**LAS VEGAS FROM HOME.COM ENTERTAINMENT INC.**

**Consolidated Financial Statements**
**December 31, 2012 and 2011**
**(Expressed in Canadian Dollars)**

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SmytheRatcliffe
CHARTERED ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF LAS VEGAS FROM HOME.COM ENTERTAINMENT INC.

We have audited the accompanying consolidated financial statements of Las Vegas From Home.com Entertainment Inc., which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of comprehensive loss, shareholders' equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Las Vegas From Home.com Entertainment Inc. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*
Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP
Chartered Accountants

Vancouver, British Columbia
April 30, 2013



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**LAS VEGAS FROM HOME.COM ENTERTAINMENT INC.**
**Consolidated Balance Sheets**
**As at December 31**
**(Expressed in Canadian Dollars)**

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash and cash equivalents (note 5(a)) | $ | 23,288 | $ | 149,756 |
| Short-term investment (note 7) | | - | | 50,000 |
| Accounts receivable | | 23,411 | | 33,377 |
| Due from related parties (note 12) | | 44,973 | | 8,400 |
| Prepaid expenses | | 4,805 | | 20,943 |
| | | 96,477 | | 262,476 |
| **Investment Deposit** (note 10) | | - | | 500,000 |
| **Lease Deposit** | | - | | 23,557 |
| **Equipment** (note 9) | | 88,222 | | 203,344 |
| **Total Assets** | $ | 184,699 | $ | 989,377 |
| **Liabilities** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities (note 8) | $ | 413,311 | $ | 236,977 |
| Due to related parties (note 12) | | 743,257 | | - |
| Unearned revenues | | - | | 83,362 |
| Obligation to issue shares (note 6) | | 132,397 | | - |
| **Total Liabilities** | | 1,288,965 | | 320,339 |
| **Shareholders' Equity (Deficiency)** | | | | |
| **Capital Stock** (note 11) | | 36,925,290 | | 36,041,909 |
| **Reserves** (note 11) | | 513,667 | | 702,010 |
| **Deficit** | | (38,543,223) | | (36,074,881) |
| **Total Shareholders' Equity (Deficiency)** | | (1,104,266) | | 669,038 |
| **Total Liabilities and Shareholders' Equity (Deficiency)** | $ | 184,699 | $ | 989,377 |

On behalf of the Board:

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

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

See notes to consolidated financial statements.

**LAS VEGAS FROM HOME.COM ENTERTAINMENT INC.**
**Consolidated Statements of Comprehensive Loss**
**Years Ended December 31**
**(Expressed in Canadian Dollars)**

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Sales | $ | 71,486 | $ | 506,923 |
| Licensing | | 71,754 | | 175,885 |
| | | 143,240 | | 682,808 |
| **Expenses (Income)** | | | | |
| Advertising and promotion | | 47,288 | | 2,078 |
| Amortization (note 9) | | 48,373 | | 70,138 |
| Bad debt | | 34,993 | | 330,603 |
| Consulting fees | | 189,845 | | 359,157 |
| Foreign exchange gain | | (655) | | (9,172) |
| Loss (gain) on sale of equipment | | 57,009 | | (10,000) |
| Impairment of investment deposit (note 10) | | 500,000 | | 500,000 |
| Interest and other income | | (2,270) | | (5,082) |
| Legal, accounting and audit | | 164,014 | | 199,541 |
| Management fees (note 12) | | 396,000 | | 396,000 |
| Regulatory and transfer agent fees | | 13,980 | | 13,916 |
| Rent, office and miscellaneous (note 12) | | 245,006 | | 335,869 |
| Salaries and benefits | | 980,105 | | 1,307,143 |
| Travel, meals and entertainment | | 144,765 | | 250,713 |
| | | 2,818,453 | | 3,740,904 |
| **Net Loss and Comprehensive Loss for the Year** | $ | (2,675,213) | $ | (3,058,096) |
| **Basic and Diluted Loss Per Share** | $ | (0.10) | $ | (0.13) |
| **Weighted Average Number of Common Shares Outstanding** | | 26,389,594 | | 23,079,480 |

See notes to consolidated financial statements.

**LAS VEGAS FROM HOME.COM ENTERTAINMENT INC.**
**Consolidated Statements of Shareholders' Equity (Deficiency)**
**(Expressed in Canadian Dollars)**

| | Capital Stock | | | Reserves | | Total Shareholders' Equity (Deficiency) |
|---|---|---|---|---|---|---|
| | Common Shares | Amount | Deficit | Warrants | Options | |
| **Balance, December 31, 2010** | 21,470,693 | $ 33,748,064 | $ (33,055,397) | $ 66,780 | $ 595,308 | $ 1,354,755 |
| Net loss for year | - | - | (3,058,096) | - | - | (3,058,096) |
| Private placement, net of issuance costs | 2,404,438 | 1,521,755 | - | 33,046 | - | 1,554,801 |
| Warrants exercised | 589,375 | 471,500 | - | - | - | 471,500 |
| Transfer of fair value recorded in warrant reserve on exercise of warrants | - | 8,000 | - | (8,000) | - | - |
| Options exercised | 229,688 | 183,750 | - | - | - | 183,750 |
| Transfer of fair value recorded in option reserve on exercise of options | - | 108,840 | - | - | (108,840) | - |
| Expiry of options | - | - | 35,246 | - | (35,246) | - |
| Forfeiture of options | - | - | 3,366 | - | (3,366) | - |
| Share-based payment | - | - | - | - | 162,328 | 162,328 |
| **Balance, December 31, 2011** | 24,694,194 | 36,041,909 | (36,074,881) | 91,826 | 610,184 | 669,038 |
| Net loss for year | - | - | (2,675,213) | - | - | (2,675,213) |
| Private placement, net of issuance costs | 4,520,188 | 883,381 | - | 6,869 | - | 890,250 |
| Expiry of warrants | - | - | 58,780 | (58,780) | - | - |
| Expiry of options | - | - | 75,658 | - | (75,658) | - |
| Cancellation of options | - | - | 72,433 | - | (72,433) | - |
| Share-based payment | - | - | - | - | 11,659 | 11,659 |
| Adjustment due to fractional rounding up pursuant to consolidation | 7 | - | - | - | - | - |
| **Balance, December 31, 2012** | 29,214,389 | $ 36,925,290 | $ (38,543,223) | $ 39,915 | $ 473,752 | $ (1,104,266) |

See notes to consolidated financial statements.

**LAS VEGAS FROM HOME.COM ENTERTAINMENT INC.**
**Consolidated Statements of Cash Flows**
**Years Ended December 31**
**(Expressed in Canadian Dollars)**

| | 2012 | 2011 |
|---|---|---|
| **Operating Activities** | | |
| Net loss | $ (2,675,213) | $ (3,058,096) |
| Items not affecting cash | | |
| Amortization | 48,373 | 70,138 |
| Effect of foreign currency translation on cash | 49 | (9,172) |
| Share-based payment | 11,659 | 162,328 |
| Impairment of investment deposit | 500,000 | 500,000 |
| Loss (gain) on sale and disposal of equipment | 57,009 | (10,000) |
| | (2,058,123) | (2,344,802) |
| Changes in non-cash working capital | | |
| Short-term investment | 50,000 | (50,000) |
| Accounts receivable | 9,966 | 36,144 |
| Due from related parties | (36,573) | 13,727 |
| Prepaid expenses | 16,138 | (16,700) |
| Accounts payable and accrued liabilities | 176,334 | 66,780 |
| Unearned revenues | (83,362) | 41,364 |
| | 132,503 | 91,315 |
| **Cash Used in Operating Activities** | (1,925,620) | (2,253,487) |
| **Financing Activities** | | |
| Due to related parties | 743,257 | - |
| Proceeds from common shares and warrants issued, net of share issuance costs | 890,250 | 2,210,051 |
| Share subscriptions received | 132,397 | - |
| **Cash Provided by Financing Activities** | 1,765,904 | 2,210,051 |
| **Investing Activities** | | |
| Proceeds from lease deposit | 23,557 | - |
| Proceeds from sale of equipment | 9,740 | 10,000 |
| Purchase of equipment | - | (1,320) |
| **Cash Provided by Investing Activities** | 33,297 | 8,680 |
| **Effect of Foreign Currency Translation on Cash** | (49) | 9,172 |
| **Net Change in Cash and Cash Equivalents** | (126,468) | (25,584) |
| **Cash and Cash Equivalents, Beginning of Year** | 149,756 | 175,340 |
| **Cash and Cash Equivalents, End of Year** | $ 23,288 | $ 149,756 |

**Supplemental Cash Flow Information** (note 16)

## 1. NATURE OF OPERATIONS

The principal business of Las Vegas From Home.com Entertainment Inc. (the “Company” or “LVFH”) is the developing and marketing of software for online multi-player interactive card games (the “Company’s Gaming Software”). The Company’s common shares trade on the TSX Venture Exchange (“TSX-V”) under the symbol “LVH”.

The Company’s head office is located at Suite 300 – 570 Granville Street, Vancouver, British Columbia, Canada, V6C 3P1. The Company is the ultimate parent company.

On April 4, 2013, all of the issued common shares and equity instruments of the Company were consolidated on the basis of 8 pre-consolidation common shares for 1 post-consolidation common share. As a result of the consolidation, all share information in the consolidated financial statements has been retrospectively restated to reflect the consolidation, unless otherwise stated.

## 2. GOING CONCERN

These 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 substantial doubt on the validity of this assumption. The Company has incurred significant operating losses over the past two fiscal years (2012 - $2,675,213; 2011 - $3,058,096), has a deficit of $38,543,223 (2011 - $36,074,881), a working capital deficiency of $1,192,488 (2011 - $57,863), has limited revenues and resources, and has 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.

Although management believes that the revenues generated from the Company’s Gaming Software represent lawful businesses, there is the risk that the legality may be challenged by Canadian or other legal authorities. If the legality is challenged by any legal authority and the challenge is sustained, it may have a material adverse impact on the financial affairs of the Company.

If the going concern assumption were not appropriate for these consolidated financial statements then adjustments would be necessary to the carrying value 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 consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board.

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

(a) Statement of compliance (continued)

These consolidated 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"). These consolidated financial statements have been prepared under the accrual basis of accounting, except for cash flow information. The accounting policies set below have been applied consistently by the Company and its subsidiaries.

(b) Approval of the financial statements

The consolidated financial statements of LVFH for the year ended December 31, 2012 were approved and authorized for issue by the Board of Directors on April 30, 2013.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional and reporting currency.

(d) New accounting pronouncements

IFRS 9 *Financial Instruments* (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognized in the profit or loss

The concept of "embedded derivatives" does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

This standard is only applicable if it is optionally adopted for annual periods beginning before January 1, 2015. For annual periods beginning on or after January 1, 2015, the Company must adopt IFRS 9 (2010). The Company has not yet assessed the impact of adopting this standard on its consolidated financial statements.

IFRS 9 *Financial Instruments* (2010)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

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

(d) New accounting pronouncements (continued)

IFRS 9 *Financial Instruments* (2010) (continued)

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at FVTPL; in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income (loss) rather than within profit or loss.

This standard applies to annual periods beginning on or after January 1, 2015 and supersedes IFRS 9 (2009). However, for annual reporting periods beginning before January 1, 2015, an entity may early-adopt IFRS 9 (2009) instead of applying this standard. The Company has not yet assessed the impact of adopting this standard on its consolidated financial statements.

IFRS 13 *Fair Value Measurement*

This IFRS standard defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a “fair value hierarchy” based on the nature of the inputs:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability.

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g., whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified.

This standard is applicable to annual reporting periods beginning on or after January 1, 2013. The Company has not yet assessed the impact of adopting this standard on its consolidated financial statements.

IAS 27 *Separate Financial Statements*

This amended version now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 *Consolidated and Separate Financial Statements.* Requirements for consolidated financial statements are now contained in IFRS 10 *Consolidated Financial Statements*. This standard is applicable to annual periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).

The Company has not early-adopted this revised standard and is currently assessing the impact that this standard will have on its consolidated financial statements.

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

(d) New accounting pronouncements (continued)

IAS 28 *Investments in Associates and Joint Ventures* (2011)

This standard supersedes IAS 28 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The standard defines "significant influence" and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. This standard is applicable to annual periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

The Company has not early-adopted this revised standard and is currently assessing the impact that this standard will have on its consolidated financial statements.

IFRS 10 *Consolidated Financial Statements*

Requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*.

The standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

The standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in "special purpose entities"). Under IFRS 10, control is based on whether an investor has power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the returns. This standard is applicable to annual periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

The Company has not early-adopted this revised standard and is currently assessing the impact that this standard will have on its consolidated financial statements.

IFRS 11 *Joint Arrangements*

Replaces IAS 31 *Interests in Joint Ventures*. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

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

(d) New accounting pronouncements (continued)

IFRS 11 *Joint Arrangements* (continued)

Joint arrangements are either joint operations or joint ventures:

- A **joint operation** is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognize their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly)

- A **joint venture** is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 *Investments in Associates and Joint Ventures* (2011). Unlike IAS 31, the use of “proportionate consolidation” to account for joint ventures is not permitted.

This standard is applicable to annual periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

The Company has not early-adopted this revised standard and is currently assessing the impact that this standard will have on its consolidated financial statements.

IFRS 12 *Disclosure of Interests in Other Entities*

Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- **Significant judgments and assumptions** – such as how control, joint control, significant influence has been determined
- **Interests in subsidiaries** – including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- **Interests in joint arrangements and associates** – the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information)
- **Interests in unconsolidated structured entities** – information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

IFRS 12 lists specific examples and additional disclosures that further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

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

(d) New accounting pronouncements (continued)

IFRS 12 *Disclosure of Interests in Other Entities* (continued)

This standard is applicable to annual periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011). The Company has not early-adopted this revised standard and is currently assessing the impact that this standard will have on its consolidated financial statements.

(e) Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of these consolidated financial statements include impairment of financial and non-current assets, recognition of revenue in accordance with contract terms, allowance for doubtful accounts, accrued liabilities, assumptions used in the determination of fair value of share-based compensation, rates of amortization for equipment and recognition of deferred income tax assets. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies of the Company include the following:

(a) Principles of consolidation

(i) Subsidiaries

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, MT Ventures Inc. and Blue Cactus Enterprises Inc., are included in the consolidated financial statements from the date that control commenced.

(ii) Transactions eliminated on consolidation

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 into known amounts of cash with original maturities of three months or less.

(c) Short-term investment

The short-term investment consists of a guaranteed investment certificate with a maturity date of greater than three months and less than one year.

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

(d) 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.

*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. Interest income is recognized by applying the effective interest rate method.

*Held-to-maturity*

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (continued)

(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 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.

(iii) Effective interest method

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(iv) Fair value hierarchy

IFRS 7 *Financial Instruments: Disclosures* requires classification of fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined 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.

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

(e) Software development costs

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. Software 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.

(f) Amortization

Amortization of software and development costs, furniture and equipment is calculated on the following bases and annual rates:

| | |
|---|---|
| Software and development costs | - 5 years straight-line |
| Computer equipment | - 30% - 55% declining-balance |
| Office furniture | - 20% declining-balance |

(g) Revenue recognition

The Company recognizes revenues from licensees upon completion of each game according to the terms and conditions of each individual license agreement.

(i) Rake percentages from licensees

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

(ii) Sales revenue

From time to time the Company may sell copies of its source code. Revenue from these sales is recognized in accordance with the specific terms of the respective sale agreement.

(h) Income taxes

Income tax expense consists of current and deferred tax expense and is recognized in the 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.

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

(h) Income taxes (continued)

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 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.

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.

(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 or are cancelled after vesting, the recorded value is transferred to deficit.

(j) Earnings (loss) per share

Basic earnings (loss) per share is calculated using 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.

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

(j) Earnings (loss) per share (continued)

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(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. Amounts included in option or warrant reserve related to the warrant or option exercised are transferred to capital stock. Capital stock issued for non-monetary consideration is valued at the closing 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. For those options or warrants that expire unexercised the amount recorded in options or warrants reserve is transferred to deficit.

(l) Foreign currency translation

The accounts of foreign operations are translated into Canadian dollars as follows:

(i) Monetary assets and liabilities, at the rate of exchange in effect at the 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) Revenue and expense items (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange prevailing at the transaction date.

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

(m) Impairment

*Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is the present value of the estimated future cash flows discounted at the asset’s original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment (continued)

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

*Non-financial assets*

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit (“CGU”)). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

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. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived.

An impairment loss would be recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(n) Operating segment

The Company has only one operating segment, the licensing of gaming software.

## 5. FINANCIAL INSTRUMENTS

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company classifies its financial instruments as follows: cash and cash equivalents are classified as financial asset at FVTPL; accounts receivable and due from related parties, as loans and receivable; short-term investments, as held-to-maturity; and accounts payable and accrued liabilities and due to related parties, as other financial liabilities, which are measured at amortized cost. The carrying values of these instruments approximate their fair values due to their short term to maturity.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

## 5. FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages credit risk, in respect of cash and cash equivalents and short-term investments, by purchasing highly liquid, short-term investment-grade securities held at a major Canadian financial institution in accordance with the Company's investment policy.

The Company's concentration of credit risk and maximum exposure thereto is as follows:

| | 2012 | 2011 |
|---|---|---|
| Bank accounts | $ 6,038 | $ 132,506 |
| Term deposits | 17,250 | 17,250 |
| Short-term investment | - | 50,000 |
| | $ 23,288 | $ 199,756 |

The Company is exposed to credit risk on its accounts receivable from licensees and online processors. In order to reduce its credit risk with its licensees, the Company reviews all new licensees' credit history before extending credit. The credit risk associated with amounts due from online processors has been assessed as low by management, as the Company has strong working relationships with all its online processors.

Credit risk associated with amounts due from related parties has been assessed as low by management as the Company has strong working relationships with the related parties involved.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The contractual financial liabilities of the Company as of December 31, 2012 equal $1,288,965 (2011 - $236,977). All of the liabilities presented as accounts payable and accrued liabilities and due to related parties are due within 90 days of December 31, 2012.

(c) 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 the return on capital.

**5. FINANCIAL INSTRUMENTS** (Continued)

(c) 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 year-end. 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 December 31, 2012, the Company is exposed to currency risk for its US dollar equivalent of financial assets and liabilities denominated in currencies other than US dollars as follows:

| | Held in US dollars (stated in Canadian dollars) | |
|---|---|---|
| | **2012** | **2011** |
| Cash | $ 4,624 | $ 2,463 |
| Accounts receivable | 308 | 17,356 |
| Accounts payable | (685) | (1,370) |
| Net financial assets (liabilities) | $ 4,247 | $ 18,449 |

Based upon the above net exposure as at December 31, 2012 and assuming all other variables remain constant, a 5% depreciation or appreciation of the US dollar relative to the Canadian dollar would result in a nominal change in the Company's net 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, cash equivalents and short-term investment is at nominal interest rates and therefore the Company does not consider interest rate risk to be significant.

The Company's payables to key management personnel (included in due to related parties) comprise one loan with an interest rate of 5% per annum compounded daily and another loan with an interest rate of prime plus 1%. A 1% change at December 31, 2012 would result in an immaterial change in net loss and comprehensive loss.

(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.

## 6. OBLIGATION TO ISSUE SHARES

The Company received $132,397 on a private placement in advance of the shares being issued.

## 7. SHORT-TERM INVESTMENT

There were no guaranteed investment certificates held by the Company at December 31, 2012.

The following guaranteed investment certificate is included in short-term investment at December 31, 2011:

| Interest Rate | Maturity | | **2011** |
|---|---|---|---|
| Prime minus 2.05% (currently 0.95%) | July 12, 2012 | $ | 50,000 |

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | | **2012** | | **2011** |
|---|---|---|---|---|
| Trade payables | $ | 223,522 | $ | 140,842 |
| Accrued liabilities | | 189,789 | | 96,135 |
| | $ | 413,311 | $ | 236,977 |

## 9. EQUIPMENT

| | Computer Equipment | Furniture | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at December 31, 2010 | $ 883,993 | $ 21,400 | $ 905,393 |
| Additions | 1,320 | - | 1,320 |
| Balance at December 31, 2011 | 885,313 | 21,400 | 906,713 |
| Disposals | (350,959) | - | (350,959) |
| Balance at December 31, 2012 | $ 534,354 | $ 21,400 | $ 555,754 |
| **Accumulated Amortization** | | | |
| Balance at December 31, 2010 | $ 623,516 | $ 9,715 | $ 633,231 |
| Amortization expense | 68,004 | 2,134 | 70,138 |
| Balance at December 31, 2011 | 691,520 | 11,849 | 703,369 |
| Disposals | (284,210) | - | (284,210) |
| Amortization expense | 46,629 | 1,744 | 48,373 |
| Balance at December 31, 2012 | $ 453,939 | $ 13,593 | $ 467,532 |
| **Carrying Amounts** | | | |
| December 31, 2011 | $ 193,793 | $ 9,551 | $ 203,344 |
| December 31, 2012 | $ 80,415 | $ 7,807 | $ 88,222 |

## 10. INVESTMENT DEPOSIT

On June 15, 2010, the Company entered into an Advance Payment Agreement by paying a $1,000,000 deposit in respect of an Asset Purchase/Sales Agreement to acquire 99% of a Mexican online gaming company.

On March 17, 2011, the Company entered into an Asset Purchase and Sales Agreement with certain parties in Mexico to acquire 99% of all outstanding common shares of a Mexican company, which operates online gaming in Mexico pursuant to Mexican laws (the “Mexican Gaming Company”). The consideration payable by the Company shall be as follows:

(i) A cash payment of $1,000,000 (paid June 15, 2010);

(ii) A cash payment of 2,970,000 Mexican pesos on or before March 17, 2014;

(iii) The issuance of 3,750,000 units of the Company. Each unit shall consist of one common share and one share purchase warrant. Each share purchase warrant shall entitle the holder to purchase one additional common share of the Company at a price of $0.80 in the first year or at a price of $2.00 in the second year. Each unit will be subject to hold periods and restrictions on resale in accordance with applicable securities laws, and the rules and regulations of the TSX-V;

(iv) An earn-out bonus of one common share of the Company for each US $1.00 of net profit that shall be earned by the Mexican Gaming Company for a period of three years for a maximum number of 3,750,000 common shares of the Company;

**10. INVESTMENT DEPOSIT** (Continued)

(v) This transaction is subject to the approval of the TSX-V; and

(vi) Finder's fees may be payable in respect to this transaction in accordance with the policies of the TSX-V.

As at December 31, 2012, the Company has not obtained approval from the TSX-V as required by the terms of the agreement. As a result of the delay, management recorded an impairment provision of $500,000 (2011 - $500,000) against the investment deposit to bring the carrying value to a recoverable value of nil.

**11. CAPITAL STOCK**

(a) Authorized

Unlimited number of common shares and an unlimited number of preferred shares, in each case without par value

(b) Issued

There are no issued preferred shares.

Private placement financings during the year ended December 31, 2012 were:

(i) During January 2012, the Company completed the second tranche of a private placement and issued 325,000 units at a price of $0.40 per unit for gross proceeds of $130,000. Each unit consists of one common share and one-half of one share purchase warrant. One whole warrant entitles the holder to purchase one additional common share of the Company at $1.20 until January 25, 2014. Finder's fees paid in connection with the private placement consisted of $13,000 paid in cash, 32,500 common shares of the Company valued at $13,000 and 16,250 agent warrants to purchase a common share at $1.20 until January 25, 2013, valued at $1,055 (see note 11(c)).

(ii) During February 2012, the Company completed the third tranche of a private placement and issued 433,125 units at a price of $0.40 per unit for gross proceeds of $173,250. Each unit consists of one common share and one-half of one share purchase warrant. One whole warrant entitles the holder to purchase one additional common share of the Company at $1.20 until February 28, 2014. Finder's fees paid in connection with the private placement consisted of 18,313 common shares of the Company valued at $7,325.

(iii) During March 2012, the Company completed the final tranche of a private placement and issued 250,000 units at a price of $0.40 per unit for gross proceeds of $100,000. Each unit consists of one common share and one-half of one share purchase warrant. One whole warrant entitles the holder to purchase one additional common share of the Company at $1.20 until March 30, 2014. Finder's fees paid in connection with the private placement consisted of 25,000 common shares of the Company valued at $10,000.

**11. CAPITAL STOCK** (Continued)

(b) Issued (continued)

(iv) During October 2012, the Company completed a non-brokered private placement and issued 3,125,000 units at a price of $0.16 per unit for gross proceeds of $500,000. Each unit consists of one common share and one share purchase warrant exercisable at $0.40 until October 10, 2013, and thereafter at an exercise price of $0.80 until October 10, 2014. Finder's fees paid in connection with the private placement consisted of 311,250 common shares of the Company valued at $49,800 and 62,500 finder warrants exercisable at $0.40 per common share in the first year from closing and at an exercise price of $0.80 per common share in the second year from closing valued at $5,813 (see note 11(c)).

Private placement financings during the year ended December 31, 2011 were:

(v) During June 2011, the Company completed in tranches a non-brokered private placement and issued an aggregate 1,766,938 units at $0.80 per unit for total proceeds to the Company of $1,413,550. Each unit consists of one common share and one share purchase warrant entitling the holders to acquire an additional common share of the Company at a price of $2.00 for a period of two years until June 8, 2013 with respect to the first tranche and until June 22, 2013 with respect to the second and third tranches. Finder's fees paid in connection with the private placement consisted of $78,750 paid in cash, 45,000 common shares of the Company valued at $36,000 and 98,438 agent warrants valued at $33,046 (see note 11(c)).

(vi) During December 2011, the Company completed the first tranche of a private placement and issued a total of 550,000 units at a price of $0.40 per unit for gross proceeds of $220,000. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at $1.20 until December 29, 2012. The Company issued 42,500 common shares of the Company valued at $17,000 as finder's fees.

(c) Warrants

During the year ended December 31, 2012, the Company issued 504,063 share purchase warrants exercisable at $1.20 per share until 2014 and 16,250 agent warrants exercisable at $1.20 per share until January 2013 in connection with the private placements that closed during the first quarter in 2012 (as previously described in notes 11(b)(i), (ii) and (iii)). The fair value of the agent warrants issued of $1,055 (as previously disclosed in note 11(b)(i)) was recorded as share issuance costs with a corresponding increase in warrants and was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate: 1.05%; expected dividend yield: 0%; expected stock price volatility: 85%; expected life in years: 1; and a grant date fair value of $0.40. Expected stock price volatility is based on the historical volatility of the Company to the extent of the expected life of the warrant.

Furthermore, during the year ended December 31, 2012, the Company issued an additional 3,125,000 share purchase warrants exercisable at $0.40 per common share until October 10, 2013, and thereafter at an exercise price of $0.80 per common share until October 10, 2014 in connection with the private placement that closed in October 2012 (as previously disclosed in note 11(b)(iv)).

**11. CAPITAL STOCK** (Continued)

(c) Warrants (continued)

Finder's fees paid in connection with the private placement included 62,500 finder warrants exercisable at $0.40 per common share in the first year from closing and at an exercise price of $0.80 per common share in the second year from closing valued at $5,813 (as previously described in note 11(b)(iv)). The fair value of the agent warrants issued of $5,813 was recorded as share issuance costs with a corresponding increase in warrants and was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate: 1.15%; expected dividend yield: 0; expected stock price volatility: 125%; expected life in years: 2; and a grant date fair value of $0.24. Expected stock price volatility is based on the historical volatility of the Company to the extent of the expected life of the warrant.

During the year ended December 31, 2011, the Company issued 1,766,938 share purchase warrants and 98,438 finder warrants pursuant to the private placement that closed June 8, 2011 and June 22, 2011. Each share purchase warrant entitles the warrant holder to purchase an additional common share of the Company at a price of $2.00 for two years from the closing date. In addition, the Company also issued 275,000 share purchase warrants pursuant to the private placement that closed December 29, 2011. Each whole warrant entitles the holder to purchase one additional common share of the Company at $1.20 until December 29, 2012.

The fair value of the agent warrants issued of $33,046 (as previously disclosed in note 11(b)(v)) was recorded as share issuance costs with a corresponding increase in warrants and was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate: 1.51%; expected dividend yield: 0; expected stock price volatility: 117%; expected life in years: 2; and a grant date fair value of $0.80. Expected stock price volatility is based on the historical volatility of the Company to the extent of the expected life of the warrant.

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Balance, December 31, 2010 | 6,461,250 | $ 2.00 |
| Issued | 2,140,375 | $ 1.92 |
| Exercised* | (589,375) | $ 0.80 |
| Balance, December 31, 2011 | 8,012,250 | $ 2.00 |
| Issued | 3,707,813 | $ 0.88 |
| Expired | (5,871,875) | $ 2.00 |
| Balance, December 31, 2012 | 5,848,188 | $ 1.20 |

* The average share price during the year ended December 31, 2011 was $0.80.

**11. CAPITAL STOCK** (Continued)

(c) Warrants (continued)

At December 31, 2012 and 2011, the following warrants were outstanding and exercisable:

| Expiry Date | Exercise Price | Number of Warrants 2012 | 2011 |
|---|---|---|---|
| June 17, 2012 | $ 2.00* | - | 2,737,500 |
| July 12, 2012 | $ 2.00* | - | 820,000 |
| July 14, 2012 | $ 2.00* | - | 342,500 |
| August 3, 2012 | $ 2.00* | - | 18,750 |
| September 30, 2012 | $ 2.00* | - | 637,500 |
| October 6, 2012 | $ 2.00* | - | 815,625 |
| November 18, 2012 | $ 2.00* | - | 500,000 |
| January 23, 2013 | $ 1.20 | 16,250 | - |
| June 8, 2013 | $ 2.00 | 934,125 | 934,125 |
| June 22, 2013 | $ 2.00 | 931,250 | 931,250 |
| December 29, 2013 | $ 1.20 | 275,000 | 275,000 |
| January 23, 2014 | $ 1.20 | 162,500 | - |
| February 28, 2014 | $ 1.20 | 216,563 | - |
| March 30, 2014 | $ 1.20 | 125,000 | - |
| October 10, 2014 | $ 0.80** | 3,187,500 | - |
| | $ 1.20 | 5,848,188 | 8,012,250 |

* Exercisable at $0.80 in the first year and at $2.00 in the second year
** Exercisable at $0.40 in the first year and at $0.80 in the second year

(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. As at December 31, 2012, there are 163,137 (2011 - 9,387) stock options available for granting. The terms of the options are determined at the date of grant.

**11. CAPITAL STOCK** (Continued)

(d) Stock options (continued)

The following summarizes the officer, director, employee and consultant stock options that were granted, exercised, forfeited and expired during the years ended December 31, 2012 and 2011. 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, 2010 | 1,500,188 | $ 0.80 |
| Granted | 118,750 | $ 0.80 |
| Exercised* | (229,688) | $ 0.80 |
| Cancelled | (50,625) | $ 0.80 |
| Expired | (25,000) | $ 1.20 |
| Balance, December 31, 2011 | 1,313,625 | $ 0.80 |
| Granted | 143,750 | $ 0.80 |
| Cancelled | (141,250) | $ 0.80 |
| Expired | (156,250) | $ 0.80 |
| Balance, December 31, 2012 | 1,159,875 | $ 0.80 |

* The average share price during the year ended December 31, 2011 was $0.80.

At December 31, 2012 and 2011, the following stock options were outstanding:

| Exercise Price | Expiry Date | Outstanding 2012 | Exercisable 2012 | Outstanding 2011 | Exercisable 2011 |
|---|---|---|---|---|---|
| $ 0.80 | August 9, 2012 | - | - | 93,750 | 70,313 |
| $ 0.80 | August 18, 2012 | - | - | 62,500 | 46,875 |
| $ 0.80 | March 20, 2013 | 100,000 | 100,000 | 100,000 | 25,000 |
| $ 0.80 | May 18, 2013 | 772,375 | 772,375 | 913,625 | 913,625 |
| $ 0.80 | June 22, 2013 | 125,000 | 125,000 | 125,000 | 125,000 |
| $ 0.80 | April 12, 2014 | 125,000 | 62,500 | - | - |
| $ 0.96 | June 1, 2014 | 18,750 | 18,750 | 18,750 | 9,375 |
| $ 0.80 | July 27, 2014 | 18,750 | 4,688 | - | - |
| | | 1,159,875 | 1,083,313 | 1,313,625 | 1,190,188 |

The weighted average remaining contractual life for options outstanding at December 31, 2012 is 0.51 (2011 - 1.38) 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 (2011 - $133,760) was recognized as salaries expense and $11,659 (2011 - $28,568) was recognized as consulting fees for options granted to consultants.

## 11. CAPITAL STOCK (Continued)

(d) Stock options (continued)

The fair value of each option grant was calculated using the following weighted average assumptions:

| | 2012 | 2011 |
|---|---|---|
| Expected life (years) | 1.63 | 1.67 |
| Grant date fair value per share | 0.08 | 0.56 |
| Interest rate | 1.12% | 1.00% |
| Volatility | 117% | 114% |
| Dividend yield | 0.00% | 0.00% |

Expected stock price volatility is based on the historical volatility of the Company to the extent of the expected life of the option.

## 12. RELATED PARTY TRANSACTIONS

Amounts due from related parties are unsecured, due on demand without interest and consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Entities with common directors | $ 44,973 | $ 8,400 |

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

| | 2012 | 2011 |
|---|---|---|
| An entity controlled by key management personnel | $ (110,880) | $ - |
| Key management personnel | (562,937) | - |
| An entity with common directors | (69,440) | - |
| | $ (743,257) | $ - |

Included in amounts payable to key management personnel is $246,918 in unsecured advances due on demand, with an interest rate of prime plus 1%.

In addition, during the year ended December 31, 2012, the Company entered into two credit facilities with two directors, whereby the Company may draw-down up to $170,000 from each of the two facilities ($340,000 in the aggregate) as and when needed by the Company. Amounts advanced under the facilities bear interest at 5% per annum and are due on demand. As at December 31, 2012, the Company has drawn $300,000 from these two credit facilities. Included in amounts due to related parties is accrued interest of $9,329 (2011 - $nil) related to these two credit facilities. The remaining amounts due to related parties do not bear interest.

The Company shares office space and certain expenses with entities controlled by key management personnel. Rent for the office premises was paid by the Company until April 30, 2012. The Company charged the entities for their proportionate share of office rent, as well as office services provided by the Company. As of May 1, 2012, rent is paid by a related party and charged to the Company for its proportionate share.

## 12. RELATED PARTY TRANSACTIONS (Continued)

Related party transactions during the year:

| | 2012 | 2011 |
|---|---|---|
| Rent charged by entities with common directors | $ 72,000 | $ - |
| Rent recovered from entities with common directors | $ 2,400 | $ 6,600 |
| Office and other expenses recovered from entities with common directors | $ 68,449 | $ 69,410 |
| Interest charged on amounts due to related parties | $ 12,946 | $ - |

The remuneration of key management personnel during the year is as follows:

| | 2012 | 2011 |
|---|---|---|
| Management fees | $ 396,000 * | $ 396,000 |
| Short-term benefits | 60,941 | 136,433 |
| Share-based payments | - | 112,753 |
| Total key management personnel compensation | $ 456,941 | $ 645,186 |

* Includes $99,000 in due to related parties. To April 30, 2013 additional management fees of $132,000 have been accrued but not paid.

## 13. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 25.0% (2011 - 26.5%) to income before income taxes. The reasons for the differences are as follows:

| | 2012 | 2011 |
|---|---|---|
| Loss before income taxes | $ (2,675,213) | $ (3,058,096) |
| Statutory income tax rate | 25.0% | 26.5% |
| Income tax benefit computed at statutory tax rate | (668,803) | (810,395) |
| Items not deductible for income tax purposes | 5,542 | 53,618 |
| Change in timing differences | (98,501) | (14,022) |
| Effect of change in tax rate | - | (753) |
| Differences attributable to income tax rates of other countries | 408 | 35,944 |
| Unrecognized benefit of deferred income tax assets | 761,354 | 735,608 |
| Deferred income tax expense (recovery) | $ - | $ - |

Effective January 1, 2012, the Canadian federal corporate tax rate decreased from 16.5% to 15.0%. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rate from 26.5% to 25.0%.

## 13. INCOME TAXES (Continued)

Significant unrecognized tax benefits and unused tax losses for which no deferred tax asset is recognized as of December 31 are as follows:

| | 2012 | 2011 |
|---|---|---|
| Excess of unused exploration expenditures for Canadian tax purposes over carrying value of mineral property interests | $ 268,000 | $ 268,000 |
| Excess of undepreciated capital cost over carrying value of fixed assets | 2,665,000 | 2,584,000 |
| Excess of tax cost over carrying value of investment deposit | 1,000,000 | 500,000 |
| Share issuance costs | 198,000 | 176,000 |
| Non-capital losses carried forward | 19,023,000 | 16,752,000 |
| Net capital losses carried forward | 1,209,000 | 1,209,000 |
| Unrecognized deductible temporary differences | $ 24,363,000 | $ 21,489,000 |

The Company's unrecognized unused non-capital tax losses have the following expiry dates:

| | |
|---|---|
| 2014 | $ 965,000 |
| 2026 | 687,000 |
| 2027 | 3,875,000 |
| 2028 | 3,503,000 |
| 2029 | 2,935,000 |
| 2030 | 2,520,000 |
| 2031 | 2,405,000 |
| 2032 | 2,133,000 |
| | $ 19,023,000 |

The Company has available approximate net capital losses of $1,209,000 that may be carried forward indefinitely. The Company has available resource-related deductions of approximately $268,000 that may be carried forward indefinitely.

## 14. COMMITMENTS

The Company has a management services agreement with a private company controlled by two directors of LVFH effective as of January 1, 2011 until July 1, 2015. The remuneration for the services provided is $33,000 per month plus HST.

## 15. CAPITAL MANAGEMENT

The Company considers its capital to be comprised of shareholders' equity.

The Company's objective when managing capital is to maintain adequate levels of funding to support the development and marketing of the Company's online multi-player interactive games 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 year. The Company is not subject to externally imposed capital requirements.

## 16. SUPPLEMENTAL CASH FLOW INFORMATION

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Cash and Cash Equivalents consists of:** | | | | |
| Cash | $ | 6,038 | $ | 132,506 |
| Term deposit | | 17,250 | | 17,250 |
| | $ | 23,288 | $ | 149,756 |

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Supplemental information** | | | | |
| Non-cash items | | | | |
| Warrants issued as finder's fees | $ | 6,869 | $ | 33,046 |
| Fair value of warrants transferred to capital stock | $ | - | $ | (8,000) |
| Fair value of options exercised | $ | - | $ | (108,840) |
| Options cancelled/expired/forfeited and recorded to deficit | $ | 148,091 | $ | 38,612 |
| Warrants expired and recorded to deficit | $ | 58,780 | | - |
| Interest paid | $ | - | $ | - |
| Income taxes paid | $ | - | $ | - |

## 17. EVENTS AFTER THE REPORTING PERIOD

(a) On January 23, 2013, a total of 16,250 agent warrants exercisable at $1.20 per share expired unexercised.

(b) On March 20, 2013, a total of 100,000 stock options exercisable at $0.80 per share expired unexercised.

(c) On April 1, 2013, a total of 3,125 stock options exercisable at $0.80 per share previously granted to an employee were cancelled.

(d) A director of the Company advanced $190,500 bearing interest at prime plus 1% on an unsecured basis due on demand.