JACKPOT DIGITAL INC.

Condensed Consolidated Interim Financial Statements
Three Months Ended March 31, 2017 and 2016
(Expressed in Canadian Dollars)
(Unaudited)

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 March 31, 2017 and for the three months ended March 31, 2017 and 2016.

JACKPOT DIGITAL INC.
Condensed Consolidated Balance Sheets
(Expressed in Canadian Dollars)
(Unaudited)

	March 31, 2017	December 31, 2016
		(Audited)
Assets		
Current		
Cash and cash equivalents	$ 45,436	$ 15,173
Accounts receivable (note 5)	371,522	364,056
Due from related parties (notes 5 and 8)	151,800	122,518
Prepaid expenses and deposits (note 12)	51,773	56,177
	620,531	557,924
Gaming Systems	1,564,909	1,655,972
Equipment	97,305	62,359
Intangible Assets	2,651,085	2,815,855
Goodwill	1,269,700	1,269,700
Total Assets	$ 6,203,530	$ 6,361,810
Liabilities		
Current		
Accounts payable and accrued liabilities (note 9)	$ 981,270	$ 1,062,212
Deferred revenue (note 10)	5,932	1,097,455
Payable to Everi Holdings Inc. (“Everi”) (note 6)	5,168,597	5,575,482
Interests payable	357,279	380,555
Loan payable (note 9)	-	25,726
Due to related parties (note 8)	90,934	529,726
Convertible debentures (note 9)	2,026,251	1,916,224
	8,630,263	10,587,380
Deferred Revenue (note 10)	294,732	270,715
Non-Convertible Debentures (note 9)	2,776,677	2,711,549
Total Liabilities	11,701,672	13,569,644
Shareholders’ Deficiency		
Capital Stock (note 7)	44,118,938	42,689,759
Reserves (note 7)	1,773,014	1,769,672
Convertible Debentures - Equity Portion	101,601	101,601
Deficit	(51,491,695)	(51,768,866)
Total Shareholders’ Deficiency	(5,498,142)	(7,207,834)
Total Liabilities and Shareholders’ Deficiency	$ 6,203,530	$ 6,361,810

On behalf of the Board:

“Bedo H. Kalpakian” (signed) ....
Bedo H. Kalpakian, Director

“Neil Spellman” (signed) ……………………………………………..…
Neil Spellman, Director

See notes to condensed consolidated financial statements.

JACKPOT DIGITAL INC.
Condensed Consolidated Statements of Comprehensive Income/(Loss)
(Expressed in Canadian Dollars)

	March 31, 2017	March 31, 2016
Revenues		
Electronic gaming tables (note 10)	$ 1,802,685	$ 643,786
Licensing and other (note 10)	(20,011)	53,402
	1,782,674	697,188
Royalty expense	15,131	160,060
Licensing fee	5,493	63,544
Cost of sales	138,822	28,595
	159,446	252,199
Gross Profit	1,623,228	444,989
Expenses		
Salaries and benefits	412,550	483,722
Interest expense and finance expense	344,997	153,773
Consulting fees	180,918	97,997
Management fees	99,000	99,000
Legal, accounting and audit	(27,529)	14,082
Rent, office and miscellaneous	99,603	71,515
Travel, meals and entertainment	30,151	34,107
Regulatory and transfer agent fees	28,628	21,646
Advertising and promotion	38,376	-
Interest and other income	(46)	-
Foreign exchange gain	(94,025)	(625,032)
Amortization	231,799	251,456
Impairment loss on gaming systems	1,635	-
	1,346,057	602,266
Net Income (Loss) and Comprehensive Income (Loss) for the Period	$ 277,171	$ (157,277)
Basic and Diluted Income (Loss) Per Share (note 11)	$ 0.00	$ (0.00)
Weighted Average Number of Common Shares Outstanding	288,882,500	207,995,400

JACKPOT DIGITAL INC.
Condensed Consolidated Statements of Changes in Shareholders' Deficiency
(Expressed in Canadian Dollars)

	Capital Stock		Reserves		Equity Portion		Total
	Common Shares	Amount	Warrants	Options	of Convertible Debentures	Deficit	Shareholders' Deficiency
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	-	-	-	-	-	(157,277)	(157,277)
Expiry of warrants	-	-	(288,420)	-	-	288,240	-
Expiry of options	-	-	-	(6,299)	-	6,299	-
Share-based payment	-	-	-	63,328	-	-	63,328
Balance, March 31, 2016	155,996,550	42,689,759	1,187,940	533,733	-	$ (45,808,804)	(1,397,372)
Net loss for the period	-	-	-	-	-	(6,000,860)	(6,000,860)
Convertible debentures	-	-	-	-	101,601	-	101,601
Issuance of warrants with debentures	-	-	31,128	-	-	-	31,128
Expiry of options	-	-	-	(40,798)	-	40,798	-
Share-based payment	-	-	-	57,669	-	-	57,669
Balance, December 31, 2016	155,996,550	$ 42,689,759	$ 1,219,068	$ 550,604	$ 101,601	$ (51,768,866)	$ (7,207,834)
Net income (loss) for the period	-	-	-	-	-	277,171	277,171
Rights Offering, net of issuance costs	155,996,550	1,429,179	-	-	-	-	1,429,179
Share-based payment	-	-	-	3,342	-	-	3,342
Balance, March 31, 2017	311,993,100	$ 44,118,938	$ 1,219,068	$ 553,946	$ 101,601	$ (51,491,695)	$ (5,498,142)

See notes to condensed consolidated financial statements.

JACKPOT DIGITAL INC.
Condensed Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	March 31, 2017	March 31, 2016
Operating Activities		
Net income (loss)	$ 277,171	$ (157,277)
Adjustments to reconcile net income/(loss) to net cash used in operating activities		
Amortization	231,799	251,456
Interest expense and finance expense	344,465	153,238
Unrealized foreign exchange gain	(28,036)	(161,311)
Share-based payment	3,342	63,328
Repairs and maintenance	51,020	-
Impairment loss on gaming systems	1,635	-
	881,396	149,434
Changes in non-cash working capital		
Accounts receivable	(7,466)	41,622
Due from related parties	(29,282)	(35,225)
Prepaid expenses and deposits	4,404	12,994
Accounts payable and accrued liabilities	(80,943)	207,756
Deferred revenue (note 10)	(1,091,523)	(11,696)
Payable to Everi	(57,568)	(399,378)
	(1,262,378)	(183,927)
Cash Used in Operating Activities	(380,982)	(34,493)
Financing Activities		
Funds from rights offering	1,429,179	-
Funds from loan payable (note 9)	-	76,000
Repayment of loan payable (note 9)	(25,849)	(178,815)
Funds from related parties (note 8)	100,500	-
Repayment of loan from related party (note 8)	(542,228)	-
Interest payment of convertible debentures (note 9)	(161,599)	-
Cash Provided by/(Used) in Financing Activities	800,003	(102,815)
Investing Activities		
Purchase of equipment	(39,602)	-
Purchase of gaming systems	(23,964)	(30,670)
Consideration paid on the Transaction with Everi	(325,300)	-
Cash Used in Investing Activities	(388,866)	(30,670)
Effect of Foreign Currency Translation on Cash	108	(1,365)
Net Change in Cash and Cash Equivalents	30,263	(169,343)
Cash and Cash Equivalents, Beginning of Period	15,173	227,481
Cash and Cash Equivalents, End of Period	$ 45,436	$ 58,138

See notes to condensed consolidated financial statements.

1. NATURE OF OPERATIONS

Effective June 18, 2015, the Company's name was changed to Jackpot Digital Inc. (formerly Las Vegas From Home.com Entertainment Inc.) (the "Company" or "Jackpot"). The Company develops and leases electronic table games to casino operators, 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" and on the OTCQB under the trading symbol "JPOTF". A certain number of warrants of the Company trade on the TSX-V under the symbol "JP.WT".

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 Highway, Unit W030, Burnaby, British Columbia, Canada, 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 condensed consolidated interim 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 income and comprehensive income of $277,171 during the three months ended March 31, 2017 (March 31, 2016: net loss and comprehensive loss of $157,277), has incurred significant operating losses over the past two fiscal years (2016 - $6,158,137; 2015 - $3,768,817) and has a working capital deficiency of $8,009,732 (December 31, 2016: working capital deficiency of $10,029,456). Although the Company recognized revenue $1,782,674 during the three months ended March 31, 2017, there are no assurances that sufficient funding will be available to the Company to continue its 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 on a regular basis 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 interim 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 Accounting Standard 34 Interim Financial Reporting using the accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). They do not include all of the information required for full annual financial statements.

3. BASIS OF PRESENTATION (Continued)

(b) Basis of measurement (continued)

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 condensed consolidated 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 subsidiaries to all years presented in these condensed consolidated interim financial statements.

(c) Approval of the condensed consolidated interim financial statements

The condensed consolidated interim financial statements of Jackpot for the three months ended March 31, 2017 were approved and authorized for issue by the Board of Directors on May 30, 2017.

(d) Functional and presentation currency

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

(e) Significant accounting judgments, estimates and assumptions

The preparation of the condensed consolidated interim 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 condensed 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:

- Recoverability of accounts receivable and allowance for doubtful accounts

  The Company monitors its exposure for credit losses on its customers 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 customers and related parties

3. BASIS OF PRESENTATION (Continued)

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

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 of March 31, 2017, the Company recorded an allowance for doubtful accounts of $363,805 (December 31, 2016 - $363,805). If circumstances related to specific customers and related parties change, estimates of the recoverability of receivables could also change.

- Intangible assets, gaming systems, and equipment – useful lives

  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, gaming systems and equipment resulting in a change in related amortization expense.

Critical accounting judgments

- 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.

- Impairment of goodwill and intangible assets

  Determining the amount of impairment of goodwill and intangible assets requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many factors used in assessing recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period.

- Debentures

  In accordance with the substance of the contractual arrangement, convertible debentures are compound financial instruments that are accounted for separately by their components: a financial liability and an equity instrument.

  The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount factors and the presence of any derivative financial instruments.

3. BASIS OF PRESENTATION (Continued)

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

- Development expenditures

  The application of the Company's accounting policy for 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 new information suggests future economic benefits are unlikely, the amount capitalized in excess over the recoverable value is written off to profit or loss in the period the new information becomes available. As at March 31, 2017, no development expenditures have been capitalized.

- Functional currency

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

- Business combination

  Management has had to apply judgments relating to the asset purchase transaction with Everi Holdings Inc. (note 6) 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 the acquisition in order to reach a conclusion.

- Fair value of assets acquired in a business combination

  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 judgment and include estimates of future cash flows.

- Determination of cash-generating units ("CGU")

  CGUs are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash flows of other assets or groups of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users and the way in which management monitors the Company's operations.

- 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 subsidiaries, Jackpot Digital (NV), Inc. (incorporated in the USA) and Touche Capital Inc. (incorporated in British Columbia), are included in the condensed consolidated interim 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 condensed consolidated interim 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.

(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.

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 and accounts receivable

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (continued)

(i) Financial assets (continued)

(excluding GST receivable) as loans and receivables. Recoveries of bad debt expenses and reversal of allowance for doubtful accounts are recognized in profit or loss in the period realized.

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 definition 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. As at March 31, 2017, there are no financial assets classified as held-to-maturity.

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. As at March 31, 2017, there are no financial assets classified as AFS.

(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. As at March 31, 2017, there are no financial liabilities classified as FVTPL.

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 amount originally received, net of transaction costs, and the maturity amount 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, due to related parties, payable to Everi, convertible debentures and non-convertible debenture as other financial liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (continued)

(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 and gaming systems are expensed as incurred unless such costs meet the criteria for deferral and amortization under IFRS. The criteria include 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.

(e) Gaming systems and equipment

Gaming systems represent gaming tables and parts for the assembly of the tables owned by the Company. The majority of the gaming tables are operated at customer sites pursuant to contractual license agreements. The gaming systems may also include gaming tables used by the Company for demonstration or testing purposes.

Parts for assembly are transferred to gaming tables at the time the units are fully assembled, configured, tested and otherwise ready for use by a customer. As the configuration of each gaming table is unique to the specific customer environment in which it is being placed, the final steps to configure and test the unit generally occurs immediately prior to shipment. Amortization expense for the gaming tables begins in the month of transfer of each gaming table from the parts for assembly to the gaming tables.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Gaming systems and equipment (continued)

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

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

Gaming table parts are amortized once the gaming tables are constructed.

Gains 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 profit or loss.

(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 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 their 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 CGU 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.

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

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

(f) 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 requires judgment in the determination of the fair value of assets and liabilities. Goodwill is allocated to the Company's CGUs or group of CGUs 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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Goodwill (continued)

goodwill is included in the determination of the gain or loss on disposal. The Company performs the annual goodwill impairment tests on December 31.

(g) Impairment of non-financial assets

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. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and 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.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased When an impairment loss subsequently reverses (except for goodwill), the carrying amount of the asset (or CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(h) Revenue recognition

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. The Company derives revenue from the lease of electronic gaming tables, maintenance, installation and support services related to those products, the sale of perpetual software licenses, software license subscriptions and professional services fees.

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 can be measured reliably.

(ii) Electronic gaming tables

For sales of gaming systems with multiple deliverables, revenue is generally recognized for the hardware and embedded software unit of accounting at time of delivery based on the relative selling price method using best estimate of selling price. Revenue related to professional services (installation and training) is recognized as those services are delivered, which usually occurs at or near the time of delivery of the gaming system. Revenue allocated to post contract services ("PCS") is recognized as those services are delivered on a ratable basis over the

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Revenue recognition (Continued)

(ii) Electronic gaming tables (Continued)

PCS term. Revenue recognized from the delivery of gaming systems and installation and training services are limited to those amounts that are not contingent upon the delivery of future PCS or other services.

Lease arrangements are generally accounted for as operating leases, as the terms are typically less than 75% of the economic life of the leased product, they do not contain bargain purchase options, transfer of ownership or have minimum lease payments greater than 90% of the fair value of the leased equipment. For lease arrangements containing multiple deliverables, revenue from fixed-fee leases of hardware and embedded software is generally recognized on a straight-line basis over the contract term. For leases with participation features, where consideration varies based on the monthly amount of revenue earned by the customer, revenue is generally recognized on a monthly basis as the lease price for each period becomes fixed and determinable. To the extent that installation and training services are provided in a lease arrangement, those professional services are treated as separate units of accounting and the allocated amounts are recognized as those services are delivered, limited to the amount that is not contingent upon the delivery of future services.

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

(i) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) 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.

(k) 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 consideration other than cash are valued at the fair value of assets received or services rendered. If the fair value of assets received or services rendered cannot be reliably measured, shares issued for consideration will be valued at the quoted market price at the date of issuance.

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.

(l) 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 condensed 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 profit or loss for the year.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) New accounting pronouncements

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

IFRS 9 Financial Instruments

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- *Classification and measurement of financial assets:*
  Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: “amortized cost”, “fair value through other comprehensive income”, or “fair value through profit or loss” (default). Equity instruments are classified and measured as “fair value through profit or loss” unless upon initial recognition elected to be classified as “fair value through other comprehensive income”.

- *Classification and measurement of financial liabilities:*
  When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity’s own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.

- *Impairment of financial assets:*
  An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at “amortized cost” or “fair value through other comprehensive income”, lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.

- *Hedge accounting:*
  Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

  Applicable to the Company’s annual period beginning on 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) New accounting pronouncements (continued)

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.

(b) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts payable and accrued liabilities, trade accounts receivable, payable to Everi, loan payable, due to related parties and due from related parties approximate their carrying values due to the short-term maturity of these instruments. The non-convertible debenture and convertible debentures are 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:

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

(b) Fair value of financial instruments (Continued)

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, due from related parties and accounts receivable. 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. As at March 31, 2017, allowances for doubtful accounts for due from related parties is $323,524 (December 31, 2016 - $323,524).

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 March 31,2017, allowance for doubtful accounts is $40,281 (December 31, 2016 - $40,281) and the Company's accounts receivable are due within 60 days.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meets 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 March 31, 2017, the Company has cash and cash equivalents of $45,436 (December 31, 2016 - $15,173) available to apply against short-term business requirements and current liabilities of $8,630,263 (December 31, 2016 - $10,587,380). All of the liabilities presented as accounts payable and accrued liabilities are due within 90 days of March 31, 2017.

(e) 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.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(f) Market risk (Continued)

(i) Currency risk

The Company is exposed to foreign currency risk and has significant financial assets and liabilities denominated in US dollars. The Company has not entered into any foreign currency contracts to mitigate this risk. At March 31, 2017, 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)	
	March 31, 2017	**December 31, 2016**
Cash (cheques issued in excess of funds on deposit)	$ 14,426	$ (2,969)
Accounts receivable	355,430	316,333
Accounts payable and accrued liabilities	(449,368)	(411,486)
Payable to Everi	(5,168,597)	(5,575,482)
Non-convertible debenture	(2,776,677)	(2,711,549)
Net financial assets (liability)	$ (8,024,786)	$ (8,385,153)

Based upon the above net exposure as at March 31, 2017 and assuming all other variables remain constant, a 4% depreciation or appreciation of the US dollar relative to the Canadian dollar would result in a change of approximately $320,991 (December 31, 2016 - $335,406) in the Company's condensed 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 March 31, 2017, 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 exposed to interest rate price risk to the extent of these financial liabilities.

(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.

(Expressed in Canadian Dollars, unless otherwise stated)

6. TRANSACTION WITH EVERI HOLDINGS INC.

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 ("Everi") (formerly Multimedia Games, Inc.), whereby the Company purchased the assets of the PokerTek business unit of Everi, including gaming systems (parts and tables), software, patents and all the licensing contracts with third parties related to the PokerTek business unit (the "Transaction").

Pursuant to the Agreement, the consideration includes 7,500,000 warrants. Each warrant entitles the holder to purchase 1 common share of the Company for $0.20 over a period of five years starting on August 10, 2015 being the "Closing Date" of the Transaction. The consideration includes "Cash Consideration" of which the amount is contingent on when it is paid:

- US$5,400,000 if paid by September 30, 2015;
- US$6,000,000 if paid by December 31, 2015;
- US$7,500,000 if paid after December 31, 2015.

The Company is required to pay monthly "Adjusted Installment Payments" which is applied against the total Cash Consideration payable to Everi. The Adjusted Installment Payments comprise 60% of monthly PokerTek net revenue less the amount of the "Regulated Credit" for the electronic gaming table regulated licenses. No Adjusted Installment Payment is required when the "Regulated Credit" exceeds 60% of monthly PokerTek net revenue.

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

Consideration		
Cash	$	9,568,365
Warrants		2,147
	$	9,570,512

Purchase Price Allocation		
Gaming systems – Gaming tables	$	1,526,703
Gaming systems – Parts		956,874
Acquired intangible assets		4,096,915
Fair value of identifiable net assets acquired		6,580,492
Goodwill		2,990,020
Total net assets acquired	$	9,570,512

The balance of goodwill is the difference between the Transaction date fair value of the consideration transferred and the fair 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.

The Company paid $2,669,000 or US$2,000,000 cash consideration and issued 7,500,000 warrants on the Closing Date. In 2016, the Company increased the payable to Everi by $437,085 with a charge against profit or loss to recognize the change in total Cash Consideration payable to US$7,500,000. In addition, during 2016, the Company paid Everi $738,485 or US$550,000. During the three months ended March 31, 2017, the Company paid Everi $325,300 or US $250,000. As at March 31, 2017, the Company has a payable to Everi of $5,168,597 or US$3,886,455 (December 31, 2016 - $5,575,482 or US$4,152,440).

(Expressed in Canadian Dollars, unless otherwise stated)

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

As of March 31, 2017, there are 311,993,100 common shares issued and outstanding.

During the three months ended March 31, 2017:

- On January 20, 2017, the Company completed its rights offering and issued 155,996,550 units comprised of 155,996,550 common shares and share purchase warrants to purchase up to an additional 155,996,550 common shares, for total gross proceeds of $1,559,966. Each warrant entitles the holders to purchase one additional common share at a price of $0.05 until January 20, 2022. The share purchase warrants trade on the TSX-V. Additionally, the stand-by guarantors received bonus warrants entitling them to purchase a total of 32,375,000 common shares of the Company equal to 25% of the total number of units the stand-by guarantors had agreed to purchase under the stand-by commitments, exercisable at a price of $0.05 per share until January 20, 2022.

There were no common share issuances during the year ended December 31, 2016.

(c) Warrants

Warrants activity for the three months ended March 31, 2017 and the year ended December 31, 2016 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2015	132,237,064	$ 0.11
Issued	6,000,000	$ 0.10
Expired	(1,365,750)	$ 0.11
Balance, December 31, 2016	136,871,314	$ 0.11
Issued	188,371,550	$ 0.05
Balance, March 31, 2017	**325,242,864**	**$ 0.03**

(Expressed in Canadian Dollars, unless otherwise stated)

7. CAPITAL STOCK (Continued)

(c) Warrants (continued)

At March 31, 2017 and 2016, the following warrants and compound warrants were outstanding and exercisable:

Expiry Date		Exercise Price	Number of Warrants 2017	2016
February 27, 2019	$	0.10*****	8,500,000	8,500,000
March 3, 2019	$	0.10*****	3,971,429	3,971,429
March 9, 2019	$	0.10*****	2,715,000	2,715,000
April 17, 2019	$	0.10*****	11,500,000	11,899,000
April 17, 2017	$	0.10	399,000	-
May 6, 2017	$	0.10	1,500,000	1,500,000
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 10, 2017	$	0.16*	3,125,000	3,125,000
October 22, 2017	$	0.10***	4,150,000	4,150,000
November 5, 2017	$	0.10***	4,801,000	4,801,000
November 18, 2017	$	0.10***	1,748,385	1,748,385
January 30, 2018	$	0.10****	14,375,000	14,375,000
March 25, 2018	$	0.10****	15,000,000	15,000,000
April 28, 2018	$	0.05/0.10	6,000,000	-
August 4, 2020	$	0.20	7,500,000	7,500,000
August 10, 2020	$	0.20	7,500,000	7,500,000
January 20, 2022	$	0.05	155,996,550	-
January 20, 2022	$	0.05	32,375,000	-
	$	0.03	325,242,864	130,871,314

* 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.
*** The expiry of these warrants has been extended for a two year period from 2015 to 2017.
**** The expiry of these warrants has been extended for a two year period from 2016 to 2018.
***** The expiry of these warrants has been extended for a two year period from 2017 to 2019.

The weighted average remaining contractual life for warrants outstanding at March 31, 2017 is 3.12 (March 31, 2016 – 2.97) years.

(Expressed in Canadian Dollars, unless otherwise stated)

7. CAPITAL STOCK (Continued)

(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 March 31, 2017, there are 16,729,310 (December 31, 2016 – 1,129,655) 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 three months ended March 31, 2017 and 2016. The options vest 25% on grant and thereafter at 25% every four or six months.

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2015	15,095,750	$ 0.06
Expired	(625,750)	$ 0.11
Balance, December 31, 2016 and March 31, 2017	14,470,000	$ 0.06

The weighted average remaining contractual life for options outstanding at March 31, 2017 is 1.02 (March 31, 2016 – 1.97) years.

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 $nil as at March 31, 2017 (March 31, 2016 - $46,386) were recognized as salaries expense and $3,342 as at March 31, 2017 (March 31, 2016 - $16,942) was recognized as consulting fees for options granted to consultants.

8. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the condensed consolidated interim financial statements, related party transactions for the three months ended March 31, 2017 and 2016 are as follows.

As at March 31, 2017, the Company has a balance of $151,800 (December 1, 2016 - $122,518) due from entities with common directors, net of allowance for doubtful accounts of $323,524 (December 31, 2016 - $323,524). The amounts due from related parties are unsecured, due on demand without interest.

During the three months ended March 31, 2017 and 2016, the following related party transactions took place:

		2017		2016
Rent recovered from entities with common directors	$	(7,070)	$	(14,786)
Office and other expenses recovered from entities with common directors	$	(21,797)	$	(36,464)
Interest charged on amounts due to related parties	$	(2,937)	$	2

8. RELATED PARTY TRANSACTIONS (Continued)

During the three months ended March 31, 2017, the Company has paid management fees totalling $99,000 to a company owned by two directors (March 31, 2016: $99,000).

During the three months ended March 31, 2017, the Company:

(a) Entered into two loans with a company owned by a director of the Company and with a director of the Company for the amounts of $100,000 and $500, bearing interest rates of 10% and prime plus 1% per annum, respectively, which are unsecured and due on demand. During the three months period ended March 31, 2017, the Company repaid $10,000. As at March 31, 2017, the total balance of these outstanding loans together with the accrued interest is $90,934.

During the year ended December 31, 2016, the Company:

(a) Entered into two loans with a company owned by a director of the Company for the amounts of $300,000 and $20,000, bearing interest rates of 10% and prime plus 1% per annum, respectively, which are unsecured and due on demand. As at December 31, 2016, the total balance of these loans including accrued interest was $322,550. During the three months ended March 31, 2017, the Company repaid these loans together with the accrued interest totaling $324,066.

(b) Entered into promissory notes with a family member of two directors of the Company for the amount of $231,500, bearing interest rate of 10% per annum, unsecured and due on demand. The Company repaid the amount of $31,500 prior to year-end. As at December 31, 2016, the total balance of the promissory notes including accrued interest was $207,176. During the three months ended March 31, 2017, the Company repaid these promissory notes together with the accrued interest totalling $208,162.

9. LOAN PAYABLE AND DEBENTURES

Loan payable

During the year ended December 31, 2016, the Company entered into short-term loan agreements with several arm's length parties totaling the amount of $311,000. During the year ended December 31, 2016, the Company repaid $293,892 of the loans together with accrued interest ($7,892) and as at December 31, 2016, $25,726 remained outstanding. During the three months period ended March 31, 2017, the Company repaid the outstanding loan together with the accrued interest totalling $25,849.

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. The loan bore interest at the rate of 10% per annum, payable on a quarterly basis and was due on December 31, 2015. During the year ended December 31, 2016, the Company repaid the loan together with the accrued interest totaling $137,157.

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. The non-convertible secured debentures are secured against the Company's assets. 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.

9. LOAN PAYABLE AND DEBENTURES (Continued)

*Non-convertible secured debentures (*continued*)*

In addition, the Company is required to pay the lenders certain royalty percentages of net revenues during the three year period. The terms of the royalty percentages were amended on April 28, 2016.

The liability component of the non-convertible debentures was recognized initially at the fair value of a similar liability that does not have attached warrants, 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 non-convertible debentures represent the value of the warrants, which has been recognized as a component of equity.

As at March 31, 2017, the amount of $2,776,677 (December 31, 2016 - $2,711,549) has been recorded as the non-convertible secured debentures.

Convertible secured debentures

During the year ended December 31, 2016, the Company issued convertible secured debentures financing that 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 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. (fair valued at $31,128). 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. The convertible secured debentures are secured against the Company's assets.

During the three months ended March 31, 2017, the Company paid $161,599 of accrued interests.

As at March 31, 2017, the amount of $2,026,251 (December 31, 2016: $1,916,224) has been recorded as the liability portion of convertible secured debentures and the amount of $101,601 (December 31, 2016: $101,601) has been recorded as the equity portion of convertible secured debentures reserve. The effective interest rate was 20%.

10. DEFERRED REVENUE

As at March 31, 2017, the Company recorded $5,932 (December 31, 2016 - $15,357) in deferred revenue with respect to its license agreements. During the three months ended March 31, 2017, the Company recognized $9,425 as licensing revenue. The Company terminated its license agreement with a licensee, consequently the Company will refund the amount of $29,455 to the licensee.

In addition, as of March 31, 2017, the Company recorded $294,732 (December 31, 2016 - $1,352,812) in deferred revenue with respect to electronic gaming table regulated licenses. During the three months ended March 31, 2017, the Company received a gaming license. Consequently, the Company recognized $1,071,782 as Electronic gaming table revenues, which amount was netted against the payable balance to Everi in accordance with the Agreement (note 6).

(Expressed in Canadian Dollars, unless otherwise stated)

11. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings per share for the three months ended March 31, 2017 and 2016 is based on the following:

		2017		2016
Net income (loss) and comprehensive income (loss for the period	$	277,171	$	(157,277)
Basic weighted average number of common shares outstanding		288,882,500		207,995,400
Effect of dilutive securities		-		-
Diluted weighted average number of common shares		288,882,500		207,995,400
Basic earnings (loss) per share	$	0.00	$	(0.00)
Diluted earnings (loss) per share	$	0.00	$	(0.00)

12. 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 and officers 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, 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 upon 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, 2018. The agreement can be terminated by either party upon giving three months’ written notice.

The Company, together with 37 Capital and Green Arrow Resources Inc. (“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. Effective as of December 1, 2016, Green Arrow is no longer required or obligated to pay basic rent and operating expenses.

12. COMMITMENTS (Continued)

(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 three years commencing June 1, 2016 and expiring 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.

13. 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 three months period ended March 31, 2017. The Company is not subject to externally imposed capital requirements.

14. EVENTS AFTER THE REPORTING DATE

The following events occurred after March 31, 2017:

(a) During April 2017, a total of 399,000 finder's warrants with an exercise price of $0.10 per share expired unexercised.

(b) During April 2017, the Company together with 37 Capital have entered into an office lease agreement with an arm's length party (the "Lease"). The Lease has a three-year term with a commencement date of August 1, 2017. The annual basic rent shall be $121,396 plus estimated annual operating costs of approximately $88,000. 37 Capital's share of the office basic rent and operating costs shall be $28,800 plus applicable taxes per annum.

(c) During May, 2017, a total of 1,500,000 warrants with an exercise price of $0.10 per share expired unexercised.

(d) In respect to the debt owed by Green Arrow to the Company in the amount of $153,147 or shared office rent, office support services and miscellaneous office expenses up to November 30, 2016 ("Green Arrow's Debt"), during May 2017, Green Arrow issued an aggregate of 3,062,949 common shares at a deemed price of $0.05 per share in settlement of Green Arrow's Debt. Pursuant to Assignment of Debt Agreements between the Company, Green Arrow, Dumont Capital Corp. ("Dumont") and 0787129 BC Ltd. ("0787129"), the Company assigned $53,147of Green Arrow's Debt to Dumont and 0787129. As consideration, during May 2017 the Company received cash payments from Dumont and 0787129 totalling the amount of $53,147.