To the extent that an accounting policy is relevant to both group and parent company financial statements, please refer to the group financial statements for disclosure of the relevant accounting policy.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes
- Disclosures in respect of transactions with wholly owned subsidiaries
- Disclosures in respect of capital management

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.
- The effects of new but not yet effective IFRSs.

The preparation of financial statements in conformity with FRS101 requires management to exercise its judgement in the process of applying the Company's accounting policies. However, the Directors have not had to make any judgements resulting in a material financial impact on the financial statements as a result of the application of these accounting policies.

The financial statements have been prepared prepared under the historical cost convention. The principal accounting policies adopted are set out below.

34.2 Going concern

The financial statements have been prepared on a going concern basis. For full details of the going concern assessment performed by the Director please see note 1.3 to the Consolidated Financial Statements.

34.3 Foreign Currency

Transactions in foreign currencies are translated to the Company's functional currency of United Kingdom Pounds Sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the income statement.

34.4 Intangible fixed assets and amortisation

Expenditure on internally generated software and other intangibles is recognised in the income statement account as an expense incurred.

Expenditure on research activities is recognised in the income statement account as an expense as incurred.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the income statement account on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Other intangibles	3 years

Amortisation methods, useful lives and residual values are reviewed at each balance sheet date.

34.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets are recognised and measured as described in note 34.7.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Leasehold property	Life of the lease
Leasehold improvements	10 years or the remaining life of the lease, if shorter
Computer equipment	3 years
Fixtures and fittings, including office equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

34.6 Investments in subsidiaries

Investments in subsidiaries are recognised at cost less any provision for impairment.

34.7 Leases

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Company accounts for each lease component separately from the non-lease components. The Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise,
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

From 1 January 2021, where the basis for determining future lease payments changes as required by interest rate benchmark reform, the Company remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

34.8 Non-derivative financial instruments

The Company recognises financial assets at either amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). The classification of financial assets is generally based on the business model on which a financial asset is managed and its contractual cash flow characteristics.

Recognition and initial measurement
Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets (other than trade receivables without a significant financing component) and financial liabilities are initially measured at fair value plus, for an item not measured at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement
The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. On initial recognition, a financial asset is classified as being measured at either amortised cost, FVOCI – debt investment, FVOCI – equity investment or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and management does not designate that it should be measured at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For financial assets meeting these criteria which includes trade receivables and cash and cash equivalents, subsequent measurement of the amortised cost uses the effective interest method reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is measured at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated by management as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities, which includes trade and other payables, are subsequently measured at amortised cost using the effective interest method, and interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition
The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting
Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Company has a legally enforceable right to set off the amounts and it intends to either settle them on a net basis or to realise the asset and settle the liability simultaneously.

Ordinary share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, net of tax effects, are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12 Income taxes.

34.9 Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

34.10 Impairment excluding deferred tax assets

Financial assets (including receivables)
The Company recognises loss allowances for Expected Credit Losses ("ECLs") on financial assets at amortised cost.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset. In the case of interest free financial assets, such as trade receivables, ECLs are not discounted. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Loss allowances are measured on either of the following bases:

- 12-month ECLs - these are ECLs that result from possible default events within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and
- lifetime ECLs - these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances for trade receivables without a significant financing component and contract assets at an amount equal to lifetime ECLs. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, and considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of profit or loss and OCI.

Non-financial assets
The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

34.11 Employee Benefits

Defined contribution pension plans
A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Share based payments
Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company’s equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

34.12 Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

34.13 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

34.14 Revenue

The Company recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company has applied the five-step model set out in IFRS 15 Revenue from Contracts with Customers in order to determine the revenues to be recognised, the five steps being: Identify the contract, Identify the performance obligations in the contract, Determine the transaction price, Allocate the transaction price to the performance obligations in the contract, and Recognise the revenue when the entity satisfies the performance obligation.

The Company enters into two forms of contract with other Group companies, as follows:

- To grant intellectual property rights to exclusive use of software owned and developed by the Company. The contract transaction price is based on a percentage of revenues generated by the counterparty on a monthly basis, the percentage having been determined by comparison with available market information.
- To commit to provide specified management services, including software development and support services. The contract sets out the specific service obligations as well as the transaction price which is determined and charged on a monthly basis.

For both types of contract, the whole transaction price is recognised as revenue by the Company at the end of each month, at which point the Company has fulfilled its performance obligation to provide either exclusive use of the software or the specified services for that period.

34.15 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The Company incurs research and development expense for which it is entitled to UK Corporation Tax relief on eligible expenditure enhanced in accordance with the rules of the scheme. Historically, the Company has calculated the amounts reclaimable and booked the associated tax receivable at the time of submission. During the year ended 31 December 2020, this policy was amended so that the tax receivables arising are accrued in the year to which they relate.

When losses made by Group companies are surrendered to other Group companies by way of Group Relief, payment is made by the receiving company for the tax effect of those losses.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

35 Adoption of new and revised standards and changes in accounting policies

In the current year, the following UK-adopted IFRSs have been issued but have not been applied by the Group in these consolidated financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Annual Improvements to IFRS Standards 2018-2020 (effective 1 January 2022).
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to introduce a new definition for accounting estimates (effective 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statements 2 Making Materiality Judgements (effective 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current (effective 1 January 2024).

Implementation of new accounting policy
The Group has early adopted COVID-19-Related Rent Concessions – Amendment to IFRS 16 issued on 28 May 2020. The amendment introduces an optional practical expedient for leases in which the Group is a lessee – i.e. for leases to which the Group applies the practical expedient, the Group is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic are lease modifications. The Group has applied the amendment retrospectively. The amendment has no impact on retained earnings at 1 January 2020.

36 Critical accounting estimates and judgements

The preparation of financial statements in accordance with the Group's accounting policies, may require the Director to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions used are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular for the years ended 31 December 2021 and 2020 , the Director has been required to estimate the amount of Research and Development tax credit receivable for that year. He has done this based on experience of such claims from previous years and the percentage that these claims formed of relevant payroll totals. Other than this, the Director has not had to make any judgements resulting in a material financial impact on the financial statements as a result of the application of the Group's accounting policies.

37 Intangible assets

	Patents & licences
	£000
Cost	
At 1 January 2020	41
At 31 December 2020	41
At 31 December 2021	41
Amortisation and impairment	
At 1 January 2020	32
Charge for the year	1
At 31 December 2020	33
Charge for the year	2
At 31 December 2021	35
Carrying amount	
At 31 December 2021	**6**
At 31 December 2020	**8**
At 31 December 2019	9

38 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2021 Number	2020 Number
Software Engineers	47	56
Business Operations	34	25
Management and Administration	11	8
Total	92	89

Their aggregate remuneration comprised:

	2021 £000	2020 £000
Wages and salaries	6,332	5,742
Social security costs	720	709
Pension costs	179	151
	7,231	6,602

39 Property, plant and equipment

	Leasehold land and buildings	Leasehold improvements	Fixtures and fittings	Computers	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2020	5,077	667	234	279	6,257
Additions	-	-	-	4	4
At 31 December 2020	5,077	667	234	283	6,261
Additions	-	-	29	151	180
At 31 December 2021	5,077	667	263	434	6,441
Accumulated depreciation and impairment					
At 1 January 2020	1,841	258	167	211	2,477
Charge for the year	596	67	44	50	757
At 31 December 2020	2,437	325	211	261	3,234
Charge for the year	596	67	17	28	708
At 31 December 2021	3,033	392	228	289	3,942
Carrying Amount					
At 31 December 2021	**2,044**	**275**	**34**	**145**	**2,498**
At 31 December 2020	2,640	342	23	22	3,027
At 31 December 2019	3,236	409	67	68	3,780

All Leasehold land and buildings are a right-of-use assets.

40 Investments

	Current		Non-current	
	2021	2020	2021	2020
	£000	£000	£000	£000
Investments in subsidiaries	-	-	95	84

Fair value of financial assets carried at amortised cost

The director considers that the carrying amounts of financial assets carried at amortised cost in the financial statements approximate to their fair values.

Investment in subsidiary undertakings
Details of the Company's principal operating subsidiaries are included in note 15.

41 Trade and other receivables

	Current		Non-current	
	2021	**2020**	**2021**	**2020**
	£000	**£000**	**£000**	**£000**
Income and other taxes recoverable	231	93	-	-
Amounts owed by subsidiary undertakings	8,126	2,636	16,419	8,436
Other receivables	10	1	-	-
Prepayments	556	417	-	-
	8,923	3,147	16,419	8,436

In reviewing for impairment, the carrying amounts of debtors due from the subsidiaries, Smarkets (Malta) Limited and Hanson Applied Sciences Limited, including the debtor due after more than 1 year, the assets of those subsidiaries were grouped together and considered as one cash-generating unit as their principal activities in the gaming markets have a significant degree of interdependency and, as a result, their cash flows are not independent. No impairment in the carrying values of the debtors was identified as a result of this review.

As at 31 December 2021, there were no debtors that were past due nor considered to be impaired (2020 - £Nil).

42 Lease liabilities

	2021	**2020**
Maturity Analysis	**£000**	**£000**
Within one year	854	995
In two to five years	1,590	2,308
Total undiscounted liabilities	2,444	3,303

Lease liabilities are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date.

On 4 September 2015, the Company entered into a 10-year lease, with a tenant exercisable break clause after 7 years, for the 7th floor of Commodity Quay, St. Katharine Docks, London, E1W 1AZ. The lease commenced on 25 September 2015 with an annual rental of £580,000, but with the first nine months being rent free.

On 13 January 2017, the Company entered into a 5-year lease, terminatable by the tenant with 6 months' notice, for part of the 1st floor of Commodity Quay, St. Katharine Docks, London, E1W 1AZ. The lease commenced on 2 February 2017 with an annual rental of £282,948, which is subject to annual review. The lease was terminated on 12 August 2019 and replaced with a new 5-year lease commencing on the same date, with an unchanged annual rental of £282,948.
The borrowing rate implicit in the leases is 4.75%.

The fair value of the company's lease obligations is approximately equal to their carrying amount.

43 Trade and other payables

	2021	2020
	£000	£000
Trade payables	442	101
Amounts owed to subsidiary undertakings	253	501
Accruals	271	198
Social security and other taxation	58	27
Other payables	318	730
	1,342	1,557

44 Deferred taxation

Deferred tax assets and liabilities were attributable to the following:

	2021	2020
	£000	£000
Tax effected temporary timing differences		
Property, plant and equipment	73	34
Short term temporary differences	(73)	(34)
Tax value of loss carry-forwards	-	-
Net deffered tax	-	-
Movement recognised in income		
Property, plant and equipment	39	31
Short term temporary differences	(10)	(11)
Tax value of loss carry-forwards utilised	(29)	(20)
	-	-

Unused tax losses for which no deferred tax asset was recognised amounted to £32,499,000 at 31 December 2021 (2020 – £23,931,000).

45 Share capital

Refer to note 27 of the group financial statements.

46 Subsequent events

Effects of the global Covid-19 pandemic continued to be experienced post 31 December 2021 albeit with less impact in most jurisdictions than in the prior year. The effect of this on the Group is discussed in the Director’s Report and in note 1.3.

Other than the matters discussed in note 26 in respect of share buy backs and note 24 in respect of the issuance of share options, no other matters arose in the period from the balance sheet up to the date of approval of these financial statements that require further disclosure.

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