JPJ Group plc

Management's Discussion and Analysis

[in pounds sterling, except where otherwise noted]

For the Three and Nine Months Ended 30 September 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 three and nine months ended 30 September 2018. This MD&A has been prepared with an effective date of 14 November 2018 and should be read in conjunction with the information contained in JPJ Group plc's unaudited interim condensed consolidated financial statements and related notes for the three and nine months ended 30 September 2018 (the 'Consolidated Financial Statements'), which were prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, which also complies with IFRS as issued by the International Accounting Standards Board. 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.jpjgroupplc.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, and other brands. The Jackpotjoy, Starspins, and Botemania brands operate off proprietary software owned by the Gamesys group, the Group's principal B2B software and support provider. The Vera&John and InterCasino brands operate off proprietary software owned by the Group. The Costa Bingo and related brands operate off the Dragonfish platform, a software service provided by the 888 group.

Corporate Developments

For the nine months ended 30 September 2018

On 27 June 2018, JPJ Group plc announced that it is proposing to transfer the listing category of its entire issued and to be issued ordinary share capital from a Standard Listing to a Premium Listing on the Official List of the Financial Conduct Authority. The transfer became effective on 26 July 2018.

On 27 June 2018, the Company 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 a 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.

Outlook

Performance in the first nine months of the financial year has been solid as gaming revenue has grown 11% and adjusted EBITDA growth has accelerated over the past three months; the Board remains comfortable with market expectations for EBITDA for FY 2018.

The Group's ongoing strong free cash flow generation is enabling us to rapidly deleverage, with net debt reduction to below 2.5x net debt/EBITDA remaining a key strategic target and the point at which the Board can consider options to return cash to shareholders. As previously highlighted, the Board expects the impact of responsible gambling measures implemented this year to annualise from H2 2019, and provided there are no further regulatory changes impacting the Group's operations, for revenue growth to resume at Jackpotjoy UK thereafter.

The Group also notes that Sweden is currently undergoing a regulatory process that will result in licensed operators being subject to an 18% tax on Gross Gaming Revenues from January 2019. The Group can confirm that it has applied for the required licences and, in line with other operators in the region, is awaiting confirmation of these approvals.

Selected financial information

As discussed on page 1 of this MD&A, the Group sold its social gaming business in the three months ended 30 September 2018. As a result, all current year-to-date and 2017 comparative figures have been restated accordingly.

Comparison of the three and nine months ended 30 September 2018 and 2017

	Three month period ended 30 September 2018 (£000's)	Three month period ended 30 September 2017 (£000's)	**Nine month period ended 30 September 2018 (£000's)**	Nine month period ended 30 September 2017 (£000's)
Gaming revenue	**77,753**	71,845	**233,196**	210,050
Net income/(loss) – continuing operations	**7,352**	(8,232)	**6,639**	(29,939)
Net income/(loss) for the period attributable to owners of the parent	**3,496**	(7,669)	**3,060**	(27,742)
Basic net income/(loss) per share – continuing operations	**£0.10**	£(0.11)	**£0.09**	£(0.41)
Diluted net income/(loss) per share – continuing operations	**£0.10**	£(0.11)	**£0.09**	£(0.41)
Basic net income/(loss) per share	**£0.05**	£(0.10)	**£0.04**	£(0.38)
Diluted net income/(loss) per share	**£0.05**	£(0.10)	**£0.04**	£(0.38)

Net income/loss

The Group's net income of £7.4 million during the three months ended 30 September 2018 compared to a net loss of £8.2 million in the same period in the prior year can be primarily attributed to a decrease in foreign exchange loss (Q3 2018 – £nil and Q3 2017 – £4.5 million), a decrease in interest expense (Q3 2018 – £4.9 million and Q3 2017 – £7.6 million) and lower accretion on financial liabilities (Q3 2018 – £0.6 million and Q3 2017 – £2.0 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 the fact that there were no fair value adjustments on contingent consideration in the current quarter as the final earn-out period ended in Q1 2018 (Q3 2018 – £nil and Q3 2017 – £1.7 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 costs and expenses discussed below.

The Group's net income of £6.6 million during the nine months ended 30 September 2018 compared to a net loss of £29.9 million in the same period in the prior year can be primarily attributed to a decrease in foreign exchange loss (YTD 2018 – £0.1 million and YTD 2017 – £11.3 million), a decrease in interest expense (YTD 2018 – £14.8 million and YTD 2017 – £23.3 million) and lower accretion on financial liabilities (YTD 2018 – £2.6 million and YTD 2017 – £9.1 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 the fact that there were no fair value adjustments on contingent consideration in the second and third quarters of 2018 as the final earn-out period ended in Q1 2018 (YTD 2018 – £11.5 million and YTD 2017 – £16.4 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 costs and expenses discussed below.

Gaming revenue

The Group's gaming revenue during the three months ended 30 September 2018 consisted of:

- £52.1 million in revenue earned from Jackpotjoy's[1,2] operational activities.
- £25.7 million in revenue earned from Vera&John's operational activities.

The Group's gaming revenue during the three months ended 30 September 2017 consisted of:

- £53.5 million in revenue earned from Jackpotjoy's[1,2] operational activities.
- £18.4 million in revenue earned from Vera&John's operational activities.

The increase in gaming revenue for the three months ended 30 September 2018 in comparison with the three months ended 30 September 2017 relates primarily to organic growth[3] of the Vera&John segment, where gaming revenue increased by 40%.

The Group's gaming revenue during the nine months ended 30 September 2018 consisted of:

- £162.2 million in revenue earned from Jackpotjoy's[1,2] operational activities.
- £71.0 million in revenue earned from Vera&John's operational activities.

The Group's gaming revenue during the nine months ended 30 September 2017 consisted of:

- £158.6 million in revenue earned from Jackpotjoy's[1,2] operational activities.
- £51.5 million in revenue earned from Vera&John's operational activities.

The increase in gaming revenue for the nine months ended 30 September 2018 in comparison with the nine months ended 30 September 2017 relates primarily to organic growth[3] of the Vera&John and Jackpotjoy segments, where gaming revenue increased by 38% and 2%, respectively.

[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 three months ended 30 September 2018.*

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

Costs and expenses

	Three month period ended 30 September 2018 (£000's)	Three month period ended 30 September 2017 (£000's)	**Nine month period ended 30 September 2018 (£000's)**	Nine month period ended 30 September 2017 (£000's)
Distribution costs	**37,468**	34,953	**115,776**	96,702
Administrative costs	**26,922**	27,661	**79,417**	77,679
Transaction related costs	**275**	1,361	**1,338**	2,676
Severance costs	**400**	—	**850**	—
	65,065	63,975	**197,381**	177,057

Distribution costs

	Three month period ended 30 September 2018 (£000's)	Three month period ended 30 September 2017 (£000's)	**Nine month period ended 30 September 2018 (£000's)**	Nine month period ended 30 September 2017 (£000's)
Selling and marketing	**12,717**	12,368	**39,892**	32,008
Licensing fees	**10,979**	10,499	**32,457**	30,423
Gaming taxes	**9,104**	8,742	**30,423**	25,203
Processing fees	**4,668**	3,344	**13,004**	9,068
	37,468	34,953	**115,776**	96,702

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 taxes ('POC'), payable in the regulated jurisdictions that the Group operates in. Variance in gaming taxes from prior periods relates to a change in UK POC taxes where a 15% general betting duty on all free or discounted online bets ('POC2') was introduced 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 increase in distribution costs for the three and nine months ended 30 September 2018 compared to the same periods 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 30 September 2018 (£000's)	Three month period ended 30 September 2017 (£000's)	**Nine month period ended 30 September 2018 (£000's)**	Nine month period ended 30 September 2017 (£000's)
Compensation and benefits	**8,532**	8,914	**24,246**	23,514
Professional fees	**809**	667	**2,904**	2,662
General and administrative	**2,309**	2,129	**6,787**	6,471
Amortisation and depreciation	**15,272**	15,951	**45,480**	45,032
	26,922	27,661	**79,417**	77,679

Compensation and benefits costs consist of salaries, wages, bonuses, directors' fees, benefits and share-based compensation expense. The decrease in these expenses for the three months ended 30 September 2018 compared to the same period in 2017 is due to lower operational bonus accruals. The increase in these expenses for the nine months ended 30 September 2018 compared to the same period in 2017 is due to additional staff hired in the period.

Professional fees consist mainly of legal, accounting and audit fees. The slight increase in professional fees in the three and nine months ended 30 September 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 increase in these costs for the three and nine months ended 30 September 2018 compared to the same periods in the prior year can be attributed to marginally higher travel, rent and overhead costs.

Amortisation and depreciation 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 ended 30 September 2018 is due to the fact that amortisation expense decreases with each passing year of the Group's intangible assets' lives as a result of the amortisation method used. The increase in amortisation and depreciation for the nine months ended 30 September 2018 is due to the non-compete clauses (as defined on page 16 of this MD&A), for which amortisation started in Q2 2017.

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 three and nine months ended 30 September 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 6 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 and nine months ended 30 September 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 acquisition milestone payments 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 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 and nine months ended 30 September 2018 and 2017 – continuing operations

The following table highlights Adjusted EBITDA, Adjusted Net Income, and Diluted Adjusted Net Income per share for the three and nine months ended 30 September 2018 and 2017 and a reconciliation of the Group's reported results to its adjusted measures. All current year-to-date and 2017 comparative figures have been restated to exclude results of the Group's social gaming business sold during the three months ended 30 September 2018.

	Three month period ended 30 September 2018 (£000's)	Three month period ended 30 September 2017 (£000's)	**Nine month period ended 30 September 2018 (£000's)**	Nine month period ended 30 September 2017 (£000's)
Net income/(loss) for the period after taxes from continuing operations	**7,352**	(8,232)	**6,639**	(29,939)
Interest expense, net	**4,833**	7,607	**14,552**	23,179
Accretion on financial liabilities	**578**	2,000	**2,604**	9,051
Taxes	**(62)**	338	**440**	487
Amortisation and depreciation	**15,272**	15,951	**45,480**	45,032
EBITDA	**27,973**	17,664	**69,715**	47,810
Share-based compensation	**142**	320	**468**	1,198
Severance costs	**400**	—	**850**	—
Fair value adjustments on contingent consideration	**—**	1,663	**11,450**	16,364
Gain on sale of intangible assets	**—**	—	**—**	(1,002)
Realised loss on cross currency swap	**—**	—	**—**	3,534
Transaction related costs	**275**	1,361	**1,338**	2,676
Foreign exchange (gain)/loss	**(13)**	4,494	**130**	11,319
Adjusted EBITDA	**28,777**	25,502	**83,951**	81,899
Net income/(loss) for the period after taxes from continuing operations	**7,352**	(8,232)	**6,639**	(29,939)
Share-based compensation	**142**	320	**468**	1,198
Severance costs	**400**	—	**850**	—
Fair value adjustments on contingent consideration	**—**	1,663	**11,450**	16,364
Gain on sale of intangible assets	**—**	—	**—**	(1,002)
Realised loss on cross currency swap	**—**	—	**—**	3,534
Transaction related costs	**275**	1,361	**1,338**	2,676
Foreign exchange (gain)/loss	**(13)**	4,494	**130**	11,319
Amortisation of acquisition related purchase price intangibles	**14,568**	15,481	**43,637**	43,734
Accretion on financial liabilities	**578**	2,000	**2,604**	9,051
Adjusted Net Income	**23,302**	17,087	**67,116**	56,935
Diluted net income/(loss) per share from continuing operations	**£0.10**	£(0.11)	**£0.09**	£(0.41)
Diluted Adjusted Net Income per share from continuing operations	**£0.31**	£0.23	**£0.90**	£0.76

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 6 of the Consolidated Financial Statements, the Group sold its social gaming business in the current period. All current year-to-date and 2017 comparative segment figures have been restated accordingly.

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 and InterCasino.

Three months ended 30 September 2018

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs[1] (£000's)	Totals (£000's)
Gaming revenue	**52,068**	**25,685**	**—**	**77,753**
Net income/(loss) for the period after taxes from continuing operations	**10,365**	**5,423**	**(8,436)**	**7,352**
Interest expense/(income), net	2	(28)	4,859	4,833
Accretion on financial liabilities	—	—	578	578
Taxes	—	(62)	—	(62)
Amortisation and depreciation	12,580	2,593	99	15,272
EBITDA	**22,947**	**7,926**	**(2,900)**	**27,973**
Share-based compensation	—	—	142	142
Severance costs	—	400	—	400
Transaction related costs	—	—	275	275
Foreign exchange (gain)/loss	(22)	27	(18)	(13)
Adjusted EBITDA	**22,925**	**8,353**	**(2,501)**	**28,777**

(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 30 September 2017

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs[1] (£000's)	Totals (£000's)
Gaming revenue	**53,490**	**18,355**	**—**	**71,845**
Net income/(loss) for the period after taxes from continuing operations	**10,483**	**1,898**	**(20,613)**	**(8,232)**
Interest expense/(income), net	1	(40)	7,646	7,607
Accretion on financial liabilities	—	—	2,000	2,000
Taxes	—	338	—	338
Amortisation and depreciation	13,307	2,550	94	15,951
EBITDA	**23,791**	**4,746**	**(10,873)**	**17,664**
Share-based compensation	—	—	320	320
Fair value adjustments on contingent consideration	—	—	1,663	1,663
Transaction related costs	—	—	1,361	1,361
Foreign exchange loss	76	130	4,288	4,494
Adjusted EBITDA	**23,867**	**4,876**	**(3,241)**	**25,502**

(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.

Nine months ended 30 September 2018

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs[1] (£000's)	Totals (£000's)
Gaming revenue	**162,161**	**71,035**	**—**	**233,196**
Net income/(loss) for the period after taxes from continuing operations	**33,084**	**12,110**	**(38,555)**	**6,639**
Interest expense/(income), net	5	(94)	14,641	14,552
Accretion on financial liabilities	—	—	2,604	2,604
Taxes	—	426	14	440
Amortisation and depreciation	37,737	7,455	288	45,480
EBITDA	**70,826**	**19,897**	**(21,008)**	**69,715**
Share-based compensation	—	—	468	468
Severance costs	—	850	—	850
Fair value adjustments on contingent consideration	—	—	11,450	11,450
Transaction related costs	—	—	1,338	1,338
Foreign exchange loss/(gain)	209	(43)	(36)	130
Adjusted EBITDA	**71,035**	**20,704**	**(7,788)**	**83,951**

(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.

Nine months ended 30 September 2017

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs[1] (£000's)	Totals (£000's)
Gaming revenue	**158,592**	**51,458**	**—**	**210,050**
Net income/(loss) for the period after taxes from continuing operations	**38,827**	**7,020**	**(75,786)**	**(29,939)**
Interest expense/(income), net	3	(127)	23,303	23,179
Accretion on financial liabilities	—	—	9,051	9,051
Taxes	—	487	—	487
Amortisation and depreciation	37,363	7,383	286	45,032
EBITDA	**76,193**	**14,763**	**(43,146)**	**47,810**
Share-based compensation	—	—	1,198	1,198
Fair value adjustments on contingent consideration	—	—	16,364	16,364
Realised loss on currency swap	—	—	3,534	3,534
Transaction related costs	—	—	2,676	2,676
Gain on sale of intangible assets	—	(1,002)	—	(1,002)
Foreign exchange (gain)/loss	(85)	608	10,796	11,319
Adjusted EBITDA	**76,108**	**14,369**	**(8,578)**	**81,899**

(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 and nine months ended 30 September 2018 to the same periods in 2017 – continuing operations

Jackpotjoy

	Q3 2018 £(millions)	Q3 2017 £(millions)	Variance £(millions)	Variance %
Gaming revenue	**52.1**	53.5	(1.4)	(3%)
Distribution costs	**24.7**	25.8	(1.1)	(4%)
Administrative costs	**4.5**	3.8	0.7	18%
Adjusted EBITDA	**22.9**	23.9	(1.0)	(4%)

	YTD 2018 £(millions)	YTD 2017 £(millions)	Variance £(millions)	Variance %
Gaming revenue	**162.2**	158.6	3.6	2%
Distribution costs	**78.6**	71.6	7.0	10%
Administrative costs	**12.6**	10.9	1.7	16%
Adjusted EBITDA	**71.0**	76.1	(5.1)	(7%)

Gaming revenue for the Jackpotjoy segment for the three months ended 30 September 2018 was 3% lower than in the same period in 2017 due to a decline in the Mandalay brands, which accounted for 5% of the segment's revenue. The decrease was partially offset by increases in the Starspins and Botemania brands, which collectively accounted for 27% of this segment's revenue.

Gaming revenue for the nine months ended 30 September 2018 was 2% higher than in the same period in 2017 due to organic growth (as defined on page 3 of this MD&A) led by increases in the Starspins and Botemania brands. Collectively, they accounted for 26% of this segment's revenue.

The decrease in distribution costs for the three months ended 30 September 2018 compared to the same period in 2017 is driven by a marginal reduction in UK marketing spend.

The increase in distribution costs for the nine months ended 30 September 2018 is driven by costs from the segment's TV marketing campaigns, as well as an incremental gaming tax expense, which relates to tax on bonuses through UK POC2 tax introduced in Q4 2017.

The increase in administrative costs for the three and nine months ended 30 September 2018 compared to the same periods in 2017 was mainly driven by increases in administrative overhead costs.

Vera&John

	Q3 2018 £(millions)	Q3 2017 £(millions)	Variance £(millions)	Variance %
Gaming revenue	**25.7**	18.4	7.3	40%
Distribution costs	**12.7**	9.1	3.6	40%
Administrative costs	**4.6**	4.4	0.2	5%
Adjusted EBITDA	**8.4**	4.9	3.5	71%

	YTD 2018 £(millions)	YTD 2017 £(millions)	Variance £(millions)	Variance %
Gaming revenue	**71.0**	51.5	19.5	38%
Distribution costs	**37.2**	25.0	12.2	49%
Administrative costs	**13.1**	12.1	1.0	8%
Adjusted EBITDA	**20.7**	14.4	6.3	44%

Gaming revenue for the Vera&John segment for the three and nine months ended 30 September 2018 increased by 40% and 38%, 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 41% and 36% in the three and nine months ended 30 September 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 40% and 49%, respectively, for the three and nine months ended 30 September 2018 compared to the same periods in 2017 as a result of higher marketing spend in the current period. The increase was further driven by higher gaming tax due to increased revenue in regulated jurisdictions compared to the prior period.

The increase in administrative costs for the three and nine months ended 30 September 2018 compared to the same periods in 2017 was mainly driven by increases in personnel and administrative overhead costs as the segment continues to grow.

Unallocated Corporate Costs

Adjusted EBITDA on Unallocated Corporate Costs increased from (£3.2) million to (£2.5) million in the three months ended 30 September 2018 as compared to the three months ended 30 September 2017. The variance mainly relates to a £0.6 million decrease in compensation fees and a £0.2 million decrease in general administrative overhead costs, offset by an increase of £0.1 million in professional fees.

Adjusted EBITDA on Unallocated Corporate Costs increased from (£8.6) million to (£7.8) million in the nine months ended 30 September 2018 compared to the nine months ended 30 September 2017. The variance mainly relates to a £0.1 million decrease in compensation fees, a £0.5 million decrease in general administrative overhead costs and a £0.1 million decrease in professional fees.

Net loss on Unallocated Corporate Costs decreased from £20.6 million to £8.4 million in the three months ended 30 September 2018 as compared to the three months ended 30 September 2017. This decrease is primarily related to a lower foreign exchange loss and lower interest expense incurred as a result of the debt refinance that took place in Q4 2017. The decrease in net loss can further be attributed to the fact that there were no fair value adjustments on contingent consideration in the current period as the final earn-out period ended in Q1 2018.

Net loss on Unallocated Corporate Costs decreased from £75.8 million to £38.6 million in the nine months ended 30 September 2018 as compared to the nine months ended 30 September 2017. This decrease is primarily related to a lower foreign exchange loss and lower interest expense incurred as a result of the debt refinance that took place in Q4 2017. The decrease in net loss can further be attributed to the fact that there were no fair value adjustments on contingent consideration 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

	Twelve months ended 30 September 2018	Twelve months ended 30 September 2017	Variance	Variance %
Average Active Customers per Month (#)	**257,929**	251,186	6,743	3%
Total Real Money Gaming Revenue (£000's) (1)	**305,331**	271,508	33,823	12%
Average Real Money Gaming Revenue per Month (£000's)	**25,444**	22,626	2,818	12%
Monthly Real Money Gaming Revenue per Average Active Customer (£)	**99**	90	9	10%

(1) Total Real Money Gaming Revenue for the twelve months ended 30 September 2018 consists of total revenue less revenue earned from B2B websites of £7.1 million (30 September 2017 – £6.6 million).

Monthly Real Money Gaming Revenue per Average Active Customer increased by 10% year-over-year which is in line with the Group's overall customer acquisition and retention strategy.

Historical results by quarter – continuing operations

	3 months ended 30 September 2018 (£000's)	3 months ended 30 June 2018 (£000's)	3 months ended 31 March 2018 (£000's)	3 months ended 31 December 2017 (£000's)
Gaming revenue	**77,753**	77,728	77,715	79,208
Net income/(loss) for the period after taxes from continuing operations	**7,352**	7,431	(8,144)	(40,776)
Basic income/(loss) per share – continuing operations	**£0.10**	£0.10	£(0.11)	£(0.55)
Diluted income/(loss) per share – continuing operations	**£0.10**	£0.10	£(0.11)	£(0.55)

	3 months ended 30 September 2017 (£000's)	3 months ended 30 June 2017 (£000's)	3 months ended 31 March 2017 (£000's)	3 months ended 31 December 2016 (£000's)
Gaming revenue	71,845	71,316	66,889	68,103
Net income/(loss) for the period after taxes from continuing operations	(8,232)	(5,398)	(16,309)	(12,973)
Basic income/(loss) per share – continuing operations	£(0.11)	£(0.07)	£(0.22)	£(0.18)
Diluted income/(loss) per share – continuing operations	£(0.11)	£(0.07)	£(0.22)	£(0.18)

The general upward trend in revenue from Q4 2016 to Q3 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 slight decrease in revenue between Q4 2016 and Q1 2017 is primarily due to record revenue achieved by the Jackpotjoy segment in Q4 2016, as the Q4 period historically has been the best period for the segment due to seasonal factors. The net loss for the Q1 2017 period is higher than in Q4 2016 due to a loss on the cross currency swap (Q1 2017– £3.5 million) compared to a gain in the prior quarter (Q4 2016 – £10.1 million). This variance was slightly offset by lower transaction costs (Q4 2016 – £6.2 million, Q1 2017 – £1.3 million).

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 a 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 were 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.

Financial position

	As at 30 September 2018 (£000's)	As at 31 December 2017 (£000's)	Variance (£000's)
Total current assets	**103,694**	93,232	10,462
Total non-current assets	**533,771**	595,947	(62,176)
Total assets	**637,465**	689,179	(51,714)
Total current liabilities	**50,384**	98,469	(48,085)
Total non-current liabilities	**379,335**	386,653	(7,318)
Total liabilities	**429,719**	485,122	(55,403)

The £2.0 million decrease in current assets (excluding the cash increase of £12.4 million) since 31 December 2017 largely relates to a £3.1 million decrease in receivables primarily caused by reduced amounts receivable from platform operators and the collection of amounts receivable from intangible assets sold in Q4 2017. This was partially offset by a £1.1 million increase in taxes receivable.

The decrease in non-current assets of £62.2 million since 31 December 2017 mainly relates to the amortisation of intangible assets of £46.2 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 £0.2 million increase in tangible assets, the additions of software development of £3.6 million and £0.8 million related to movement in foreign exchange rates.

The decrease in current liabilities of £48.1 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 £0.6 million in accounts payable.
- a decrease of £0.6 million in other short-term payables mainly driven by settlement of transaction related payables.
- a decrease of £0.4 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 period.

These decreases were partially offset by an increase of £1.1 million in provision for taxes due to additional provisions recorded in the current period.

The decrease in non-current liabilities of £7.3 million is largely related to a decrease of £3.5 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. The decrease in non-current liabilities was further driven by a decrease of £4.9 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 £1.0 million increase in long-term debt due to accretion and a £0.1 million increase in deferred tax liability.

Cash flow by activity

	Three month period ended 30 September 2018 (£000's)	Three month period ended 30 September 2017 (£000's)	**Nine month period ended 30 September 2018 (£000's)**	Nine month period ended 30 September 2017 (£000's)
Operating activity	**33,034**	32,558	**82,217**	78,171
Financing activity	**(7,187)**	(16,097)	**(84,640)**	(104,743)
Investing activity	**16,293**	(910)	**14,920**	(1,933)

Operating activity

Cash provided by operating activities during the three and nine months ended 30 September 2018 relates to cash generated from the operational activities of the Jackpotjoy and Vera&John segments, less corporate expenses. For the three and nine months ended 30 September 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 30 September 2018 relates mainly to the following transactions:

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

This was slightly offset by £0.2 million in proceeds from the exercise of options.

Cash used in financing activities for the nine months ended 30 September 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.
- £15.6 million in interest payments.
- £6.0 million in payments related to the non-compete clauses.

This was slightly offset by £0.6 million in proceeds from the exercise of options.

Investing activity

Cash provided by investing activities during the three and nine months ended 30 September 2018 was £16.3 million and £14.9 million, respectively. This relates to the purchase of tangible as well as internally generated intangible assets of £1.6 million and £4.2 million over these periods, respectively. These cash outflows were offset by proceeds of £18.0 million from the disposal of the Group's social gaming assets in the three months ended 30 September 2018, net of paid costs of disposal of £0.1 million and £0.3 million in the three and nine months ended 30 September 2018, respectively, 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 30 September 2018:

	On demand (£000's)	Less than 1 year (£000's)	1-2 years (£000's)	3-5 years (£000's)	After 5 years (£000's)
Accounts payable and accrued liabilities	17,287	—	—	—	—
Other short-term/long-term payables	3,494	8,035	4,141	—	—
Payable to customers	8,183	—	—	—	—
Contingent consideration	—	4,750	4,750	—	—
Long-term debt	—	—	—	—	374,866
Interest payable on long-term debt	—	19,728	39,510	39,456	25,276
	28,964	**32,513**	**48,401**	**39,456**	**400,142**

The Group manages liquidity risk by monitoring actual and forecasted cash flows in comparison with the maturity profiles of financial assets and liabilities. The Group does not anticipate fluctuations in its financial obligations (with the exception of the Jackpotjoy milestone payments, as they are dependent on the future performance of the Jackpotjoy segment), as they largely stem from interest payments related to the EUR Term Facility (as defined below) and the GBP Term Facility (as defined below). Management believes that the cash generated from the Group's operating segments is sufficient to fund the working capital and capital expenditure needs of each operating segment in the short and long term, assuming there are no significant adverse changes in the markets in which the Group operates. The Group is actively managing its capital to ensure sufficient resources will be in place when the remaining Jackpotjoy milestone payments and Credit 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 26 March 2018, JPJ Group plc granted an equity-settled mirror award over ordinary shares of JPJ Group plc. The mirror award is on the same commercial terms as the Group's long-term incentive plan for key management personnel.

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 for key management personnel.

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 nine months ended 30 September 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 8 April 2015, the Group entered into a credit agreement (as amended and restated from time to time, including on 27 October 2016 and 16 December 2016, the 'Credit Agreement') in respect of: (i) a seven-year USD 335.0 million first-lien term loan credit facility (the 'Term Loan'); and (ii) a USD 17.5 million revolving credit facility (the 'Revolving Facility', and together with the Term Loan, the 'Credit Facilities').

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

On 6 December 2017, 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 £388,492,000, comprised of (i) a €140,000,000 term facility (the 'EUR Term Facility', (ii) a £250,000,000 term facility (the 'GBP Term Facility' and, together with the EUR Term Facility, the 'Term Facilities') and (iii) a £13,500,000 revolving credit facility (the 'RCF' and, together with the Term Facilities, the 'Facilities'). Proceeds from the Term Facilities were used in part to repay the Group's existing First and Second Lien Facilities on 14 December 2017 at which point, the accretion of the remaining debt issue costs on the First and Second Lien facilities was accelerated. Proceeds from the RCF can be applied to, among other things, working capital and general corporate purposes and financing or refinancing capital expenditure.

The Term Facilities are non-amortising and mature in December 2024. The RCF matures in December 2023.

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

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

JPJ Group plc was in compliance with the terms of the Senior Facilities Agreement as at 30 September 2018.

Contingent consideration

The Group's contingent consideration currently consists of the remaining Jackpotjoy payments related to the achievement of certain performance milestones related to the Jackpotjoy business (these are referred to in this MD&A as the 'milestone payments'). 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 £1.9 million and are due within a ten-year period.

Dividends

During the three and nine months ended 30 September 2018, £nil (30 September 2017 – £nil) ordinary share dividends were declared and paid.

Outstanding share data

As at 13 November 2018, the Group had a total of 74,328,930 ordinary shares issued and Intertain had no Convertible Debentures outstanding. See 'Convertible Debentures' section within this MD&A. As at 13 November 2018, JPJ Group plc had 2,820,490 share options and Intertain had 19,564,276 exchangeable shares outstanding.

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.

During the three months ended 30 September 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 to the Group's most recently filed annual financial statements. Other than as described below, there have been no changes to the Group's significant accounting policies or critical accounting estimates and assumptions during the nine months ended 30 September 2018.

Financial instruments

Effective from 1 January 2018, the Group adopted IFRS 9 – *Financial Instruments: Recognition and Measurement* ('IFRS 9'). In relation to the Gaming Realms Transaction (as defined in note 10 of the Consolidated Financial Statements), as a result, 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 30 September 2018.

Hedge accounting

The Group elected to use hedge accounting for the purposes of recognising realised and unrealised gains and losses associated with the Interest Rate Swap (as defined in note 11 of the Consolidated Financial Statements).

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.

Based on the Group's analysis of the requirements outlined above, it was concluded that the Interest Rate Swap meets all the necessary criteria and qualifies for use of hedge accounting. The Interest Rate Swap was designated as a cash flow hedge.

Impairment policy

In accordance with IFRS 9, the Group reviewed its impairment policy and concluded that no material impairment provision on its financial instruments, as discussed in note 16 of the Consolidated Financial Statements, is required. The Group uses the expected credit loss model to assess impairment.

Revenue recognition

Effective from 1 January 2018, the Group adopted IFRS 15 – *Revenue from Contracts with Customers* ('IFRS 15'), which replaces IAS 18 – *Revenue.* Applying this standard did not impact the Group's financial information as the Group's policy was already in compliance with the key principles outlined in IFRS 15.

Summary of 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, liabilities assumed, equity instruments issued as well as contingent consideration payable. 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 with indefinite lives are reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. Management uses judgement in estimating the recoverable values of the Group's 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 and intangible assets with indefinite lives. Goodwill disposed of was allocated to the social gaming business on the basis of its earnings before interest, taxes, depreciation and amortisation, relative to that of the overall segment.

Taxes

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

Group companies may be subject to indirect taxation on transactions which have been treated as exempt supplies of gambling, or on supplies which have been zero rated where legislation provides that the services are received or used and enjoyed in the country where the service provider is located. Revenue earned from customers located in any particular jurisdiction may give rise to further taxes in that jurisdiction. If such taxes are levied, either on the basis of current law or the current practice of any tax authority, or by reason of a change in the law or practice, then this may have a material adverse effect on the amount of tax payable by the Group or on its financial position. Where it is considered probable that a previously identified contingent liability will give rise to an actual outflow of funds, then a provision is made in respect of the relevant jurisdiction and period impacted. Where the likelihood of a liability arising is considered remote, or the possible contingency is not material to the financial position of the Group, the contingency is neither recognised as a liability at the balance sheet date nor disclosed.

New Standards and Interpretations Adopted

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

Recent Accounting Pronouncements – Not Yet Effective

IFRS 16 - Leases

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

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

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

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 Revolving Facility, 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 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 and nine months ended 30 September 2018. Additional information about the Group, including the AIF, is available under JPJ Group plc's profile on SEDAR at www.sedar.com.