



Annual Report and Financial Statements

For the year ended 31 December 2020

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 Trost
Secretary:	Jason Trost
Company number:	06475845
Registered office:	1 Commodity Quay Floor 7 London United Kingdom E1W 1AZ
Auditor:	KPMG LLP 15 Canada Square London UK E14 5GL

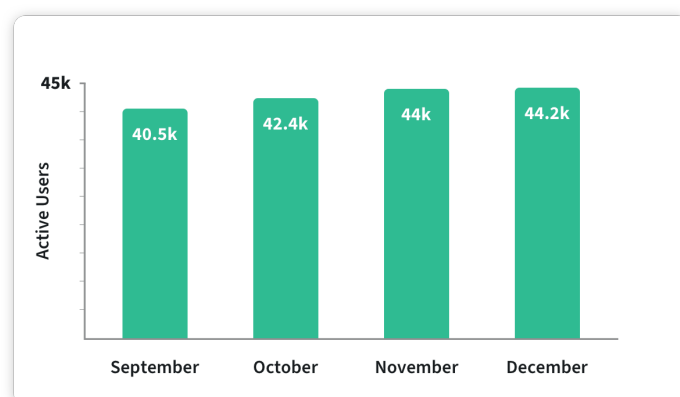
2020 Highlights

Rebounding after the sport shutdown

For three months of the year, almost all professional sport was put on hold as a result of the coronavirus pandemic, meaning most users were unable to bet and trade on their favourite events.

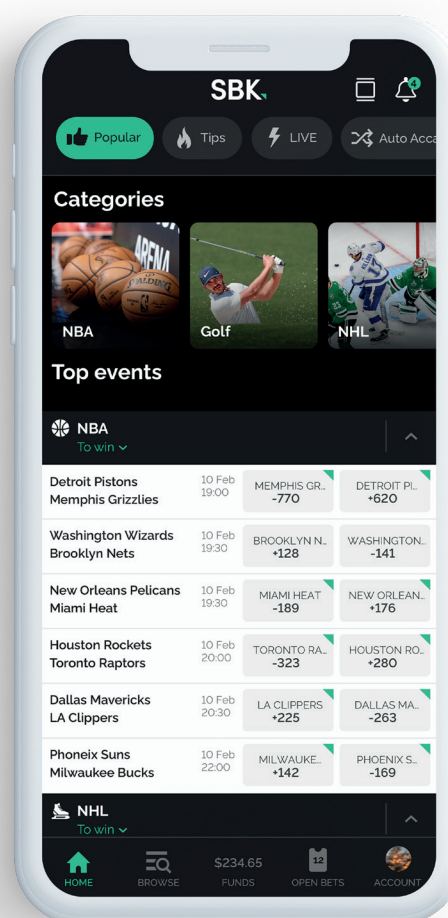
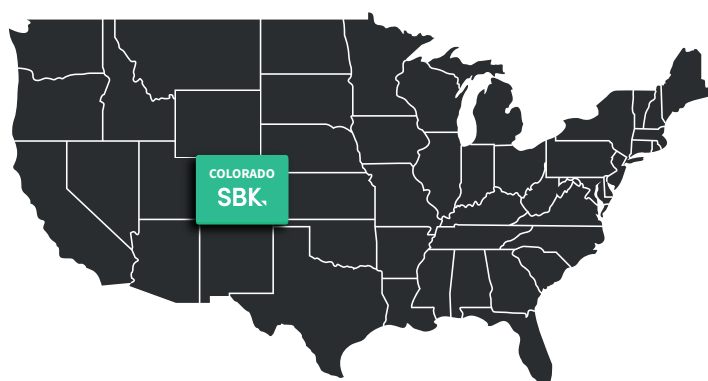
Our monthly traded volume reached as low as £45m in April, but we rebounded stronger than ever after sport resumed, posting a total traded volume of £447m in July, passing £20bn in lifetime volume in December and going on to break our record for active users in four consecutive months.

ACTIVE USER RECORD BROKEN IN FOUR CONSECUTIVE MONTHS



A landmark year for SBK

In June, we became one of the first smaller, private operators to successfully go live in the US with the launch of our sportsbook app SBK in Colorado. In order to highlight the superior pricing offered by SBK, we also joined the industry-leading odds comparison grid on Oddschecker in November - resulting in first-time depositors through this affiliate quickly going up by 272% in December.



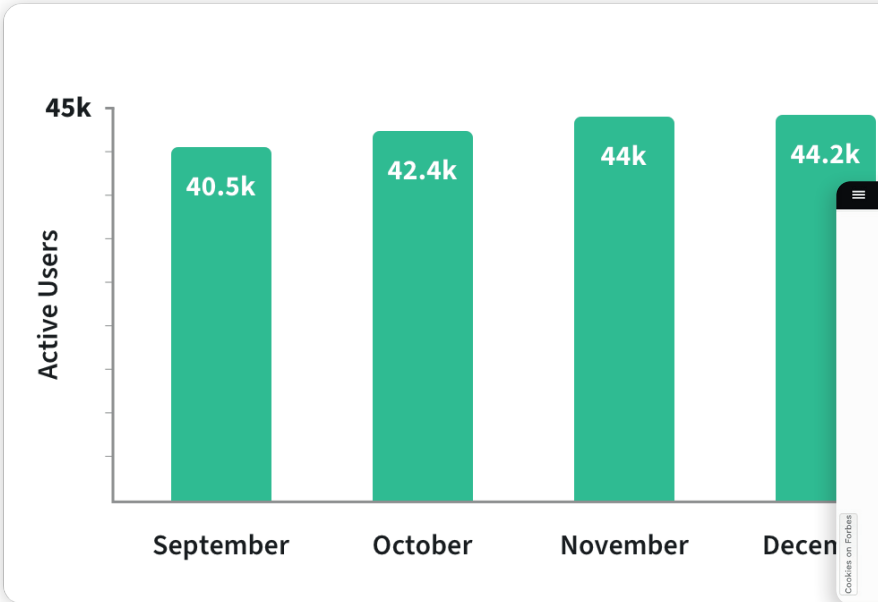
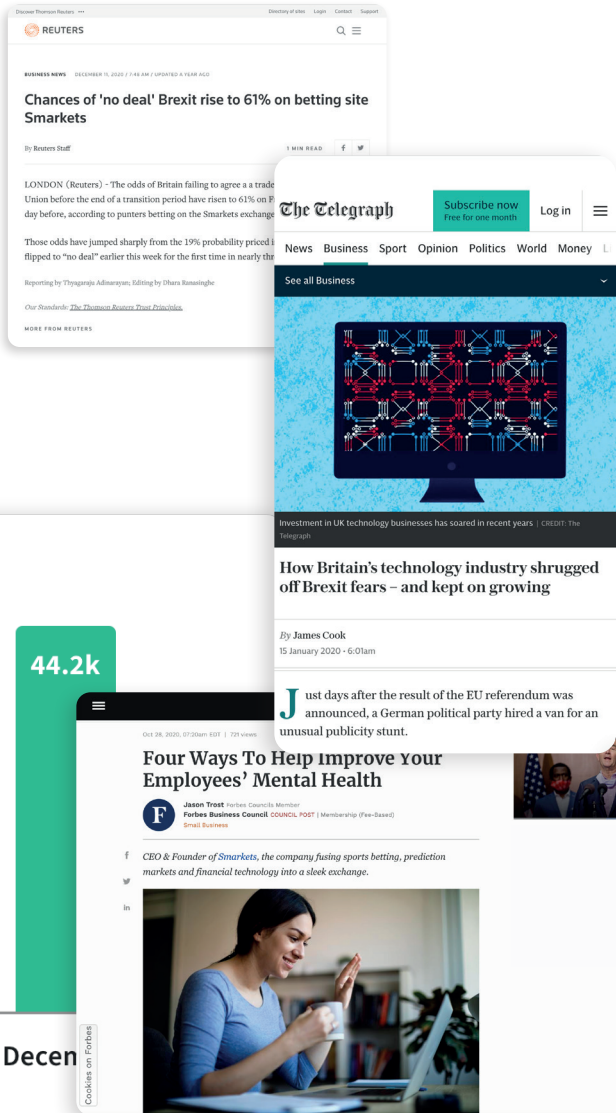
D&I Committee

In 2020 we formed our first Diversity and Inclusion committee which offers 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 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 the technology industry more broadly.



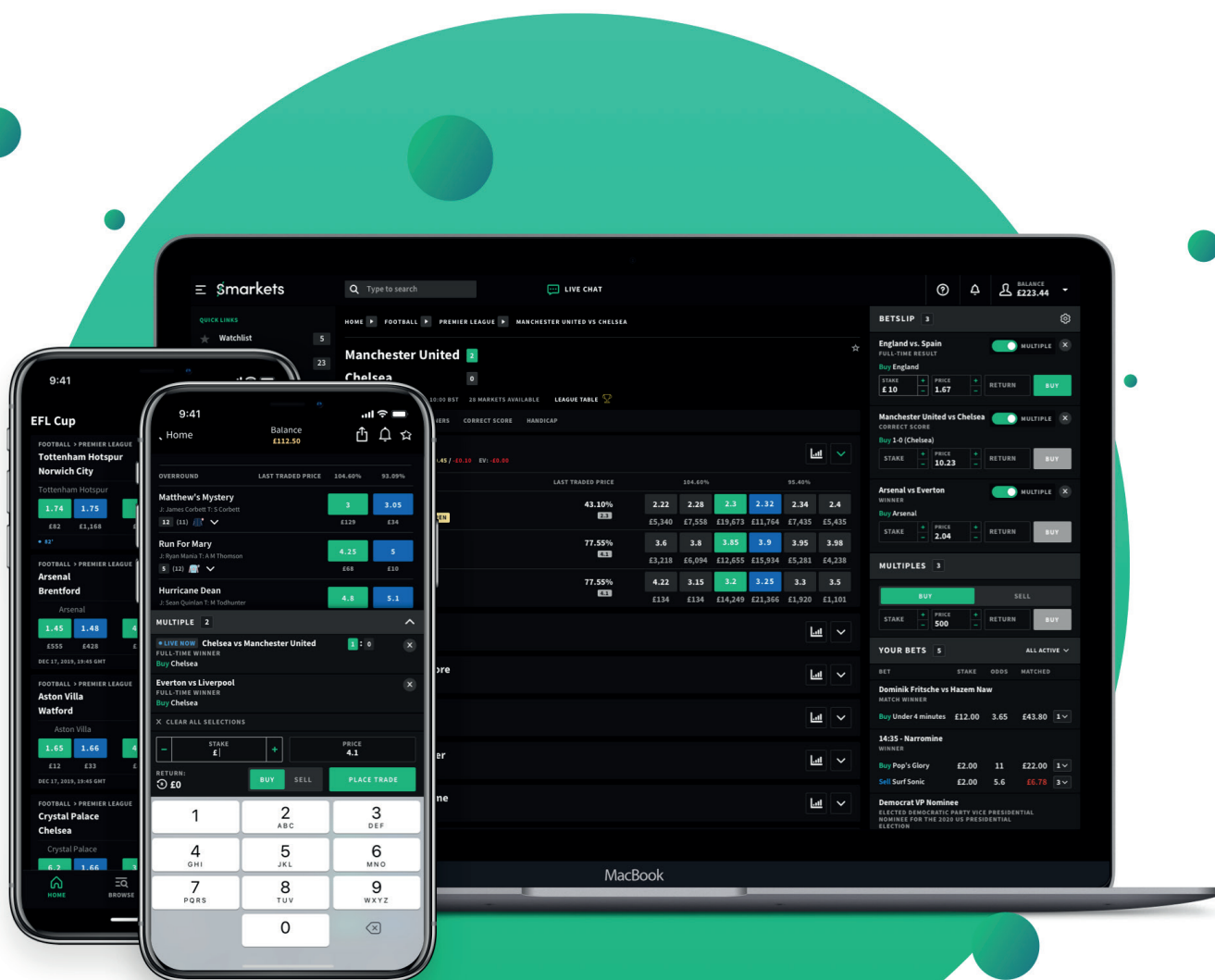
Record-breaking global press coverage

The US election in November allowed us to publicise our political prediction markets wider than ever before, as we broke our record for recorded press mentions in a single month (174), being featured in global media and cited on Twitter by journalists and publications such as Reuters, Bloomberg, The Guardian, Sky News, Fox News, Fortune, Daily Mail, New York Post and many more. As a result, we set a new annual record for press mentions, had more people visit smarkets.com than ever before on election night, and also gained nearly a thousand new followers on Twitter, breaking monthly records for organic impressions and engagements.



Becoming the first ever exchange to offer back and lay multiples

In July, Smarkets became the first exchange that allows users to place multiples for both back and lay bets - a function which has traditionally only been available for sportsbooks. Owing all of our tech stack in-house means we are able to constantly innovate, and are looking forward to releasing more features in 2021 that continue to improve the customer experience.



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Chief Executive Officer's Review

for the year ended 31 December 2020

“2020 was such a turbulent year for everyone, but ultimately one in which we managed numerous achievements and records at Smarkets. The company of course had to deal with the personal and professional effects of the coronavirus pandemic and ensuing months-long global sports shutdown, but I’m extremely proud of how we responded to that, and the fact that we ended the year in record-breaking fashion is a testament to the ingenuity and resilience of our people.

Finishing the 12-month period with over £15m in income given that we spent nearly three months with basically none of the revenue-generating elite sport we’re used to, was a fantastic result. To do this, we undertook a company-wide effort to cut costs aggressively in order to help weather the uncertainty of the start of the Covid outbreak, and have maintained a large chunk of those savings going forward. We also worked hard to further strengthen our foundations and I’m confident that we will be able to push on next year to greater heights than ever before because of it.

One of the reasons I am so confident is how we ended 2020: breaking records and with a number of impressive upticks in important metrics. July 2020 saw us hit our best monthly commission figure since introducing Pro Tier back in 2018. Despite losing pretty much an entire quarter to the sport shutdown, we nonetheless broke our record for monthly users six times during 2020, including all of the final four months in a row. The record set in December was a 22% jump on the previous high going into the year.

We also managed a new record for site visitors, which occurred during the US election night. We put together a huge array of election markets supported by fantastic charts and compelling PR content. This led to an immense amount of top-tier media coverage and another record for press mentions across the year, more than double the previous record from 2019. Our products are winning more and more people over and getting more and more attention.

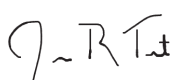
2020 was a key year in terms of internationalisation too. We launched our sportsbook product, SBK, in Colorado, our first move into a US state. This made us one of the first smaller, private operators to go live in the US, a colossal accomplishment and one we intend to follow up on with a 2021 launch in Indiana. We also relaunched the Smarkets exchange in Sweden and will be looking at going live in Denmark in 2021 as well. A great deal of work has gone into starting up in these new markets and it will serve us well as we continue to grow.

Elsewhere, we formed our first Diversity and Inclusion committee following the rise of the Black Lives Matter movement. This was an important year for improved equality in the workplace and society more broadly, and we want to be at the forefront of that.

Another big step for the business was SBK joining the Oddschecker odds comparison grid. We win on price and product, and showcasing SBK’s razor-thin margins amongst the standard bookmakers on a leading odds- comparison website is a great way of demonstrating that to customers and one that we think will be important for growth over the next 12 months. 2021 could be SBK’s year.

We also launched multiples on the exchange, making Smarkets the first betting exchange where users can put their own selections together to both buy and sell multiples - a unique feature among betting exchanges. And to top it all off, we reached £20bn in lifetime traded volume on the platform. Another enormous milestone that shows the incredible work we do with what is a small team compared to our rivals, and the power of our tech stack.

Navigating our way through three rocky months took some serious elbow grease, effective cost-cutting, and strong decision-making. The fact that we were also able to use that time to improve our offering and end the year on such a high sets us up so well for the future. 2020 has been a hell of a ride for Smarkets and despite the enormous challenges the pandemic posed, to end it where we did is a testament to the sacrifice and hard work of the whole company. I want to thank everyone who was a part of that and I’m so excited about where we are as we head into 2021.”



Jason Trost
Chief Executive Officer

Strategic Report

for the year ended 31 December 2020

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 August of 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

We have and will always pride ourselves on the quality of our technology and engineering, and in 2020 we made several improvements across our stack.

Our core backend exchange system was made more resilient to deal with the increased load of customers we see visiting our platform. Meanwhile, SBK switched to using the exchange backend more directly in a major step towards harmonising technologies and increasing the stability and maintainability of our flagship sportsbook.

Internationalisation was a big focus in 2020 and many of our tech improvements were with new territories in mind. For going live in our first US state, Colorado, we split part of our backend systems to run in specific locations supporting regulatory requirements that require certain services to reside in-state. This enables us to move into more jurisdictions faster and bolster our growth ambitions.

Meanwhile, the integration of BankID in conjunction with going live in Sweden will not only make the customer onboarding journey in Sweden much easier - but we have also gained the capability to integrate similar systems used in other jurisdictions, for example NemID in Denmark. From an events perspective, we reacted quickly to the pandemic and in a matter of weeks had added several ‘pandemic friendly’ sports to the platform such as various Esports titles, table tennis and greyhound racing. This would not have been possible if it wasn’t for a polished events ingestion platform.

Later in the year, we made several tech improvements for one of the exchange's flagship events, the US presidential election. In particular, the interactive election maps infographics we introduced were a major product improvement with strong reusability across events - for example during the Eurovision Song Contest.

We also made major headway in our migration to Kubernetes which led to dramatic cost reductions in our Amazon Web Services billing, while the internal monitoring of critical systems has been migrated to better support multiple Kubernetes clusters - which further aids stability while scaling. On the security side the introduction of stringent two-factor authentication requirements, DKIM email signing technology and the ability to produce Know Your Customer encryption tokens reliably have improved our resilience for various types of cyber-attacks.

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 2020, we pivoted more of our customer acquisition focus 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 £5.7bn, growing by 8.1% year on year according to the latest annual UK Gambling Commission Industry Statistics, April 2019 - March 2020. The size and growth of the remote sector, despite an overall decrease in total GGY for the UK gambling industry 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 £2.4bn, an increase of 19%, 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 \$1.55bn. In Colorado, sports betting was launched on 1 May 2020 and total Gross Gaming Revenue (“GGR”) from sports betting was \$17.1m in the eight months to 31 December 2020, with online wagering accounting for 96.5% of total GGR (\$16.5m). Colorado was one of six states to exceed \$1bn in sports betting wagers in 2020 (\$1.18bn in total handle).

Indiana - where sports betting was introduced in September 2019 - was one of the other five states to generate more than \$1bn in total sports betting handle (\$1.76bn) in 2020. Adjusted Gross Revenue in Indiana for the 2020 calendar year was \$138m. Smarkets expects to go live in Indiana during 2021.

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 2020, 92% 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 2021, providing another opportunity to grow Group revenues in new markets.

Financial review

The Group made a loss before taxation of £3,829,000 in the year ended 31 December 2020 which was a decrease from the loss of £672,000 made in the previous year.

An overview of the 2020 performance is as follows:

	2020	2019	2018	Increase / (Decrease) 2019/20
	£000	£000	£000	
Average monthly active traders	35,239	32,040	29,199	9.98%
Trading volume (bets placed)	3,881,000	3,795,000	4,561,000	2.27%
Revenue	15,793	19,267	11,942	(18.03%)
Cost of sales	(5,220)	(4,405)	(4,642)	
Gross Profit	10,573	14,862	7,300	(28.86%)
Administrative expenses	(14,873)	(15,621)	(16,255)	
Other income and expense	471	87	(61)	
(Loss)/profit before tax	(3,829)	(672)	(9,016)	
Customer deposits held	25,818	27,124	28,785	(4.81%)

Customer activity: In 2020, monthly active users across both Smarkets and SBK rose 10% from 2019, which is remarkable given that for roughly three months there was almost no sport for customers to trade due to the coronavirus pandemic. Our total for monthly active users dropped as low as 11,600 in April but rebounded up to 36,400 in July which was the first full month of top-flight sporting action after a number of country lockdowns. Active user numbers rose month-on-month from this point, leading to the Company breaking its monthly active users record for four consecutive months from September until December. It was very encouraging to see such a strong rebound in terms of customer activity after the unprecedented low caused by the pandemic, and bodes very well for 2021.

The growth in user numbers seen in 2020 as compared to the previous year was in part due to increased marketing efforts focussing on both the exchange and SBK. On the exchange, we were able to increase the number of first-time depositing users by over 10% vs 2019 and by 68% vs H2 2019. Our marketing campaigns were also more efficient bringing in more customers at lower cost, spend being up by just 6% vs 2019 and bringing down the cost per depositing user by 4%.

In SBK's first full year after launch, we brought in 33,000 first time depositors in 2020, despite the major disruption of the pandemic which occurred just after a successful Cheltenham campaign in March. Through a combination of new partnerships and digital marketing we brought in customers under our forecasted cost per depositor rate and well below the industry average, at £43 per user.

Revenues: During 2020, we introduced an additional tier to our commission structure for higher volume traders as well as continuing to offer zero percent commission for select customers. Despite the various country lockdowns resulting from the coronavirus pandemic, the company was able to increase customer numbers across all products, which resulted in increased trading volume. Associated commission revenue increased to £7.2m, up from £7.1m in 2019. However, net revenue from betting activity was £10.2m down from £13.2m in 2019 mainly as a result of trading volatility from major events such as Cheltenham, and the suspension of sporting events during lockdowns. As a result, total revenue decreased by 14% to £17.4m down from £20.3m in 2019.

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, and Administrative expenses, which largely consists of employment costs, hosting fees, and office-related costs. Cost of Sales increased 19% from £4,405,000 in 2019 to £5,220,000 largely due to increased volumes and expansion in the US. However, Administrative expenses fell to £14,873,000 from £15,621,000 in 2019, largely due to cost-cutting measures, including participation in coronavirus pandemic related Government sponsored schemes such as the furlough scheme in the UK.

Profitability: As a result of the above, the Group made a loss before taxation of £3,829,000 for 2020 as compared to a loss of £672,000 for 2019. The loss after taxation was £2,570,000 down from a profit of £612,000 in 2019, the taxation credit largely arising from UK Research and Development expenditure tax credit claims and timing differences.

Balance sheet: Total assets of the Group at 31 December 2020 were £41.4m as compared to £48.6m 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 fell slightly to £25.8m from £27.1m at the previous year-end. Other assets also decreased due to the receipt of accrued Research and Development expenditure tax credit claims and other prior year tax refunds being received during the period.

Capital and 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 in mid-year, most notably in Europe, which had an adverse impact on volumes and revenues. Whilst management were able to take advantage of Government sponsored schemes, as well as implementing other cost containment actions such as the temporary closure of offices, total equity of the Group fell by £2.5m over the period of sporting event suspensions, largely as a result of the effect on commission income of the reduced volumes.

Once the holding of sporting events largely returned to normal in mid-2020, albeit without the presence of spectators, business rebounded, possible as Smarkets' online exchange is not dependent on physical locations, and betting volumes and revenues recovered to exceed pre-pandemic levels. Subsequent Government interventions, such as lockdowns, have not impacted the holding of sporting events nor, as a result, volumes and commission income levels achieved. Further, the success of vaccination programmes particularly in the UK, Europe and US during 2021 reduces the potential for a repeat of such eventualities.

Despite the loss incurred in 2020, the capital position remained strong at 31 December 2020. Subsequent to the year end, on 14 May 2021, this position was improved when the Company issued 1,314,752 Series B Preference shares of £0.0005 each at a premium of £5.59 per share, raising £7.3m, and 2,616,768 convertible loan notes at a price of £5.59 each carrying an annual interest rate of 1%, raising £14.6m. 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 same investor, raising a further £2m to provide funding for the expansion of the Group's US operations as discussed in note 27 to the financial statements.

Although there has been no indication of any further significant curtailments in sporting events as a result of the pandemic, the Director has prepared forecasts of future profitability, cash flow and capital adequacy of the Group and the Company for the period up to 31 December 2022 incorporating the modelling of scenarios including consideration of the potential impact of any further restrictions on sporting activities.

As a result of this exercise, management has no expectation that under any reasonable scenario, the continuing effects of the pandemic will render the financing of the Company and the Group unable to fully finance its operations with adequate contingency available for unexpected events for a period of at least 12 months from the date of approval of the financial statements.

Risks

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

Technology: Smarkets' business is technology based, 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. Please refer to note 24 for further information regarding known regulatory risks.

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 occurrence of sporting events, any global cessation of sports or events may 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 regards 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, autonomous 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.

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.

Safer Gambling

Smarmets takes very seriously its commitment to ensuring that our responsible gambling obligations are not only adhered to but form an essential consideration underlying the development of our platform. Therefore, we have invested and continue to invest in technological innovations to facilitate us in this effort. In particular, we have fully established:

- A specialist KYC (“Know Your Customer”) team responsible for verifying the age and identity of customers, including their nationality and country of residence, as well as reviewing links to anyone identified as having a problem with their gambling.
- A specialist Safer Gambling team responsible for reviewing and contacting customers to ensure they gamble safely.
- Various machine-learning-based programmes that review customer behaviour and identify issues such as irresponsible gambling, and other suspicious activity such as credit card fraud. These use models such as gradient-boosted decision trees to flag suspicious or unusual behaviour.
- Customer driven deposit and loss limits with “cooling-off” periods that have to be observed before they can be increased.
- “Time-out” options for customers to take a short break from their gambling and reassess their choices, 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.
- Safer gambling training for customer-facing and product staff.
- Information sources directing employees and customers to organisations that can help people work through their concerns.
- Integration of external affordability tools providing real-time checks and alerts.

Smarmets makes annual financial contributions to organisations which research into the prevention and treatment of gambling-related harm, develop harm prevention approaches and identify and find treatment to 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. Currently, over 60% of staff is technical, with many graduating from top universities. 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.

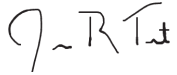
Diversity: We pride ourselves on having a workforce with employees from over 30 nationalities who have made Smarmets their home. Our hiring efforts are aimed at capturing the brightest talent from around the world, irrespective of gender, age, disability, ethnicity, nationality, sexual orientation, and religion or other beliefs. Our transparent salary structure helps combat any bias regarding pay gaps.

In 2020, we formed our first Diversity and Inclusion (“D&I”) committee following the rise of the Black Lives Matter movement, and also showed our support for that movement on the Smarmets website. 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 C-suite, who are committed to carrying out D&I-related projects that will make a difference to those who work at Smarmets and also to the 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 Smarmets, we have a rare degree of transparency.

In 2019, we created our four core values of Openness, Innovation, Ownership and Nurture, and they remained of equal importance in 2020. Fundamentally these allow us to create an open and inclusive environment which enables employees to bring their whole selves to work.

In addition to our key values, 2020 saw the introduction of “The Smarkets Way”. For many years the Company’s way of working was based on Teal principles and total self-management. However, this ceased to be effective after growing to become a 109-person organisation with offices in three countries. More structure was needed, hence the introduction of a Leadership Team and Team Leads, which has helped to provide more structure and clearer reporting lines. As a result, we are now working more efficiently and employees have a clearer idea of their specific roles and responsibilities, whilst still having a large degree of autonomy.



On behalf of the board

Jason Trost

Director

14 January 2022

Directors' Report

for the year ended 31 December 2020

The Director presents his annual report and financial statements for the year ended 31 December 2020.

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 2020.

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 further dividend.

Share capital

During the year ended 31 December 2020, no Ordinary Shares were issued (2019 – 17,056 Ordinary Shares issued as a result of the exercising of share options). There were no changes to the authorised share capital of the Company during the period.

Subsequent to the year end, 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 new investors 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:

Mr Jason 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 2020 was £801,000 (2019-£1,128,000).

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 / she 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

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 in mid-year, most notably in Europe, which had an adverse impact on volumes and revenues. Whilst management were able to take advantage of Government sponsored schemes, as well as implementing other cost containment actions such as the temporary closure of offices, total equity of the Group fell by £1.3m over the period of sporting event suspensions, largely as a result of the effect on commission income of the reduced volumes.

Once the holding of sporting events largely returned to normal in mid-2020, albeit without the presence of spectators, business rebounded, possible as Smarkets online exchange is not dependent on physical locations, and betting volumes and revenues have recovered to exceed pre-pandemic levels. Subsequent Government interventions, such as lockdowns, have not impacted the holding of sporting events nor, as a result, volumes and commission income levels achieved. Further, the success of vaccination programmes particularly in the UK, Europe and US during 2021 reduces the potential for a repeat of such eventualities.

Consequent to the above, the Group made a loss of £2,570,000 for 2020. However, the capital position remained strong at 31 December 2020 and has subsequently been improved by the issuance on 14 May 2021 of equity capital, which raised £7.3million, and of convertible loan notes, which raised a further £14.6million, both to provide funding for the expansion of the Group's US operations as discussed in Note 27 to the financial statements.

The Director has prepared forecasts of future profitability, cash flow and capital adequacy of the Group and the Company for the period up to 31 December 2022 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. Whilst there has been no indication of any further such curtailments, the Director considered it prudent to consider the downside risks of such an occurrence and, as such, scenarios modelled have included:

- A decrease in revenue from further sporting event postponements or cancellations at levels achieved in the previous lockdown periods.
- No volume increase from 2020 (which included sporting event suspensions).
- Increased volatility in revenue from betting activity equivalent to worst individual month performance previously achieved.
- Strategic expenditure relating to expansion into new markets, 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.

In addition, the Company is reliant on its licences to continue to be able to trade as appropriate. Whilst - as noted in note 24 - correspondence from regulatory authorities has been received, the Company is actively taking the necessary steps to ensure the continued licensing of the Company and will continue to do so.

As a result of the forecasting exercise, the Director has no expectation that under any reasonable scenario, that the financing of the Company and the Group would be insufficient to fully finance its operations with adequate contingency available for unexpected events for a period of at least 12 months from the date of approval of the financial statements.

Consequently, the director is confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore has prepared the financial statements on a going concern basis.

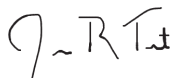
Post reporting date events

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 Statement of Directors' Responsibilities appears on page 13.



On behalf of the board

Jason Trost

Director

14 January 2022

Directors' Responsibilities Statement

for the year ended 31 December 2020

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 have 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 such internal control as he determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have 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.

Independent Auditors' Report

for the year ended 31 December 2020



Opinion

We have audited the financial statements of Smarkets Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 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 2020 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

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. He has also concluded that there is no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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.

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.



Jonathan Tricker (Senior Statutory Auditor)
For and on behalf of KPMG LLP

Chartered Accountants
Statutory Auditor

14 January 2022

15 Canada Square
London
UK
E14 5GL



Group Consolidated Income Statement and Consolidated Statement of Comprehensive Income

for the year ended 31 December 2020

		2020	2019 as restated*
	Notes	£000	£000
Revenue	4	15,793	19,267
Cost of sales		(5,220)	(4,405)
		—————	—————
Gross profit		10,573	14,862
Other operating income	5	620	161
Administrative expenses		(14,873)	(15,621)
		—————	—————
Operating Loss	6	(3,680)	(598)
Financial Income	10	42	136
Financial expense	11	(191)	(210)
		—————	—————
Loss before taxation		(3,829)	(672)
Taxation	12	1,259	1,284
		—————	—————
(Loss)/profit and total comprehensive loss for the year		(2,570)	612
		=====	=====

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

The notes on pages 25 - 58 form an integral part of these financial statements.

*The restatement is explained in note 12.

Group Consolidated Statement of Financial Position

for the year ended 31 December 2020

		2020	2019 as restated*
	Notes	£000	£000
Non-current assets			
Intangible assets	13	1,577	1,546
Property, plant and equipment	14	3,401	4,352
		<hr/>	<hr/>
		4,978	5,898
		<hr/>	<hr/>
Current assets			
Trade and other receivables	16	1,256	1,435
Tax receivable	12	1,949	5,997
Cash and cash equivalents	18	33,152	35,239
Other financial assets	17	59	39
		<hr/>	<hr/>
		36,416	42,710
		<hr/>	<hr/>
Total Assets		41,394	48,608
		<hr/> <hr/>	<hr/> <hr/>
Current liabilities			
Trade and other payables	22	29,774	29,500
Current tax liabilities		383	4,724
Borrowings	19	146	-
Lease Liabilities	20	1,140	1,031
Other financial liabilities	17	18	107
		<hr/>	<hr/>
		31,461	35,362
		<hr/>	<hr/>
Net current assets		4,955	7,348
		<hr/>	<hr/>

Non-current liabilities

Lease liabilities	20	2,511	3,315
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Net assets

		7,422	9,931
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Equity attributable to equity holders of the Parent

Share capital	27	13	13
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Share premium	28	3,791	3,791
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Capital redemption reserve	30	2	2
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Retained earnings		3,616	6,125
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Total equity		7,422	9,931
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The notes on pages 25 - 58 form an integral part of these financial statements. * The restatement is explained in note 12.

The financial statements were approved and signed by the director and authorised for issue on 14 January 2022.



Mr Jason Trost
Director

Group Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

	Notes	Share capital £000	Share premium account £000	Capital redemption reserve £000	Retained earnings as restated* £000	Total £000
Balance at 1 January 2019		13	3,772	2	5,493	9,280
Year ended 31 December 2019:						
Profit and total comprehensive loss for the year (as restated*)		-	-	-	612	612
Issue of share capital	27	-	19	-	-	19
Share-based payments transactions	25	-	-	-	34	34
Exchange movements		-	-	-	(14)	(14)
Balance at 31 December 2019 as restated*		13	3,791	2	6,125	9,931
Year ended 31 December 2020:						
Loss and total comprehensive loss for the year		-	-	-	(2,570)	(2,570)
Share-based payment transactions	25	-	-	-	16	16
Exchange movements		-	-	-	45	45
Balance at 31 December 2020		13	3,791	2	3,616	7,422

The notes on pages 25 - 58 form an integral part of these financial statements.

* The restatement is explained in note 12.

Group Consolidated Statement of Cash Flows

for the year ended 31 December 2020

	Notes	2020 £000	2019 as restated* £000
Cash flows from operating income			
Loss for the year		(2,570)	612
<i>Adjustments for:</i>			
Depreciation and amortisation	13, 14	1,036	989
Share option expense		16	34
Net financial expense		149	74
Effect of foreign exchange movements		33	63
Taxation	12	(1,259)	(1,284)
		(2,595)	488
Decrease in trade and other receivables		179	192
(Increase)/decrease in other financial assets		(20)	30
Increase/(decrease) in trade and other payables		420	(1,238)
Decrease in other financial liabilities		(89)	(1)
		(2,105)	(529)
Tax recovered		966	1,179
Net cash (outflow)/inflow from operating activities		(1,139)	650
Purchase of intangible assets	13	(168)	(1,507)
Purchase of property, plant and equipment	14	(14)	(67)
Proceeds on disposal of property, plant and equipment	14	23	-
Interest received	10	42	136
Net cash used in investing activities		(117)	(1,438)

	Notes	2020 £000	2019 £000
Proceeds from an issue of shares	27	-	19
Interest Paid	11	(191)	(210)
Payment of lease liabilities		(709)	(659)
		_____	_____
Net cash used in financing activities		(900)	(850)
		_____	_____
Net decrease in cash and cash equivalents		(2,156)	(1,638)
Cash and cash equivalents at beginning of year		35,239	36,980
Effect of foreign exchange rates		69	(103)
		_____	_____
Cash and cash equivalents at end of year	18	33,152	35,239
		_____	_____

The notes on pages 25 - 58 form an integral part of these financial statements.

* The restatement is explained in note 12.



Notes to the Group Financial Statements

for the year ended 31 December 2020

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 75.

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 derivative financial instrument assets and liabilities 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 £7.4m (2019 - £9.9m) and net current assets of £5.0m (2019 - £7.3m) at 31 December 2020. Notwithstanding a loss for the year then ended of £2.6m (2019 – profit of £0.6m) and a cash outflow of £2.2m (2019: outflow of £1.6m), the financial statements have been prepared on a going concern basis which the Director considers to be appropriate as outlined below.

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 in mid-year, most notably in Europe, which had an adverse impact on volumes and revenues. Whilst management were able to take advantage of Government sponsored schemes, as well as implementing other cost containment actions such as the temporary closure of offices, total equity of the Group fell by £3.3m over the period of sporting event suspensions, largely as a result of the effect on commission income of the reduced volumes.

Once the holding of sporting events largely returned to normal in mid-2020, albeit without the presence of spectators, business rebounded, possible as Smarkets online exchange is not dependent on physical locations, and betting volumes and revenues have recovered to exceed pre-pandemic levels. Subsequent Government interventions, such as lockdowns, have not impacted the holding of sporting events nor, as a result, volumes and commission income levels achieved. Further, the success of vaccination programmes particularly in the UK, Europe and US during 2021 reduces the potential for a repeat of such eventualities.

Consequent to the above, the Group made a loss of £2.6m for 2020. However, the capital position remained strong at 31 December 2020 and has subsequently been improved by the issuance on 14 May 2021 of equity capital, which raised £7.3m, and of convertible loan notes, which raised a further £14.6m, both to provide funding for the expansion of the Group’s US operations. Conversion of the loan notes into fully paid Series B Preference shares was dependent on the granting of certain licences relating to operating in US markets. These licences were granted on 23 December 2021, and all 2,974,178 convertible loan notes were converted into 2,974,178 Series B Preference Shares on that date.

The Director has prepared forecasts of future profitability, cash flow and capital adequacy of the Group and the Company for the period up to 31 December 2022 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. Whilst there has been no indication of any further such curtailments, the Director considered it prudent to consider the downside risks of such an occurrence and, as such, scenarios modelled have included:

- A decrease in revenue from further sporting event postponements or cancellations at levels achieved in the previous lockdown periods.
- No volume increase from 2020 (which included sporting event suspensions).
- Increased volatility in revenue from betting activity equivalent to worst individual month performance previously achieved.
- Strategic expenditure relating to expansion into new markets, 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.

In addition, the Company is reliant on its licences to continue to be able to trade as appropriate. Whilst - as noted in note 24 - correspondence from regulatory authorities has been received, the Company is actively taking the necessary steps to ensure the continued licensing of the Company and will continue to do so.

As a result of the forecasting exercise, the Director has no expectation that under any reasonable scenario, that the financing of the Company and the Group would be insufficient to fully finance its operations with adequate contingency available for unexpected events for a period of at least 12 months from the date of approval of the financial statements. Consequently, the director is confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore has prepared the financial statements on a going concern basis.

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

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

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. 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 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. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantively all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use
- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

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 and an estimate of the cost of obligations to dismantle, remove, refurbish or restore the underlying asset and 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 earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of other property, plant and equipment. 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 unpaid 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 fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee, and the cost of any options that the group is reasonably certain to exercise, such as the exercise price under a purchase option, lease payments in an optional renewal period, or penalties for early termination of a lease.

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; the Group's estimate of the amount expected to be payable under a residual value guarantee; or the group's assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less, or for leases of low-value assets including IT equipment. The payments associated with these leases are recognised in profit or loss on a straight-line basis over the lease term.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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.

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. 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 are translated to the Group’s presentational currency, Pound 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 other comprehensive income and accumulated in the translation reserve or non-controlling interest as appropriate.

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 new standards and interpretations have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Amendments to References to the Conceptual Framework in IFRS Standards (effective date 1 January 2022).
- Amendments to IFRS 3: Definition of a Business (effective date to be confirmed).
- Amendments to IAS 1 and IAS 8: Definition of Material (effective date 1 January 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform - Phase 2 (effective 1 January 2021).
- Annual Improvements to IFRS Standards 2018–2020 (effective 1 January 2022).
- Classification of Liabilities as Current or Non-current (effective 1 January 2023).

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.

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 year ended 31 December 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

	2020	2019
	£000	£000
Revenue analysed by class of business		
Commission earned from betting activity on sporting and other events	7,199	7,062
Net revenue from betting activity on sporting and other events	10,241	13,197
Customer bonuses granted	(1,647)	(992)
	<u>15,793</u>	<u>19,267</u>
	<u><u>15,793</u></u>	<u><u>19,267</u></u>

In 2020, 92% of revenue was generated in the UK (93% in 2019) with the remaining revenue generated from Malta, Ireland, and Sweden.

5 Other operating income

	2020	2019
	£000	£000
Grants received	391	
Inactive account fees	156	150
Other	73	11
	<u>620</u>	<u>161</u>
	<u><u>620</u></u>	<u><u>161</u></u>

Refer to Note 8 for explanation on Government Grants received.

6 Operating loss

	2020	2019
	£000	£000
Included in operating loss for the period are the following:		
Exchange losses	145	65
Government grants	(391)	-
Depreciation of property, plant and equipment (note 14)	940	988
Amortisation of intangible fixed assets (note 13)	96	1
Share-based payments	-	1
	<u>-</u>	<u>1</u>
	<u><u>-</u></u>	<u><u>1</u></u>

See note 8 for further explanation on government grants received.

7 Auditor's remuneration

	2020	2019
	£000	£000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the group and company	52	45
Audit of the financial statements of the company's subsidiaries	44	33
	<u>96</u>	<u>78</u>
	<u><u>96</u></u>	<u><u>78</u></u>
For other services		
Tax services	40	17
Other services	22	57
	<u>62</u>	<u>74</u>
Total non-audit fees	<u><u>62</u></u>	<u><u>74</u></u>

8 Employees

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

	2020	2019
	Number	Number
Software engineers	56	63
Business operations	43	39
Management and Administration	10	9
	<hr/>	<hr/>
Total	109	111
	<hr/> <hr/>	<hr/> <hr/>

Their aggregate remuneration comprised:

	2020	2019
	£000	£000
Wages and salaries	7,312	7,892
Share based payments (note 25)	16	34
Social security costs	823	858
Pension costs	151	138
	<hr/>	<hr/>
	8,302	8,922
	<hr/> <hr/>	<hr/> <hr/>

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.

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.

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 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:	2020 £000	2019 £000
Remuneration for qualifying services	167	182
Social security costs	13	13
Medical insurance	10	6
	<u>190</u>	<u>201</u>
	<u><u>190</u></u>	<u><u>201</u></u>

Neither of the other Directors received any compensation for their services to the Group or the Company for the year ended 31 December 2019.

10 Financial income

	2020 £000	2019 £000
Interest income		
Bank deposits	8	118
Other interest income on financial assets	34	18
	<u>42</u>	<u>136</u>
Total financial income	<u><u>42</u></u>	<u><u>136</u></u>

11 Financial expense

	2020 £000	2019 £000
Interest on lease liabilities	188	208
Other interest payable	3	2
	<u>191</u>	<u>210</u>
Total financial expense	<u><u>191</u></u>	<u><u>210</u></u>

12 Income Tax

	2020	2019
		as restated
	£000	£000
Current Tax		
UK corporation tax on profits for the current period	(1,259)	(1,284)
	<u>(1,259)</u>	<u>(1,284)</u>
The charge for the year can be reconciled to the loss per the income statement as follows:		
	2020	2019
		as restated
	£000	£000
Loss before taxation	(3,829)	(672)
	<u>(3,829)</u>	<u>(672)</u>
Expected tax credit based on a corporation tax rate of 19.00% (2019: 19.00%)	(727)	(128)
Effect of expenses not deductible in determining taxable profit	27	46
Utilisation of tax losses not previously recognised	(307)	-
Unutilised tax losses carried forward	1,950	2,495
Adjustment in respect of prior years	(359)	-
Permanent capital allowances in excess of depreciation	(409)	19
Research and development tax credit	(801)	(1,128)
Research and development tax credit - prior years	-	(1,018)
Effect of overseas tax rates	(565)	1,101
Tax reclaimable on dividends received	-	(2,666)
Effect of Government Covid-19 schemes	(60)	-
Other	(8)	(5)
	<u>(1,259)</u>	<u>(1,284)</u>
Taxation credit for the year	(1,259)	(1,284)
	<u>(1,259)</u>	<u>(1,284)</u>

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 (2019 – 35%). If the post-tax retained earnings are then paid out by way of dividend then the value of the dividend to the recipient is greater due to an entitlement to reclaim six sevenths of the income taxes originally paid on the grossed-up amount of the dividend. However, subsequent to the filing of the financial statements of the Group for the year ended 31 December 2019 but prior to the filing of the various Maltese income tax returns for that year, an income tax grouping was formed encompassing all of the Maltese activities of the Group. As a result of this, 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 unutilised tax losses by entities within the grouping against taxable profits made elsewhere in the grouping, resulting in the adjustment above of £359k. As such, there is no equivalent at 31 December 2020 of the Tax Receivable balance at 31 December 2019 relating to tax reclaims receivable on dividends received from subsidiary companies.

	2020	2019
	£000	as restated
	£000	£000
Tax Receivable		
Tax reclaims receivable on dividends received	-	3,681
Research and development tax credits receivable	801	1,128
Research and development tax credits receivable for prior years	-	1,176
Other	20	12
	<u>821</u>	<u>5,997</u>
	<u><u>821</u></u>	<u><u>5,997</u></u>

Prior year restatement

The Company incurs research and development expenditure 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. However, during the year ended 31 December 2020, it was concluded that the Research and Development tax credits reclaimable for 2019 should have been recognised in the year to which the claims related and not when the amounts were received as the amounts were sufficiently estimable to warrant recognition in that year.

As such, the comparatives for the year ended 31 December 2019 have been restated to recognise the R&D tax credit reclaimable for that year. The impact was to increase the credit in profit or loss in respect of taxation by £1,128,000 and the increase tax receivable and net assets by the same amount. The detailed impact is shown in the tables below:

	Published	Restated	Difference
	£000	£000	£000
In the Consolidated income statement, Group Consolidated Statement of Cash Flows and (as applicable) Statement of Changes in Equity			
Taxation	156	1,284	1,128
Profit / (Loss) and total comprehensive loss for the year	(516)	612	1,128
Loss for the year	(516)	612	1,128
In the Consolidated Balance Sheet and (as applicable) Statement of Changes in Equity			
Tax receivable	4,869	5,997	1,128
Total assets	47,480	48,608	1,128
Net current assets	6,220	7,348	1,128
Net assets	8,803	9,931	1,128
Total equity	8,803	9,931	1,128
Profit / (Loss) and total comprehensive loss for the year	(516)	612	1,128
Retained Earnings	(4,997)	(6,125)	(1,128)
		<u><u>6,125</u></u>	<u><u>(1,128)</u></u>

There was no impact on the opening balance sheet as at 1 January 2019. The total operating, investing and financing cash flows were also unaffected by the adjustment.

13 Intangible Assets

	Patents & Licences	Access Intangibles	Total
	£000	£000	£000
Cost			
At 1 January 2019	71	-	71
Additions	-	1,507	1,507
	<hr/>	<hr/>	<hr/>
At 31 December 2019	71	1507	1578
Additions - purchased	168	-	168
Foreign currency adjustments	-	(44)	(44)
	<hr/>	<hr/>	<hr/>
At 31 December 2020	239	1,463	1,702
	<hr/>	<hr/>	<hr/>
Amortisation and impairment			
At 1 January 2019	31	-	31
Charge for the year	1	-	1
	<hr/>	<hr/>	<hr/>
At 31 December 2019	32	-	32
Charge for the year	44	52	96
Foreign currency adjustments	-	(3)	(3)
	<hr/>	<hr/>	<hr/>
At 31 December 2020	76	49	125
	<hr/>	<hr/>	<hr/>
Carrying amount			
At 31 December 2020	163	1,414	1,577
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2019	39	1,507	1,546
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 2019	6,108	688	289	308	7,393
Additions	31	-	14	22	67
Lease modification	(192)	-	-	-	(192)
Foreign currency adjustments	(11)	-	(1)	(1)	(13)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	5,936	688	302	329	7,255
Additions	-	-	1	13	14
Disposals	(29)	-	-	-	(29)
Foreign currency adjustments	(8)	-	(1)	(1)	(10)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2020	5,899	688	302	341	7,230
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation and impairment					
At 1 January 2019	1,990	198	131	158	2,477
Charge for the year	773	71	66	78	988
Eliminated on disposal	(556)	-	-	-	(556)
Foreign currency adjustments	(5)	-	-	(1)	(6)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2019	2,202	269	197	235	2,903
Charge for the year	747	71	59	63	940
Eliminated on disposal	(6)	-	-	-	(6)
Foreign currency adjustments	(6)	-	(1)	(1)	(8)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2020	2,937	340	255	297	3,829
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Carrying Amount					
At 31 December 2020	2,962	348	47	44	3,401
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2019	3,734	419	105	94	4,352
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2018	4,118	490	158	150	4,916
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 2020, are as follows:

Name of undertaking	Address	Principal Activities	Class of shares held	% Held Direct
1. Hanson Applied Sciences Limited	Malta	Sports Trading	Ordinary Shares	100.00
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

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

6,7 W. 7th St., Suite 601, Los Angeles, CA 90014, United States

4 251 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 year ended 31 December 2020 and 2019.

16 Trade and other receivables

	2020	2019
	£000	£000
VAT recoverable	93	104
Other receivables	523	781
Prepayments	640	550
	<u>1,256</u>	<u>1,435</u>

At 31 December 2020, there were no receivables that were past due nor considered to be impaired (2019 - £Nil).

17 Other financial assets and liabilities

	2020	2019
	£000	£000
Current assets		
Fair value of open betting positions	59	39
	<u> </u>	<u> </u>
Current liability		
Fair value of open betting positions	(18)	(107)
	<u> </u>	<u> </u>
	41	(68)
	<u> </u>	<u> </u>

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 2020 on other financial assets and liabilities was £109,000 (2019 – loss of £30,000).

18 Cash and cash equivalents

	2020	2019
	£000	£000
Cash at bank	33,152	35,239
	<u> </u>	<u> </u>

Cash and cash equivalents comprised short-term interest-bearing bank deposits and includes £25,818,000 (2019 - £27,124,000) 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

	2020	2019
	£000	£000
Borrowings held at amortised cost:		
Bank loans	146	-
	<u> </u>	<u> </u>
Secured borrowings included above:		
Bank loans	146	-
	<u> </u>	<u> </u>

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 annual interest 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:

	2020	2019
	£000	£000
Current Liabilities	1,140	1,031
Non-current liabilities	2,511	3,315
	<u>3,651</u>	<u>4,346</u>
	2020	2019
	£000	£000
Amounts recognised in profit or loss include the following:		
Interest on lease liabilities	188	208
	<u>188</u>	<u>208</u>

The borrowing rate implicit in the leases is 4.75%.

21 Other leasing information

Lessee

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:

	2020	2019
	£000	£000
Contractual undiscounted cash flows		
Within one year	(1,135)	(1,031)
Between two and five years	(2,880)	(3,561)
In over five years	-	(320)
	<u>(4,015)</u>	<u>(4,912)</u>
	<u><u>(4,015)</u></u>	<u><u>(4,912)</u></u>

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 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 16 September 2016, Hanson Applied Science Limited entered into a 5-year lease, with a tenant exercisable break 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 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 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.

Subsequent to the balance sheet date, on 17 February 2021, the Company 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.

The lease liabilities are denominated in Euro and Euro interest rates have not varied sufficiently in the period from lease inception to 31 December 2020 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 £71,000 (2019: £Nil).

Information relating to lease liabilities is included in note 20.

22 Trade and other payables

	2020	2019
	£000	£000
Customer account liabilities	25,818	27,124
Trade payables	418	401
Accruals	574	266
Social security and other taxation	101	93
Other payables	2,863	1,557
	<u>29,774</u>	<u>29,441</u>
	<u><u>29,774</u></u>	<u><u>29,441</u></u>

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:

	2020	2019
	£000	£000
Tax effected temporary timing differences		
Property, plant and equipment	(34)	(65)
Short term temporary differences	34	45
Tax value of loss carry-forwards	-	20
	<u>-</u>	<u>20</u>
Net deferred tax	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>
Movement recognised in income		
Property, plant and equipment	(31)	45
Short term temporary differences	11	(25)
Tax value of loss carry-forwards utilised	20	(20)
	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>

Unused tax losses in the Group for which no deferred tax asset was recognised amounted to £ 23,931,000 (2019 - £27,410,000).

24 Regulatory and other matters

Possible tax matter arising from prior years

In the periods 2012 to 2017 the Group operated in one jurisdiction where there are indications that local authorities may now claim that tax is outstanding. The existence of this potential liability is currently contested, and the basis for the calculation of any liability is unclear. In the view of the Board it is unlikely that such a liability will materialise, however were a claim to be received it is likely that material amounts would be claimed against the Group and the basis of taxation for the claim, which is likely to be a revenue measure, is uncertain given the various means by which the revenue of the Group could be defined. Should the basis of taxation be determined to be revenue arising from the commission earned on betting transactions on individual events entered into by customers of the exchange then the approximate liability would be in the region of £40,000; the approximate liability could be a multiple of 5 to 250 times of that amount should the basis be calculated using other methods, and were a claim to be received it is likely that the authorities would initially seek to recover taxation at the higher end of that range. The Board monitors the impact of any new regulatory or fiscal arrangements and their potential impact on the business. However, given the lack of a harmonised regulatory environment in the jurisdiction in question, the value and timing of any obligations in this regard are subject to a high degree of uncertainty and cannot always be reliably predicted.

General regulatory matters

The gaming related activities of the Smarkets group companies are subject to periodic reviews by regulators to assess compliance with licence terms. In most cases, such reviews will result in a report detailing improvement requirements or recommendations to address control deficiencies, and for more significant breaches fines, licence suspensions or revocation may be imposed, in particular if no regulatory settlement can be reached.

In particular in this respect, a review by the regulator of the largest market in which the group operates, the GB Gambling Commission, commenced in October 2020. Shortly before these financial statements were approved, a letter was received from the Commission dated 11 January 2022 setting out their findings. Whilst the director does not believe that the correspondence received gives rise to a probable risk of an adverse impact on the Company's licences, there remains the risk of potential future liability given the Company's nature of business and any such future liability is inherently uncertain in amount and could be material to the financial statements - for example during 2020 the UK Gambling Commission levied financial penalties up to £2.8m to other operators undergoing a licence review. However, any fine or settlement reached can be expected to be lower than that amount given that precedent.

Across the various jurisdictions in which the Group operates, management monitors emerging risks, potential regulatory changes and new fiscal rules as well as developments in some cases where rules have already been enacted, but which are unclear as to applicability, taking such action as it considers necessary to adhere to required obligations.

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 2020.

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.

Options granted in the year ended 31 December 2020 have an exercise price of £19.95. No options were granted in the year ended 2019 but grants in 2017 and 2018 also had an exercise price of £19.95, with grants in years up to 2016 having an exercise price of £1.00.

During the year ended 31 December 2020, no options were exercised. In 2019, holders exercised 17,056 options resulting in a payment of £19,027 to received 17,056 Ordinary shares. The weighted average exercise price for these exercised options was £10.17. 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	
	2020	2019
Outstanding at 1 January 2020	45,000	85,625
Granted in the period	35,000	-
Exercised in the period	-	(17,056)
Expired in the period	(24,875)	(23,569)
	<u> </u>	<u> </u>
Outstanding at 31 December 2020	55,125	45,000
	<u> </u>	<u> </u>
Exercisable at 31 December 2020	11,834	35,097
	<u> </u>	<u> </u>

The options outstanding at 31 December 2020 had an exercise price ranging from £1.00 to £19.95, and a remaining contractual life of 5.76 years.

During 2020, options were granted on 05 February 2020. The weighted average fair value of the options on the measurement date was £4.62. No options were granted during 2019. 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:

	2020
Weighted average share price	£4.62
Weighted average exercise price	£19.95
Expected volatility	9.00%
Expected option life	5.0 years
Weighted average contractual life of outstanding share options	5.8 years
Risk free rate	0.50%
Expected dividend yield	0.00%
	<u> </u>

Volatility for the options issued in 31 December 2020 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 were £16,000 for the year ended 31 December 2020 (2019 - £34,000).

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

- On 08 February 2021, 50,575 options with an exercise price of £19.95.
- On 08 February 2021, 7,200 options with an exercise price of £1.00.

On the date of the stock split, all holdings of outstanding unexercised options were increased by a factor of 10 and the associated exercise prices were reduced by a factor of 10.

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.

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 2020 was £151,000 (2019 - £138,000). The total unpaid balance to the scheme is included in creditors and at 31 December 2020 was £27,000 (2019 - £33,000).

The Group does not operate any other pension plans for employees.

27 Share Capital

	2020	2019	2020	2019
	Number	Number	£000	£000
Ordinary share capital				
Issued and fully paid				
Ordinary shares of 0.5p each	1,751,741	1,734,685	8	8
Deferred shares of 0.5p each	124,144	124,144	1	1
	<u>1,875,885</u>	<u>1,858,829</u>	<u>9</u>	<u>9</u>
Preference share capital				
Issued and fully paid				
Series A of 0.5p each	751,468	751,468	4	4
	<u>751,468</u>	<u>751,468</u>	<u>4</u>	<u>4</u>
Preference shares classified as equity			4	4
			<u>4</u>	<u>4</u>
			13	13
			<u>13</u>	<u>13</u>

During the year ended 31 December 2020, the Company issued no shares. In 2019, 17,056 shares were issued as a result of the exercise of share options.

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.

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 was 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.

Classes of share

The Ordinary shares and the Series A 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 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 and Series A 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 £3.108 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 and Series A Preference Shares pro rata to the number of shares held plus any arrears of dividend.

28 Share premium account

	2020	2019
	£000	£000
At the beginning of the year	3,791	3,772
Issue of new shares	-	19
	<hr/>	<hr/>
At the end of the year	3,791	3,791
	<hr/> <hr/>	<hr/> <hr/>

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
	2020	2020	2019	2019
	£000	£000	£000	£000
Trade and other receivables (note 16)	543	543	807	807
Cash and cash equivalents (note 18)	33,152	33,152	35,239	35,239
Other financial assets (note 17)	59	59	39	39
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total financial assets	33,754	33,754	36,085	36,085
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Trade and other payables (note 22)	(28,433)	(28,433)	(28,860)	(28,860)
Other financial liabilities (note 17)	(18)	(18)	(107)	(107)
Non-current liabilities (note 20)	(2,511)	(2,567)	(3,315)	(3,302)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Financial liabilities	(30,962)	(31,018)	(32,282)	(32,269)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Financial assets	2,792	2,736	3,803	3,816
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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 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 2020 amounted to £472,000 (2019 - £727,000).

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

The Group has no borrowings and no term cash deposits and, as such, has only a very limited exposure to interest rate risk.

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 2020, the Group's exposure to foreign currency risk was as follows. This is based on the carrying amount for monetary financial instruments.

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)
	<u>3,317</u>	<u>(294)</u>	<u>(471)</u>	<u>240</u>	<u>2,792</u>
	<u><u>3,317</u></u>	<u><u>(294)</u></u>	<u><u>(471)</u></u>	<u><u>240</u></u>	<u><u>2,792</u></u>
31 December 2019	GBP	EUR	USD	Other	Total
	£000	£000	£000	£000	£000
Other financial assets	39	-	-	-	39
Trade and other receivables	740	30	37	-	807
Cash and cash equivalents	33,044	1,056	60	1,079	35,239
Non-current liabilities	(2,992)	(213)	(110)	-	(3,315)
Other financial liabilities	(107)	-	-	-	(107)
Trade and other payables	(25,099)	(1,634)	(1,378)	(749)	(28,860)
	<u>5,625</u>	<u>(761)</u>	<u>(1,391)</u>	<u>330</u>	<u>3,803</u>
	<u><u>5,625</u></u>	<u><u>(761)</u></u>	<u><u>(1,391)</u></u>	<u><u>330</u></u>	<u><u>3,803</u></u>

A 10% percent weakening of GBP against all other currencies at 31 December 2020 would have decreased equity and profit and loss by £58,000 (2019 – decrease of £203,000). 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% percent strengthening of GBP against all other currencies at 31 December 2020 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.

The level of cumulative retained earnings allowed the Directors to take the strategic decision in 2018 to invest in expanding the customer base largely through advertising and marketing campaigns, and reduced commission offers, particularly via 0% promotions with high volume partners. Further, reduced spreads on quoted prices were offered, which increased volume but compressed margins. The costs associated with this investment were significant and, in combination with adverse outcomes from larger events during the year, including the Cheltenham Festival and the FIFA World Cup, the Group incurred losses for that year.

In 2019, net revenue from betting activity improved significantly mainly as a result of much more favourable outcomes from major events such as Cheltenham, and improvements made to trading algorithms. Costs also fell and, as a result, the Group lost £516,000 for the year as compared to £9,199,000 in 2018.

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 in mid-year, most notably in Europe, which had an adverse impact on volumes and revenues. Whilst management were able to take advantage of Government sponsored schemes, as well as implementing other cost containment actions such as the temporary closure of offices, total equity of the Group fell by £1.4m over the period of sporting event suspensions, largely as a result of the effect on commission income of the reduced volumes.

Once the holding of sporting events largely returned to normal in mid-2020, albeit without the presence of spectators, business rebounded, possible as Smarkets online exchange is not dependent on physical locations, and betting volumes and revenues have recovered to exceed pre-pandemic levels. Subsequent Government interventions, such as lockdowns, have not impacted the holding of sporting events nor, as a result, volumes and commission income levels achieved. Further, the success of vaccination programmes particularly in the UK, Europe and US during 2021 reduces the potential for a repeat of such eventualities.

Consequent to the above, the Group made a loss of £2,570,000 for 2020. However, the capital position remained strong at 31 December 2020 and has subsequently been improved by the issuance on 14 May 2021 of equity capital, which raised £7.3million, and of convertible loan notes, which raised a further £16.6million, both to provide funding for the expansion of the Group’s US operations as discussed in note 27.

The Director has prepared forecasts of future profitability, cash flow and capital adequacy of the Group and the Company for the period up to 31 December 2022 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. Whilst there has been no indication of any further such curtailments.

Despite this, management have undertaken forecasts of future profitability and capital adequacy of the Group and the Company, including consideration of the potential impact of any further pandemic-related restrictions on sporting activities. Whilst there have been no indications of any further such curtailments, the Director considered it prudent to consider the downside risks of such an occurrence.

As a result, the Director has no expectation that under any reasonable scenario, that the financing of the Company and the Group would be insufficient to fully finance its operations with adequate contingency available for unexpected events for a period of at least 12 months from the date of approval of the financial statements. Further, the Group is in a position to leverage the higher user numbers as a basis for returning to profitability.

Dividends

Management do not propose any dividends or other distributions for the year ended 31 December 2020 (2019 - £Nil).

30 Capital redemption reserve

	2020	2019
	£000	£000
At the beginning of the year	2	2
	<u>2</u>	<u>2</u>

31 Events after the reporting date

Effects of the global Covid-19 pandemic continued to be experienced post 31 December 2020. The effect of this on the Group is discussed in the Director's Report and in Note 1.3.

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.

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 new investors to provide funding for the expansion of the Group's US operations. Conversion of the loan notes into fully paid Series B Preference shares was dependent on the granting of certain licences relating to operating in US markets.

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, following granting of the licences referred to above, 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.

Further, the Company granted the following share options subsequent to 31 December 2020:

- On 08 February 2021, 50,575 options with an exercise price of £19.95.
- On 08 February 2021, 7,200 options with an exercise price of £1.00.

On the date of the stock split, all holdings of outstanding unexercised options were increased by a factor of 10 and the associated exercise prices were reduced by a factor of 10.

32 Related parties

At 31 December 2020 Director of the Company and their immediate relatives controlled 29.7 per cent of the voting shares of the Company (2019 – 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

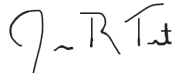
for the year ended 31 December 2020

	Notes	2020 £000	2019 as restated* £000
Non-current assets			
Intangible assets	37	8	9
Property, plant and equipment	39	3,027	3,780
Investments	40	84	84
Trade and other receivables	41	8,436	5,413
		<u>11,555</u>	<u>9,286</u>
Current assets			
Trade and other receivables	41	3,147	5,308
Tax recoverable		1,929	2,304
Cash at bank and in hand		911	29
		<u>5,987</u>	<u>7,641</u>
Current liabilities			
Trade and other payables	43	1,557	2,463
Lease liabilities	42	995	840
		<u>2,552</u>	<u>3,303</u>
Net current assets		<u>3,435</u>	<u>4,338</u>
Non-current liabilities			
Lease liabilities	42	2,308	2,992
Net assets		<u><u>12,682</u></u>	<u><u>10,632</u></u>
Equity			
Called up share capital	45	13	13
Share premium account		3,791	3,791
Capital redemption reserve		2	2
Profit and loss account		8,876	6,826
Total equity		<u><u>12,682</u></u>	<u><u>10,632</u></u>

The notes on pages 62 - 75 form an integral part of these financial statements.

* The restatement is explained in note 46.

The financial statements were approved and signed by the director and authorised for issue on 14 January 2022.



Mr Jason Trost
Director

Company registration No. 06475845

Company Statement of Changes in Equity

for the year ended 31 December 2020

	Share capital	Share premium account	Capital redemption reserve	Retained earnings as restated *	Total
Notes	£000	£000	£000	£000	£000
Balance at 1 January 2019	13	3,772	2	2,752	6,539
Year ended 31 December 2019:					
Profit and total comprehensive income for the year	-	-	-	4,040	4,040
Issue of share capital	45	19	-	-	19
Share based payment transactions	-	-	-	34	34
	<u>13</u>	<u>3,791</u>	<u>2</u>	<u>6,826</u>	<u>10,632</u>
Balance at 31 December 2019 as restated					
Year ended 31 December 2020:					
Profit and total comprehensive income for the year	-	-	-	2,034	2,034
Share based payment transactions	-	-	-	16	16
	<u>13</u>	<u>3,791</u>	<u>2</u>	<u>8,876</u>	<u>12,682</u>
Balance at 31 December 2020					

The notes on pages 62 - 75 form an integral part of these financial statements.

* The restatement is explained in note 46.

Notes to the Company Financial Statements

for the year ended 31 December 2020

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 £2,034,000 (2019 – profit of £4,040,000).

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 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. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantively all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use
- the Company has the right to direct the use of the asset. The Company has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

At the commencement of the lease term, the Company recognises a right-of-use asset and a lease liability. 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. Any initial direct costs of the lessee are added to the amount recognised as an asset. The asset so recognised is depreciated on the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. 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 incremental borrowing rate as the discount rate. The lease liability is measured at amortised cost using the effective interest method.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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 nonmarket 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 new standards and interpretations have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Amendments to References to the Conceptual Framework in IFRS Standards (effective date 1 January 2022).
- Amendments to IFRS 3: Definition of a Business (effective date to be confirmed).
- Amendments to IAS 1 and IAS 8: Definition of Material (effective date 1 January 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform - Phase 2 (effective 1 January 2021).
- Annual Improvements to IFRS Standards 2018–2020 (effective 1 January 2022).
- Classification of Liabilities as Current or Non-current (effective 1 January 2023).

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 year ended 31 December 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 2019	41
	<hr/>
At 31 December 2019	41
	<hr/>
At 31 December 2020	41
	<hr/>
Amortisation and impairment	
At 1 January 2019	31
Charge for the year	1
	<hr/>
At 31 December 2019	32
Charge for the year	1
	<hr/>
At 31 December 2020	33
	<hr/>
Carrying amount	
At 31 December 2020	8
	<hr/> <hr/>
At 31 December 2019	9
	<hr/> <hr/>

38 Employees

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

	2020	2019
	Number	Number
Software engineers	56	63
Business operations	25	23
Management and Administration	8	7
	<hr/>	<hr/>
Total	89	93
	<hr/> <hr/>	<hr/> <hr/>

The aggregate remuneration comprised:

	2020	2019
	£000	£000
Wages and salaries	5,742	5,528
Social security costs	709	692
Pension costs	151	138
	<hr/>	<hr/>
	6,602	6,358
	<hr/> <hr/>	<hr/> <hr/>

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 2019	5,269	667	225	265	6,426
Additions	885	-	9	14	908
Disposals	(1,077)	-	-	-	(1,077)
	<u>5,077</u>	<u>667</u>	<u>234</u>	<u>279</u>	<u>6,257</u>
At 31 December 2019	5,077	667	234	279	6,257
Additions	-	-	-	4	4
	<u>5,077</u>	<u>667</u>	<u>234</u>	<u>283</u>	<u>6,261</u>
At 31 December 2020	5,077	667	234	283	6,261
Accumulated depreciation and impairment					
At 1 January 2019	1,775	191	115	145	2,226
Charge for the year	622	67	52	66	807
Eliminated on disposal	(556)	-	-	-	(556)
	<u>1,841</u>	<u>258</u>	<u>167</u>	<u>211</u>	<u>2,477</u>
At 31 January 2019	1,841	258	167	211	2,477
Charge for the year	596	67	44	50	757
	<u>2,437</u>	<u>325</u>	<u>211</u>	<u>261</u>	<u>3,234</u>
At 31 December 2020	2,437	325	211	261	3,234
Carrying Amount					
At 31 December 2020	<u><u>2,640</u></u>	<u><u>342</u></u>	<u><u>23</u></u>	<u><u>22</u></u>	<u><u>3,027</u></u>
At 31 December 2019	<u><u>3,236</u></u>	<u><u>409</u></u>	<u><u>67</u></u>	<u><u>68</u></u>	<u><u>3,780</u></u>
At 31 December 2018	<u><u>3,494</u></u>	<u><u>476</u></u>	<u><u>110</u></u>	<u><u>120</u></u>	<u><u>4,200</u></u>

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

40 Investments

	Current		Non-current	
	2020	2019	2020	2019
	£000	£000	£000	£000
Investments in subsidiaries	-	-	84	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	
	2020	2019	2020	2019
	£000	£000	£000	£000
Income and other taxes recoverable	93	104	-	-
Amounts owed by subsidiary undertakings	2,636	1,268	8,436	5,413
Other receivables	1	3,682	-	-
Prepayments	417	254	-	-
	<u>3,147</u>	<u>5,308</u>	<u>8,436</u>	<u>5,413</u>

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.

Other Debtors at 31 December 2019 represented amounts receivable in connection with dividends received from subsidiary companies.

As at 31 December 2020, there were no debtors that were past due nor considered to be impaired (2019 - £Nil).

42 Lease liabilities

	2020	2019
	£000	£000
Maturity Analysis		
Within one year	995	840
In two to five years	2,308	2,992
	<u> </u>	<u> </u>
Total undiscounted liabilities	3,303	3,832
	<u><u> </u></u>	<u><u> </u></u>

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:

	2020	2019
	£000	£000
Current liabilities	995	840
Non-current liabilities	2,308	2,992
	<u> </u>	<u> </u>
	3,303	3,832
	<u><u> </u></u>	<u><u> </u></u>

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

	2020	2019
	£000	£000
Trade payables	101	64
Amounts owed to subsidiary undertakings	501	1,894
Accruals	198	114
Social security and other taxation	27	33
Other payables	730	358
	<u> </u>	<u> </u>
	1,557	2,463
	<u><u> </u></u>	<u><u> </u></u>

44 Deferred taxation

Deferred tax assets and liabilities were attributable to the following:

	2020	2019
	£000	£000
Tax effected temporary timing differences		
Property, plant and equipment	34	65
Short term temporary differences	(34)	(45)
Tax value of loss carry-forwards	-	(20)
	<u> </u>	<u> </u>
Net deferred tax	-	-
	<u> </u>	<u> </u>
Movement recognised in income		
Property, plant and equipment	31	(45)
Short term temporary differences	(11)	25
Tax value of loss carry-forwards utilised	(20)	20
	<u> </u>	<u> </u>
	-	-
	<u> </u>	<u> </u>

Unused tax losses for which no deferred tax asset was recognised amounted to £23,931,000 at 31 December 2020 (2019 – £21,276,000).

45 Share capital

Refer to note 27 of the group financial statements.

46 Prior year restatement

The Company incurs research and development expenditure 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. However, during the year ended 31 December 2020, it was concluded that the Research and Development tax credits reclaimable for 2019 should have been recognised in the year to which the claims related and not when the amounts were received as the amounts were sufficiently estimable to warrant recognition in that year.

As such, the financial statements for the year ended 31 December 2019 have been restated to recognise the credit reclaimable for that year, with the following financial statement captions restated as follows:

	Published	Restated	Difference
	£000	£000	£000
In the Company Balance Sheet and (as applicable) Statement of Changes in Equity			
Tax receivable	4,869	5,997	1,128
Net current assets	3,210	4,338	1,128
Net assets	9,504	10,632	1,128
Total assets	15,799	16,927	1,128
Retained Earnings	(5,698)	(6,826)	(1,128)
Total equity	(9,504)	(10,632)	(1,128)

47 Subsequent events

Effects of the global Covid-19 pandemic continued to be experienced post 31 December 2020. The effect of this on the Group is discussed in the Director's Report and in Note 1.3.

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.

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 new investors to provide funding for the expansion of the Group's US operations. Conversion of the loan notes into fully paid Series B Preference shares was dependent on the granting of certain licences relating to operating in US markets.

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, following granting of the licences referred to above, 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.

Further, the Company granted the following share options subsequent to 31 December 2020:

- On 08 February 2021, 50,575 options with an exercise price of £19.95.
- On 08 February 2021, 7,200 options with an exercise price of £1.00.

On the date of the stock split, all holdings of outstanding unexercised options were increased by a factor of 10 and the associated exercise prices were reduced by a factor of 10.

Smarmarkets





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