

**JACKPOT DIGITAL INC.**

(formerly Las Vegas From Home.com Entertainment Inc.)

**Condensed Consolidated Interim Financial Statements  
Nine Months ended September 30, 2016 and 2015  
(Expressed in Canadian Dollars)**

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## **Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed consolidated interim financial statements as at September 30, 2016 and for the nine months ended September 30, 2016.

**JACKPOT DIGITAL INC.**  
(formerly Las Vegas From Home.com Entertainment Inc.)  
**Condensed Consolidated Balance Sheets**  
(Expressed in Canadian Dollars)

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	(Unaudited)	(Audited)
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 33,063	\$ 227,481
Accounts receivable	264,875	273,427
Due from related parties (note 8)	400,151	259,911
Prepaid expenses and deposits (notes 11(d)&(e))	61,478	56,924
Inventory	505,115	663,847
	<b>1,264,682</b>	<b>1,481,590</b>
<b>Gaming Systems</b>	<b>1,413,821</b>	<b>1,401,082</b>
<b>Equipment</b>	<b>61,977</b>	<b>33,476</b>
<b>Intangible Assets and Goodwill</b> (note 6)	<b>6,288,574</b>	<b>6,823,086</b>
	<b>9,029,054</b>	<b>9,739,234</b>
<b>Total Assets</b>	<b>\$ 9,029,054</b>	<b>\$ 9,739,234</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 6)	\$ 6,143,540	\$ 7,795,421
Deferred revenue (note 10)	27,054	46,787
Loan payable (note 9)	222,301	126,438
	<b>6,392,895</b>	<b>7,968,646</b>
<b>Deferred Revenue</b> (note 10)	<b>1,356,679</b>	<b>575,820</b>
<b>Non-Convertible Debentures (Liability portion)</b> (note 9)	<b>2,562,800</b>	<b>2,498,191</b>
<b>Convertible Debentures (Liability portion)</b> (note 9)	<b>1,806,195</b>	<b>-</b>
	<b>12,118,569</b>	<b>11,042,657</b>
<b>Total Liabilities</b>	<b>12,118,569</b>	<b>11,042,657</b>
<b>Shareholders' Deficiency</b>		
<b>Capital Stock</b> (note 7)	<b>42,689,759</b>	<b>42,689,759</b>
<b>Reserves</b> (note 7)	<b>1,761,317</b>	<b>1,953,064</b>
<b>Equity Portion of Convertible Debentures Reserve</b>	<b>101,601</b>	<b>-</b>
<b>Deficit</b>	<b>(47,642,192)</b>	<b>(45,946,246)</b>
	<b>(3,089,515)</b>	<b>(1,303,423)</b>
<b>Total Shareholders' Deficiency</b>	<b>(3,089,515)</b>	<b>(1,303,423)</b>
	<b>\$ 9,029,054</b>	<b>\$ 9,739,234</b>
<b>Total Liabilities and Shareholders' Deficiency</b>	<b>\$ 9,029,054</b>	<b>\$ 9,739,234</b>

On behalf of the Board:

"Bedo H. Kalpakian" (signed)  
..... Director  
Bedo H. Kalpakian

"Neil Spellman" (signed)  
..... Director  
Neil Spellman

**JACKPOT DIGITAL INC.**

(formerly Las Vegas From Home.com Entertainment Inc.)

**Condensed Consolidated Statements of Comprehensive Loss  
(Expressed in Canadian Dollars)**

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<b>Revenues</b>				
Sales	\$ 1,110	\$ 1,148	\$ 2,621	\$ 4,257
Licensing	37,868	46,994	140,361	97,277
Electronic gaming tables	517,639	352,489	1,696,261	352,489
	<b>556,617</b>	<b>400,631</b>	<b>1,839,243</b>	<b>454,023</b>
Royalty expense	14,681	-	232,073	-
Licensing fee	46,790	-	165,883	-
Cost of Sales	16,481	23,060	81,188	23,060
	<b>77,952</b>	<b>23,060</b>	<b>479,144</b>	<b>23,060</b>
<b>Operating Income (Loss)</b>	<b>478,665</b>	<b>377,571</b>	<b>1,360,099</b>	<b>430,963</b>
<b>Expenses (Income)</b>				
Advertising and promotion	3,092	-	3,602	-
Amortization	247,829	3,262	745,041	9,324
Consulting fees	65,525	275,590	277,819	507,262
Finance expense	64,852	-	109,261	-
Foreign exchange loss (gain)	135,789	37,806	(576,377)	42,673
Interest and other income	(26)	(31)	(77)	(1,187)
Interest expense	270,136	93,778	651,967	98,489
Legal, accounting and audit	20,412	33,676	108,861	44,047
Management fees	99,000	99,000	297,000	297,000
Regulatory and transfer agent fees	4,526	12,591	51,726	55,880
Rent, office and miscellaneous	60,835	26,522	206,570	72,618
Salaries and benefits	438,473	444,504	1,375,171	1,104,181
Shareholder communications	-	-	-	69
Travel, meals and entertainment	44,676	46,624	140,998	104,795
	<b>1,455,119</b>	<b>1,073,322</b>	<b>3,391,562</b>	<b>2,335,151</b>
<b>Net Loss and Comprehensive Loss for the Period</b>	<b>\$ (976,454)</b>	<b>\$ (695,751)</b>	<b>\$ (2,031,463)</b>	<b>\$ (1,904,188)</b>
<b>Basic and Diluted Loss per common share</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares outstanding</b>	<b>155,996,550</b>	<b>155,996,550</b>	<b>155,996,550</b>	<b>147,728,094</b>

**JACKPOT DIGITAL INC.**

(formerly Las Vegas From Home.com Entertainment Inc.)

**Condensed Consolidated Statements of Changes in Shareholders' Deficiency  
(Expressed in Canadian Dollars)**

	Capital Stock		Reserves		Equity Portion of Convertible Debentures	Deficit	Total Shareholders' Equity/(Deficiency)
	Common Shares	Amount	Warrants	Options			
Balance, December 31, 2014	128,390,121	\$ 41,549,764	\$ 1,179,920	\$ 82,496	\$ -	(42,954,515)	\$ (142,335)
Net loss for the period	-	-	-	-	-	(1,904,188)	(1,904,188)
Private placement, net of issuance costs	26,856,429	1,085,086	7,714	-	-	-	1,092,800
Issuance of shares pursuant to agreements	750,000	45,000	-	-	-	-	45,000
Issuance of warrants with debentures	-	-	1,035,312	-	-	-	1,035,312
Issuance of warrants pursuant to Transaction (note 6)	-	-	152,357	-	-	-	152,357
Expiry of warrants	-	-	(359,185)	-	-	359,185	-
Expiry of options	-	-	-	(1,998)	-	1,998	-
Cancellation of options	-	-	-	(32,320)	-	32,320	-
Share-based payment	-	-	-	369,299	-	-	369,299
Balance, September 30, 2015	155,996,500	42,679,850	2,016,118	417,477	-	(44,465,200)	648,245
Net loss for the period	-	-	-	-	-	(1,864,629)	(1,864,629)
Issuance of warrants pursuant to Transaction (note 6)	-	-	(150,210)	-	-	-	(150,210)
Reclassification of reserves on exercise of warrants	-	9,909	(9,909)	-	-	-	-
Expiry of warrants	-	-	(379,639)	-	-	379,639	-
Expiry of options	-	-	-	(3,944)	-	3,944	-
Share-based payment	-	-	-	63,171	-	-	63,171
Balance, December 31, 2015	155,996,550	42,689,759	1,476,360	476,704	-	(45,946,246)	(1,303,423)
Net loss for the period	-	-	-	-	-	(2,031,463)	(2,031,463)
Convertible debentures	-	-	-	-	101,601	-	101,601
Issuance of warrants with debentures	-	-	31,128	-	-	-	31,128
Expiry of warrants	-	-	(288,420)	-	-	288,420	-
Expiry of options	-	-	-	(47,097)	-	47,097	-
Share-based payment	-	-	-	112,642	-	-	112,642
<b>Balance, September 30, 2016</b>	<b>155,996,550</b>	<b>\$ 42,689,759</b>	<b>\$ 1,219,068</b>	<b>\$ 542,249</b>	<b>\$ 101,601</b>	<b>\$ (47,642,192)</b>	<b>\$ (3,089,515)</b>

See notes to consolidated financial statements.

**JACKPOT DIGITAL INC.**  
(formerly Las Vegas From Home.com Entertainment Inc.)  
**Condensed Consolidated Statements of Cash Flows**  
(Expressed in Canadian Dollars)

	September 30, 2016	September 30, 2015
<b>Operating Activities</b>		
Net loss	\$ (2,031,463)	\$ (1,904,188)
Items not affecting cash		
Amortization	745,041	9,324
Interest expense on non-convertible debentures	94,432	40,279
Issuance of warrants upon asset purchase agreements	-	152,357
Foreign exchange loss/(gain)	(576,377)	42,673
Interest expense on convertible debentures	71,158	-
Finance expense on convertible debentures	109,261	-
Shares issued for consulting fee	-	45,000
Share-based payment	112,642	369,299
	<u>(1,475,306)</u>	<u>(1,245,256)</u>
Changes in non-cash working capital		
Accounts receivable	13,946	(172,127)
Due from/to related parties	(140,240)	(102,265)
Prepaid expenses	(4,554)	7,796
Inventory	(55,695)	(950,854)
Accounts payable and accrued liabilities	(1,641,827)	4,677,692
Deferred revenue	761,126	(8,363)
	<u>(1,067,244)</u>	<u>3,451,879</u>
<b>Cash Provided by (Used in) Operating Activities</b>	<u>(2,542,550)</u>	<u>2,206,623</u>
<b>Financing Activities</b>		
Issuance of common shares and warrants issued, net of share issuance costs	-	1,092,800
Funds from loan payable	476,000	(25,000)
Issuance of convertible debentures	1,753,111	3,336,250
Repayment of loan payable	(390,189)	-
Repayment of non-convertible debentures	(29,823)	-
<b>Cash Provided by Financing Activities</b>	<u>1,809,099</u>	<u>4,404,050</u>
<b>Investing Activities</b>		
Purchase of equipment	(37,344)	(13,517)
Purchase of intangible assets	-	(6,407,990)
<b>Cash Used in Investing Activities</b>	<u>(37,344)</u>	<u>(6,421,507)</u>
<b>Effect of Foreign Currency Translation on Cash</b>	<u>576,377</u>	<u>(42,673)</u>
<b>Net Change in Cash and Cash Equivalents</b>	<u>(194,418)</u>	<u>146,493</u>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<u>227,481</u>	<u>7,920</u>
<b>Cash and Cash Equivalents, End of Period</b>	<u>\$ 33,063</u>	<u>\$ 154,413</u>

## **JACKPOT DIGITAL INC.**

(formerly Las Vegas From Home.com Entertainment Inc.)

### **Notes to Condensed Consolidated Financial Statements**

**Nine months ended September 30, 2016 and 2015**

**(Expressed in Canadian Dollars, unless otherwise stated)**

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#### **1. NATURE OF OPERATIONS**

Effective July 18, 2015, the Company's name has been changed to Jackpot Digital Inc. (formerly Las Vegas From Home.com Entertainment Inc.) (the "Company" or "Jackpot"). The Company is a developer and provider of electronic table games, and is also a software developer and provider for online and mobile gaming platforms. The Company's common shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "JP".

The Company's office is located at Suite 300 – 570 Granville Street, Vancouver, British Columbia, Canada, V6C 3P1, and the Company's warehouse is located at 4664 Lougheed Hwy, Unit W030, Burnaby, BC V5C 5T5. The Company's registered office is located at Suite 1500 – 1055 West Georgia Street, PO Box 11117 Royal Centre, Vancouver, British Columbia, Canada, V6E 4N7.

#### **2. GOING CONCERN**

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Several adverse conditions cast significant doubt on the validity of this assumption. The Company has incurred a net loss and comprehensive loss of \$2,031,463 during the past nine months ended September 30, 2016 (September 30, 2015: \$1,904,188) and has incurred significant operating losses over the past two fiscal years (2015 - \$3,768,817; 2014 - \$2,685,789). Though the Company recognized revenue of \$1,142,178 during the year ended December 31, 2015 (December 31, 2014 - \$33,871), the Company has no steady revenues and resources, and no assurances that sufficient funding will be available to continue operations for an extended period of time.

The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and receive continued financial support from its shareholders. Management is actively engaged in the review and due diligence on new projects, is seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost-cutting measures. There can be no assurance that management's plan will be successful.

If the going concern assumption were not appropriate for these condensed consolidated financial statements then adjustments would be necessary to the carrying values of assets and liabilities, the reported expenses and the balance sheet classifications used. Such adjustments could be material.

#### **3. BASIS OF PRESENTATION**

(a) Statement of compliance

These condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements.

## **JACKPOT DIGITAL INC.**

(formerly Las Vegas From Home.com Entertainment Inc.)

### **Notes to Condensed Consolidated Financial Statements**

**Nine months ended September 30, 2016 and 2015**

**(Expressed in Canadian Dollars, unless otherwise stated)**

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#### **3. BASIS OF PRESENTATION (Continued)**

(b) Basis of measurement

These condensed consolidated interim financial statements have been prepared under the historical cost basis, except for financial instruments classified as for available-for-sale (“AFS”) and assets and liabilities at fair value through profit or loss (“FVTPL”), which are measured at fair value. These consolidated condensed interim financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

The accounting policies set in note 4 have been applied consistently by the Company and its subsidiary to all years presented in these condensed consolidated financial statements.

(b) Approval of the consolidated condensed interim financial statements

The condensed consolidated interim financial statements of Jackpot for the nine months ended September 30, 2016 were approved and authorized for issue by the Board of Directors on November 29, 2016.

(c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company’s and subsidiary’s functional currency.

(d) Significant accounting judgments, estimates and assumptions

The preparation of the condensed consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant assumptions about the future and other sources of estimated uncertainty that management has made as at the consolidated balance sheet dates that could result in a material adjustment to the carrying amount of assets and liabilities in the event that actual results differ from assumptions made, related to, but are not limited to, the following:

*Critical accounting estimates*

Critical accounting estimates and assumptions made by management that may result in a material adjustment to the carrying amounts of assets and liabilities include, but are not limited to, the following:

- Fair value of equity instruments

The fair value of equity instruments are subject to the limitations of the Black-Scholes option pricing model, as well as other pricing models that incorporate market data and involves uncertainty in estimates used by management in the assumptions. Because option pricing models require inputs of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.



## **JACKPOT DIGITAL INC.**

(formerly Las Vegas From Home.com Entertainment Inc.)

### **Notes to Condensed Consolidated Financial Statements**

**Nine months ended September 30, 2016 and 2015**

**(Expressed in Canadian Dollars, unless otherwise stated)**

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#### **3. BASIS OF PRESENTATION (Continued)**

(e) Significant accounting judgments, estimates and assumptions (continued)

- Recovery of deferred tax assets

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements.

- Recoverability of accounts receivable and allowance for doubtful accounts

The Company monitors its exposure for credit losses on its customer and related parties receivable balances and the credit worthiness of the customers and related parties on an ongoing basis and records related allowances for doubtful accounts. Allowances are estimated based upon specific customer and related parties balances, where a risk of default has been identified, and also include a provision for non-customer specific defaults based upon historical experience and aging of accounts. As at September 30, 2016, the Company recorded an allowance for doubtful accounts of \$nil. If circumstances related to specific customers and related parties change, estimates of the recoverability of receivables could also change.

- Intangible assets – useful lives

Following initial recognition, the Company carries the value of intangible assets at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on the straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed at least annually and are updated if expectations change as a result of the technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in related amortization expense.

- Inventory

Inventories are stated at the lower of cost or market, where cost is determined on an average cost basis. Inventories may include parts from gaming systems that have been previously operated at customer sites and returned for refurbishment and subsequent redeployment. Those inventory items are stated at the lower of cost or market, where cost is determined based on the depreciated cost of the returned items. The Company regularly reviews inventory for slow moving, obsolete and excess characteristics in relation to historical and expected usage and establishes reserves to value inventory at the lower of cost or estimated net realizable value. If expectations related to customer demand change or the Company changes its product offering in the future, estimates regarding the net realizable value of inventory could also change.

## **JACKPOT DIGITAL INC.**

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### **Notes to Condensed Consolidated Financial Statements**

**Nine months ended September 30, 2016 and 2015**

**(Expressed in Canadian Dollars, unless otherwise stated)**

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#### **3. BASIS OF PRESENTATION (Continued)**

(e) Significant accounting judgments, estimates and assumptions (continued)

- Discount rate of non-convertible debenture

The non-convertible debentures are initially recognized at fair value, calculated as the net present value of the liability based upon discount rate issued by comparable issuers and accounting for at amortized cost using the effective interest rate method.

*Critical accounting judgments*

- Research and development expenditures

The application of the Company's accounting policy for research and development expenditures requires judgment in determining whether it is likely that the future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after expenditures is unlikely, the amount capitalized is written off to profit or loss in the period the new information becomes available.

- Impairment of goodwill and intangible assets

The application of the Company's accounting policy for intangible assets requires judgment in determining whether it is likely that the future economic benefits will flow to the Company, which are based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If information becomes available suggesting that the recovery of the asset is unlikely, the amount capitalized is written off to profit or loss in the period the new information becomes available.

- Functional currency

The determination of the functional currency for the Company and its subsidiary was based on management's judgment of the underlying transactions, events and conditions relevant to each entity.

- The assessment of the Transaction as an asset acquisition or business combination

Management has had to apply judgments relating to the Transaction with respect to whether the acquisition was a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of each acquisition in order to reach a conclusion.

- The allocation of fair value of assets acquired

The determination of fair value of assets acquired requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of the assets acquired require the most judgment and include estimates of future cash flows.

## **JACKPOT DIGITAL INC.**

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### **Notes to Condensed Consolidated Financial Statements**

**Nine months ended September 30, 2016 and 2015**

**(Expressed in Canadian Dollars, unless otherwise stated)**

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#### **3. BASIS OF PRESENTATION (Continued)**

(e) Significant accounting judgments, estimates and assumptions (continued)

- Going concern assumption

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

#### **4. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies of the Company include the following:

(a) Principles of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The financial statements of the Company's wholly owned subsidiary, Jackpot Digital (NV), Inc. (incorporated in the U.S.A.) are included in the consolidated financial statements from the date that control commenced to the date of disposal or dissolution.

Intercompany balances and transactions and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Cash and cash equivalents

Cash and cash equivalents comprises cash and highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

(c) Financial instruments

(i) Financial assets

The Company classifies its financial assets in the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity and AFS. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

##### *Fair value through profit or loss*

Financial assets are classified as FVTPL when the financial asset is held-for-trading or it is designated as FVTPL. A financial asset is classified as FVTPL when it has been acquired principally for the purpose of selling in the near future; it is a part of an identified portfolio of financial instruments that the company manages and has an actual pattern of short-term profit-taking or if it is a derivative that is not designated and effective as a hedging instrument. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred.

## **JACKPOT DIGITAL INC.**

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### **Notes to Condensed Consolidated Financial Statements**

**Nine months ended September 30, 2016 and 2015**

**(Expressed in Canadian Dollars, unless otherwise stated)**

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#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(c) Financial instruments (continued)

(i) Financial assets (continued)

Financial instruments at FVTPL are measured at fair value and changes therein are recognized in profit or loss. The Company classifies its cash and cash equivalents as FVTPL.

*Loans and receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss on receivables is based on a review of all outstanding amounts at period-end. Bad debts are written off during the year in which they are identified. The Company classifies its due from related parties, accounts receivable (excluding GST receivable) as loans and receivables.

*Held-to-maturity*

Held-to-maturity are non-derivative financial assets with fixed or determinable payments that the Company intends on holding to maturity and do not meet the definitions of loans and receivables. Held-to-maturity financial assets are recognized on a trade-date basis and are initially measured at fair value using the effective interest rate method.

*Available-for-sale*

AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial assets categories. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income and classified as a component of equity.

(ii) Financial liabilities

The Company classifies its financial liabilities as FVTPL, or other financial liabilities.

*Fair value through profit or loss*

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

*Other financial liabilities*

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost using the effective interest rate method. Any difference between the amounts originally received, net of transaction costs, and the redemption

## **JACKPOT DIGITAL INC.**

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### **Notes to Condensed Consolidated Financial Statements**

**Nine months ended September 30, 2016 and 2015**

**(Expressed in Canadian Dollars, unless otherwise stated)**

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#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(c) Financial instruments (continued)

(ii) Financial liabilities (continued)

value is recognized in profit or loss over the period to maturity using the effective interest method. Other financial liabilities are classified as current or non-current based on their maturity date. The Company classifies accounts payable and accrued liabilities, loan payable, deferred revenue, and non-convertible debenture as other financial liabilities.

(iii) Impairment

The Company assesses at each consolidated balance sheet date whether there is objective evidence that financial assets, other than those designated as FVTPL, are impaired. When impairment has occurred, the cumulative loss is recognized in the consolidated statement of comprehensive loss. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

(d) Research and development

Research costs are expensed as incurred. Costs related to the development of software are expensed as incurred unless such costs meet the criteria for deferral and amortization under IFRS. The criteria includes identifiable costs attributable to a clearly defined product, the establishment of technical feasibility, demonstration of the Company's intention and ability to complete the software and use or sell it, identification of a market for the software, the Company's intent to market the software and the existence of adequate resources to complete the project.

Capitalized development costs are amortized over an estimated useful life of five years or prorated over its expected revenue stream, whichever is higher, beginning in the year when commercial sales of the products commence.

(e) Gaming systems and equipment

Gaming systems represent equipment owned by the Company. The majority of this equipment is operated at customer sites pursuant to contractual license agreements. The gaming systems may also include equipment used by the Company for demonstration or testing purposes.

Gaming systems are transferred from respective inventory accounts to the gaming systems account at the time the units are fully assembled, configured, tested and shipped to a customer. As the configuration of each gaming system is unique to the specific customer environment in which it is being placed, the final steps to configure and test the unit generally occur immediately prior to shipment. Depreciation expense for the gaming systems begins in the month of transfer of each gaming system from the inventory account to the gaming systems account.

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#### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### (e) Gaming systems and equipment (continued)

Gaming systems, property and equipment are stated at cost, less accumulated depreciation. Allocation of direct labor, indirect labor and overhead costs for each gaming system are included in the cost of the gaming system. Costs not clearly related to the procurement, manufacturing and implementation are expensed as incurred. As gaming systems are returned from customer sites, the gaming systems are either disposed or refurbished. If the gaming system is refurbished, all unusable parts are scrapped, and the cost of labor refurbishment and replacement parts is added to the value of the gaming system. The gaming system is then installed at a customer site and depreciates over its estimated useful life in a manner consistent with new gaming systems as described above.

Items of gaming systems and equipment are measured at cost less accumulated amortization and accumulated impairment loss.

Amortization of the gaming systems and equipment is calculated on the declining-balance basis at the following annual rates:

Gaming systems	- 20%
Computer equipment	- 30% - 55%
Office furniture	- 20%

Gain and losses on disposal of an item of gaming systems and equipment are determined by comparing the proceeds from disposal with the carrying amount of the long-term asset and are recognized net in the consolidated statements of operations.

##### (f) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. A change in the expected useful life of the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(f) Intangible assets (continued)

The Company amortizes intangible assets with finite lives on a straight-line basis over their estimated useful lives:

Intellectual property	- 5 years
Customer relationships	- 5 to 10 years
Acquired software technology	- 2 to 4 years
Patents	- 2 to 4 years

(g) Goodwill

The Company measures goodwill as the fair value of the consideration transferred less the net recognized amount (generally fair value) of the identifiable assets acquired and the liabilities assumed, all measured as of the acquisition date. Since goodwill results from the application of the acquisition method of accounting for a business combination, it is inherently imprecise and requires judgment in the determination of the fair value of assets and liabilities. Goodwill is allocated to the Company's cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination. Goodwill is not amortized, but is tested for impairment at least annually. An impairment loss in respect of goodwill is not reversed. On the disposal or termination of a previously acquired business, any remaining balance of associated goodwill is included in the determination of the gain or loss on disposal. The Company performs the annual goodwill impairment tests.

(h) Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

When an impairment loss subsequently reverses (except for goodwill), the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

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#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(i) Revenue recognition

The Company derives revenue from the sale of perpetual software licenses, software license subscriptions and professional services fees. During the year ended December 31, 2015, the Company purchased certain assets from Everi Holdings Inc. (note 6) recognized revenue from the lease of electronic gaming tables, and from maintenance, installation and support services related to those products.

Revenue is recognized as it is earned in accordance with the following:

(i) Licensing revenue

The Company recognizes revenues from licensees upon completion of each game according to the terms and conditions of the license agreement. Revenue is recognized to the extent that the economic benefit will flow to the Company and the amount be measured reliably. Revenue comprises the fair value of the consideration received or receivable for the product or service in the ordinary course of the Company's activities.

(ii) Sales revenue

Sales revenue is recognized based on negotiated percentages of gross sales as specified in the agreements with licensees, which varies from agreement to agreement. The Company recognizes its percentage of sales at the end of each month based on the sales of the licensees.

(iii) Electronic gaming tables

The Company's electronic gaming tables are leased to various parties on either revenue sharing basis or on fixed fee basis or a combination of both.

(iv) Any consideration received in advance of services being rendered is recorded as deferred revenue and subsequently recognized as it is earned.

(i) Income taxes

Income tax expense consisting of current and deferred tax expense is recognized in the consolidated statement of comprehensive loss. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.



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#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(j) Income taxes (Continued)

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(j) Share-based payments

The Company grants share options to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of share-based payments to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period for employees using the graded method. Fair value of share-based payments for non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments issued using the Black-Scholes option pricing model.

For both employees and non-employees, the fair value of share-based payments is recognized as an expense with a corresponding increase in option reserves. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

Consideration received on the exercise of stock options is recorded in capital stock and the related share-based payment in option reserves is transferred to capital stock. For those options that expire, the recorded value is transferred to deficit.

(k) Inventory

Inventories are stated at the lower of cost or market, where cost is determined on an average cost basis. Inventories also include parts from gaming systems that have been used at customer sites and returned for refurbishment and subsequent redeployment with the customer. Those inventory items are stated at the lower of cost or market, where cost is determined based on the undepreciated cost of the returned items.

(l) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net loss attributable to common shares of the Company by the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. Under this method the dilutive effect on earnings per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

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#### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Capital stock

Proceeds from the exercise of stock options and warrants are recorded as capital stock in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Capital stock issued for non-monetary consideration is valued at the pre-determined private placement price. The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to capital stock based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve. Consideration received for the exercise of warrants is recorded in capital stock and the related residual value is transferred from warrant reserve to capital stock. For unexercised warrants that expire, the recorded value is transferred to deficit.

(n) Foreign currency translation

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- (i) Monetary assets and liabilities, at the rate of exchange in effect as at the consolidated balance sheet date;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Revenues and expenses (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange on the transaction date.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss for the year.

(o) New accounting pronouncements

The Company has not early-adopted these standards and is currently assessing the impact that the standards will have on the consolidated financial statements.

*IFRS 9 Financial Instruments (2014)*

This is a finalized version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a “fair value through other comprehensive income” category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39; however, there are differences in the requirements applying to the measurement of an entity’s own credit risk.
- Impairment. The 2014 version of IFRS 9 introduces an “expected credit loss” model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

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#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(p) New accounting pronouncements (Continued)

- Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Applicable to the Company's annual period beginning January 1, 2018.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

Applicable to the Company's annual period beginning January 1, 2018.

*IFRS 16 Leases*

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*.

Applicable to the Company's annual period beginning January 1, 2019.

#### **5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

(a) Risk management overview

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. The Company employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Company's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Company's risk management framework, the Company's management has the responsibility to administer and monitor these risks.

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#### **5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

(b) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts payable and accrued liabilities, trade accounts receivable, loan payable, deferred revenue and due from related parties approximate their carrying values due to the short-term maturity of these instruments. The non-convertible debenture is classified as Level 2 financial instruments.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. The levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: Inputs for assets or liabilities that are not based on observable market data.

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The financial instruments that potentially subject the Company to a significant concentration of credit risk consist of cash and cash equivalents and due from related parties. The Company mitigates its exposure to credit loss associated with cash by placing its cash and cash equivalents in a major financial institution.

To reduce the credit risk of due from related parties, the Company regularly reviews the collectability of due from related parties to ensure there is no indication that these amounts will not be fully recoverable. To mitigate credit risk on the Company's trade receivables, the Company regularly reviews the collectability of the accounts receivable to ensure there is no indication that these amounts will not be fully recoverable. As at September 30, 2016, allowance for doubtful accounts is \$nil (September 30, 2015 - \$nil). The Company's accounts receivable are due within 60 days.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due.

At September 30, 2016, the Company has cash and cash equivalents of \$33,063 (September 30, 2015 - \$154,413) available to apply against short-term business requirements and current liabilities of \$6,392,895 (September 30, 2015 - \$4,979,981). All of the liabilities presented as accounts payable and accrued liabilities are due within 90 days of September 30, 2016.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing return on capital.

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## (e) Market risk (continued)

## (i) Currency risk

The Company is exposed to foreign currency risk, as it holds cash denominated in US dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

The Company is not exposed to significant currency risk on its financial instruments at September 30, 2016. The Company's reported earnings include gains/losses on foreign exchange, largely reflecting revaluation of its foreign operations. The future foreign exchange gain or loss would change based on the level of foreign operating activities.

At September 30, 2016, the Company is exposed to currency risk for its US dollar equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars as follows:

	Held in US dollars (stated in Canadian dollars)	
	September 30, 2016	September 30, 2015
Cash	\$ 15,380	\$ 84,839
Account receivable	251,193	-
Account payable	(5,446,048)	(4,537,300)
Non-convertible debenture	(2,562,800)	(2,341,217)
Financial assets (Liabilities)	\$ (7,742,275)	\$ (6,793,678)

Based upon the above net exposure as at September 30, 2016 and assuming all other variables remain constant, a 13% depreciation or appreciation of the US dollar relative to the Canadian dollar would result approximately \$1,006,496 (September 30, 2015 - \$883,178) change in the Company's consolidated net loss and comprehensive loss.

## (ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest earned on cash and cash equivalents is at nominal interest rates, and therefore the Company does not consider interest rate risk to be significant.

There are variable interest rates on loans payable. As at September 30, 2016, the interest rate on the non-convertible secured debenture balances is fixed at 10% and the interest rate on the convertible secured debenture balances is fixed at 12%. As such, the Company is not exposed to interest rate risk.

## (iii) Other price risk

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not exposed to significant other price risk.

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On June 30, 2015, the Company entered into an asset purchase agreement, as amended on July 31, 2015 and August 6, 2015 (the "Agreement") with Everi Holdings Inc. (formerly Multimedia Games, Inc.) ("Everi"), whereby the Company purchased the assets of the PokerTek business unit of Everi, including inventory, software, patents, and all the licensing contracts with third parties related to the PokerTek business unit (the "Transaction").

Pursuant to the Agreement, on August 10, 2015 the Company closed the Transaction. The consideration payable to Everi is US\$5,400,000 of which US\$2,000,000 was paid on the closing of the Transaction, and the Company has issued 7,500,000 share purchase warrants exercisable at \$0.20 per warrant share for a period of five years. On April 29, 2016, the Company paid to Everi the amount of US\$500,000. The agreement has late fee penalties which may increase the consideration payable up to US\$7,500,000. As at September 30, 2016, the Company has a balance payable to Everi of US\$3,987,778 if all late penalties are assessed and paid.

The Transaction was recorded in the accounts of the Company at its fair value determined as follows (amounts in US):

Consideration	
Cash	\$ 7,170,000
Warrants	1,620
	\$ 7,171,620
Purchase Price Allocation	
Gaming systems	\$ 1,205,330
Inventory	747,795
Acquired intangible assets	3,110,000
Fair value of identifiable net assets acquired	5,063,125
Goodwill	2,108,495
Total net assets acquired	\$ 7,171,620

The balance of goodwill is the difference between the Transaction date fair value of the consideration transferred and the values assigned to the identifiable assets acquired. The goodwill balance is expected to be deductible for tax purposes. The goodwill recorded represents intangible assets that do not qualify for separate recognition, such as the assembled workforce.

The following table presents details of the purchased identifiable intangible assets:

	Estimated Useful Life (in years)	Acquired Amount (US)
Intellectual property	5	\$ 590,000
Customer relationships	5 to 10	2,200,000
Acquired software technology	2 to 4	190,000
Patent portfolio	2 to 4	130,000
		\$ 3,110,000

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**Notes to Condensed Consolidated Financial Statements****Nine months ended September 30, 2016 and 2015****(Expressed in Canadian Dollars, unless otherwise stated)****6. TRANSACTION WITH EVERI HOLDINGS INC. (Continued)**

The following table summarizes the net cash flow adjusting for the required adjusted instalment payment related to the electronic table gaming project since acquisition (in CDN):

	August 2015 to December 2015	January 2016 to September 2016	Total
Revenue from Electronic gaming table project	\$ 1,001,337	\$ 1,696,261	\$ 2,697,598
Deduct:			
Royalty expense to 87 Capital and 30 Rock	\$ (253,439)	\$ (232,073)	\$ (485,512)
Licensing fee charged by Everi	\$ (108,463)	\$ (165,883)	\$ (274,346)
Salary for development, warehouse and support teams	\$ (459,440)	\$ (964,882)	\$ (1,424,322)
Adjusted cash flow from Electronic gaming table project	\$ 179,995	\$ 333,423	\$ 513,418
Adjusted instalment payment made to Everi in April 2016			\$ (627,400)
Net cash flow reflecting adjusted instalment payment to Everi			\$ (113,982)
Payment required under adjusted instalment payment schedule for the period ended December 31, 2015			\$ 683,957
Payment required under adjusted instalment payment schedule for the nine months ended September 30, 2016			\$ 839,958
Total adjusted instalment payment due as at September 30, 2016			\$ 1,523,915
Adjusted instalment payment made in April 2016			\$ (627,400)
Total adjusted instalment payment due as at September 30, 2016			\$ 896,515

**7. CAPITAL STOCK**

## (a) Authorized

Unlimited number of common shares and an unlimited number of preferred shares, without par value.

## (b) Issued and outstanding

*Preferred shares*

No preferred shares have been issued.

*Common shares*

155,996,550 common shares have been issued and are outstanding as of September 30, 2016.

During the nine months ended September 30, 2016, the Company issued 6,000,000 share purchase warrants to Kingsdale Capital Markets Inc. ("Broker Warrants") in connection with the convertible secured debentures financing transaction which took place on April 28, 2016.

During the year ended December 31, 2015, the following share transactions occurred:

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## (b) Issued and outstanding (Continued)

- On February 27 and March 3, 2015, the Company closed the first and second tranches of a non-brokered private placement financing that was announced February 25, 2015 and issued an aggregate 12,471,429 units of the Company's securities at \$0.035 per unit for gross proceeds of \$436,500. Each unit consists of one common share and one share purchase warrant exercisable at a price of \$0.10 for two years from the date of issuance. In connection with this closing, Securities issued in the first tranche had a hold period which expired June 28, 2015, and securities issued in the second tranche were subject to a hold period which expired July 4, 2015. The Company has paid finder's fees totalling \$2,275 to arm's length third parties.
- On March 9, 2015, the Company closed the third and final tranches of a non-brokered private placement financing that was announced February 25, 2015 and issued an aggregate 2,715,000 units of the Company's securities at \$0.035 per unit for gross proceeds of \$95,025. Each unit consists of one common share and one share purchase warrant exercisable at a price of \$0.10 for two years from the date of issuance. All securities issued were subject to a hold period which expired July 10, 2015.
- On April 17, 2015, the Company closed a non-brokered private placement financing that was announced April 2, 2015 and issued 11,500,000 units of the Company at a price of \$0.05 per unit for total gross proceeds to the Company of \$575,000. Each unit consists of one common share and one share purchase warrant exercisable at a price of \$0.10 for two years from the date of issuance. The Company has paid finder's fees totalling \$11,450 in cash, 170,000 units fair valued at \$8,500 and 229,000 share purchase warrants fair valued at \$7,714 to arm's length third parties. Each unit consists of one common share and one common share purchase warrant, exercisable at \$0.10 for a period of two years from the grant date. The share purchase warrants have the same terms as the warrants in the units. All securities issued were subject to a hold period which expired August 18, 2015.

## (c) Warrants

Warrants activity for the nine months ended September 30, 2016 and 2015 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, January 1, 2015	91,116,315	\$ 0.10
Issued	42,085,429	\$ 0.14
Expired	(964,680)	\$ 0.10
Balance, December 31, 2015	132,237,064	\$ 0.11
Expired	(1,365,750)	\$ 0.11
Issued	6,000,000	\$ 0.10
<b>Balance, September 30, 2016</b>	<b>136,871,314</b>	<b>\$ 0.11</b>



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## (c) Warrants (continued)

Compound warrants activity for the nine months ended September 30, 2016 and 2015 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, January 1, 2015	5,979,838	\$ 0.06
Expired	(4,699,838)	\$ 0.05
Balance, December 31, 2015	1,280,000	\$ 0.08
Expired	(1,280,000)	\$ 0.08
<b>Balance, September 30, 2016</b>	<b>-</b>	<b>\$ 0.00</b>

At September 30, 2016 and 2015, the following warrants and compound warrants are/were outstanding and exercisable:

Expiry Date	Exercise Price	Number of Warrants	
		2016	2015
October 10, 2017	\$ 0.16*	3,125,000	3,125,000
June 26, 2017	\$ 0.10**	3,460,000	3,460,000
July 10, 2017	\$ 0.10*****	7,100,000	7,100,000
July 17, 2017	\$ 0.10*****	797,500	797,500
July 24, 2017	\$ 0.10*****	8,570,000	8,570,000
August 9, 2017	\$ 0.10*****	10,149,000	10,149,000
October 3, 2017	\$ 0.10*****	14,010,000	14,010,000
October 22, 2017	\$ 0.10*****	4,150,000	4,150,000
November 5, 2015	\$ 0.10	-	100,800
November 5, 2017	\$ 0.10*****	4,801,000	4,801,000
November 18, 2015	\$ 0.10	-	15,240
November 18, 2017	\$ 0.10*****	1,748,385	1,748,385
October 3, 2015	\$ 0.05***	-	1,280,000
October 22, 2015	\$ 0.05***	-	400,000
November 5, 2015	\$ 0.05***	-	168,000
November 5, 2015	\$ 0.065***	-	312,100
November 18, 2015	\$ 0.065***	-	154,838
January 30, 2018	\$ 0.10*****	14,375,000	14,375,000
January 30, 2016	\$ 0.10	-	1,267,500
March 25, 2016	\$ 0.08****	-	1,280,000
March 25, 2018	\$ 0.10*****	15,000,000	15,000,000
March 25, 2016	\$ 0.10	-	98,250
May 6, 2017	\$ 0.10	1,500,000	1,500,000
February 27, 2017	\$ 0.10	8,500,000	8,500,000
March 3, 2017	\$ 0.10	3,971,429	3,971,429
March 9, 2017	\$ 0.10	2,715,000	2,715,000
April 17, 2017	\$ 0.10	11,899,000	11,899,000
August 4, 2020	\$ 0.20	7,500,000	7,500,000

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**7. CAPITAL STOCK (Continued)**

(c) Warrants (continued)

August 10, 2020	\$ 0.20	7,500,000	7,500,000
April 28, 2018	\$ 0.05/0.10	6,000,000	-
	\$ 0.11	136,871,314	135,948,042

\* During the year ended December 31, 2014, the exercise price was amended from \$0.80 to \$0.16 and the term extended from October 10, 2014 to October 10, 2016, and further extended until October 10, 2017.

\*\* Exercisable at \$0.10 and the term extended to June 26, 2017.

\*\*\* These warrants were exercisable into one unit. Each unit consisted of one common share and one share purchase warrant. Once exercised, each share purchase warrant was exercisable at \$0.075 in the first year and at \$0.10 in the second year from the date of issuance.

\*\*\*\* These warrants are exercisable into one unit. Each unit consists of one common share and one share purchase warrant. Once exercised, each share purchase warrant is exercisable at \$0.10 for two years from the date of issuance.

\*\*\*\*\* The expiry of these warrants have been extended for a further two year period from 2015 to 2017.

\*\*\*\*\* The expiry of these warrants have been extended for a further two year period from 2016 to 2018.

The weighted average remaining contractual life for warrants outstanding at September 30, 2016 is 1.28 (September 30, 2015 – 1.74) years.

(d) Stock options

Pursuant to the Company's Amended 2004 Stock Option Plan, which has received TSX-V approval, the Company grants stock options to employees, directors, officers and consultants. On April 14, 2015, the TSX-V accepted the Company's new rolling stock option plan whereby a maximum of 10% of the issued shares of the Company will be reserved for issuance under the plan. As at September 30, 2016, there are 1,129,655 (September 30, 2015 – 398,905) stock options available for granting. The terms of the options are determined at the date of grant.

The following summarizes the officer, director, employee and consultant stock options that were granted, cancelled and expired during the nine months ended September 30, 2016 and 2015. The options vest 25% on grant and thereafter at 25% every four or six months.

	Number of Options	Weighted Average Exercise Price
Balance, January 1, 2015	1,100,750	\$ 0.10
Expired	(535,000)	\$0.10
Granted	14,530,000	\$0.06
Balance, December 31, 2015	15,095,750	\$0.06
Expired	(625,750)	\$0.11
Balance, September 30, 2016	14,470,000	\$0.06

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## (d) Stock Options (continued)

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its stock options granted. Accordingly, share-based payments of \$97,093 (September 30, 2015 - \$268,480) were recognized as salaries expense and \$15,549 (September 30, 2015 - \$100,819) was recognized as consulting fees for options granted to consultants.

**8. RELATED PARTY TRANSACTIONS**

Amounts due from (to) related parties are unsecured, due on demand and consist of the following:

	September 30, 2016	September 30, 2015
Entities with common directors	\$ 400,151	\$ 212,623
Key management personnel	-	26
	<b>\$ 400,151</b>	<b>\$ 212,649</b>

During the nine months ended September 30, the Company completed the following related party transactions:

	2016	2015
Rent recovered from entities with common directors	\$ 42,456	\$ 44,010
Office and other expenses recovered from entities with common directors	\$ 110,262	\$ 110,697
Interest charged on amounts due to related parties	\$ 2	\$ 173

During the nine months ended September 30, 2016, the Company has paid management fees totalling \$297,000 to a company owned by two directors (September 30, 2015: \$297,000).

**9. LOAN PAYABLE AND DEBENTURES***Loan payable*

During the year ended December 31, 2015, the Company entered into a loan agreement with a third party for a total amount of \$125,000. During the nine months period ended September 30, 2016, the Company entered into loan agreements with several parties totaling the amount of \$476,000. As at September 30, 2016, the Company has repaid \$381,000 of the loans together with accrued interest.

During the year ended December 31, 2014, the Company entered into a loan agreement with a third party for a total amount of \$50,000. The loan bore interest at the rate of 10% per annum, which was payable on a quarterly basis and was due December 31, 2015. The Company repaid \$50,000 together with the accrued interest during the year ended December 31, 2015.

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#### **9. LOAN PAYABLE AND DEBENTURES (Continued)**

##### *Non-convertible secured debentures*

During the year ended December 31, 2015, the Company entered into two non-convertible secured debenture agreements for an aggregate US\$2,500,000 with one arm's length party and one related party. These two non-convertible secured debenture agreements were amended on April 28, 2016. The non-convertible debenture agreements provide for a term of three years and bear interest at 10% per annum, with interest payable quarterly. As additional consideration of the risk associated with the debenture, the Company issued 7,500,000 warrants to the lenders. Each warrant has a five year expiry term and is exercisable into one common share at \$0.20.

The liability component of the non-convertible debentures was recognized initially at the fair value of a similar liability that does not have the warrant, which was calculated based on the application of a market interest rate of 25%. The difference between the face value of US\$2,500,000 and the fair value of the notes payable represents the value of the warrants, which has been recognized separately.

As at September 30, 2016, the amount of \$2,562,800 has been recorded as the liability portion of the non-convertible secured debentures.

##### *Convertible secured debentures*

During the nine months ended September 30, 2016, the Company has closed the convertible secured debentures financing which was announced on April 22, 2016 for net proceeds of \$1,753,111. The convertible secured debentures have a term of 12 months, bear simple interest at the rate of 12% per annum and are payable on a quarterly basis. The principal amount of the convertible secured debentures may be convertible into common shares of the Company at a price of \$0.05 per share. In connection with the convertible secured debentures, the Company has paid a cash commission of \$200,000 and a corporate finance fee of \$30,000 plus HST and other expenses of \$11,495 plus HST and has issued 6,000,000 broker warrants to Kingsdale Capital Markets Inc. The broker warrants are exercisable into common shares of the Company at the price of \$0.05 per share during the first year and at the price of \$0.10 per share during the second year.

As at September 30, 2016, the amount of \$1,806,195 has been recorded as the liability portion of convertible secured debentures and the amount of \$101,601 has been recorded as the equity portion of convertible secured debentures reserve.

#### **10. DEFERRED REVENUE**

As at September 30, 2016, the Company recorded \$27,054 (September 30, 2015 - \$46,787) in deferred revenue with respect to its license agreements. The Company is expected to recognize the balance by fiscal 2017.

In addition, as of September 30, 2016, the Company recorded \$1,356,679 (September 30, 2015 - \$27,054) in deferred revenue with respect to electronic gaming table regulated licenses.

#### **11. COMMITMENTS**

- (a) On July 1, 2010 the Company entered into an agreement for management services, as amended (the "Agreement") with Kalpakian Bros. of B.C. Ltd. ("Kalpakian Bros."), a private company owned by two directors of the Company. The Company is entitled to receive management services from Kalpakian Bros. at a monthly rate of \$33,000 plus applicable taxes. On July 1, 2015, the Agreement has been renewed for a term of five years. Kalpakian Bros. is also entitled to reimbursement for all traveling and other expenses incurred by it in connection with performing its services. If the Agreement is terminated by the Company other than for just cause, or is terminated by Kalpakian Bros. for good reason,

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#### **11. COMMITMENTS (Continued)**

then Kalpakian Bros. is entitled to be paid the annual remuneration for the unexpired term of the Agreement and is also entitled to immediate vesting of all unvested stock options. Kalpakian Bros. may terminate the Agreement on giving four months' notice.

- (b) The Company has an agreement for office support services with 37 Capital Inc. ("37 Capital"), a public company with common directors. Under the agreement, the Company is committed to provide to 37 Capital office support services for \$7,000 plus applicable taxes per month. The agreement expires April 30, 2017. The agreement can be terminated by either party upon giving three months' written notice.
- (c) The Company has an agreement for office support services with Green Arrow Resources Inc. ("Green Arrow"), a public company with common directors. Under the agreement, the Company is committed to provide to Green Arrow office support services for \$5,000 plus applicable taxes per month. The agreement expires April 30, 2017. The agreement can be terminated by either party upon giving three months' written notice.
- (d) The Company, together with 37 Capital and Green Arrow, have entered into an office lease agreement with an arm's length party (the "Lease"). The Lease has a one year term with a commencement date of August 1, 2014 which was extended until July 31, 2016. The Lease has been further extended for another one year period until July 31, 2017. Under the Lease, effective as of August 1, 2016, the three companies are required to pay monthly basic rent of \$7,194 plus property and operating expenses. In respect to the Lease, the Company has paid a deposit in the amount of \$10,000.
- (e) The Company has entered into a lease agreement with an arm's length party ("Warehouse Lease"). The Warehouse Lease has a term commencing as of December 1, 2015 until May 31, 2016. The Warehouse Lease has been extended for a further period of 3 years commencing June 1, 2016 and expiring on May 31, 2019. The Company pays basic rent of \$3,968 plus the operational cost and the applicable tax totalling \$9,420 per month. The Company has paid a deposit in the amount of \$8,930.

#### **12. CAPITAL MANAGEMENT**

The Company considers its capital to be comprised of shareholders' deficiency and loans.

The Company's objective when managing capital is to maintain adequate levels of funding support for the development and marketing of the Company's online multi-player interactive games and of the Company's electronic gaming tables while maintaining the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds on acceptable terms in the future. There were no changes to the Company's approach to capital management during the nine months ended September 30, 2016. The Company is not subject to externally imposed capital requirements.

#### **13. SEGMENTAL INFORMATION**

The Company has two operating segments, which are the Company's strategic business units. The reportable segments are the licensing of gaming software and the leasing of electronic gaming tables.

As at September 30, 2016, the Company's equipment is located in Canada, and the Company's gaming systems are located in Canada, in the United States, and internationally.

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**14. EVENT AFTER THE REPORTING DATE**

Subsequent to September 30, 2016:

- a) During October 2016, the Company has issued two promissory notes totalling \$66,000 which bear interest at 10% per annum and are payable on demand to a family member related to two directors and officers of the Company.

and,

- b) During November 2016, the Company has repaid \$30,000 of an outstanding loan together with accrued interest.