13 May 2019

Escape Hunt plc

("Escape Hunt" or the "Company" or the "Group")

2018 Full Year Audited Results

Escape Hunt plc (AIM:ESC), a global leader in the high growth "escape rooms sector'' announces its audited results for the year ending 31 December 2018.

	Year ended 31 Dec 2017 (£m)	Year Ended 31 Dec 2018 (£m)
Revenue	0.87	2.17
Gross Profit	0.51	0.04
Adjusted EBITDA	(0.79)	(3.09)
Loss per share	(24.77p)	(49.38p)
Net Cash	£10.65m	£2.66m

Operational highlights:

- Opened eight owner-operated UK sites in Bristol, Birmingham, Edinburgh, Leeds, Liverpool, Manchester, Oxford and Reading
- Received outstanding customer feedback on TripAdvisor with the first four sites to be opened reaching #1, the next three reaching #2, with the last already at #7
- Delivered Escape Hunt's first licensed IP deal with the BBC, opening Doctor Who themed escape rooms for fans and customers
- Maintained a successful franchise network globally and set the foundations necessary to attract large partners to roll-out at scale
- Built from scratch the infrastructure required for our growth plan. Included moving the operations from Asia to the UK, creating a game design studio in London, rolling-out of the new Escape Hunt Brand across the business, and establishing a capable Head Office team, all requiring minimal additional expenditure

Financial highlights:

- UK owner-operated sites delivered sales in line and EBITDA slightly ahead of expectations for the year
- Group revenue up 149% to £2.17m (2017: £0.87m), driven by the partial first year contribution of the owner-operated sites in the UK
- Reduction in gross profits from £0.51m to £0.04m driven by the costs of sites in their pre-opening phase and the subsequent period as these sites grow revenues to maturity
- Group Adjusted EBITDA loss of £3.09m in line with expectations
- Pre-tax losses of £9.98m (2017: £4.13m) reflect the amortisation of the IP purchased at acquisition (£3.7m), exceptional costs relating to the Bangkok closure (£0.3m), and an impairment charge of £2.3m for goodwill and IP intangibles, driven by the decision to delay the roll-out of UK sites in 2017 while we rebranded the business.
- Cash position of £2.66m as at 31 December 2018 (2017: £10.65m)
- Cash reduction of £8m reflects the Adjusted EBITDA loss of £3.09m and investment in infrastructure, especially capex of £4.27m and intangible assets of £0.49m
- Basic loss per share ('EPS') of 49.38 pence (2017: 24.77 pence).

Post-period Highlights:

- Detailed heads of terms have been agreed with a US franchising partner to roll-out new franchisee sites across the US and Canada
- The first tranche of three UK sites continue to trade well and the second tranche of five less mature sites are so far building more quickly than the first with both sales and EBITDA ahead of Board expectations
- The UK owner-operated estate of nine sites is now generating positive EBITDA as a group.
- The Company has today announced a proposed equity placing ("Placing") to be undertaken by Stockdale Securities Ltd and Peel Hunt Ltd to raise a minimum of £4m (before expenses) by way of an accelerated bookbuild primarily to fund the Company's roll-out of new sites in the UK

Chief Executive Officer, Richard Harpham, comments:

"It has been a significant year of progress with elements of the business reorganised and eight owner-operated sites successfully rolled-out across the UK. I am also delighted to report that the inaugural performance and revenue generated from these sites has been in line with expectations.

"The strength of the Escape Hunt brand helped us secure a major licensing agreement with the BBC, to create Doctor Who themed escape rooms. This was an important milestone for the Group and has helped us to deliver on our strategy of being the premier brand in the escape rooms sector. The demand for experiential leisure is reflected in our success and ability to attract growing footfall and we look forward to opening more UK sites during 2019 whilst expanding our franchise overseas."

The Annual Report and Accounts will be sent to shareholders in due course.

<u>Enquiries</u>

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About Escape Hunt

The Escape Hunt Group is a global leader in providing live escape-the-room experiences with a network of owner-operated sites in the UK and a global network of franchised outlets in six continents. The Company was re-admitted to AIM in May 2017 and has a strategy of creating high quality premium games and experiences, which incorporates branded IP content.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

CHAIRMAN'S STATEMENT

I am delighted to report that we have made excellent progress in executing our strategy, and that trading performance has met our expectations.

Having spent time positioning our brand to underpin our ambitious roll-out plans, we are delighted with the very positive customer feedback, as evidenced by achieving #1 on TripAdvisor at all of our UK mature sites. Our brand strength also enabled us to achieve a very significant IP deal with the BBC to secure exclusive rights to Doctor Who, which has since been rolled-out across our UK network with great success.

We have completed building the team and infrastructure to underpin and support our growth plans. We have also made good progress in building a robust supply chain, overcoming some challenges we faced in our early days of operation, by moving our games design facility from Bangkok to London, and by working with a number of UK based production houses (one of which we have invested in).

The first eight owner-operated sites were opened during the year. Despite some challenges in opening these as quickly as we had originally hoped (as previously reported) and which have led to the impairment charge in 2018 mentioned in the financial review, they have achieved the desired sales levels, whilst slightly exceeding our EBITDA expectations. The first three of these have reached mature trading levels and continue their strong progress and for the five new owner-operated sites both sales and EBITDA performance are ahead of our expectations. With the marketing experience gained and applied, the subsequent five new sites are seeing higher initial revenues than the first three sites at their equivalent stage of development.

Our success and ability to attract footfall has been recognised by many retail landlords who are now offering attractive potential sites and fit-out / lease incentives which will further enhance our site investment case going forward.

Our established franchise network performed to plan during the year. We have previously stated that we wish to accelerate our overseas footprint by partnering with established operators who have sufficient scale and financial resource to achieve meaningful penetration in our chosen territories. We were recently delighted to announce the first such partnership where exclusive heads of terms have been agreed to effect a franchise roll-out across the US and Canada.

The cash raised during our IPO in May 2017 has been invested in building the infrastructure, enhanced games design capability and central resource and in setting up the first eight owner-operated sites and funding their initial trading losses. With our UK sites now being cash generative, our fit-out model now refined and landlord fit-out contributions expected, the new cash we are raising will be directed to executing our growth plans and to provide working capital.

We feel we have achieved key milestones we set ourselves during the year under review and have demonstrated our site investment case and now look forward to executing our growth plans with confidence, enthusiasm and vigour.

Richard Rose

Non-Executive Chairman
13 May 2019

STRATEGIC REPORT

2018 was an exciting year for Escape Hunt, which saw the business execute against its strategy of developing an owner-operated business in the UK, create from scratch a game design studio in London, and set the foundations for significant future growth. We were delighted to sign our first licensed IP deal with the BBC to bring Doctor Who to life in our rooms, and have been proud of the incredible customer feedback received across the estate.

The unit economics of the eight newly opened owner-operated sites have performed in line with Board expectations, and the broader market for experiential leisure continues to flourish.

UK Owner-Operated Sites – Escape Hunt opened three sites in the first half of 2018 and a further five in Q4 2018 to take the total of newly opened venues to eight. Showcasing games designed by our London Studio, customer feedback has been outstanding, with the first four sites to open reaching #1 on TripAdvisor, the next three reaching number #2 so far, and the last to open already at #7 and climbing.

Within the nine owner-operated sites, 38 game rooms were opened last year, a further nine rooms have opened already in 2019 and the remaining two rooms are scheduled to open in Q2 2019, so the full revenue benefit from these sites will accrue in the second half of 2019. As mentioned in our trading statement in January, the first tranche of three sites continue with their strong progress, and although still relatively immature, we are pleased to see that the second tranche of five sites opened in Q4 2018 is on a steeper revenue trajectory than the first. The relatively fixed nature of the cost base means that the majority of incremental sales flow to EBITDA, reinforcing our confidence in the overall economic model. The results for the year have been materially impacted by pre-opening costs associated with a significant roll-out of new owner-operated sites, in addition to a full year of the head office cost burden without the full scale of operating businesses being in place to support them. The decision to delay the roll-out of owner-operated sites as the business was rebranded has driven its outstanding customer feedback and helped secure the Doctor Who licensing agreement with the BBC, but has also resulted in an impairment charge(described further in Note 2) since the time to break even has extended.

Branded IP Content – Escape Hunt identified the strategic importance of branded IP in driving occupancy and further differentiating us. The first IP content deal was signed in July 2018 with BBC Worldwide for a five-year exclusive licence to create Doctor Who themed escape rooms in the UK. The installation of the first Doctor Who game was completed in December 2018 and these games are currently playing in six UK sites. The roll-out of the second Doctor Who game is due to be completed in the coming months. There have been strong forward bookings for Doctor Who themed rooms from the outset and the average room occupancy has been running at approximately 60% in the few weeks from opening until the end of February, which is in line with expectations and well above expected occupancy rates of unbranded rooms.

The Company believes that IP will continue to play an important role in the content strategy of the business and is considering several similar opportunities to bring branded IP alive for customers and fans.

Additional Sales Opportunities – Escape Hunt's site performance to date has been driven predominantly by B2C sales and corporate entertainment. The Company identified an additional opportunity to tap into the market for gamified learning and launched its proprietary corporate learning and development ("L&D") proposition in February 2019. Designed to provide an immersive, gamified, experiential solution for employee engagement, its use spans staff recruitment, retention and development programmes for companies. Escape Hunt is exploiting two routes to market by contacting potential corporate clients directly and also indirectly via other L&D firms who are selling the offering to their client base. Escape Hunt expects to generate high margin, additional sales at the start of the week where customer occupancy is typically lower, whilst improving the level of repeat business by forging relationships with businesses.

Franchise Network – Two thirds of Escape Hunt's franchise business is generated by four master franchisees, namely France/Benelux, Australia/NZ, the Middle East and the Nordics. These territories have continued to perform well and have expanded with several new site openings.

Escape Hunt rationalised an element of its franchise tail through the year, and closed a number of weak franchise performers in territories with low GDP/Capita or under-performing management. At the year end, Escape Hunt had 42 franchise sites compared with 43 at the end of 2017. Most businesses in the network have now been rebranded and the remaining few will be completed in 2019. Management's strategy to grow the franchise network by identifying well capitalised and experienced players able to open and manage multiple units is beginning to bear fruit and Escape Hunt has been negotiating a deal with a potential US partner to commence a significant roll-out of franchises across the USA and Canada. A detailed heads of terms, incorporating the key commercial terms, was signed on 26 April 2019.

Strategy for 2019

Conditional upon completing the Placing, the two immediate strategic targets for the Group are to open a further 4-6 sites in 2019 (taking the total UK estate to 13-15) and to embark upon the franchisee roll-out in North America.

In order to fund the UK owner-operated roll-out, the Company has announced separately today that it is conducting a Placing to raise a minimum of £4m, before expenses.

Additional focus for the Management team in 2019 will include:

- Securing new sites with significant landlord contributions towards build costs, recognizing landlord demand for experiential leisure in retail schemes
- Identifying franchise partners for the remaining territories within Europe and conclude two large scale franchise deals (including the US deal mentioned above)
- Securing further brand IP license deals to bolster the content strategy of the business.
- Growing the Learning & Development offering to corporates with the ultimate objective of corporate clients using an Escape Hunt branded tool to assess their staff's capabilities.

Growth Strategy and Outlook

- The Group's strategy is to continue the roll-out of owner-operated sites in the UK, with an aim to reach 50 in the medium term, and to grow the franchise estate by two to three times over the medium term in conjunction with well-resourced partners
- We will continue our focus on game production cost reduction and monetisation and to further drive occupancy through securing new IP content deals
- We have been pleased with the customer reception to our games at our UK sites which we opened in 2018 and our game design team is currently designing the next series of games for future sites
- Trading in the first three months of 2019 has been in line with expectations and although still immature, the UK owner-operated estate is already generating positive EBITDA as a group of nine sites

Richard Harpham

Chief Executive Officer

13 May 2019

FINANCIAL REVIEW

Group results

Revenue for the year grew from £872k in 2017 to £2,172k. The increase was partly due to a full 12 months contribution of £1,095k from the franchisee business in 2018, compared to only eight months in 2017 (£798k). The major increase in revenue was driven by the first year contribution of the owner-operated sites in the UK, which was £1,002k (2017: £74k). The first three sites in the UK were opened during March 2018 and the next five sites were all opened on time in the last quarter of the year.

The operating loss for the year was £10,012k (2017: Loss of £4,134k) and the adjusted loss before tax, depreciation, amortisation and interest ("Adjusted EBITDA") was a loss of £3,087k (2017: £790k). Set out below is a reconciliation between the operating loss and the Adjusted EBITDA loss:-

	2018 **£'000**	**2017** **£'000**
Operating loss	(10,012)	(4,134)
Amortisation of intangibles	3,656	2,375
Impairment of intangible assets	2,345	-
Depreciation	545	22
Write-off of assets	45	-
Branch closure costs	291	-
Foreign currency losses	31	34
Transaction costs	-	870
Share-based payment expense	(12)	43
Adjusted EBITDA	(3,087)	(790)

The EBITDA loss has been adjusted for the write-off of £45k of assets in the Bangkok business at the time of the closure of the office and the branch, the cash costs of £291k which were principally the employee redundancy and notice period payments to the employees and former owner of the business and the costs of vacating the two properties. A further £12k has been charged to income for the share-based payment expense which relates to the growth shares for three of the senior management which were issued in 2017. No new share options were issued in 2018.

These costs and items as shown above have been deducted from EBITDA loss to arrive at the Adjusted EBITDA loss since they are either non-cash costs or are required to be adjusted in order to provide a consistent comparison to last year in that they are one-off items which will not be expected to recur in future periods. EBITDA is used as the basis of this performance measure as it most appropriately captures the ongoing ability of the business to generate operating cash flows which contribute to capital investment that supports further growth.

Amortisation in 2018 was £3,656k (2017: £2,375k) and is comprised largely of the annual charge of £3.4m for the IP of £10.2m that was acquired at the time of the acquisition of the business in May 2017 and which is being written down over three years. The balance comprises the writing down of other intangible assets as they come into use. This includes both third party and staff costs for the creation of certain games that have been designed in the UK and the app that was acquired with the business in 2017. These are written down over two years.

The decision in 2017 to delay the UK roll-out of sites whilst we rebranded the business has proven successful, as it has underpinned our outstanding TripAdvisor scores and enabled us to secure the Doctor Who licensing agreement with the BBC. However, it had the effect of pushing back the break-even point for the business, which has led to an impairment charge of £2,345k (2017: £nil). Goodwill of £1,393k relating to the Experiential Ventures Ltd acquisition in 2017 was written off, alongside a further impairment charge of £952,000, which together comprise the impairment charge against the carrying value of intellectual property, driven by the delay in the start of our UK roll-out schedule. This non-cash balance sheet adjustment has no bearing on performance going forwards.

Franchisee business

In dollar terms the revenue was $1,386k (2017: $1,650k). This has been calculated by translating revenues into US dollars based on the prevailing rate at the time of invoicing, noting most of the franchisees are invoiced in US dollars. This has been presented as such in order to provide an indicator of overall performance by our franchisees in a manner which is unaffected by movements in foreign exchange rates during the year. For those franchisees who are not invoiced in US dollars, conversion to US dollars is made at the prevailing US dollar rate when the invoices are raised.

Franchisee numbers at 31 December 2018 were 42 (2017: 43.). Smaller and unprofitable single site franchisees closed and 7 new sites opened. These new sites were mainly additional sites opened by master franchisees entering into further sub-franchisee agreements or, in the case of the Scandinavian Master Franchise Agreement, opening new wholly owned sites. The operating profit was £239k and after adding back depreciation of £118k resulted in an EBITDA of £357k (2017: £273k). Account management staff were recruited in the UK, together with games design staff, ahead of closing the Bangkok studio in July. A total of 42 new games, including adaptations of older games were produced by both the UK and the Bangkok teams in 2018 for franchisees, together with eight games that were produced in London for the UK owner-operated sites. Of these, five have already been taken up by franchisees.

The new Escape Hunt brand was rolled-out to the franchisees progressively during 2018 and this programme is due to complete shortly. Escape Hunt assisted the franchisees in the process with new digital marketing collateral and contributions to each site's capital costs. The new website and improved booking engine are also due to be rolled-out to franchisees in the first half of 2019 after the investment and testing in the UK in 2018.

The franchising activities recorded an operating profit of £239k (2017:£183k); which is an encouraging result given the redomiciling of the business from Bangkok to London and additional work to enhance the offering to the customers of the franchisees was undertaken during the year.

Owner-operated business

The total revenue of the owner-operated business was £1,077k, of which £1,002k was generated in the UK and the balance of £75k from the Bangkok branch. The cost of sales was £1,950k to give a gross loss of £873k. Cost of sales comprises site property and utility costs, site staff costs as well as directly attributable marketing costs. The gross loss reflects the fact that all the Escape Hunt sites were opened during the course of the year and in addition to bearing pre-opening costs, the majority have yet to reach their full maturity, with most of the sites only opening from October onwards.

Administrative costs and other overheads of £825k were incurred, being principally central marketing and agency costs and game design management costs.

As noted above, the IP of £10.2m that was acquired as part of the consideration at the time of the acquisition is being amortised over three years and which results in an annual charge of £3.4m. This has been charged to the owner-operated activity and forms the majority of the amortisation charge of £3,656k across the Group and of the £4,109k of amortisation and depreciation charges in the owner-operated activity. The impairment charge of £2,345k relates to the owner-operated business as a result of the Company updating the assumptions from those in place during the original acquisition including the growth of the owner-operated estate arising over a more extended period of time than first anticipated.

Central overheads

The administrative and overhead charges were £2,113k, comprising the management and marketing staff, advisory fees and the head office property costs. Staff numbers in the London office increased during the year as the business transitioned from Bangkok to London and as the owner-operated sites in the UK developed, requiring marketing, finance and operational staff.

Cashflow and capital expenditure

The operating cashflow before working capital changes was an outflow of £3,380k, and reduced to £2,916k after working capital changes. £4,276k was incurred in fixed asset capital expenditure, of which £2,204k was in leasehold site fit-out costs and £1,813k in games and props assets. A further £495k was incurred on a wide range of intangible assets, including £302k on acquiring game software, game intellectual property, third party game design costs as well as £74k of Escape Hunt game design staff costs.

Cash at 31 December 2018 was £2.66m.

IFRS 16

From 1 January 2019, the Group has adopted the new accounting standard, IFRS 16. The standard requires companies for the first time with leasehold properties to capitalise all leases on the balance sheet as a right of use asset and also to recognise on the balance sheet the present value of the obligations to make lease payments. The rents which are currently charged to the Income Statement (£388k in 2018) will instead be replaced by a depreciation charge and a finance charge. In 2018, these would have been £302k and £158k respectively had the Standard been adopted for the whole of 2018.

Innovation

A number of innovation issues were identified in 2017 and 2018 which have led the management to develop an innovation programme for the Group. These issues related, for example, to developing puzzles for new games combined with site fit-out and site construction and which have been commented on in our trading statements during 2018. Finding suitable production partners has also been one of the problems which management have had to overcome.

A decision was made in 2018 to apply for a Research and Development grant from Scottish Enterprise to establish a programme of innovation in Scotland with three separate objectives. The first is to improve the understanding of how customers solve clues and the typical time taken so that the design of puzzles can be improved; the second is to use gaming data to analyse human behaviour in an escape room setting and provide this data to corporate clients. This brings together psychometrics and video tracking for example, together with experienced facilitators to provide an informative analysis for clients on team performance. The third is to understand how to develop puzzles that can be delivered in alternative format, such as through virtual reality or tablet based applications.

A grant for £2m was agreed in March 2019 and will now be activated. The grant commencement date is April 2018, which was when the application was first lodged and the grant period is two and a half years. Accordingly, the Company will now establish a total of three sites in Scotland, one of which was established in 2018, containing an average of six rooms at each site to conduct these activities. Each site will be able to carry out normal commercial activities and indeed needs to do so in order to achieve each of the three objectives outlined above.

To assist in resolving elements of the game design process, Escape Hunt Innovations Ltd subscribed a nominal sum in cash for a 51% interest in a small design and production workshop near Edinburgh in December 2018.

Two patents were also applied for in 2018. The first patent relates to a process to make an escape room more or less difficult, based on the identity of the player and the second relates to a process to obtain identity consent. The related work for these patents is expected to be performed in Scotland.

Advance Assurance was applied for to the HMRC in February 2019 for Research and Development tax credits for the years 2017, 2018 and 2019. Separate to the work being carried out in Scotland, the London based game design studio continues to use and enhance the IP acquired at the time of the acquisition, which inter alia consisted of the large library of games and the design process. In addition, development work has been carried out in England on developing and trialling both new puzzles and prop construction with a number of manufacturers.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2018

All figures in £'000s	**Year ended 31 December 2018**	**Year ended 31 December 2017**
Continuing operations		
Revenue	2,172	872
Cost of sales	(2,137)	(364)
Gross profit	35	508
Transaction expenses	-	(957)
Administrative expenses	(10,047)	(3,685)
Operating loss	(10,012)	(4,134)
Adjusted EBITDA	(3,087)	(790)
Amortisation of intangibles	(3,656)	(2,375)
Impairment of intangible assets	(2,345)	-
Depreciation	(545)	(22)
Loss on disposal of tangible assets	(45)	-
Branch closure costs	(291)	-
Foreign currency losses	(31)	(34)
Transaction costs	-	(870)
Share-based payment expense	(12)	(43)
Operating loss	(10,012)	(4,134)
Interest received	34	9
Loss before taxation	(9,978)	(4,125)
Taxation	(26)	(4)
Loss after taxation	(10,004)	(4,129)
Other comprehensive income:		
Items that may or will be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	26	(15)
Total comprehensive loss	(9,978)	(4,144)

Loss attributable to:		
Equity holders of Escape Hunt plc	(10,004)	(4,129)
Non-controlling interests	-	-
	(10,004)	(4,129)
Total comprehensive loss attributable to:		
Equity holders of Escape Hunt plc	(9,978)	(4,144)
Non-controlling interests	-	-
	(9,978)	(4,144)
Loss per share attributable to equity holders:		
Basic and diluted (Pence)	(49.38)	(24.77)

Consolidated Statement of Financial Position

As at 31 December 2018

	As at 31 December 2018 £'000	**As at 31 December 2017 £'000**
ASSETS		
Non-current assets		
Property, plant and equipment	4,366	670
Intangible assets	4,792	10,280
Rent deposits	36	32
Loan to franchisee	300	-
	9,494	10,982
Current assets		
Inventories	15	-
Trade receivables	121	15
Other receivables and prepayments	501	305
Cash and bank balances	2,657	10,645
	3,294	10,965
TOTAL ASSETS	12,788	21,947
LIABILITIES		
Current liabilities		
Trade payables	670	507
Deferred income	244	83
Other payables and accruals	967	479
	1,881	1,069

Consolidated Statement of Financial Position

As at 31 December 2018 (continued)

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Non-current liabilities		
Deferred income	419	456
Provisions	40	-
	459	456
TOTAL LIABILITIES	2,340	1,525
NET ASSETS	10,448	20,422
EQUITY		
Capital and reserves attributable to equity holders of Escape Hunt Plc		
Share capital	253	253
Share premium account	21,076	21,076
Merger relief reserve	4,756	4,756
Accumulated losses	(15,741)	(5,737)
Currency translation reserve	11	(15)
Capital redemption reserve	46	46
Share-based payment reserve	55	43
	10,456	20,422
Non-controlling interests	(8)	-
TOTAL EQUITY	10,448	20,422

Consolidated Statements of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the parent									
Year ended 31 December 2018	**Share capital**	**Share premium account**	**Merger relief reserve**	**Currency translation reserve**	**Capital redemption reserve**	**Share-based payment reserve**	**Accumulated losses**	**Total**	**Non-controlling interest**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance as at 1 January 2018	253	21,076	4,756	(15)	46	43	(5,737)	20,422	-	20,422
Loss for the year	-	-	-	-	-	-	(10,004)	(10,004)	-	(10,004)
Other comprehensive income	-	-	-	26	-	-	-	26	-	26
Total comprehensive loss	-	-	-	26	-	-	(10,004)	(9,978)	-	(9,978)
Acquisition of subsidiary	-	-	-	-	-	-	-	-	(8)	(8)
Share-based payment charge	-	-	-	-	-	12	-	12	-	12
Transactions with owners	-	-	-	-	-	12	-	12	(8)	4
Balance as at 31 December 2018	**253**	**21,076**	**4,756**	**11**	**46**	**55**	**(15,741)**	**10,456**	**(8)**	**10,448**
Year ended 31 December 2017:										
Balance as at 1 January 2017	125	8,941	-	-	-	-	(1,608)	7,458	-	7,458
Loss for the period	-	-	-	-	-	-	(4,129)	(4,129)	-	(4,129)
Other comprehensive income	-	-	-	(15)	-	-	-	(15)	-	(15)

Total comprehensive loss	-	-	-	(15)	-	-	(4,129)	(4,144)	-	(4,144)
Issue of shares	174	13,870	4,756	-	-	-	-	18,800	-	18,800
Share issue costs	-	(1,689)	-	-	-	-	-	(1,689)	-	(1,689)
Buy-back of shares	(46)	(46)	-	-	46	-	-	(46)	-	(46)
Share-based payment charges	-	-	-	-	-	43	-	43	-	43
Transactions with owners	129	12,135	4,756	-	46	43	-	17,109	-	17,109
Balance as at 31 December 2017	253	21,076	4,756	(15)	46	43	(5,737)	20,422	-	20,422

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Cash flows from operating activities		
Loss before income tax	(9,978)	(4,125)
Adjustments:		
Depreciation of property, plant and equipment	545	22
Amortisation of intangible assets	3,655	2,375
Impairment of intangible assets	2,345	-
Write-off of non-current assets	45	-
Gain on disposal of plant and equipment	(1)	-
Net foreign exchange differences	31	-
Share-based payment expense	12	43
Interest income	(34)	(9)
Operating cash flow before working capital changes	(3,380)	(1,694)
Increase in trade and other receivables	(273)	(161)
Increase in inventories	(11)	-
Increase in provisions	40	1
Increase in trade and other payables	584	298
Increase / (decrease) in deferred income	124	(48)
Cash used in operations	(2,916)	(1,604)
Income taxes paid	(8)	(28)
Net cash used in operating activities	(2,924)	(1,632)
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,276)	(585)
Purchase of intangibles	(495)	(240)
Payment of deposits	(4)	(32)
Loan made to master franchisee	(300)	-
Acquisition of subsidiary, net of cash acquired	(10)	(7,044)
Interest received	34	9

Net cash used in investing activities	(5,051)	(7,892)
Cash flows from financing activities		
Proceeds from issue of ordinary shares (net of buy-back)	-	13,954
Proceeds from issue of G shares	-	1
Share issue costs	-	(1,688)
Net cash from financing activities	-	12,267
Net (decrease)/ increase in cash and cash equivalents	(7,975)	2,743
Cash and cash equivalents at beginning of year	10,645	7,923
Effects of exchange rate changes on the balance of cash held in foreign currencies	(13)	(21)
Cash and cash equivalents at end of year	2,657	10,645

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2018 or 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the registrar of companies, and those for 2018 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Going concern

As at 31 December 2018 the Group has current assets of £1,414,000 and cash and bank balances of £2,657,000. During the year the Group suffered a loss after tax of £10,004,000 and had net cash outflows from operating activities of £2,939,000. The cash flows for the current year have had to bear both pre-opening costs at our newly opened owner-operated businesses and a full year of head office costs without a full year of trade from the owner-operated sites, and as such the Directors are expecting a substantially improved profit and cash generation in the coming year. These accounts have been prepared on a going concern basis as described below.

In order to fund the business strategy of growth via new openings, the Group is undergoing a fundraising via a non-pre-emptive secondary placing which is expected to raise a minimum of £4m before expenses. The Placing is subject to approval by shareholders at a General Meeting to be held on 31 May 2019.

The Directors have considered alternatives for the business in the event of the placing failing to complete in accordance with its terms and have developed a secondary business plan which would be activated in event this were necessary. This would involve increased focus on the less capital-intensive franchise business and generating cost savings by scaling the head office function to match the size of the business. When preparing cash flow forecasts for the secondary business plan, the directors have also considered the key risks affecting the business including Brexit and consider that the Group has sufficient cash reserves that it reasonably expects to be sufficient to meet its liabilities as they fall due. Accordingly, the Directors consider that the Group has adequate financial resources to continue operating for the next 12 months and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

2. Significant accounting policies

Key estimates in the current year

Impairment reviews

IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Impairment testing is an area involving management judgement in determining estimates, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

- growth in EBITDA, calculated as adjusted operating profit before depreciation and amortisation;
- average occupancy rate of an escape room;
- the level of capital expenditure to open new sites and the costs of disposals;
- long-term growth rates; and
- the selection of discount rates to reflect the risks involved.

The Group prepares and approves a detailed annual budget and five-year strategic plan for its operations, which are used in the fair value calculations.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results.

Goodwill of £1.4m relating to the acquisition of EV in 2017 was allocated to the owner-operated business and represents a group of Cash Generating Units ("CGU") and tested for impairment as of the reporting date. The carrying value of the owner-operated business was tested for impairment on the basis of fair value less costs to sell, including a discount rate of 16.2% based on the rate that would be used by a market participant. These impairment tests indicated an impairment loss is required and this loss has been first taken to reduce the carrying value of goodwill, with the remaining impairment allocated to intellectual property.

The sensitivity of impairment tests to changes in underlying assumptions is summarised below:

Occupancy rates
The impairment tests have assumed an average occupancy rate of the owner-operated escape rooms of 42% of available rooms. If the occupancy rate achieved is 1% lower than budget, this would lead to the recognition of an additional impairment loss on the intellectual property of £1.37m.

Discount rate

If the discount rate was increased by 1%, this would have led to the recognition of an additional impairment loss on the intellectual property of £1m.

EBITDA growth
If growth in EBITDA was on average £100,000 lower in each year, this would lead to the recognition of an additional impairment loss on the intellectual property of £628,000.

Long-term perpetuity growth rates
The terminal rate used for the fair value calculation has been assumed at 2% per annum. If this rate was decreased by 1%, this would have led to the recognition of an additional impairment loss on the intellectual property of £593,000.

Capital expenditure
Total capital expenditure of £6,740,000 over the five-year strategic plan has been assumed. If such expenditure was 10% higher than budgeted, this would lead to the recognition of an additional impairment loss on intellectual property of £533,000.

Estimation of useful life and amortisation rates for intellectual property assets

The useful life used to amortise intangible assets relates to the expected future performance of the assets acquired and management's estimate of the period over which economic benefit will be derived from the asset.

The estimated useful life principally reflects management's view of the average economic life of each asset and is assessed by reference to historical data and future expectations. Any reduction in the estimated useful life would lead to an increase in the amortisation charge. The average economic life of the intellectual property has been estimated at 3 years. If the estimation of economic lives was reduced by one year, the amortisation charge for IP would have increased by £1,709,000 (year ended 31 December 2017: £1,133,000).

3. Revenue

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
New branch upfront location exclusivity fees	123	101
Game design fees	118	88
Support and administrative fees	94	65
Franchise revenues	741	540
Owned branch revenues	1,077	75
Other	19	3
	2,172	872

4. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the group of executive directors and the chief executive officer who make strategic decisions.

The Company was an investing company and did not trade until its acquisition of Experiential Ventures Limited ("EV") on 2 May 2017. Since the acquisition, management considers that the Group has two operating segments. Revenues are reviewed based on the nature of the services provided as follows:

1. The franchise business, where all franchised branches are operating under effectively the same model; and

2. The owner-operated branch business, which currently consists of 9 sites in the UK.

The Group operates on a global basis. At present, the Company has active franchisees in 22 countries. The Company does not presently analyse or measure the performance of the franchising business into geographic regions or by type of revenue, since this does not provide meaningful analysis to managing the business.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The cost of sales in the owner-operated business comprise site staff costs, premises costs, including rent, rates, service charges and utilities, and site-specific marketing and also including any pre-opening costs. Cost of sales also includes site pre-opening costs. In the franchisee business, the cost of sales comprises principally game design fees and game design staff costs.

Year ended 31 December 2018	**Owner-operated £'000**	**Franchise-operated £'000**	**Unallocated £'000**	**Total £'000**
Revenue	1,077	1,095	-	2,172
Cost of sales	(1,950)	(187)	-	(2,137)
Gross profit/(loss)	(873)	908	-	35
Profit/(loss) from operations				
Interest income	-	-	34	34
Expenses				
- Administrative	(825)	(551)	(2,113)	(3,489)
- Depreciation and amortisation	(4,109)	(118)	-	(4,227)
- Impairment losses	(2,345)	-	-	(2,345)
- Share-based payment expenses	-	-	(12)	(12)
Profit/(loss) from operations before tax	(8,126)	239	(2,091)	(9,978)
Taxation	(26)	-	-	(26)
Profit/(loss) for the year	(8,152)	239	(2,091)	(10,004)
Other information:				
Non-current assets	8,508	986	-	9,494

Year ended 31 December 2017	Owner-operated £'000	Franchise-operated £'000	Unallocated £'000	Total £'000
Revenue	74	798	-	872
Cost of sales	(55)	(275)	(34)	(364)
Gross profit/(loss)	19	523	(34)	508
Profit/(loss) from operations				
Interest income	-	-	9	9
Expenses				
- Administrative	(18)	(250)	(977)	(1,245)
- Depreciation and amortisation	(2,307)	(90)	-	(2,397)
- Transaction	-	-	(957)	(957)
- Share-based payment expenses	-	-	(43)	(43)
Profit/(loss) from operations before tax	(2,306)	183	(2,002)	(4,125)
Taxation	(2)	(2)	-	(4)
Profit/(loss) for the year	(2,308)	181	(2,002)	(4,129)
Other information:				
Non-current assets	10,056	893	-	10,949

5. Staff costs

	Year Ended 31 December 2018 £'000	Year ended 31 December 2017 £'000

Wages salaries and benefits (including directors)	1,921	626
Share-based payments	12	13
Social security costs	180	69
Other post-employment benefits	36	22
Less amounts capitalised	(150)	(45)
	1,999	685

6. Property, plant and equipment

	Leasehold property	**Office equipment**	**Computers**	**Furniture and fixtures**	**Escape games**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost:						
At 1 January 2017	-	-	-	-	-	-
Additions	576	16	37	5	59	693
Currency translation differences	(1)	(1)	(1)	-	-	(3)
As at 31 December 2017	575	15	36	5	59	690
Additions	2,204	18	70	171	1,813	4,276
Disposals	(28)	(22)	(37)	(9)	-	(96)
As at 31 December 2018	**2,751**	**11**	**69**	**167**	**1,872**	**4,870**
Accumulated depreciation:						
As at 1 January 2017	-	-	-	-	-	-
Depreciation charge	(5)	(3)	(12)	(1)	(1)	(22)
Currency translation differences	1	-	1	-	-	2
As at 31 December 2017	(4)	(3)	(11)	(1)	(1)	(20)
Depreciation charge	(241)	(5)	(24)	(16)	(259)	(545)
Disposals	13	6	31	11	-	61
As at 31 December 2018	**(232)**	**(2)**	**(4)**	**(5)**	**(260)**	**(504)**

Net book value

As at 31 December 2018	**2,519**	**9**	**65**	**161**	**1,612**	**4,366**
As at 31 December 2017	571	12	25	4	58	670

The amount of expenditure recognised in the carrying value of leasehold improvements in the course of construction at 31 December 2018 is £153,000 (2017: £215,000).

7. Intangible assets

	Goodwill	**Trademarks**	**Intellectual property**	**Internally generated IP**	**Franchise agreements**	**App Quest**	**Portal**	**Total**
	£’000	**£’000**	**£’000**	**£’000**	**£’000**	**£’000**	**£'000**	**£’000**
Cost								
At 1 January 2017	-	-	-	-	-	-	-	-
Additions through business combinations	11	-	-	-	-	-	50	61
Arising on purchase price allocation	1,393	-	10,195	-	802	-	-	12,390
Additions arising from internal development	-	-	-	-	-	-	50	50
Other additions	-	13	-	-	-		141	154
Transfers	-	-	-	-	-	100	(100)	-
At 31 December 2017	1,404	13	10,195	-	802	100	141	12,655
Additions through business combinations	29	-	-	-	-	-	-	29
Additions arising from acquisition	-	65	-	-	-	-	128	193
Additions arising from internal development	-	-	-	302	-	-	-	302
Disposals	(11)	-	-	-	-	-	-	(11)
As at 31 December 2018	1,422	78	10,195	302	802	100	269	13,168
Accumulated amortisation								
At 1 January 2017	-	-	-	-	-	-		-
Amortisation for the year	-	-	(2,266)	-	(76)	(33)	-	(2,375)
At 31 December 2017	-	-	(2,266)	-	(76)	(33)	-	(2,375)
Amortisation for the year	-	(11)	(3,398)	(21)	(115)	(50)	(61)	(3,656)
Impairment provision	(1,393)	-	(952)	-	-	-	-	(2,345)
As at 31 December 2018	(1,393)	(11)	(6,616)	(21)	(191)	(83)	(61)	(8,376)

Carrying amounts								
At 31 December 2018	**29**	**67**	**3,579**	**281**	**611**	**17**	**208**	**4,792**
At 31 December 2017	1,404	13	7,929	-	726	67	141	10,280

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8. Loan to franchisee

A secured loan of £300,000 is due from a master franchisee which bears interest at 5% per annum plus 2% of the franchisee's revenues and is repayable in instalments between January 2021 and June 2023.

The majority of income receivable under the terms of the loan relates to interest at a fixed rate. The valuation of this loan also takes account of the expected income under the revenue share; however, the impact of this estimate is not significant to the valuation. The carrying value of the loan approximates fair value. Credit risk is not considered to be significant.

9. Trade and other payables (current)

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Trade payables	670	507
Accruals	796	259
Deferred income	244	83
Taxation	23	5
Other taxes and social security	112	185
Other payables	36	30
	1,881	1,069

10. Deferred income

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Contract liabilities (deferred income):		
Balance at beginning of year	539	-
Revenue recognised in the year that was included in the deferred income balance at the beginning of the year	(103)	-
Arising on business combination	-	666
Increases due to cash received, excluding amounts recognised as revenue during the period	218	139
Decreases in deferred income as a result of changes in the measure of progress (release on recognition of revenue arising from contract liabilities)	(4)	(202)
Decreased on termination of franchises	(17)	(39)
Translation differences	30	(25)

Transaction price allocated to the remaining performance obligations	663	539

11. Operating leases

As at the reporting date, the Group had commitments for future minimum lease payments under non-cancellable operating leases as follows:

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Within one year	388	82
Between one and five years	1,610	664
More than five years	1,981	710
	3,979	1,456

Amount recognised in profit or loss:		
Lease expenses	476	60

12. Related party transactions

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party in making financial and operating decisions.
During the period under review, in addition to those disclosed elsewhere in these financial statements, the following significant transactions took place at terms agreed between the parties:

A salary of £33,000 and other benefits of £2,000 were paid to close family members of two of the directors (2017: salary of £14,000) on an arm's length basis.

Interests in the share capital of the Company
Details of the Directors' interests in the share capital and share options of the Company are disclosed in the Directors Report.

13. Subsequent events

There have been two events that have occurred since the year end that require disclosure. After the year end, the Group agreed a grant with Scottish Enterprise whereby Scottish Enterprise would make £2m available as a contribution to the development of the Group's activities in Scotland, including the site which opened in Edinburgh in October 2018. In addition to its commercial activities, the Group will base certain game design functions and activities in Scotland.

In order to fund the business strategy of growth via new openings, the Group is undergoing a fundraising via a non-pre-emptive secondary placing which is expected to raise a minimum of £4m before expenses. The Placing is subject to approval by shareholders at a General Meeting to be held on 31 May 2019.