JPJ Group plc

Management's Discussion and Analysis

[in pounds sterling, except where otherwise noted]

For the Year Ended 31 December 2018

Management's Discussion and Analysis ('MD&A')

The following discussion and analysis provides a review of JPJ Group plc's results of operations, financial position and cash flows for the year ended 31 December 2018. This MD&A has been prepared with an effective date of 19 March 2019 and should be read in conjunction with the information contained in JPJ Group plc's consolidated financial statements and related notes for the year ended 31 December 2018 (the 'Consolidated Financial Statements'), which were prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'). The Consolidated Financial Statements and additional information regarding the business of the Group (as defined below) are available on SEDAR at www.sedar.com or on www.jpjgroup.com/investors.

For reporting purposes, JPJ Group plc prepares the Consolidated Financial Statements in pounds sterling. Unless otherwise indicated, all 'GBP' or '£' amounts in this MD&A are expressed in British pounds sterling. References to '€' or 'EUR' are to European euros, references to 'USD' are to U.S. dollars and references to 'CAD' or '$' are to Canadian dollars.

All references to 'we', 'our', and the 'Group' refer to JPJ Group plc, together with its subsidiaries and consolidated operations controlled by it and its predecessors (as applicable in the circumstances).

Based on JPJ Group plc's Audit and Risk Committee's review and recommendation, the JPJ Group plc board of directors has approved this MD&A and the Consolidated Financial Statements for release.

About JPJ Group plc

JPJ Group plc, formerly Jackpotjoy plc, is an online gaming holding company that was incorporated under the *Companies Act 2006* (England and Wales) on 29 July 2016. On 27 June 2018, Jackpotjoy plc changed its name to JPJ Group plc. JPJ Group plc's registered office is located at 35 Great St. Helen's, London, United Kingdom.

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

Corporate developments

For the year ended 31 December 2018

On 27 June 2018, JPJ Group plc announced its proposal to transfer the listing category of its entire issued and to be issued ordinary share capital from a standard listing to a premium listing on the Official List of the Financial Conduct Authority. The transfer became effective on 26 July 2018.

On 27 June 2018, the Group also changed its name from Jackpotjoy plc to JPJ Group plc. The Group retained its existing ticker, SEDOL and ISIN. The change did not affect any shareholders' rights. No new share certificates will be issued in respect of existing ordinary shares held in certificated form.

On 3 September 2018, JPJ Group plc announced completion of the sale of its social gaming business. The sale amounted to cash consideration of £18.0 million, excluding working capital adjustments and costs of disposal paid by the Group, and became effective on 31 August 2018.

On 19 February 2019, the Group signed a definitive agreement for the sale of its Mandalay operating business for cash consideration of £18.0 million. The sale was completed on 12 March 2019, with £12.0 million of the cash consideration received by the Group and the remaining £6.0 million expected to be received in September 2019.

Outlook

Trading over the first two months of the financial year has been strong with double digit growth in revenues to the end of February and the Group is trading in line with management's expectations for FY 2019. Overall, we look forward to continued progress in our international operations and to taking advantage of growth opportunities in the UK market during the second half of 2019, as we pass the anniversary of the introduction of enhanced responsible gambling measures.

Selected financial information

As discussed on page 1 of this MD&A, the Group sold its social gaming business during the year ended 31 December 2018. As a result, all current year and 2017 comparative figures have been restated accordingly. Please see note 7 of the Consolidated Financial Statements, which sets out the comparative consolidated statement of comprehensive income for the social business separately from the Group's continuing operations, for additional information.

Comparison of the three months and year ended 31 December 2018 and 2017

	Three month period ended 31 December 2018 (£000's)	Three month period ended 31 December 2017 (£000's)	**Year ended 31 December 2018 (£000's)**	Year ended 31 December 2017 (£000's)	Year ended 31 December 2016 (£000's)
Gaming revenue	**86,392**	79,208	**319,588**	289,258	250,904
Net income/(loss) for the year after taxes – continuing operations	**11,417**	(40,778)	**18,056**	(70,717)	(42,579)
Net income/(loss) for the year attributable to owners of the parent	**11,417**	(40,155)	**14,477**	(67,897)	(40,643)
Basic net income/(loss) per share – continuing operations	**£0.15**	£(0.55)	**£0.24**	£(0.96)	£(0.60)
Diluted net income/(loss) per share – continuing operations	**£0.15**	£(0.55)	**£0.24**	£(0.96)	£(0.60)
Basic net income/(loss) per share	**£0.15**	£(0.54)	**£0.20**	£(0.92)	£(0.57)
Diluted net income/(loss) per share	**£0.15**	£(0.54)	**£0.19**	£(0.92)	£(0.57)

Net income/loss

The Group's net income of £11.4 million during the three months ended 31 December 2018 compared to a net loss of £40.8 million in the same period in the prior year can be largely attributed to a decrease in interest expense (Q4 2018 – £5.0 million and Q4 2017 – £6.9 million) and significantly lower accretion on financial liabilities (Q4 2018 – £0.4 million and Q4 2017 – £16.0 million) all of which is substantially due to the debt refinance that took place in Q4 2017. The variance against prior year can further be attributed to lower fair value adjustments on contingent consideration (Q4 2018 – (£4.2) million and Q4 2017 – £11.2 million) as a result of the third milestone payment due to Gamesys in 2020 being valued at £nil. The adjustment was made in the current period due to the announcement, in November 2018, that the UK point of consumption tax rate is increasing from 15% to 21% of gross gaming revenue, making the achievement of the third milestone target unlikely. The variance is further driven by a realised loss on cross currency

swap (Q4 2018 – £nil and Q4 2017 – £9.0 million). The remainder of the movement in the Group's net income/loss compared to the prior period is attributable to gaming revenue as well as the costs and expenses discussed below.

The Group's net income of £18.1 million during the year ended 31 December 2018 compared to a net loss of £70.7 million in the same period in the prior year can be primarily attributed to a decrease in foreign exchange loss (2018 – £0.4 million and 2017 – £9.9 million), a decrease in interest expense (2018 – £19.8 million and 2017 – £30.2 million) and significantly lower accretion on financial liabilities (2018 – £3.0 million and 2017 – £25.0 million) all of which is substantially due to the debt refinance that took place in Q4 2017. The variance against prior year can further be attributed to lower fair value adjustments on contingent consideration (2018 – £7.2 million and 2017 – £27.6 million) as a result of the third milestone payment due to Gamesys in 2020 being revalued as noted above. The adjustment was made in the current period due to the announcement, in November 2018, that the UK point of consumption tax rate is going from 15% to 21% of gross gaming revenue, making the achievement of the third milestone target unlikely. The variance is further driven by a realised loss on cross currency swap (2018 – £nil and 2017 – £12.5 million). The remainder of the movement in the Group's net income/loss compared to the prior year is attributable to gaming revenue as well as costs and expenses discussed below.

Gaming revenue

The Group's gaming revenue during the three months ended 31 December 2018 consisted of:

- £53.9 million in revenue earned from Jackpotjoy's[1,2] operational activities.
- £32.5 million in revenue earned from Vera&John's operational activities.

The Group's gaming revenue during the three months ended 31 December 2017 consisted of:

- £57.5 million in revenue earned from Jackpotjoy's[1,2] operational activities.
- £21.7 million in revenue earned from Vera&John's operational activities.

The increase in gaming revenue for the three months ended 31 December 2018 in comparison with the three months ended 31 December 2017 relates to organic growth[3] of the Vera&John segment, where gaming revenue increased by 50%.

The Group's gaming revenue during the year ended 31 December 2018 consisted of:

- £216.0 million in revenue earned from Jackpotjoy's[1,2] operational activities.
- £103.6 million in revenue earned from Vera&John's operational activities.

The Group's gaming revenue during the year ended 31 December 2017 consisted of:

- £216.1 million in revenue earned from Jackpotjoy's[1,2] operational activities.
- £73.2 million in revenue earned from Vera&John's operational activities.

The increase in gaming revenue for the year ended 31 December 2018 in comparison with the year ended 31 December 2017 relates to organic growth[3] of the Vera&John segment, where gaming revenue increased by 42%.

[1] *Effective 1 January 2018, the Mandalay segment has been aggregated with the Jackpotjoy segment. Refer to page 9 of this MD&A for further discussion.*

[2] *Excludes results from the Group's social gaming business, which was sold during the year ended 31 December 2018.*

[3] *The Group defines organic growth as growth achieved without accounting for acquisitions or disposals.*

Costs and expenses

	Three month period ended 31 December 2018 (£000's)	Three month period ended 31 December 2017 (£000's)	**Year ended 31 December 2018 (£000's)**	Year ended 31 December 2017 (£000's)
Distribution costs	**43,089**	44,034	**158,865**	140,736
Administrative costs	**30,027**	29,733	**109,444**	107,412
Severance costs	**—**	700	**850**	700
Transaction related costs	**550**	4,034	**1,888**	6,710
	73,666	78,501	**271,047**	255,558

Distribution costs

	Three month period ended 31 December 2018 (£000's)	Three month period ended 31 December 2017 (£000's)	**Year ended 31 December 2018 (£000's)**	Year ended 31 December 2017 (£000's)
Selling and marketing	**15,643**	16,474	**55,535**	48,482
Licensing fees	**11,854**	11,175	**44,311**	41,598
Gaming taxes	**9,967**	12,648	**40,390**	37,851
Processing fees	**5,625**	3,737	**18,629**	12,805
	43,089	44,034	**158,865**	140,736

Selling and marketing expenses consist of payments made to affiliates and general marketing expenses related to each brand. Licensing fees consist of the fees for the Jackpotjoy segment to operate on its platforms and game suppliers' fees paid by both the Vera&John and Jackpotjoy segments. Gaming taxes largely consist of point of consumption ('POC') taxes, payable in the regulated jurisdictions that the Group operates in. Variance in gaming taxes from the prior year relates to a 15% general betting duty on all free or discounted online bets ('POC2') introduced in the UK in Q4 2017. Processing fees consist of costs associated with using payment providers and include payment service provider transaction and handling costs, as well as deposit and withdrawal fees. With the exception of selling and marketing expenses, distribution costs tend to be variable in relation to revenue.

The decrease in distribution costs for the three months ended 31 December 2018 compared to the same period in 2017 is mainly due to decreased selling and marketing spending in the Jackpotjoy segment. This decrease is further driven by lower gaming taxes related to lower revenues achieved by the Jackpotjoy UK and Mandalay brands. The increase in distribution costs for the year ended 31 December 2018 compared to the same period in 2017 is mainly due to higher revenues achieved and increased selling and marketing spending, primarily in the Vera&John segment.

Administrative costs

	Three month period ended 31 December 2018 (£000's)	Three month period ended 31 December 2017 (£000's)	**Year ended 31 December 2018 (£000's)**	Year ended 31 December 2017 (£000's)
Compensation and benefits	**9,238**	8,429	**33,484**	31,943
Professional fees	**1,465**	1,067	**4,369**	3,729
General and administrative	**3,965**	4,387	**10,752**	10,858
Amortisation and depreciation	**15,359**	15,850	**60,839**	60,882
	30,027	29,733	**109,444**	107,412

Compensation and benefits costs consist of salaries, wages, bonuses, directors' fees, benefits and share-based compensation expense. The increase in these expenses for the three months and year ended 31 December 2018 compared to the same periods in 2017 is due to additional staff hired as well as higher bonus accruals.

Professional fees consist mainly of legal, accounting and audit fees. The increase in professional fees in the three months and year ended 31 December 2018 compared to the same periods in 2017 relates to additional gaming industry regulatory requirements that came into effect in the current period.

General and administrative expenses consist of items, such as rent and occupancy, travel and accommodation, insurance, listing authority fees, technology and development costs, and other office overhead charges. The decrease in these costs for the three months and year ended 31 December 2018 compared to the same periods in the prior year can be attributed to higher accounts receivable write-offs recorded in 2017.

Amortisation and depreciation expenses consist of amortisation of the Group's intangible assets and depreciation of the Group's tangible assets over their useful lives. The decrease in amortisation and depreciation for the three months and year ended 31 December 2018 compared to the same periods in the prior year is due to the fact that amortisation expense related to purchase price intangibles recognised in prior years decreases with each passing year of their useful lives as a result of the amortisation method used.

Transaction related costs

Transaction related costs consist of legal, professional, due diligence, other direct costs/fees associated with transactions and acquisitions or disposals contemplated or completed, costs associated with the Group's premium listing and the refinancing of the Group's external debt. Q1 2017 transaction related costs also included costs associated with the UK strategic review and implementation of UK-centred strategic initiatives, including the listing of the Group on the London Stock Exchange.

Severance costs

Severance costs during the year ended 31 December 2018 relate to personnel redundancies resulting from internal restructuring.

For a further discussion of the variances on a segment basis, please refer to the information under the 'Summary of results by segment – continuing operations: Results by segment' section of this MD&A.

For a further discussion on income/(loss) from discontinued operation, please refer to note 7 of the Consolidated Financial Statements.

Non-IFRS financial measures

The following non-IFRS definitions are used in this MD&A because management believes that they provide additional useful information regarding ongoing operating and financial performance. Readers are cautioned that the definitions are not recognised measures under IFRS, do not have standardised meanings prescribed by IFRS, and should not be considered in isolation or construed to be alternatives to revenues and net income/(loss) and comprehensive income/(loss) for the period determined in accordance with IFRS or as indicators of performance, liquidity or cash flows. Our method of calculating these measures may differ from the method used by other entities. Accordingly, our measures may not be comparable to similarly titled measures used by other entities or in other jurisdictions. For details regarding the reconciliations from these non-IFRS measures, refer to the information under the *'Adjusted EBITDA, Adjusted Net Income, and Diluted Adjusted Net Income per share for the three months and year ended 31 December 2018 and 2017 – continuing operations'* and *'Summary of results by segment – continuing operations: Results by segment'* sections of this MD&A.

- Adjusted EBITDA, as defined by the Group, is income from continuing operations before interest expense including accelerated debt costs and other accretion (net of interest income), income taxes, amortisation and depreciation, share-based compensation, severance costs, realised loss on cross currency swap, fair value adjustments on contingent consideration, transaction related costs, foreign exchange (gain)/loss, and gain on sale of intangible assets. Management believes that Adjusted EBITDA is an important indicator of the issuer's ability to generate liquidity to service outstanding debt and fund the remaining acquisition milestone payment and uses this metric for such purpose. The exclusion of share-based compensation eliminates non-cash items and the exclusion of realised loss on cross currency swap, fair value adjustments on contingent consideration, severance costs, transaction related costs, foreign exchange (gain)/loss, and gain on sale of intangible assets eliminates items which management believes are either non-operational and/or non-routine.

- Adjusted Net Income, as defined by the Group, means net income from continuing operations plus or minus items of note that management may reasonably quantify and believes will provide the reader with a better understanding of the Group's underlying business performance. Adjusted Net Income is calculated by adjusting net income for accretion on financial liabilities, amortisation of acquisition related purchase price intangibles (including non-compete clauses), share-based compensation, severance costs, realised loss on cross currency swap, fair value adjustments on contingent consideration, transaction related costs, foreign exchange (gain)/loss and gain on sale of intangible assets. The exclusion of accretion on financial liabilities and share-based compensation eliminates the non-cash items and the exclusion of amortisation of acquisition related purchase price intangibles (including non-compete clauses), realised loss on cross currency swap, fair value adjustments on contingent consideration, severance costs, transaction related costs, foreign exchange (gain)/loss, and gain on sale of intangible assets eliminates items which management believes are non-operational and/or non-routine. Adjusted Net Income is considered by some investors and analysts for the purpose of assisting in valuing a company.

- Diluted Adjusted Net Income per share, as defined by the Group, means Adjusted Net Income divided by the diluted weighted average number of shares outstanding, calculated using the IFRS treasury method, for the applicable period. Management believes that Diluted Adjusted Net Income per share assists with the Group's ability to analyse Adjusted Net Income on a diluted weighted average per share basis.

Key performance indicators

- Average Active Customers is a key performance indicator used by management to assess real money customer acquisition and real money customer retention efforts of each of the Group's brands. The Group defines Average Active Customers ('Average Active Customers') as being real money customers who have placed at least one bet in a given month. 'Average Active Customers per Month' is the Average Active Customers per month, averaged over a twelve-month period. While this measure is not recognised by IFRS, management believes that it is a meaningful indicator of the Group's ability to acquire and retain customers.

- Total Real Money Gaming Revenue and Average Real Money Gaming Revenue per Month are key performance indicators used by management to assess revenue earned from real money gaming operations of the business. The Group defines Total Real Money Gaming Revenue ('Total Real Money Gaming Revenue') as revenue less revenue earned from B2B and affiliate websites. The Group defines Average Real Money Gaming Revenue per Month ('Average Real Money Gaming Revenue per Month') as Real Money Gaming Revenue per month, averaged over a twelve-month period. While these measures are not recognised by IFRS, management believes that they are meaningful indicators of the Group's real money gaming operational results.

- Monthly Real Money Gaming Revenue per Average Active Customer is a key performance indicator used by management to assess the Group's ability to generate Real Money Gaming Revenue on a per customer basis. The Group defines Monthly Real Money Gaming Revenue per Average Active Customer ('Monthly Real Money Gaming Revenue per Average Active Customer') as being Average Real Money Gaming Revenue per Month divided by Average Active Customers per Month. While this measure is not recognised by IFRS, management believes that it is a meaningful indicator of the Group's ability to generate Total Real Money Gaming Revenue.

Adjusted EBITDA, Adjusted Net Income, and Diluted Adjusted Net Income per share for the three months and year ended 31 December 2018 and 2017 – continuing operations

The following table highlights Adjusted EBITDA, Adjusted Net Income, and Diluted Adjusted Net Income per share for the three months and year ended 31 December 2018 and 2017 and a reconciliation of the Group's reported results to its adjusted measures. All current year and 2017 comparative figures have been restated to exclude results of the Group's social gaming business, which was sold during the year ended 31 December 2018.

	Three month period ended 31 December 2018 (£000's)	Three month period ended 31 December 2017 (£000's)	**Year ended 31 December 2018 (£000's)**	Year ended 31 December 2017 (£000's)
Net income/(loss) for the year after taxes from continuing operations	**11,417**	(40,778)	**18,056**	(70,717)
Interest expense, net	**4,920**	6,828	**19,472**	30,007
Accretion on financial liabilities	**389**	15,998	**2,993**	25,049
Taxes	**18**	214	**458**	701
Amortisation and depreciation	**15,359**	15,850	**60,839**	60,882
EBITDA	**32,103**	(1,888)	**101,818**	45,922
Share-based compensation	**115**	231	**583**	1,429
Severance costs	**—**	700	**850**	700
Fair value adjustments on contingent consideration	**(4,242)**	11,198	**7,208**	27,562
Gain on sale of intangible assets	**—**	(269)	**—**	(1,271)
Realised loss on cross currency swap	**—**	8,978	**—**	12,512
Transaction related costs	**550**	4,034	**1,888**	6,710
Foreign exchange loss/(gain)	**224**	(1,462)	**354**	9,857
Adjusted EBITDA	**28,750**	21,522	**112,701**	103,421
Net income/(loss) for the year after taxes from continuing operations	**11,417**	(40,778)	**18,056**	(70,717)
Share-based compensation	**115**	231	**583**	1,429
Severance costs	**—**	700	**850**	700
Fair value adjustments on contingent consideration	**(4,242)**	11,198	**7,208**	27,562
Gain on sale of intangible assets	**—**	(269)	**—**	(1,271)
Realised loss on cross currency swap	**—**	8,978	**—**	12,512
Transaction related costs	**550**	4,034	**1,888**	6,710
Foreign exchange loss/(gain)	**224**	(1,462)	**354**	9,857
Amortisation of acquisition related purchase price intangibles	**14,559**	15,333	**58,196**	59,067
Accretion on financial liabilities	**389**	15,998	**2,993**	25,049
Adjusted Net Income	**23,012**	13,963	**90,128**	70,898
Diluted net income/(loss) per share from continuing operations	**£0.15**	£(0.55)	**£0.24**	£(0.96)
Diluted Adjusted Net Income per share from continuing operations	**£0.31**	£0.19	**£1.20**	£0.95

Summary of results by segment – continuing operations

Results by segment

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

The Jackpotjoy segment consists of the real money gaming operating results of the Jackpotjoy, Starspins, Botemania and Costa brands. The Vera&John segment consists of the online casino operating results of various brands, including Vera&John, InterCasino and Solid Gaming.

Three months ended 31 December 2018

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs[1] (£000's)	Totals (£000's)
Gaming revenue	**53,854**	**32,538**	**—**	**86,392**
Net income/(loss) for the period after taxes from continuing operations	**9,330**	**7,406**	**(5,319)**	**11,417**
Interest (income)/expense, net	—	(26)	4,946	4,920
Accretion on financial liabilities	—	—	389	389
Taxes	—	(304)	322	18
Amortisation and depreciation	12,581	2,676	102	15,359
EBITDA	**21,911**	**9,752**	**440**	**32,103**
Share-based compensation	—	—	115	115
Fair value adjustments on contingent consideration	—	—	(4,242)	(4,242)
Transaction related costs	—	139	411	550
Foreign exchange loss/(gain)	29	243	(48)	224
Adjusted EBITDA	**21,940**	**10,134**	**(3,324)**	**28,750**

(1) Unallocated Corporate Costs include the results from activities such as acquisition/disposal negotiations, acquisition due diligence, the raising of capital to fund acquisitions, payment of interest on existing debt, and the reporting obligations of JPJ Group plc.

Three months ended 31 December 2017

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs[1] (£000's)	Totals (£000's)
Gaming revenue	**57,499**	**21,709**	**—**	**79,208**
Net income/(loss) for the period after taxes from continuing operations	**8,042**	**919**	**(49,739)**	**(40,778)**
Interest expense/(income), net	1	(39)	6,866	6,828
Accretion on financial liabilities	—	—	15,998	15,998
Taxes	—	214	—	214
Amortisation and depreciation	13,183	2,573	94	15,850
EBITDA	**21,226**	**3,667**	**(26,781)**	**(1,888)**
Share-based compensation	—	—	231	231
Severance costs	—	—	700	700
Fair value adjustments on contingent consideration	—	—	11,198	11,198
Realised loss on currency swap			8,978	8,978
Transaction related costs	—	—	4,034	4,034
Gain on sale of intangible assets	(269)	—	—	(269)
Foreign exchange gain	(10)	(9)	(1,443)	(1,462)
Adjusted EBITDA	**20,947**	**3,658**	**(3,083)**	**21,522**

(1) Unallocated Corporate Costs include the results from activities such as acquisition/disposal negotiations, acquisition due diligence, the raising of capital to fund acquisitions, payment of interest on existing debt, and the reporting obligations of JPJ Group plc.

Year ended 31 December 2018

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs[1] (£000's)	Totals (£000's)
Gaming revenue	**216,015**	**103,573**	**—**	**319,588**
Net income/(loss) for the year after taxes from continuing operations	**42,414**	**19,516**	**(43,874)**	**18,056**
Interest expense/(income), net	5	(120)	19,587	19,472
Accretion on financial liabilities	—	—	2,993	2,993
Taxes	—	122	336	458
Amortisation and depreciation	50,318	10,131	390	60,839
EBITDA	**92,737**	**29,649**	**(20,568)**	**101,818**
Share-based compensation	—	—	583	583
Severance costs	—	850	—	850
Fair value adjustments on contingent consideration	—	—	7,208	7,208
Transaction related costs	—	139	1,749	1,888
Foreign exchange loss/(gain)	238	200	(84)	354
Adjusted EBITDA	**92,975**	**30,838**	**(11,112)**	**112,701**

(1) Unallocated Corporate Costs include the results from activities such as acquisition/disposal negotiations, acquisition due diligence, the raising of capital to fund acquisitions, payment of interest on existing debt, and the reporting obligations of JPJ Group plc.

Year ended 31 December 2017

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs[(1)] (£000's)	Totals (£000's)
Gaming revenue	**216,091**	**73,167**	**—**	**289,258**
Net income/(loss) for the year after taxes from continuing operations	**46,869**	**7,939**	**(125,525)**	**(70,717)**
Interest expense/(income), net	4	(166)	30,169	30,007
Accretion on financial liabilities	—	—	25,049	25,049
Taxes	—	701	—	701
Amortisation and depreciation	50,546	9,956	380	60,882
EBITDA	**97,419**	**18,430**	**(69,927)**	**45,922**
Share-based compensation	—	—	1,429	1,429
Severance costs	—	—	700	700
Fair value adjustments on contingent consideration	—	—	27,562	27,562
Realised loss on currency swap	—	—	12,512	12,512
Transaction related costs	—	—	6,710	6,710
Gain on sale of intangible assets	(269)	(1,002)	—	(1,271)
Foreign exchange (gain)/loss	(95)	599	9,353	9,857
Adjusted EBITDA	**97,055**	**18,027**	**(11,661)**	**103,421**

(1) Unallocated Corporate Costs include the results from activities such as acquisition/disposal negotiations, acquisition due diligence, the raising of capital to fund acquisitions, the UK Strategic Review, payment of interest on existing debt, and the reporting obligations of JPJ Group plc.

Comparison and discussion of the three months and year ended 31 December 2018 to the same periods in 2017 – continuing operations

Jackpotjoy

	Q4 2018 £(millions)	Q4 2017 £(millions)	Variance £(millions)	Variance %
Gaming revenue	**53.9**	57.5	(3.6)	(6%)
Distribution costs	**27.1**	32.4	(5.3)	(16%)
Administrative costs	**4.9**	4.1	0.8	20%
Adjusted EBITDA	**21.9**	21.0	0.9	4%

	YTD 2018 £(millions)	YTD 2017 £(millions)	Variance £(millions)	Variance %
Gaming revenue	**216.0**	216.1	(0.1)	0%
Distribution costs	**105.6**	104.0	1.6	2%
Administrative costs	**17.4**	15.0	2.4	16%
Adjusted EBITDA	**93.0**	97.1	(4.1)	(4%)

Gaming revenue for the Jackpotjoy segment for the three months ended 31 December 2018 was 6% lower than in the same period in 2017 due to a decline in Jackpotjoy UK and the Mandalay brands, which accounted for 63% and 5% of the segment's revenue, respectively. The decrease was partially offset by increases in the Starspins and Botemania brands, which collectively accounted for 29% of this segment's revenue.

Gaming revenue for the year ended 31 December 2018 was flat against the same period in 2017.

The decrease in distribution costs for the three months ended 31 December 2018 compared to the same period in 2017 is driven by a reduction in UK marketing spend as well as a decrease in gaming taxes driven by lower revenues.

The increase in distribution costs for the year ended 31 December 2018 is driven by an incremental gaming tax expense, which relates to tax on bonuses through the POC2 tax introduced in Q4 2017.

The increase in administrative costs for the three months and year ended 31 December 2018 compared to the same periods in 2017 was mainly driven by increases in administrative overhead costs.

Vera&John

	Q4 2018 £(millions)	Q4 2017 £(millions)	Variance £(millions)	Variance %
Gaming revenue	**32.5**	21.7	10.8	50%
Distribution costs	**16.0**	11.6	4.4	38%
Administrative costs	**6.4**	6.4	—	—
Adjusted EBITDA	**10.1**	3.7	6.4	173%

	YTD 2018 £(millions)	YTD 2017 £(millions)	Variance £(millions)	Variance %
Gaming revenue	**103.6**	73.2	30.4	42%
Distribution costs	**53.2**	36.6	16.6	45%
Administrative costs	**19.6**	18.6	1.0	5%
Adjusted EBITDA	**30.8**	18.0	12.8	71%

Gaming revenue for the Vera&John segment for the three months and year ended 31 December 2018 increased by 50% and 42%, respectively, compared to the same periods in 2017 due to organic growth (as defined on page 3 of this MD&A). On a constant currency basis, revenue increased by 50% and 40% in the three months and year ended 31 December 2018 compared to the same periods in 2017. Constant currency amounts are calculated by applying the same EUR to GBP average exchange rates to both current and prior year comparative periods.

Distribution costs increased by 38% and 45%, respectively, for the three months and year ended 31 December 2018 compared to the same periods in 2017 as a result of higher marketing spend in the current period. These increases were further driven by higher gaming taxes due to increased revenue in regulated jurisdictions compared to the prior periods.

The increase in administrative costs for the year ended 31 December 2018 compared to the same period in 2017 was mainly driven by increases in personnel costs and administrative overhead costs as the segment continues to grow.

Unallocated Corporate Costs

Adjusted EBITDA on Unallocated Corporate Costs decreased from (£3.1) million to (£3.3) million in the three months ended 31 December 2018 compared to the three months ended 31 December 2017. The variance mainly relates to a £0.5 million increase in compensation costs offset by a £0.2 million decrease in professional fees and a £0.1 million decrease in general administrative overhead costs.

Adjusted EBITDA on Unallocated Corporate Costs increased from (£11.7) million to (£11.1) million in the year ended 31 December 2018 compared to the year ended 31 December 2017. The variance mainly relates to a £0.4 million increase in compensation costs offset by a £0.6 million decrease in general administrative overhead costs and a £0.3 million decrease in professional fees.

Net loss on Unallocated Corporate Costs decreased from £49.7 million to £5.3 million in the three months ended 31 December 2018 compared to the three months ended 31 December 2017. This decrease is primarily related to lower interest expense incurred as a result of the debt refinance that took place in Q4 2017. The decrease is further driven by lower fair value adjustments on contingent consideration due to the third milestone payment being revalued to £nil in the current period and the fact that there were no fair value adjustments in the second and third quarters of 2018 as the final earn-out period ended in Q1 2018.

Net loss on Unallocated Corporate Costs decreased from £125.5 million to £43.9 million in the year ended 31 December 2018 compared to the year ended 31 December 2017. This decrease is primarily related to a lower foreign exchange loss and lower interest expense incurred in the current year as a result of the debt refinance that took place in Q4 2017. The decrease in net loss can further be attributed to lower fair value adjustments on contingent consideration due to the third milestone payment being revalued to £nil in the current year and the fact that there were no fair value adjustments in the second and third quarters of 2018 as the final earn-out period ended in Q1 2018.

Costs included in net loss which are excluded from the Adjusted EBITDA measure are discussed on page 6 of this MD&A.

Key performance indicators – continuing operations

	Year ended 31 December 2018	Year ended 31 December 2017	Variance	Variance %
Average Active Customers per Month (#)	**259,664**	250,321	9,343	4%
Total Real Money Gaming Revenue (£000's) [(1)]	**311,428**	282,375	29,053	10%
Average Real Money Gaming Revenue per Month (£000's)	**25,952**	23,531	2,421	10%
Monthly Real Money Gaming Revenue per Average Active Customer (£)	**100**	94	6	6%

[(1)] Total Real Money Gaming Revenue for the year ended 31 December 2018 consists of total revenue less revenue earned from B2B and affiliate websites of £8.2 million (31 December 2017 – £6.9 million).

Monthly Real Money Gaming Revenue per Average Active Customer increased by 6% year-over-year which is in line with the Group's overall customer acquisition and retention strategy.

Historical results by quarter – continuing operations

	Three month period ended 31 December 2018 (£000's)	Three month period ended 30 September 2018 (£000's)	Three month period ended 30 June 2018 (£000's)	Three month period ended 31 March 2018 (£000's)
Gaming revenue	**86,392**	77,753	77,728	77,715
Net income/(loss) for the period after taxes from continuing operations	**11,417**	7,352	7,431	(8,144)
Basic income/(loss) per share – continuing operations	**£0.15**	£0.10	£0.10	£(0.11)
Diluted income/(loss) per share – continuing operations	**£0.15**	£0.10	£0.10	£(0.11)

	Three month period ended 31 December 2017 (£000's)	Three month period ended 30 September 2017 (£000's)	Three month period ended 30 June 2017 (£000's)	Three month period ended 31 March 2017 (£000's)
Gaming revenue	79,208	71,845	71,316	66,889
Net loss for the period after taxes from continuing operations	(40,778)	(8,232)	(5,398)	(16,309)
Basic loss per share – continuing operations	£(0.55)	£(0.11)	£(0.07)	£(0.22)
Diluted loss per share – continuing operations	£(0.55)	£(0.11)	£(0.07)	£(0.22)

The general upward trend in revenue from Q1 2017 to Q4 2018 is driven by organic growth (as defined on page 3 of this MD&A) in the Jackpotjoy and Vera&John segments. Revenue is susceptible to various risk factors that can cause fluctuations from quarter to quarter as noted in JPJ Group plc's most recently filed annual information form ('AIF'), available under JPJ Group plc's profile on SEDAR at www.sedar.com.

The movement in net income/(loss) from quarter to quarter largely relates to transaction related costs, fair value adjustments on contingent consideration, accretion on financial liabilities, and the amortisation of intangible assets.

The increase in revenue between Q1 2017 and Q2 2017 is due to stronger results across all segments, specifically Vera&John, which saw revenues grow by 11% compared to Q1 2017. The net loss for Q2 2017 is lower than in Q1 2017, primarily due to lower fair value adjustments on contingent consideration (Q2 2017 – £1.8 million, Q1 2017 – £12.9 million).

Revenue for Q3 2017 was largely consistent with Q2 2017. The net loss for Q3 2017 is higher than in Q2 2017, primarily due to higher selling and marketing costs (Q3 2017 – £12.4 million, Q2 2017 – £10.5 million), and transaction related expenses (Q3 2017 – £1.4 million, Q2 2017 – £nil).

The increase in revenue between Q4 2017 and Q3 2017 is due to stronger results achieved by the Vera&John and Jackpotjoy segments, which saw revenues grow by 18% and 8% respectively, compared to Q3 2017. The net loss for Q4 2017 is higher than in Q3 2017 primarily due to a loss on the cross currency swap realised in the period (Q4 2017 – £9.0 million, Q3 2017 – £nil). The increase is also driven by higher accretion on financial liabilities expense in Q4 2017 resulting from debt refinancing, as well as a higher fair value adjustments on contingent consideration.

The decrease in revenue between Q1 2018 and Q4 2017 is primarily due to seasonality as Q4 tends to be one of the strongest quarters. The net loss for Q1 2018 is significantly lower than in Q4 2017 primarily due to a substantially lower accretion on financial liabilities in Q1 2018 (Q1 2018 – £1.5 million, Q4 2017 – £16.0 million) as accelerated accretion was recognised in Q4 2017 following the debt refinancing that took place

in that period. The decrease is also driven by a loss on the cross currency swap realised in Q4 2017 (Q1 2018 – £nil, Q4 2017 – £ 9.0 million).

Revenue for Q2 2018 was largely consistent with Q1 2018. The variance between net income for Q2 2018 compared to a net loss in Q1 2018 is primarily driven by the fact that no fair value adjustment on contingent consideration was required in Q2 2018 as the earn-out period ended in Q1 2018 (Q2 2018 – £nil, Q1 2018 – £11.5 million). The variance is further driven by lower accretion on financial liabilities (Q2 2018 – £0.5 million, Q1 2018 – £1.5 million) also due to the final earn-out period ending in Q1 2018.

Both revenue and net income for Q3 2018 were largely consistent with Q2 2018.

The increase in revenue between Q4 2018 and Q3 2018 is due to stronger results achieved by the Vera&John and Jackpotjoy segments which saw revenues grow by 27% and 3%, respectively, compared to Q3 2018. The net income for Q4 2018 is higher than in Q3 2018 primarily due to the fair value adjustments on contingent consideration (Q4 2018 – (£4.2) million, Q3 2018 – £nil) resulting from a revaluation of the third milestone payment in the current period.

Financial position

	As at 31 December 2018 (£000's)	As at 31 December 2017 (£000's)	Variance (£000's)	As at 31 December 2016 (£000's)
Total current assets	**123,959**	93,232	30,727	139,077
Total non-current assets	**521,947**	595,947	(74,000)	652,301
Total assets	**645,906**	689,179	(43,273)	791,378
Total current liabilities	**52,320**	98,469	(46,149)	154,860
Total non-current liabilities	**374,463**	386,653	(12,190)	397,050
Total liabilities	**426,783**	485,122	(58,339)	551,910

The £5.4 million increase in current assets (excluding a cash increase of £25.3 million) since 31 December 2017 largely relates to a £6.0 million increase in restricted cash related to cash required to be held on deposit in order to apply for a second licence in Spain as well as cash held in payment service provider reserves, a £0.8 million increase in taxes receivable and a £0.9 million increase in customer deposits. This was partially offset by a £2.3 million decrease in receivables primarily caused by reduced receivables from platform operators and the collection of receivables from intangible assets sold in Q4 2017.

The decrease in non-current assets of £74.0 million since 31 December 2017 mainly relates to the amortisation of intangible assets of £61.4 million. The decrease is further driven by the sale of social gaming assets and corresponding reduction in intangible assets and goodwill (£10.4 million and £9.6 million, respectively). The decrease also relates to a £0.6 million decrease in other long-term receivables. These decreases are slightly offset by a £0.9 million increase in tangible assets, the additions of software development of £5.3 million and £1.8 million related to movement in foreign exchange rates.

The decrease in current liabilities of £46.1 million since 31 December 2017 largely relates to the following:

- a net decrease of £47.3 million in contingent consideration due to the payment of the final earn-out of £58.5 million for the Spanish assets and the first milestone payment of £5.0 million related to certain performance achievements within the Jackpotjoy segment, partially offset by accretion and fair value adjustments.
- a decrease of £2.4 million in other short-term payables mainly driven by settlement of transaction related payables and costs associated with the disposal of the Group's social gaming assets.
- a decrease of £0.7 million in interest payable.

- a decrease of £0.3 million in convertible debentures due to debenture conversions and redemption that took place in the current year.

These decreases were partially offset by the following:

- an increase of £2.8 million in accounts payable due to higher game supplier charges related to higher revenues as well as higher compensation payable.
- an increase of £0.9 million in amounts payable to customers.
- an increase of £0.9 million in provision for taxes due to additional provisions recorded in the current year.

The decrease in non-current liabilities of £12.2 million is largely related to a decrease of £7.7 million in contingent consideration due to the reallocation of the second milestone payment related to the Jackpotjoy business to current liabilities as it is now due within one year as well as a write down of the third milestone payment as this is now considered unlikely. The decrease in non-current liabilities was further driven by a decrease of £6.4 million in other long-term payables due to the reallocation of a portion of certain non-compete covenants from Gamesys (‘the non-compete clauses’) from non-current to current, offset by a £1.9 million increase in long-term debt due to accretion and foreign exchange movements on the EUR portion of the debt.

Cash flow by activity

	Three month period ended 31 December 2018 (£000's)	Three month period ended 31 December 2017 (£000's)	**Year ended 31 December 2018 (£000's)**	Year ended 31 December 2017 (£000's)
Operating activity	**24,391**	22,781	**105,948**	100,898
Financing activity	**(7,338)**	(5,439)	**(91,318)**	(110,128)
Investing activity	**(4,030)**	(4,758)	**10,890**	(6,691)

Operating activity

Cash provided by operating activities during the three months and year ended 31 December 2018 relates to cash generated from the operational activities of the Jackpotjoy and Vera&John segments, less corporate expenses. For the three months and year ended 31 December 2018, the operating cash flow increased compared to the same periods in 2017 due to higher revenues.

Financing activity

Cash used in financing activities for the three months ended 31 December 2018 relates mainly to the following transactions:

- £5.4 million in interest payments.
- £2.0 million in payments related to the non-compete clauses.

Cash used in financing activities for the year ended 31 December 2018 relates mainly to the following transactions:

- £63.5 million payment related to the final earn-out of £58.5 million for the Spanish assets within the Jackpotjoy segment and a £5.0 million milestone payment.
- £21.0 million in interest payments.
- £8.0 million in payments related to the non-compete clauses.

This was slightly offset by £0.6 million in proceeds from the exercise of options and by £0.6 million in proceeds from long-term loan receivable.

Investing activity

Cash used in investing activities during the three months ended 31 December 2018 was £4.0 million. This relates to the purchase of tangible as well as internally generated intangible assets of £2.5 million in the period. These cash outflows were further driven by £1.5 million of costs paid in relation to the disposal of the Group's social gaming assets which occurred in Q3 2018.

Cash provided by investing activities in the year ended 31 December 2018 was £10.9 million. This relates to the purchase of tangible as well as internally generated intangible assets of £6.7 million in the period. These cash outflows were offset by proceeds of £18.0 million from the disposal of the Group's social gaming assets, net of paid costs of disposal of £1.9 million, as well as proceeds received in Q1 2018 from a £1.5 million sale of intangibles, which was agreed in Q4 2017.

Liquidity and capital resources

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

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

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

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

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

Long-term incentive plan

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

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

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

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

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

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

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

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

Convertible debentures

On 19 December 2013, The Intertain Group Limited completed a convertible debenture private placement consisting of 17,500 convertible debenture subscription receipts (the 'Debenture Subscription Receipts') for gross proceeds of CAD 17.5 million. On 11 February 2014, with the satisfaction of the escrow release conditions, each Debenture Subscription Receipt was converted into one Intertain convertible debenture (a 'Convertible Debenture') and 30 common share warrants. The Convertible Debentures accrue interest at a rate of 5.0% per annum, payable semi-annually in arrears on 30 June and 31 December in each year. Upon initial recognition of the Convertible Debentures, the liability component of the Convertible Debentures was recognised at fair value of a similar liability that does not have an equity conversion option and the residual amount was recognised as a reserve in equity. The Convertible Debentures were initially convertible at the holder's option into Intertain common shares at a conversion price of CAD 6.00 per share at any time prior to maturity. Upon completion of the Group's plan of arrangement on 25 January 2017, the Convertible Debentures became convertible at the holder's option into ordinary shares of JPJ Group plc at a conversion price of CAD 6.00 per share at any time prior to maturity. During the year ended 31 December 2018, approximately £0.2 million principal amount of Convertible Debentures were converted into 56,499 ordinary shares of JPJ Group plc. On 1 June 2018, the remaining convertible debentures were redeemed in full to the value of £0.1 million.

Credit facilities

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

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

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

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

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

Contingent consideration

The Group's contingent consideration currently consists of the remaining Jackpotjoy payment related to the achievement of certain performance milestones related to the Jackpotjoy business (referred to in this MD&A as the 'milestone payment'). On 15 June 2018 the final earn-out payment of £58.5 million owing on the Botemania assets and the first milestone payment of £5.0 million were made.

Contractual commitments

Contractual commitments of the Group, comprised of various office leases, amount to £1.6 million (2017 – £2.0 million) and are due within a ten-year period.

Dividends

During the three months and year ended 31 December 2018, £nil (2017 – £nil) ordinary share dividends were declared and paid.

Outstanding share data

As at 18 March 2019, the Group had a total of 74,339,510 ordinary shares issued and Intertain had no Convertible Debentures outstanding. See 'Convertible Debentures' section within this MD&A. As at 18 March 2019, JPJ Group plc had 2,381,410 share options and Intertain had 19,564,276 exchangeable shares outstanding.

Related party transactions

As disclosed in note 12 of the Group's Consolidated Financial Statements for the year ended 31 December 2018, the Group entered into loan and services agreements with Gaming Realms plc. Jim Ryan is a Director of both JPJ Group plc and Gaming Realms plc. Mr. Ryan recused himself from all discussions related to these agreements.

Internal control over financial reporting

The Executive Chairman ('EC') and the Chief Financial Officer ('CFO') are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Group. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is the internal control integrated framework (2013) issued by the Committee of Sponsoring Organisations of the Treadway Commission ('COSO').

Management, including the EC and the CFO, does not expect that the Group's disclosure controls or internal controls over financial reporting will prevent or detect all errors and all fraud or will be effective under all potential future conditions. A control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met.

As required by National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, the EC and the CFO have caused the effectiveness of disclosure controls and procedures, as well as the internal controls over financial reporting to be evaluated using the COSO framework. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures, and the design and operation of the Group's internal controls over financial reporting were effective as at 31 December 2018.

During the three months and year ended 31 December 2018 there have been no changes in the Group's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect the Group's internal controls over financial reporting.

Summary of significant accounting policies

For a description of the Group's significant accounting policies, critical accounting estimates and assumptions, and related information see note 3 and note 4 of the Group's Consolidated Financial Statements for the year ended 31 December 2018.

Financial Instruments

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

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

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

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

Financial assets at amortised cost

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

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

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

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

Derivative financial instruments

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

In relation to the Gaming Realms Transaction (as defined in note 12 of the Consolidated Financial Statements), the Group no longer separates the embedded derivative from its host contract and the entire asset is measured at fair value through profit or loss. Also in relation to this transaction, the adoption of IFRS 9 resulted in balances shown as other long-term receivables and other long-term assets at 31 December 2017 being combined into a single figure and shown as other long-term receivables at 31 December 2018.

Hedge accounting

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

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

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

IFRS 9 permits hedge accounting under certain circumstances provided that the hedging relationship is:

- formally designated and documented, including the entity's risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness;
- expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk as designated and documented, and effectiveness can be reliably measured; and
- assessed on an ongoing basis and determined to have been highly effective.

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Hedges of net investments in foreign operations

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

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

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

Revenue recognition

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

The Group earns its revenue from operating online bingo and casino websites ('Net Gaming Revenue'). Other revenue streams, which the Group does not consider material, comprise of licencing of its proprietary platform to a third party ('B2B revenue'), affiliate aggregation services ('Affiliate Revenue'), and game aggregation services ('Game Aggregation Revenue'). Up to 31 August 2018, the Group also earned revenue from social gaming. However, as discussed in note 7 of the Consolidated Financial Statements, this part of the business was sold on 31 August 2018, at which point social gaming ceased to be a revenue stream for the Group. Prior to this sale, social gaming revenue was recognised once the customer made a deposit, at which point the Group's obligation was fulfilled as such deposits were non-refundable

Summary of significant accounting estimates and assumptions

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

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

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

Business combinations and contingent consideration

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

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

Goodwill and intangible assets

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

Taxes

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

New Standards and Interpretations Adopted

Effective 1 January 2018, the Group has adopted IFRS 9 – *Financial Instruments* and IFRS 15 – *Revenue from Contracts with Customers*.

Recent Accounting Pronouncements – Not Yet Effective

IFRS 16 – Leases

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

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

Effective from 1 January 2019, the Group will recognise interest on its lease liabilities and amortisation on its right-of-use assets rather than reflect lease payments as operating expenses. This will increase reported EBITDA by the amount of the Group's 2019 operating lease costs, which for the year ended 31 December 2018 amounted to £1.0 million.

Cautionary Note Regarding Forward Looking Information

This MD&A contains certain information and statements that may constitute ‘forward-looking information’ (including future-oriented financial information and financial outlooks) within the meaning of applicable laws, including Canadian securities laws. Often, but not always, forward-looking information can be identified by the use of words such as ‘plans’, ‘expects’, ‘estimates’, ‘projects’, ‘predicts’, ‘targets’, ‘seeks’, ‘intends’, ‘anticipates’, ‘believes’, or ‘is confident of’ or the negative of such words or other variations of or synonyms for such words, or state that certain actions, events or results ‘may’, ‘could’, ‘would’, ‘should’, ‘might’ or ‘will’ be taken, occur or be achieved. Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance, achievements or developments to be materially different from those anticipated by the Group and expressed or implied by the forward-looking statements. Forward-looking information contained in this MD&A includes, but is not limited to, statements with respect to the Group’s future financial performance, the future prospects of the Group’s business and operations, the Group’s growth opportunities and the execution of its growth strategies, the Group’s milestone payment obligations, the future performance of the Jackpotjoy segment, the possibility of the Group drawing on the RCF, and the statements made under the heading ‘Outlook’ of this MD&A. Certain of these statements may constitute a financial outlook within the meaning of Canadian securities laws. These statements reflect the Group’s current expectations related to future events or its future results, performance, achievements or developments, and future trends affecting the Group. All such statements, other than statements of historical fact, are forward-looking information. Such forward-looking information is based on a number of assumptions which may prove to be incorrect, including, but not limited to, the ability of the Group to secure, maintain and comply with all required licences, permits and certifications to carry out business in the jurisdictions in which it currently operates or intends to operate; governmental and regulatory actions, including the introduction of new laws or changes in laws (or the interpretation thereof) related to online gaming; general business, economic and market conditions (including market growth rates and the withdrawal of the UK from the European Union); the Group operating in foreign jurisdictions; the competitive environment; the expected growth of the online gaming market and potential new market opportunities; anticipated and unanticipated costs; the protection of the Group’s intellectual property rights; the Group’s ability to successfully integrate and realise the benefits of its completed acquisitions, the amount of expected milestone payments required to be made; the Group’s continued relationship with the Gamesys group and other third parties; the ability of the Group to service its debt obligations; and the ability of the Group to obtain additional financing, if, as and when required. Such statements could also be materially affected by risks relating to the lack of available and qualified personnel or management; stock market volatility; taxation policies; competition; foreign operations; the Group’s limited operating history and the Group’s ability to access sufficient capital from internal or external sources. However, whether actual results and developments will conform with the expectations and predictions contained in the forward-looking information is subject to a number of risks and uncertainties, many of which are beyond the Group’s control, and the effects of which can be difficult to predict, including that the assumptions outlined above may not be accurate. For a description of additional risk factors, see Schedule ‘A’ attached to JPJ Group plc’s most recently filed annual information form. Although the Group has attempted to identify important factors that could cause actual results, performance, achievements or developments to differ materially from those described in forward-looking statements, there may be other factors that cause actual results, performance, achievements or developments not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results, performance, achievement or developments are likely to differ, and may differ materially, from those expressed in or implied by the forward-looking information contained in this MD&A. Accordingly, readers should not place undue reliance on forward-looking information. While subsequent events and developments may cause the Group’s expectations, estimates and views to change, the Group does not undertake or assume any obligation to update or revise any forward-looking information, except as required by applicable securities laws. The forward-looking information contained in this MD&A should not be relied upon as representing the Group’s expectations, estimates and views as of any date subsequent to the date of this MD&A. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur.

Any future-oriented financial information or financial outlooks in this MD&A (including any such information or outlooks under the heading ‘Outlook’ on page 2 of this MD&A) are based on certain assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. While the Group considers these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. These risks, uncertainties and other factors include, but are not limited to: credit, market, currency, operational, liquidity and funding risks, including changes in economic conditions, and interest rates or tax rates.

Additional Information

For further detail, see the Group’s Consolidated Financial Statements for the three months and year ended 31 December 2018. Additional information about the Group, including JPJ Group plc’s most recent AIF, is available under JPJ Group plc’s profile on SEDAR at www.sedar.com.