Jackpotjoy plc

Management's Discussion and Analysis

[in pounds sterling, except where otherwise noted]

For the Three Months Ended 31 March 2018

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

The following discussion and analysis provides a review of Jackpotjoy plc's results of operations, financial position and cash flows for the three months ended 31 March 2018. This MD&A has been prepared with an effective date of 15 May 2018 and should be read in conjunction with the information contained in Jackpotjoy plc's unaudited interim condensed consolidated financial statements and related notes for the three months ended 31 March 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.jackpotjoyplc.com/investors.

For reporting purposes, Jackpotjoy 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 Jackpotjoy plc, together with its subsidiaries and consolidated operations controlled by it and its predecessors (as applicable in the circumstances).

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

About Jackpotjoy plc

Jackpotjoy plc is an online gaming holding company that was incorporated pursuant to the *Companies Act 2006* (England and Wales) on 29 July 2016.

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.

Outlook

Trading in the first quarter has been in line with expectations and we anticipate that this momentum will be maintained during the course of FY18. The Botemania earn-out period finished in March 2018 and we are due to make the final earn-out payment to the Gamesys group in June 2018. We expect to meet this payment comfortably from existing cash resources and to rapidly de-leverage thereafter; reducing net debt remains a key strategic target for the Group. Significant growth opportunities continue to exist in the UK and other global online gaming markets, and we are confident that we are well-placed to take advantage of this backdrop and deliver value to shareholders.

Selected financial information

	Three month period ended 31 March 2018 (£000's)	Three month period ended 31 March 2017 (£000's)
Gaming revenue	**80,672**	71,376
Net loss	**(7,747)**	(15,301)
Basic net loss per share	**(£0.10)**	(£0.21)
Diluted net loss per share	**(£0.10)**	(£0.21)

Comparison of the three months ended 31 March 2018 and 2017

Net loss

The Group's lower net loss of £7.7 million during the three months ended 31 March 2018 compared to a net loss of £15.3 million in the same period in the prior year can be attributed to a decrease in interest expense (Q1 2018 – £4.9 million and Q1 2017 – £7.9 million) and lower accretion on financial liabilities (Q1 2018 – £1.5 million and Q1 2017 – £3.4 million) due to the debt refinance that took place in Q4 2017. The decrease in net loss in the current period is further driven by a realised loss on the cross currency swap (Q1 2018 – £nil and Q1 2017 – £3.5 million) as the relevant cross currency swap was terminated in Q1 2017.

Gaming revenue

The Group's revenues during the three months ended 31 March 2018 consisted of:

- £59.5 million in revenue earned from Jackpotjoy's[1] operational activities.
- £21.2 million in revenue earned from Vera&John's operational activities.

The Group's revenues during the three months ended 31 March 2017 consisted of:

- £55.7 million in revenue earned from Jackpotjoy's[1] operational activities.
- £15.7 million in revenue earned from Vera&John's operational activities.

The increase in revenue for the three months ended 31 March 2018 in comparison with the three months ended 31 March 2017 relates to organic growth[2] of the Vera&John and Jackpotjoy segments, where revenues increased by 35% and 7%, respectively.

[1]Effective 1 January 2018, the Mandalay segment has been aggregated with the Jackpotjoy segment. Refer to page 8 of this MD&A for further discussion.

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

Costs and expenses

	Three month period ended 31 March 2018 (£000's)	Three month period ended 31 March 2017 (£000's)
Distribution costs	**41,499**	31,244
Administrative costs	**27,772**	25,213
Transaction related costs	**75**	1,315
Severance costs	**450**	—
	69,796	57,772

Distribution costs

	Three month period ended 31 March 2018 (£000's)	Three month period ended 31 March 2017 (£000's)
Selling and marketing	**14,550**	9,603
Licensing fees	**11,744**	11,086
Gaming taxes	**11,263**	7,992
Processing fees	**3,942**	2,563
	41,499	31,244

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 the Vera&John and Jackpotjoy segments. Gaming taxes largely consist of point of consumption taxes ('POC'), which is a 15% tax on Real Money Gaming Revenue (a non-IFRS measure defined in the 'Key performance indicators' sub-section of this MD&A) introduced in the UK in December 2014. Gaming taxes also consist of a 15% general betting duty on all free or discounted online bets ('POC2'), which came into effect 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 months ended 31 March 2018 compared to the same period in 2017 is mainly due to higher revenues achieved and increased selling and marketing spending in the Jackpotjoy and Vera&John segments.

Administrative costs

	Three month period ended 31 March 2018 (£000's)	Three month period ended 31 March 2017 (£000's)
Compensation and benefits	**8,720**	8,075
Professional fees	**1,289**	1,208
General and administrative	**2,200**	2,181
Amortisation and depreciation	**15,563**	13,749
	27,772	25,213

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

Professional fees consist mainly of legal, accounting and audit fees. These costs remained relatively flat in the three months ended 31 March 2018 compared to the same period in 2017, with a slight increase relating to additional regulatory requirements post listing on the London Stock Exchange.

General and administrative expenses consist of items such as rent and occupancy, travel and accommodation, insurance, listing fees, technology and development costs, and other office overhead charges. The slight increase in these expenses for the three months ended 31 March 2018 compared to the same period in the prior year can be attributed to marginally higher travel, rent and overhead costs.

Amortisation and depreciation consists of amortisation of the Group's intangible assets and depreciation of the Group's tangible assets over their useful lives. The increase in amortisation and depreciation for the three months ended 31 March 2018 is due to intangible and tangible asset additions since Q1 2017, particularly the non-compete clauses (as defined below), 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 contemplated or completed, 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 LSE.

Severance costs

Severance costs during the period 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 – Results by Segment' section of this MD&A.

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 ended 31 March 2018 and 2017'* and *'Summary of results by segment – Results by segment'* sections of this MD&A.

- Adjusted EBITDA, as defined by the Group, is income 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 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 earn-out 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 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 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 and 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 loss and gain on sale of intangible assets. The exclusion of accretion on financial liabilities and share-based compensation eliminates the non-cash impact and the exclusion of amortisation of acquisition related purchase price intangibles and non-compete clauses, realised loss on cross currency swap, fair value adjustments on contingent consideration, severance costs, transaction related costs, foreign exchange 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 as being real money customers who have placed at least one bet in a given month ('Average Active Customers'). '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 affiliate websites and social gaming. 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 ended 31 March 2018 and 2017

The following table highlights Adjusted EBITDA, Adjusted Net Income, and Diluted Adjusted Net Income per share for the three months ended 31 March 2018 and 2017 and a reconciliation of the Group's reported results to its adjusted measures.

	Three month period ended 31 March 2018 (£000's)	Three month period ended 31 March 2017 (£000's)
Net loss for the period	**(7,747)**	(15,301)
Interest expense, net	**4,854**	7,909
Accretion on financial liabilities	**1,537**	3,389
Taxes	**372**	86
Amortisation and depreciation	**15,563**	13,749
EBITDA	**14,579**	9,832
Share-based compensation	**156**	525
Severance costs	**450**	—
Fair value adjustments on contingent consideration	**11,450**	12,856
Gain on sale of intangible assets	—	(1,002)
Realised loss on cross currency swap	—	3,534
Transaction related costs	**75**	1,315
Foreign exchange loss	**410**	2,133
Adjusted EBITDA	**27,120**	29,193
Net loss for the period	**(7,747)**	(15,301)
Share-based compensation	**156**	525
Severance costs	**450**	—
Fair value adjustments on contingent consideration	**11,450**	12,856
Gain on sale of intangible assets	—	(1,002)
Realised loss on cross currency swap	—	3,534
Transaction related costs	**75**	1,315
Foreign exchange loss	**410**	2,133
Amortisation of acquisition related purchase price intangibles	**15,035**	13,390
Accretion on financial liabilities	**1,537**	3,389
Adjusted Net Income	**21,366**	20,839
Diluted net loss per share	**(£0.10)**	(£0.21)
Diluted Adjusted Net Income per share	**£0.29**	£0.28

Summary of results by segment

Results by segment

In March 2018, the Group determined that its reportable operating segments had changed such that the Mandalay segment is aggregated with the Jackpotjoy segment with effect from 1 January 2018, as Mandalay no longer met the criteria set out in IFRS 8 – *Operating Segments,* for a reportable operating segment. Mandalay has therefore been aggregated with the Jackpotjoy segment consistent with the Group's other third-party platform hosted operations and all 2017 comparative segment figures have been restated accordingly.

The Jackpotjoy segment consists of the real money and social 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 31 March 2018

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs[1] (£000's)	Totals (£000's)
Gaming revenue	**59,501**	**21,171**	**—**	**80,672**
Net income/(loss) for the period	**12,835**	**696**	**(21,278)**	**(7,747)**
Interest expense/(income), net	2	(36)	4,888	4,854
Accretion on financial liabilities	—	—	1,537	1,537
Taxes	—	358	14	372
Amortisation and depreciation	13,073	2,398	92	15,563
EBITDA	**25,910**	**3,416**	**(14,747)**	**14,579**
Share-based compensation	—	—	156	156
Severance costs	—	450	—	450
Fair value adjustments on contingent consideration	—	—	11,450	11,450
Transaction related costs	—	—	75	75
Foreign exchange loss	202	110	98	410
Adjusted EBITDA	**26,112**	**3,976**	**(2,968)**	**27,120**

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

Three months ended 31 March 2017

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs[1] (£000's)	Totals (£000's)
Gaming revenue	**55,685**	**15,691**	**—**	**71,376**
Net income/(loss) for the period	**16,421**	**2,906**	**(34,628)**	**(15,301)**
Interest expense/(income), net	1	(34)	7,942	7,909
Accretion on financial liabilities	—	—	3,389	3,389
Taxes	—	86	—	86
Amortisation and depreciation	11,283	2,368	98	13,749
EBITDA	**27,705**	**5,326**	**(23,199)**	**9,832**
Share-based compensation	—	—	525	525
Fair value adjustments on contingent consideration	—	—	12,856	12,856
Realised loss on cross currency swap	—	—	3,534	3,534
Transaction related costs	—	—	1,315	1,315
Gain on sale of intangible assets	—	(1,002)	—	(1,002)
Foreign exchange (gain)/loss	(20)	59	2,094	2,133
Adjusted EBITDA	**27,685**	**4,383**	**(2,875)**	**29,193**

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

Comparison and discussion of the three months ended 31 March 2018 to the same period in 2017

Jackpotjoy

	Q1 2018 £(millions)	Q1 2017 £(millions)	Variance £(millions)	Variance %
Revenue	**59.5**	55.7	3.8	7%
Distribution costs	**28.8**	23.5	5.3	23%
Administrative costs	**4.6**	4.5	0.1	2%
Adjusted EBITDA	**26.1**	27.7	(1.6)	(6%)

Revenue for the Jackpotjoy segment increased in the three months ended 31 March 2018 due to organic growth (as defined on page 3 of this MD&A) led by sharp increases in Starspins and Botemania brands. Collectively, they accounted for 24% of this segment's revenue. Jackpotjoy UK brand revenue accounted for 60% of the Jackpotjoy segment's revenue for the three months ended 31 March 2018. In addition to higher revenues achieved, the increase in distribution costs for the three months ended 31 March 2018 is further driven by costs from the segment's UK TV marketing campaign, as well as an incremental gaming tax expense, which relates to tax on bonuses through UK POC2 tax introduced in Q4 2017.

Vera&John

	Q1 2018 £(millions)	Q1 2017 £(millions)	Variance £(millions)	Variance %
Revenue	**21.2**	15.7	5.5	35%
Distribution costs	**12.7**	7.6	5.1	67%
Administrative costs	**4.5**	3.7	0.8	22%
Adjusted EBITDA	**4.0**	4.4	(0.4)	(9%)

Revenue for the Vera&John segment for the three months ended 31 March 2018 increased by 35% compared to the same period in 2017 due to a combination of organic growth (as defined on page 3 of this MD&A) and year-over-year GBP to EUR exchange rate movement. On a constant currency basis, revenue increased by 31% in the three months ended 31 March 2018 compared to the same period 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 67% as a result of higher marketing spending in the current period. The increase was further driven by increased gaming tax due to increased revenue in regulated jurisdictions compared to the prior period.

Increases in administrative costs for the three months ended 31 March 2018 compared to the same period in 2017 were mainly driven by increases in personnel and office related costs as the segment continues to grow.

Unallocated Corporate Costs

Adjusted EBITDA on Unallocated Corporate Costs decreased from (£2.9) million to (£3.0) million in the three months ended 31 March 2018 as compared to the three months ended 31 March 2017. The variance mainly relates to a £0.6 million increase in compensation, partially offset by a £0.3 million decrease in general and administrative overheads and a £0.2 million decrease in professional fees.

Key Performance Indicators

	Twelve months ended 31 March 2018	Twelve months ended 31 March 2017	Variance	Variance %
Average Active Customers per Month (#)	**256,699**	239,452	17,247	7%
Total Real Money Gaming Revenue (£000's) [(1)]	**293,406**	250,269	43,137	17%
Average Real Money Gaming Revenue per Month (£000's)	**24,450**	20,856	3,594	17%
Monthly Real Money Gaming Revenue per Average Active Customer (£)	**95**	87	8	9%

[(1)] *Total Real Money Gaming Revenue for the twelve months ended 31 March 2018 consists of total revenue less other income earned from the Revenue Guarantee and platform migration of £nil (31 March 2017 – £0.9 million) and revenue earned from affiliate websites and social gaming revenue of £20.5 million (31 March 2017 – £23.8 million).*

Monthly Real Money Gaming Revenue per Average Active Customer increased by 9% year-over-year, which is in line with the Group's overall customer acquisition and retention strategy.

Historical results by quarter

	3 months ended 31 March 2018 (£000's)	3 months ended 31 December 2017 (£000's)	3 months ended 30 September 2017 (£000's)	3 months ended 30 June 2017 (£000's)
Gaming revenue	**80,672**	82,654	75,423	75,193
Net loss	**(7,747)**	(40,155)	(7,669)	(4,772)
Basic loss per share	**£(0.10)**	£(0.54)	£(0.10)	£(0.06)
Diluted loss per share	**£(0.10)**	£(0.54)	£(0.10)	£(0.06)

	3 months ended 31 March 2017 (£000's)	3 months ended 31 December 2016 (£000's)	3 months ended 30 September 2016 (£000's)	3 months ended 30 June 2016 (£000's)
Total revenue and other income	71,376	72,986	66,368	64,278
Net loss	(15,301)	(12,258)	(18,579)	(14,873)
Basic loss per share	£(0.21)	£(0.17)	£(0.26)	£(0.21)
Diluted loss per share	£(0.21)	£(0.17)	£(0.26)	£(0.21)

The general upward trend in revenue from Q2 2016 to Q1 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 Jackpotjoy plc's most recently filed annual information form ('AIF'), available under Jackpotjoy plc's profile on SEDAR at www.sedar.com.

The movement in net 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 Q2 2016 and Q3 2016 relates to growth in the Jackpotjoy brands as well as fluctuations in the £/€ conversion rate. Variances experienced in net loss from Q2 2016 to Q3 2016 largely relate to increased transaction costs incurred for the UK strategic review process, as well as a smaller unrealised gain on cross currency swap (Q2 2016 – £14.2 million, Q3 2016 – £5.7 million). This was partially offset by a smaller fair value adjustment on the contingent consideration (Q2 2016 – £17.3 million, Q3 2016 – £14.5 million).

The increase in revenue between Q3 2016 and Q4 2016 primarily relates to higher revenues for both the Jackpotjoy and Vera&John segments. The decrease in the net loss in Q4 2016 is due to a larger gain on the cross currency swap (Q3 2016 – £5.7 million, Q4 2016 – £10.1 million), increased revenues, and lower transactions costs (Q3 2016 – £10.4 million, Q4 2016 – £6.2 million).

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 adjustment on contingent consideration (Q2 2017 – £1.8 million, Q1 2017 – £12.9 million).

Revenue for Q3 2017 was 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 – £12.6 million, Q2 2017 – £10.8 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 adjustment 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).

Financial position

	As at 31 March 2018 (£000's)	As at 31 December 2017 (£000's)	Variance (£000's)
Total current assets	**109,107**	93,232	15,875
Total non-current assets	**580,083**	595,947	(15,864)
Total assets	**689,190**	689,179	11
Total current liabilities	**108,491**	98,469	10,022
Total non-current liabilities	**384,946**	386,653	(1,707)
Total liabilities	**493,437**	485,122	8,315

The £1.3 million decrease in current assets (excluding the cash increase of £17.2 million) since 31 December 2017, largely relates to a £1.4 million decrease in receivables and a £0.3 million decrease in customer deposits. These decreases were partially offset by a £0.3 million increase in taxes receivable and a £0.1 million increase in restricted cash.

The decrease in non-current assets of £15.9 million since 31 December 2017 mainly relates to the amortisation of intangible assets of £15.4 million, slightly offset by the additions of software development of £0.7 million. The decrease is further driven by a £0.9 million decrease in goodwill due to movement in foreign exchange rates, a £0.2 million decrease in other long-term receivables, and a £0.1 million decrease in tangible assets.

The increase in current liabilities of £10.0 million since 31 December 2017 largely relates to the following:

- an increase of £11.9 million in contingent consideration due to accretion (£0.4 million) and fair value adjustments (£11.5 million).
- an increase of £0.7 million in provision for taxes.

These increases were partially offset by the following:

- a decrease of £0.6 million in accounts payable.
- a decrease of £1.5 million in other short-term payables mainly driven by settlement of transaction related payables.

- a £0.3 million reduction in payable to customers.
- a £0.2 million decrease in convertible debentures due to debenture conversions that took place in the current period.

The decrease in non-current liabilities of £1.7 million is largely related to a decrease of £1.2 million in long term debt due foreign exchange fluctuations on the EUR Term Facility and a £1.3 million decrease in other long-term payables due to the movement of the non-compete clauses payable from long-term to short-term. These decreases were partially offset by a £0.6 million increase in contingent consideration related to accretion and a £0.2 million increase in deferred tax liability.

Cash flow by activity

	Three month period ended 31 March 2018 (£000's)	Three month period ended 31 March 2017 (£000's)
Operating activity	**24,427**	23,322
Financing activity	**(6,608)**	20,811
Investing activity	**289**	(58)

Operating activity

Cash provided by operating activities during the three months ended 31 March 2018 relates to cash generated from the operational activities of the Jackpotjoy and Vera&John segments, less corporate expenses. For the three months ended 31 March 2018, the operating cash flow increased compared to the same period in 2017 primarily due to lower disbursements for transaction related payables as fewer transaction costs were incurred.

Financing activity

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

- £4.9 million in interest payments.
- £2.0 million in payments related to the non-compete clauses.

This was slightly offset by £0.4 million in proceeds from the exercise of options.

The decrease in cash from financing activities in the three months ended 31 March 2018 in comparison with the three months ended 31 March 2017 primarily relates to receipt of £34.4 million from the Q1 2017 cross currency swap settlement, with no similar receipts taking place in Q1 2018 as all currency swaps have been settled in the prior year.

Investing activity

Cash provided by investing activities during the three months ended 31 March 2018 was £0.3 million, relating to the proceeds from the sale of intangible assets, which took place in Q4 2017, of £1.5 million. This increase was substantially offset by the purchase of tangible as well as internally generated intangible assets of £1.2 million.

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 March 2018:

	On demand	Less than 1 year	1-2 years	3-5 years	After 5 years
	(£000's)	(£000's)	(£000's)	(£000's)	(£000's)
Accounts payable and accrued liabilities	17,209	—	—	—	—
Other short-term/long-term payables	2,585	8,083	8,000	—	—
Payable to customers	7,908	—	—	—	—
Contingent consideration	—	64,520	9,250	—	—
Convertible debentures	—	57	—	—	—
Long-term debt	—	—	—	—	372,962
Interest payable on long-term debt	—	19,647	39,347	39,294	35,400
	27,702	**92,307**	**56,597**	**39,294**	**408,362**

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 earn-out payment, as it is 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 resources to ensure sufficient resources will be in place when the remaining Jackpotjoy earn-out payment and Credit Facilities (as defined below) payments and interest repayments become due.

As at 31 March 2018, the Group believes it will be able to fund remaining obligations under the Jackpotjoy earn-out payment through internally generated cash. 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, Jackpotjoy plc granted a mirror award over ordinary shares of Jackpotjoy 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, Jackpotjoy plc granted additional awards over ordinary shares of Jackpotjoy plc under the Group's long-term incentive plan for key management personnel.

Convertible debentures

On 19 December 2013, Intertain 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 Jackpotjoy plc at a conversion price of CAD 6.00 per share at any time prior to maturity. During the three months ended 31 March 2018, approximately £0.2 million principal amount of Convertible Debentures were converted into 56,499 ordinary shares of Jackpotjoy plc. The remaining Convertible Debentures mature on 31 December 2018, unless redeemed earlier in accordance with their terms.

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, Jackpotjoy plc entered into a senior facilities agreement ('Senior Facilities Agreement') pursuant to which debt facilities were made available to Jackpotjoy 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.

Jackpotjoy plc was in compliance with the terms of the Senior Facilities Agreement as at 31 March 2018.

Contingent consideration

The Group's contingent consideration currently consists of the remaining Jackpotjoy earn-out payments related to the achievement of certain performance milestones in the Jackpotjoy segment and the Spanish assets within the Jackpotjoy segment. No payments were made in the period ended 31 March 2018.

Contractual commitments

Contractual commitments of the Group, comprised of various office leases, amount to £1.8 million and are due within a five-year period.

Dividends

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

Outstanding share data

As at 14 May 2018, the Group had a total of 74,258,930 ordinary shares issued and Intertain had approximately CAD $0.1 million principal amount of Convertible Debentures outstanding. See 'Convertible Debentures' section within this MD&A. As at 14 May 2018, Jackpotjoy plc had 2,890,490 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 31 March 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 what is described below, there have been no changes to the Group's significant accounting policies or critical accounting estimates and assumptions during the three months ended 31 March 2018.

Financial instruments

Effective from 1 January 2018, the Group adopted IFRS 9 – *Financial Instruments: Recognition and Measurement* ('IFRS 9') to account for the Gaming Realms Transaction (as defined in note 10). 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. The adoption of IFRS 9 resulted in balances shown as other long-term receivables and other long-term assets at 31 December 2017 to be combined into a single figure and shown as other long-term receivables at 31 March 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, in accordance with guidance provided in IFRS 9.

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.

Revenue recognition

Effective from 1 January 2018, the Group adopted IFRS 15 – *Revenue from Contracts with Customers* ('IFRS 15'). 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 Jackpotjoy 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, 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, Jackpotjoy 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 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.

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 not recognised as a liability at the balance sheet date.

New Standards and Interpretations Adopted

The Group has adopted IFRS 9 – *Financial Instruments* and IFRS 15 – *Revenues from Contracts with Customers* since 31 December 2017.

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 earn-out obligations and the possibility of the Group drawing on the Revolving Facility. 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 licenses, 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 earn-out 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. For a description of such risk factors, see Schedule ‘A’ attached to Jackpotjoy 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 months ended 31 March 2018. Additional information about the Group, including the AIF, is available under Jackpotjoy plc's profile on SEDAR at www.sedar.com.