

JACKPOT DIGITAL INC.

**Consolidated Financial Statements
December 31, 2022 and 2021
(Expressed in Canadian Dollars)**

<u>Index</u>	<u>Page</u>
Independent Auditors' Report to the Shareholders	2 – 5
Consolidated Financial Statements	
Consolidated Balance Sheets	6
Consolidated Statements of Comprehensive Loss	7
Consolidated Statements of Changes in Shareholders' Deficiency	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10 – 53

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF JACKPOT DIGITAL INC.

Opinion

We have audited the consolidated financial statements of Jackpot Digital Inc. (the "Company"), which comprise:

- ◆ the consolidated balance sheets as at December 31, 2022 and 2021;
- ◆ the consolidated statements of comprehensive loss for the years then ended;
- ◆ the consolidated statements of changes in shareholders' deficiency for the years then ended;
- ◆ the consolidated statements of cash flows for the years then ended; and
- ◆ the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and 2021, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$5,123,052 during the year ended December 31, 2022 and, as of that date, the Company's working capital deficiency is \$10,636,832. As stated in note 2, these events or conditions, along with other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

VANCOUVER

1700-475 Howe St
Vancouver, BC V6C 2B3
T: 604 687 1231
F: 604 688 4675

2

LANGLEY

600-19933 88 Ave
Langley, BC V2Y 4K5
T: 604 282 3600
F: 604 357 1376

NANAIMO

201-1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 984 0886

Except for the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined that there are no key audit matters to communicate in our auditors' report.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

VANCOUVER

1700-475 Howe St
Vancouver, BC V6C 2B3
T: 604 687 1231
F: 604 688 4675

3

LANGLEY

600-19933 88 Ave
Langley, BC V2Y 4K5
T: 604 282 3600
F: 604 357 1376

NANAIMO

201-1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 984 0886

- ◆ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ◆ Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ◆ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ◆ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ◆ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

VANCOUVER

1700-475 Howe St
Vancouver, BC V6C 2B3
T: 604 687 1231
F: 604 688 4675

4

LANGLEY

600-19933 88 Ave
Langley, BC V2Y 4K5
T: 604 282 3600
F: 604 357 1376

NANAIMO

201-1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 984 0886



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Sukhjit Gill.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia

May 1, 2023

VANCOUVER

1700-475 Howe St
Vancouver, BC V6C 2B3
T: 604 687 1231
F: 604 688 4675

5

LANGLEY

600-19933 88 Ave
Langley, BC V2Y 4K5
T: 604 282 3600
F: 604 357 1376

NANAIMO

201-1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 984 0886

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

As at December 31	2022	2021
Assets (note 15)		
Current		
Cash and cash equivalents (note 5)	\$ 101,289	\$ 252,857
Accounts receivable (note 5)	326,339	219,763
Due from related parties (notes 5 and 11)	120,139	32,435
Prepaid expenses and deposits	51,792	62,142
	599,559	567,197
Deposits (note 8)	-	74,131
Gaming Systems (note 8)	2,483,000	2,815,341
Investment in 37 Capital Inc. ("37 Capital") (note 12)	9,111	101,555
Deposit (note 13)	38,000	-
Equipment (note 7)	281,410	120,856
Intangible Assets (note 9)	156,437	87,766
Right-of Use Assets (note 16)	276,133	623,520
Total Assets	\$ 3,843,650	\$ 4,390,366
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 1,532,582	\$ 1,212,110
Promissory note (note 6)	-	381,803
Deferred royalty liability (note 6)	70,201	59,332
Lease liability (note 16)	297,962	340,601
Interest payable (note 15)	3,837,751	3,119,427
Deferred revenue (note 17)	305,100	-
Loans payable (note 15)	7,277	7,277
Convertible debentures (note 15)	2,279,631	328,000
Non-convertible secured debentures (note 15)	2,905,887	9,540
	11,236,391	5,458,090
Deferred Royalty Liability (note 6)	259,133	308,277
Lease Liability (note 16)	-	297,962
Deferred Revenue (note 17)	503,321	471,139
Non-Convertible Secured Debentures (note 15)	-	2,486,926
Convertible Debentures (note 15)	-	1,787,305
Total Liabilities	11,998,845	10,809,699
Shareholders' Deficiency		
Capital Stock (note 10)	62,041,953	58,980,489
Reserves (notes 10 and 15)	2,775,009	2,754,121
Convertible Debentures - Equity Portion (note 15)	12,536	19,957
Deficit	(72,984,693)	(68,173,900)
Total Shareholders' Deficiency	(8,155,195)	(6,419,333)
Total Liabilities and Shareholders' Deficiency	\$ 3,843,650	\$ 4,390,366

On behalf of the Board:

"Jake H. Kalpakian" (signed)

.....
 Jake H. Kalpakian, Director

"Neil Spellman" (signed)

.....
 Neil Spellman, Director

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

Years Ended December 31	2022	2021
Revenues (note 22)		
Electronic gaming tables	\$ 1,401,220	\$ 334,244
Table sales	30,000	85,505
	1,431,220	419,749
Royalty expense	-	20
Cost of sales (note 22)	364,297	220,600
Gross Profit	1,066,923	199,129
Expenses		
Salaries and benefits (notes 10(d), 11 and 14)	1,491,374	1,529,748
Interest and finance expense (notes 6, 15 and 16)	1,090,548	1,103,437
Consulting fees (note 10(d))	560,199	578,788
Rent, office and miscellaneous (notes 11 and 19)	107,640	98,896
Management fees (note 11)	396,000	396,000
Travel, meals and entertainment	231,615	47,262
Advertising and promotion	520,254	250,332
Legal, accounting and audit	173,289	231,019
Regulatory and transfer agent fees	164,581	91,534
Foreign exchange loss (gain)	405,979	(9,531)
Amortization (notes 7, 8, 9 and 16)	906,718	658,795
	6,048,197	4,976,280
Transaction expense (note 6)	-	1,608,564
Gain on debt settlement (notes 12 and 15)	-	(190,461)
Impairment loss on gaming systems (note 8)	50,297	129,755
Interest and other income	(963)	(873)
Impairment of investment in 37 Capital Inc. (note 12)	81,078	95,129
Share of net loss of 37 Capital Inc. (note 12)	11,366	135,774
	141,778	1,777,888
Net Loss and Comprehensive Loss for the Year	\$ (5,123,052)	\$ (6,555,039)
Basic and Diluted Loss Per Share	\$ (0.05)	\$ (0.09)
Weighted Average Number of Common Shares Outstanding	108,254,779	70,695,482

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

	Capital Stock		Reserves		Equity Portion of Convertible Debentures	Deficit	Shareholders' Deficiency
	Common Shares	Amount	Warrants and Other	Options			
Balance, December 31, 2020	45,838,608	\$ 53,516,537	\$ 758,301	\$ 762,089	\$ 93,301	\$ (62,055,838)	\$ (6,925,610)
Net loss for the year	-	-	-	-	-	(6,555,039)	(6,555,039)
Private placements, net of issuance costs	18,081,500	3,057,067	207,363	-	-	-	3,264,430
Acquisition of 52 Gaming	1,500,000	525,000	638,475	-	-	-	1,163,475
Convertible debentures conversion	6,333,333	459,344	-	-	(73,344)	-	386,000
Compensation warrants issued	-	-	168,374	-	-	-	168,374
Shares for debt	124,967	23,744	-	-	-	-	23,744
Exercise of warrants	12,981,808	1,398,638	(107,791)	-	-	-	1,290,847
Exercise of options	500	159	-	(59)	-	-	100
Share-based payment	-	-	-	764,346	-	-	764,346
Expiry of options	-	-	-	(436,977)	-	436,977	-
Balance, December 31, 2021	84,860,716	\$ 58,980,489	\$ 1,664,722	\$ 1,089,399	\$ 19,957	\$ (68,173,900)	\$ (6,419,333)
Net loss for the year	-	-	-	-	-	(5,123,052)	(5,123,052)
Private placements, net of issuance costs	47,098,586	3,061,464	58,577	-	-	-	3,120,041
Extinguishment of convertible debentures conversion	-	-	-	-	(7,421)	7,421	-
Share-based payment	-	-	-	267,149	-	-	267,149
Expiry of warrants	-	-	(229,532)	-	-	229,532	-
Cancellation of options	-	-	-	(23,350)	-	23,350	-
Expiry of options	-	-	-	(51,956)	-	51,956	-
Balance, December 31, 2022	131,959,302	\$ 62,041,953	\$ 1,493,767	\$ 1,281,242	\$ 12,536	\$ (72,984,693)	\$ (8,155,195)

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

Years Ended December 31	2022	2021
Operating Activities		
Net loss	\$ (5,123,052)	\$ (6,555,039)
Items not affecting cash		
Amortization	906,718	658,795
Interest expense and finance expense	1,000,808	925,315
Unrealized foreign exchange loss	497,043	118,422
Share-based payment	267,149	764,346
Repairs and maintenance (note 8)	14,489	(122,238)
Compensation warrants issued	-	168,374
Loss on sale of gaming systems	17,012	-
Impairment loss on gaming systems	50,297	129,755
Gain on settlement of debt	-	(190,461)
Impairment loss on investment in 37 Capital Inc.	81,078	95,129
Transaction expense, net (note 6)	-	1,472,050
Share of net loss of 37 Capital Inc.	11,366	135,774
	(2,277,092)	(2,399,778)
Changes in non-cash working capital (note 21)	376,710	(478,585)
Cash Used in Operating Activities	(1,900,382)	(2,878,363)
Financing Activities		
Funds from loan payable	330,000	-
Repayment of loan payable	(330,000)	(715,036)
Exercise of warrants	-	1,290,847
Exercise of options	-	100
Private placement, net of issuance costs	3,120,041	3,264,430
Payment of lease liability (note 16)	(301,544)	(97,809)
Repayment of promissory note	(391,831)	(220,930)
Repayment of convertible debentures	-	(267,304)
Repayment of non-convertible debentures	(4,443)	(8,729)
Repayment of deferred royalty liability	(97,583)	-
Cash Provided by Financing Activities	2,324,640	3,245,569
Investing Activities		
Purchase of gaming systems	(199,680)	(407,387)
Purchase of intangible assets	(176,972)	-
Purchase of equipment and prototypes	(231,296)	(108,379)
Proceeds of sale of gaming systems	30,000	-
Deposit on investment	-	(38,000)
Cash Used in Investing Activities	(577,948)	(553,766)
Effect of Foreign Currency Translation on Cash	2,122	775
Net Change in Cash and Cash Equivalents	(151,568)	(185,785)
Cash and Cash Equivalents, Beginning of Year	252,857	438,642
Cash and Cash Equivalents, End of Year	\$ 101,289	\$ 252,857

Supplemental Cash Flow Information (note 21)

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

1. NATURE OF OPERATIONS

The principal business of Jackpot Digital Inc. (the "Company" or "Jackpot") is the developing, marketing, and leasing of electronic table games to casino operators. The Company's common shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "JJ" and on the OTCQB under the trading symbol "JPOTF". A certain number of the Company's warrants trade on the TSX-V under the symbols "JJ.WT.B" and "JJ.WT.C". The Company's common shares are also listed for trading on the Frankfurt Exchange under the symbol "LVH3".

The Company's office is located at Suite 303 – 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 3200 – 650 West Georgia Street, Vancouver, British Columbia, Canada, V6B 4P7.

On June 28, 2021, the Company incorporated a wholly owned subsidiary Yo Eleven Gaming Inc. ("Yo Eleven") under the *Business Corporations Act* (British Columbia). Effective November 4, 2021, pursuant to a Plan of Arrangement under the British Columbia Corporations Act, the Company transferred certain online gaming software to Yo Eleven in exchange for 16,966,931 Yo Eleven common shares which were then distributed to the Company's registered and beneficial shareholders as of November 1, 2021 on the basis of 1 Yo Eleven common share for every 5 Jackpot common shares held by Jackpot shareholders (the "Spinout"). As of the completion of the Spinout, Yo Eleven is no longer a subsidiary of Jackpot.

As the shareholders of the Company continued to hold their respective interests in Yo Eleven, there was no resulting change of control in Yo Eleven. Therefore, in accordance with IFRIC 17 *Distribution of Non-cash Assets to Owners*, the Company recognized the distribution of assets to Yo Eleven at their historical costs, which was \$nil.

2. GOING CONCERN

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

Several adverse conditions may cast significant doubt on the validity of this assumption. The Company has incurred significant operating losses over the past several years (2022 - \$5,123,052; 2021 - \$6,555,039), as at December 31, 2022 has a deficit of \$72,984,693 (2021 - \$68,173,900) and a working capital deficiency of \$10,636,832 (2021 - \$4,890,893). Although the Company recognized revenue of \$1,431,220 during the year ended December 31, 2022 (2021 - \$419,749), it has not recognized net income and there are no assurances that sufficient funding will be available to the Company 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 and is seeking to raise the necessary capital to meet its funding requirements. There can be no assurance that management's plan will be successful.

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

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

2. GOING CONCERN (Continued)

The pandemic outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has caused, and is continuing to cause, significant disruptions globally in the financial markets and to the international economies. Such disruptions will continue to impact the Company’s business, financial condition, and results of operations. While the COVID-19 pandemic has negatively impacted the Company, business continues to gradually rebound in concert with the cruise ship industry bookings and sailings. In the meantime, land-based casinos traffic shows continued signs of recovery.

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 (“IASB”).

(b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair value.

These consolidated financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

(c) Approval of the consolidated financial statements

The consolidated financial statements of Jackpot for the year ended December 31, 2022 were approved and authorized for issue by the Board of Directors on May 1, 2023.

(d) Functional and presentation currency

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

(e) Significant accounting judgments, estimates and assumptions

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

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

3. BASIS OF PRESENTATION (Continued)

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

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

Critical accounting estimates

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

- Recoverability of accounts receivable and allowance for doubtful accounts

The Company monitors its exposure for credit losses on its customer and related parties receivable balances and the credit-worthiness of the customers and related parties on an ongoing basis and records related allowances for doubtful accounts. Allowances are estimated based upon specific customer and related parties balances, where a risk of default has been identified, and also include a provision for non-customer specific defaults based upon historical experience and aging of accounts. As of December 31, 2022, the Company recorded an allowance for doubtful accounts of \$nil (2021 - \$nil). 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.

- 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.

- Recoverability of asset carrying values

Determining the amount of impairment of intangible assets and gaming systems 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.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

3. BASIS OF PRESENTATION (Continued)

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

Critical accounting estimates (continued)

- Right-of-use assets and lease liability

The right of use assets and lease liability are measured by discounting the future lease payments at incremental borrowing rate. The incremental borrowing rate is an estimated rate the Company would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

- Discount rates for convertible debentures

Convertible debentures are separated into their liability and equity components on the consolidated balance sheets. The liability component is initially recognized at fair value, calculated at the net present value of the liability based upon non-convertible debt issued by comparable issuers and accounted for at amortized cost using the effective interest rate method. The effective interest rate used is the estimated rate for non-convertible debt with similar terms at the time of issue.

- Determination of purchase price allocation and consideration

Estimates are made in determining the fair value of assets and liabilities, including the valuation of separately identifiable intangibles acquired as part of an acquisition. The fair value of identified assets is determined using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows of the acquiree or the replacement cost approach. The fair value of consideration transferred in a business combination requires management to make estimates regarding the valuation of equity and debt instruments issued, as well as future payments required under the acquisition agreements. Valuations of the net assets acquired and consideration transferred are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets, including replacement costs, share prices and market interest rates.

- Discount rate for deferred royalty liability

The deferred royalty liability was initially recognized at fair value, calculated at the net present value of the minimum future royalty payments and subsequently accounted for at amortized cost using the effective interest rate method. The discount rate used is based on the estimated market rate for debt at the time of initial recognition.

Critical accounting judgments

- Recovery of deferred tax assets

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

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

3. BASIS OF PRESENTATION (Continued)

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

Critical accounting judgments (continued)

- 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.

- Modification verses extinguishment of financial liability

Judgment is required in applying IFRS 9 *Financial Instruments* to determine whether the amended terms of the loan agreements are a substantial modification of an existing financial liability and whether it should be accounted for as an extinguishment of the original financial liability.

- 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 December 31, 2022, the Company had capitalized \$100,907 (2021 - \$88,169) for the development of intellectual property and \$231,296 (2021 - \$62,437) for the related prototypes.

- 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.

- Assessment of control and significant influence

In determining whether the Company controls 37 Capital Inc. ("37 Capital") or has significant influence, management is required to consider and assess the definitions in accordance with IFRS 10 *Consolidated Financial Statements*. There is judgment required to determine when and whether the rights of the Company result in control or significant influence of 37 Capital.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

3. BASIS OF PRESENTATION (Continued)

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

Critical accounting judgments (continued)

- 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.

- Right-of-use assets and lease liability

For right-of-use assets and lease liability, the Company applies judgment in determining whether the contract contains an identified asset, whether they have the right to control the asset, and the lease term. The lease term is based on considering facts and circumstances, both qualitative and quantitative, that can create an economic incentive to exercise renewal options. Management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

- Impairment of long-lived assets

Assets or CGUs are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company’s long-lived assets.

- Government tax credits

The Company is eligible for refundable tax credits on qualified research and development expenditures incurred in the province of British Columbia (the “Province”). Uncertainties exist with respect to the interpretation of tax regulations resulting in certain claimed credits being disallowed by the Province. The calculation of the Company’s refundable tax credits involves significant estimates and judgment on items whose tax treatment cannot be verified until a notice of assessment and subsequent payments have been received from the Province. Differences between management’s estimates and the final assessment could result in adjustments to the tax credit and the future income tax expense.

- Asset acquisition versus business combination

Management had to apply judgment with respect to whether the acquisition of assets from 52 Gaming, LLC (Note 6) was an asset acquisition or business combination. The assessment required management to assess the inputs, processes and outputs of the assets acquired at the time of acquisition.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

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 Touché Capital Inc. (incorporated in British Columbia), are included in the consolidated financial statements from the date that control commenced to the date of disposal, dissolution, or loss of control.

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

(b) Cash and cash equivalents

Cash and cash equivalents comprises cash and highly liquid investments that are readily convertible to known amounts of cash.

(c) Financial instruments

The Company's financial instruments are classified as follows:

IFRS 9	
Financial Asset	
Cash and cash equivalents	Fair value through profit and loss ("FVTPL")
Accounts receivable	Amortized cost
Due from related parties	Amortized cost
Financial Liability	
Accounts payable and accrued liabilities	Amortized cost
Promissory note	Amortized cost
Deferred royalty liability	Amortized cost
Lease liability	Amortized cost
Interest payable	Amortized cost
Loans payable	Amortized cost
Convertible debentures	Amortized cost
Non-convertible secured debentures	Amortized cost

Financial assets

(i) Recognition and measurement of financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (continued)

Financial assets (continued)

(ii) Classification of financial assets

The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss. The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

Financial assets measured at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for the such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

Financial assets measured at fair value through other comprehensive income ("FVTOCI")

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income.

Financial assets measured at fair value through profit or loss ("FVTPL")

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

(iii) Derecognition of financial assets

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the consolidated statement of loss and comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (continued)

Financial liabilities

(i) Recognition and measurement of financial liabilities

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

(ii) Classification of financial liabilities

The Company classifies financial liabilities at initial recognition as financial liabilities: measured at amortized cost or measured at fair value through profit or loss.

Financial liabilities measured at amortized cost

A financial liability at amortized cost is initially measured at fair value less transaction cost directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method.

Financial liabilities measured at fair value through profit or loss

A financial liability measured at fair value through profit or loss is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

(iii) Derecognition of financial liabilities

The Company derecognizes a financial liability when the financial liability is discharged, cancelled, or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of comprehensive loss.

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 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.

(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.

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

Gaming tables	- 20% - 50%
Computer equipment	- 30% - 55%
Office furniture	- 20%
Warehouse equipment	- 20%
Prototypes	- 50%

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.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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
-----------------------	-----------

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 mainly from the lease of electronic gaming tables, maintenance, installation, and support services related to those products and the sale of electronic gaming tables.

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

(i) Sale of 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 table basis over the 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.

(ii) Leasing of Electronic gaming tables

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, as the performance obligations are satisfied, 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.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Income taxes

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

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

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

(j) Share-based payments

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

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

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

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) 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.

(l) 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.

(m) Foreign currency translation

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Leases

At inception, the Company assesses whether a contract contains an embedded lease. A contract contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company, as lessee, is required to recognize a right-of-use asset ("ROU asset"), representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments.

The Company may elect to not apply IFRS 16 *Leases* ("IFRS 16") to leases with a term of less than 12 months or to low value assets, which is made on an asset-by-asset basis.

The Company recognizes a ROU asset and a lease liability at the commencement of the lease. The ROU asset is initially measured based on the present value of lease payments, plus initial direct cost, less any incentives received. It is subsequently measured at cost less accumulated amortization, impairment losses and adjusted for certain remeasurements of the lease liability. The ROU asset is amortized from the commencement date over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. The incremental borrowing rate is the rate which the operation would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment.

Lease payments included in the measurement of the lease liability are comprised of:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee;
- The exercise price under a purchase option that the Company is reasonably certain to exercise;
- Lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and
- Penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Leases (continued)

Variable lease payments that do not depend on an index or a rate not included in the initial measurement of the ROU asset and lease liability are recognized as an expense in profit or loss in the period in which they are incurred.

The ROU assets are presented within “Right-of-use assets” and the lease liabilities are presented in “Lease liability” on the consolidated balance sheet.

The Company applied the exemption not to recognize ROU asset and lease liabilities for leases with less than 12 months of lease term and leases for low-value assets.

(o) Investment in 37 Capital Inc. (“37 Capital”)

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

The results, assets and liabilities of the Company’s investment in 37 Capital are incorporated using the equity method of accounting. Under the equity method, the Company’s investment in 37 Capital is initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize the Company’s share of the profit or loss of 37 Capital.

When the Company’s share of losses exceeds the Company’s interest in 37 Capital, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of 37 Capital.

Any excess of the Company’s share of the net fair value of the identifiable assets, liabilities, and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

(p) Government tax recoveries

The Company recognizes government tax recoveries in the period in which there is reasonable expectation, based on management’s estimate, of receiving a refund. The amount of tax credit receivable is subject to review and approval by the taxation authorities and is adjusted for in the period when such approval is confirmed.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Substantial modification of debentures

Modification is deemed to be substantial if the net present value of the cash flows under the modified terms, including and fees paid or recovered, is at least 10 percent different from the net present value of the remaining cash flows of the liability prior to the modification, both discounted at the original effective interest rate of the liability prior to the modification. A substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The consideration paid, represented by the fair value of the modified debentures is allocated to the liability and equity components of the original debentures at the date of extinguishment. The method used in allocating the consideration paid and the transaction costs to the separate components of the original debentures is consistent with that used in the original allocation to the separate components of the original debentures of the proceeds received by the Company when the original debentures were issued.

Once the allocation of the consideration is made, any resulting gain or loss is treated as follows:

- The amount of gain or loss relating to the original liability component is recognized in the consolidated statements of loss; and
- The amount of consideration relating to the original equity component is recognized in equity in warrants and other reserves. Warrants and other reserves comprises a) the fair value of warrants granted, and b) the amount transferred from debentures equity reserve attributable to the extinguished debentures, net of the amount of consideration relating to the equity component of debentures upon their early extinguishment.

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 receivable, due from related parties, accounts payable and accrued liabilities, promissory note, loans payable and interest payable approximate their carrying values due to the short-term maturity of these instruments. The lease liability, deferred royalty liability, non-convertible secured debentures and convertible debentures are classified as Level 3 financial instruments.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Fair value of financial instruments (continued)

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

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

(c) Credit risk

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

The financial instruments that potentially subject the Company to a significant concentration of credit risk consist of cash and cash equivalents and 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. The Company's cash and cash equivalents as at December 31, 2022 and 2021 are as follows:

	2022	2021
Cash and Cash Equivalents consists of:		
Cash	\$ 84,039	\$ 135,607
Term deposit	17,250	117,250
	\$ 101,289	\$ 252,857

As at December 31, 2022, the Company had a cashable term deposit of \$17,250 (2021 - \$17,250) readily convertible into cash, maturing July 31, 2023 with an annual interest rate of 0.60%.

As at December 31, 2022, the Company had a cashable term deposit of \$nil (2021 - \$100,000) readily convertible into cash with an annual interest rate of prime rate minus 2.2%.

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. During the year ended December 31, 2022, the Company had one customer that represented 95% (2021 - 69%) of total revenue. As at December 31, 2022, the Company had receivables from this customer representing 95% (2021 - 90%) of total trade receivables. In addition, as at December 31, 2022, allowance for doubtful accounts is \$nil (2021 - \$nil) and the Company's accounts receivable are due within 60 days of December 31, 2022.

As at December 31, 2022, due from related party (37 Capital) was \$62,828 (2021 - \$33,401) which is non-interest bearing and has no fixed repayment terms.

As at December 31, 2022, due from related party (key management) was \$57,311 (2021 - \$966 due to) which is non-interest bearing and has no fixed repayment terms.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(d) Liquidity risk

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

At December 31, 2022, the Company has cash and cash equivalents of \$101,289 (2021 - \$252,857) available to apply against short-term business requirements and current liabilities of \$11,236,391 (2021 - \$5,458,090). All of the liabilities presented as accounts payable and accrued liabilities are due within 90 days of December 31, 2022. As at December 31, 2022, all of the Company's debentures have maturity dates within one year. The deferred royalty liability is payable quarterly over a period of five years, with remaining undiscounted payments of \$406,320 (US\$300,000) at December 31, 2022 (2021 - \$475,425 or US\$375,000). Undiscounted lease payments of \$312,468 are due within one year. The Company will be required to raise additional capital in order to fund operations for the next twelve months.

(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 for management is to manage and control market risk exposures within acceptable parameters while optimizing return on capital.

(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. As at December 31, 2022 and 2021, the Company is exposed to currency risk for its Canadian dollar equivalent of financial assets and liabilities denominated in US dollars:

	Held in US dollars (stated in Canadian dollars)	
	2022	2021
Cash	\$ 7,990	\$ 68,837
Accounts receivable	301,085	175,124
Accounts payable and accrued liabilities	(531,974)	(303,538)
Promissory note	-	(381,803)
Deferred royalty liability	(329,334)	(367,609)
Interest payable	(2,539,889)	(2,003,429)
Non-convertible secured debentures	(2,905,887)	(2,496,466)
Net financial liability	\$ (5,998,009)	\$ (5,308,884)

Based upon the above net exposure as at December 31, 2022 and assuming all other variables remain constant, a 7% (2021 - 2%) depreciation or appreciation of the US dollar relative to the Canadian dollar would result in a change of approximately \$419,861 (2021 - \$106,178) in the Company's consolidated net loss and comprehensive loss.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(e) Market risk (continued)

(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.

As at December 31, 2022, the interest rate on the promissory note, non-convertible secured debentures, loans payable, and convertible debenture balances have fixed interest rates. 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.

6. 52 GAMING, LLC – ACQUISITION OF ASSETS

On February 10, 2021, the Company entered into an asset purchase agreement with 52 Gaming, LLC (“52 Gaming”) and acquired certain assets of 52 Gaming (the “Transaction”). Terms of the of the transaction are as follows:

- Cash payment of US\$107,500 on the closing date by the Company to 52 Gaming (paid - \$136,514);
- Issuance of a promissory note by the Company for the amount of US\$470,000 with a term of twenty-four months, bearing 10% simple interest per annum, and which may be prepaid by the Company (issued - fair value of \$596,853 on issuance);
- On the closing date, the issuance of 1,500,000 common shares to 52 Gaming (issued - fair value of \$525,000 on issuance);
- On the closing date, the issuance of 2,000,000 share purchase warrants to 52 Gaming exercisable at \$0.105 per share for a period of five years (issued - fair value of \$638,475 on issuance); and
- Commencing January 2022 and for a period of ten years, the Company is to make variable royalty payments to 52 Gaming as follows:
 - During the period between January 1, 2022 and December 31, 2026, the Company is required to make quarterly royalty payments to 52 Gaming in the amount equal to the greater of USD\$18,750 or 2% of any revenues generated from (i) licensing fees, and (ii) sales revenue from the electronic poker tables acquired from 52 Gaming; and
 - During the period between January 1, 2027 and December 31, 2031, the Company is required to make quarterly royalty payments to 52 Gaming in the amount equal to 2% of any revenues generated from (i) licensing fees, and (ii) sales revenue from the electronic poker tables acquired from 52 Gaming.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

6. 52 GAMING, LLC – ACQUISITION OF ASSETS (Continued)

Under IFRS 3 *Business Combinations*, the substance of the acquisition was considered to be a business combination. The Company acquired certain gaming system assets and the related software from 52 Gaming, as well as a non-competition agreement with the owners of 52 Gaming which restricts them from operating in a similar business to the Company for a period of five years. The purchase consideration was allocated as follows:

Cash	\$ 136,514
Common shares issued	525,000
Warrants issued	638,475
Promissory note	596,853
Deferred royalty liability	335,722
Total consideration	2,232,564
Gaming systems	624,000
Transaction expense	\$ 1,608,564

Management determined that the only identifiable assets acquired in the Transaction were the electronic gaming tables, with the remaining consideration relating to the non-competition agreement. 52 Gaming is a company with nominal revenues, accordingly the value attributed to the non-competition agreement was expensed.

The fair value of the deferred royalty liability was determined based on the discounted minimum royalty payments over a period of five years. The payments were discounted using a rate of 10% to determine a fair value of \$335,722 which is being accreted over time as follows:

Balance at December 31, 2020	\$ -
Addition	335,722
Accretion	31,887
Balance at December 31, 2021	\$ 367,609
Accretion	36,692
Payments	(97,583)
Foreign exchange	22,616
Balance at December 31, 2022	\$ 329,334

Pursuant to the promissory note, during the year ended December 31, 2021, the Company paid principal of \$220,929 (US\$176,250) and \$31,899 (US\$25,448) in accrued interest. Total interest of \$41,180 (US\$32,852) was incurred during the year. At December 31, 2021, a total of \$381,803 (US\$301,154) remains outstanding, which includes \$9,387 (US\$7,404) of accrued interest.

During the year ended December 31, 2022, the Company paid principal of \$372,416 (US\$293,750) and \$27,460 (US\$21,295) in accrued interest. Total interest of \$18,073 (US\$13,891) was incurred during the year. As at December 31, 2022, the Company has fully repaid the principal and the interest.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

7. EQUIPMENT

	Warehouse Equipment	Computer Equipment	Office Furniture	Prototype	Total
Cost					
Balance at December 31, 2020	43,007	141,382	25,080	-	209,469
Additions	-	33,839	-	62,437	96,276
Balance at December 31, 2021	\$ 43,007	\$ 175,221	\$ 25,080	\$ 62,437	\$ 305,745
Additions	-	-	-	231,296	231,296
Balance at December 31, 2022	\$ 43,007	175,221	25,080	293,733	537,041
Accumulated Amortization					
Balance at December 31, 2020	18,309	120,562	21,796	-	160,667
Amortization expense	4,511	7,929	600	11,182	24,222
Balance at December 31, 2021	\$ 22,820	\$ 128,491	\$ 22,396	\$ 11,182	\$ 184,889
Amortization expense	3,686	12,244	490	54,322	70,742
Balance at December 31, 2022	\$ 26,506	140,735	22,886	65,504	255,631
Carrying Amounts					
December 31, 2021	\$ 20,187	\$ 46,730	\$ 2,684	\$ 51,255	\$ 120,856
December 31, 2022	16,501	34,486	2,194	228,229	281,410

Amortization expense for assets held under lease during the year ended December 31, 2022 was \$3,686 (2021 - \$4,511). The net carrying amount of assets held under lease was \$16,501 (2021 - \$20,187).

8. GAMING SYSTEMS

Parts as at December 31, 2022 and 2021 consist of the following:

Balance at December 31, 2020	\$ 224,120
Additions	433,759
Transfer to gaming tables	(313,022)
Parts used for repairs and maintenance	122,238
Impairment loss	(63,447)
Balance at December 31, 2021	\$ 403,648
Additions	229,921
Transfer to gaming tables	(244,766)
Parts used for repairs and maintenance	(14,489)
Impairment loss	(24,702)
Balance at December 31, 2022	\$ 349,612

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

8. GAMING SYSTEMS (Continued)

Gaming tables at December 31, 2022 and 2021 consist of the following:

Cost	
Balance at December 31, 2020	\$ 3,234,865
Transfer from parts	313,022
Acquisition of 52 Gaming	624,000
Impairment loss	(121,548)
Salaries	7,493
Sales	(52,405)
Balance at December 31, 2021	\$ 4,005,427
Transfer from parts	244,766
Impairment loss	(104,277)
Salaries	5,890
Sales	(52,000)
Balance at December 31, 2022	4,099,806
Accumulated Amortization	
Balance at December 31, 2020	\$ 1,161,483
Amortization expense	494,848
Impairment loss	(55,240)
Sales	(7,357)
Balance at December 31, 2021	\$ 1,593,734
Amortization expense	456,354
Impairment loss	(78,682)
Sales	(4,988)
Balance at December 31, 2022	\$ 1,966,418
Carrying Amounts	
December 31, 2021	\$ 2,411,693
December 31, 2022	\$ 2,133,388

As at December 31, 2022, the Company had paid a deposit of \$nil for parts (2021 - \$36,131).

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

9. INTANGIBLE ASSETS

	Intellectual Property
Cost	
Balance at December 31, 2020	\$ -
Addition	88,169
Balance at December 31, 2021	\$ 88,169
Addition	100,907
Balance at December 31, 2022	\$ 189,076
Accumulated Amortization	
Balance at December 31, 2020	-
Amortization expense	403
Balance at December 31, 2021	\$ 403
Addition	32,236
Balance at December 31, 2022	\$ 32,639
Carrying Amounts	
December 31, 2021	\$ 87,766
December 31, 2022	\$ 156,437

Management did not note any indicators of impairment on the intangible assets or reversal of previously recorded impairment loss at December 31, 2022 and 2021.

As at December 31, 2022, the Company had capitalized \$100,907 (2021 - \$88,169) for the development of intellectual property.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

10. 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 December 31, 2022, there are 131,959,302 common shares issued and outstanding.

During the year ended December 31, 2022, the following transactions occurred:

Pursuant to a private placement announced February 7, 2022, Jackpot issued 21,498,554 units of the Company at the price of \$0.09 per unit for gross proceeds of \$1,934,870. Each unit consists of one common share and one common share purchase warrant to acquire an additional common share at the price of \$0.10 per share until November 20, 2025. All securities that have been issued in respect to this private placement were subject to hold periods as follows:

- (i) 9,810,444 units of the Company were subject to a hold period which expired on July 2, 2022. The Company paid finder's fees of \$31,308 in cash, share issue cost of \$2,281, and has issued 347,867 non-transferable broker warrants exercisable at \$0.10 per share for a period of two years to arm's length parties. The broker warrants had a fair value of \$21,155.
- (ii) 9,376,999 units of the Company were subject to a hold period which expired on August 1, 2022. The Company paid finder's fees of \$41,842 in cash and has issued 464,915 non-transferable broker warrants exercisable at \$0.10 per share for a period of two years to arm's length parties. The broker warrants had a fair value of \$29,612.
- (iii) 2,311,111 units of the Company were subject to a hold period which expired on August 15, 2022. The Company paid finder's fees of \$3,600 in cash and has issued 40,000 non-transferable broker warrants exercisable at \$0.10 per share for a period of two years to arm's length parties. The broker warrants had a fair value of \$1,556.

Pursuant to a private placement announced August 15, 2022 and September 14, 2022, Jackpot issued 25,600,032 units of the Company at the price of \$0.05 per unit for gross proceeds of \$1,280,002. Each unit consists of one common share and one common share purchase warrant to acquire an additional common share at the price of \$0.10 per share until November 20, 2025. All securities that have been issued in respect to this private placement are subject to hold periods as follows:

- (i) 4,750,000 units of the Company are subject to a hold period expiring on January 3, 2023. The Company paid finder's fees of \$15,000 in cash and has issued 300,000 non-transferable broker warrants exercisable at \$0.10 per share for a period of two years to arm's length parties. The broker warrants had a fair value of \$5,944.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

10. CAPITAL STOCK (Continued)

(b) Issued and outstanding (continued)

Common shares (continued)

- (ii) 4,500,000 units of the Company are subject to a hold period expiring on January 23, 2023.
- (iii) 12,890,032 units of the Company are subject to a hold period expiring on February 8, 2023.
- (iv) 3,460,000 units of the Company are subject to a hold period expiring on February 21, 2023. The Company paid finder's fees of \$800 in cash and has issued 16,000 non-transferable broker warrants exercisable at \$0.10 per share for a period of two years to arm's length parties. The broker warrants had a fair value of \$310.

During the year ended December 31, 2021, the following transactions occurred:

- (i) The Company closed a non-brokered private placement financing, which was announced in March 2021, for gross proceeds of \$1,616,500 and issued 8,082,500 units of the Company at \$0.20 per unit. Each unit consists of one common share of the Company and one share purchase warrant to acquire an additional common share of the Company at the price of \$0.27 per share until April 7, 2026 for the first tranche, May 4, 2026 for the second tranche and May 25, 2026 for the third tranche. The Company incurred share issuance costs of \$61,521 in cash and has issued 570,600 broker warrants exercisable at \$0.27 per share for two years to arm's length parties. The broker warrants have a fair value of \$100,341.
- (ii) The Company closed a non-brokered private placement financing, which was announced in February 2021, for gross proceeds of \$1,800,000 and issued 10,000,000 units of the Company at \$0.18 per unit. Each unit consists of one common share of the Company and one share purchase warrant to acquire an additional common share of the Company at the price of \$0.25 per share until March 3, 2026 for the first tranche and March 10, 2026 for the second tranche. The Company incurred share issuance costs of \$90,549 in cash and has issued 526,018 broker warrants exercisable at \$0.25 per share for two years to arm's length parties. The broker warrants have a fair value of \$107,022.
- (iii) On November 16, 2021, the Company returned 1,000 common shares to the Company's treasury totaling \$5,000. The shares were issued as a finder's fee from a private placement which was not accepted by the finder and thus returned to Jackpot's treasury.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

10. CAPITAL STOCK (Continued)

(c) Warrants

Warrants activity for the years ended December 31, 2022 and 2021 is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2020	50,290,478	\$0.65
Issued	28,988,583	\$0.21
Exercised	(12,581,808)	\$0.10
Expired	(1,222,567)	\$2.08
Forfeited	(290,110)	\$0.28
Balance, December 31, 2021	65,184,576	\$0.54
Issued	48,267,368	0.10
Expired	(4,733,503)	3.75
Balance, December 31, 2022	108,718,441	\$0.20

Compound warrants activity for the years ended December 31, 2022 and 2021 is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2020	500,000	\$0.06
Exercised	(400,000)	\$0.06
Balance, December 31, 2021 and 2022	100,000	\$0.06

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

10. CAPITAL STOCK (Continued)

(c) Warrants (continued)

At December 31, 2022 and 2021, the following warrants and compound warrants were outstanding and exercisable:

Expiry Date	Exercise Price	Number of Warrants	
		2022	2021
January 20, 2022	\$ 5.00	-	2,942,153 ⁽¹⁾
January 20, 2022	\$ 5.00	-	323,750
August 21, 2022	\$ 6.00	-	70,000
September 13, 2022	\$ 6.00	-	34,600
November 28, 2022	\$ 6.00	-	85,000
December 1, 2022	\$ 6.00	-	30,000
December 15, 2022	\$ 0.10	-	1,248,000
January 3, 2023	\$ 6.00	105,355	105,355
January 24, 2023	\$ 6.00	38,900	38,900
March 3, 2023	\$ 0.25	72,000	72,000
March 10, 2023	\$ 0.25	454,018	454,018
April 7, 2023	\$ 0.27	243,360	243,360
May 25, 2023	\$ 0.27	327,240	327,240
June 10, 2023	\$ 0.06	100,000	100,000
June 10, 2023	\$ 0.10	1,350,000	1,350,000
June 22, 2023	\$ 5.00	147,860	147,860
July 1, 2023	\$ 0.10	2,000,000	2,000,000
August 7, 2023	\$ 0.10	150,000	-
March 1, 2024	\$ 0.10	347,867	-
March 31, 2024	\$ 0.10	464,915	-
April 14, 2024	\$ 0.10	40,000	-
September 2, 2024	\$ 0.10	300,000	-
September 26, 2024	\$ 1.00	6,439,656 ⁽²⁾	6,439,656 ⁽²⁾
September 26, 2024	\$ 1.00	333,333	333,333
October 20, 2024	\$ 0.10	16,000	-
February 19, 2025	\$ 0.50	100,000	100,000
November 20, 2025	\$ 0.10	48,877,160 ⁽³⁾	27,378,606 ⁽²⁾
November 20, 2025	\$ 0.10	500,000	500,000
November 20, 2025	\$ 0.10	25,600,032	-
January 2, 2026	\$ 0.195	102,564	102,564
January 29, 2026	\$ 0.10	450,000	450,000
February 1, 2026	\$ 0.235	85,106	85,106
February 10, 2026	\$ 0.105	2,000,000	2,000,000
March 1, 2026	\$ 0.28	71,429	71,429
March 3, 2026	\$ 0.25	2,730,555	2,730,555
March 10, 2026	\$ 0.25	7,211,668	7,211,668
April 1, 2026	\$ 0.26	76,923	76,923
April 7, 2026	\$ 0.27	3,692,000	3,692,000
May 4, 2026	\$ 0.27	100,000	100,000
May 25, 2026	\$ 0.27	4,290,500	4,290,500
August 7, 2026	\$ 0.10	-	150,000
		108,818,441	65,284,576

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

10. CAPITAL STOCK (Continued)

(c) Warrants (continued)

- (1) Traded on the TSX Venture Exchange under the trading symbol "JJ.WT.A" until January 20, 2022.
(2) Trading on the TSX Venture Exchange under the trading symbol "JJ.WT.B".
(3) Trading on the TSX Venture Exchange under the trading symbol "JJ.WT.C".

The weighted average remaining contractual life for warrants outstanding at December 31, 2022 is 2.75 (2021 - 3.51) years.

The Company applies the fair value method using option pricing models in accounting for its warrants issued as compensation. The expected volatility is based on historical prices of the Company. The risk-free rate of return is the yield on a zero-coupon Canadian treasury bill of a term consistent with the assumed warrant life. The expected average warrant term is the average expected period to exercise, based on the historical activity patterns.

The fair value of each warrant issued during the years ended December 31, 2022 and 2021 was calculated using the following weighted average assumptions:

	2022	2021
Expected life (years)	2.00	4.10
Grant date fair value per share	\$0.07	\$0.26
Interest rate	2.29%	0.20%
Volatility	180%	123%
Dividend yield	0.00%	0.00%

(d) Stock options

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 December 31, 2022, there are 2,816,769 (2021 - 3,047,411) 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 years ended December 31, 2022 and 2021. The options vest 25% on grant and thereafter at 25% every three or six months.

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2020	527,200	\$1.50
Issued	5,156,661	\$0.20
Expired	(244,700)	\$0.20
Exercised	(500)	\$0.20
Balance, December 31, 2021	5,438,661	\$0.20
Issued	5,305,000	\$0.10
Expired	(364,500)	\$0.19
Balance, December 31, 2022	10,379,161	\$0.15

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

10. CAPITAL STOCK (Continued)

(d) Stock options (continued)

At December 31, 2022 and 2021, the following stock options were outstanding and exercisable:

Exercise Price	Expiry Date	Outstanding 2022	Exercisable 2022	Outstanding 2021	Exercisable 2021
\$0.21	August 21, 2022	-	-	100,000	25,000
\$0.20*	January 13, 2023	100,000	100,000	100,000	50,000
\$0.20	January 13, 2023	300,000	300,000	300,000	150,000
\$0.245	April 21, 2023	400,000	400,000	400,000	200,000
\$ 0.20**	January 13, 2024	62,500	62,500	62,500	31,250
\$0.20	January 13, 2024	3,621,661	3,621,661	3,756,161	1,878,081
\$ 0.50***	December 16, 2022	-	-	80,000	80,000
\$ 0.50****	January 13, 2024	40,000	40,000	40,000	20,000
\$0.21	August 18, 2024	300,000	225,000	300,000	75,000
\$0.175	October 20, 2024	300,000	225,000	300,000	75,000
\$0.10	April 19, 2024	1,000,000	500,000	-	-
\$0.10	April 19, 2025	4,255,000	2,127,500	-	-
		10,379,161	7,601,661	5,438,661	2,584,331

*Exercise price amended from \$1.80 to \$0.20 per share and extended the expiry date from August 28, 2021 to January 13, 2023.

**Exercise price amended from \$1.80 to \$0.20 per share and extended the expiry date from August 28, 2021 to January 13, 2024.

***Exercise price amended from \$0.50 to \$0.20 per share.

****Exercise price amended from \$0.50 to \$0.20 per share and extended the expiry date from December 20, 2022 to January 13, 2024.

The weighted average remaining contractual life for options outstanding at December 31, 2022 is 1.56 (2021 - 1.96) 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 \$231,013 (2021 - \$663,429) were recognized as salaries and \$36,136 (2021 - \$100,917) was recognized as consulting fees for options granted to consultants. The share-based expense relates to options granted during December 31, 2022 and 2021, which vest over time.

The fair value of each option grant during the years ended December 31, 2022 and 2021 was calculated using the following weighted average assumptions:

	2022	2021
Expected life (years)	2.81	2.88
Grant date fair value per share	\$0.08	\$0.17
Interest rate	2.45%	0.22%
Volatility	102%	113%
Dividend yield	0.00%	0.00%

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

10. CAPITAL STOCK (Continued)

(d) Stock options (continued)

The expected volatility is based on historical prices of the Company. The risk-free rate of return is the yield on a zero-coupon Canadian treasury bill of a term consistent with the assumed option life. The expected average option term is the average expected period to exercise, based on the historical activity patterns for each individually vesting tranche.

Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of 0% (2021 - 0%) in determining the expense recorded in the accompanying consolidated statements of comprehensive loss.

11. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the consolidated financial statements, related party transactions for the years ended December 31, 2022 and 2021 are as follows.

During the years ended December 31, 2022 and 2021, the Company incurred the following related party transactions:

	2022	2021
Rent and shared office expenditures charged	\$ 24,000	\$ 24,000

As at December 31, 2022, due from related parties consists of \$62,828 (2021 - \$33,401) receivable from 37 Capital for rent and shared office expenditures.

Key management compensation

Key management personnel are persons responsible for planning, directing, and controlling the activities of an entity, and include certain directors and officers. Key management personnel include the CEO, CFO and COO of the Company. The remuneration of key management personnel during the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Management fees	\$ 396,000	\$ 396,000
Salaries and benefits	155,984	172,614
Share-based payments	6,892	-
Total key management personnel compensation	\$ 558,876	\$ 568,614

As at December 31, 2022, there is \$57,311 due from (2021 - \$966 due to) key management which is included in the due from related parties balance. The amounts are non-interest bearing and have no fixed repayment terms. Subsequent to December 31, 2022, the related party repaid the \$57,311.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

12. INVESTMENT IN 37 CAPITAL INC.

The Company has determined that it has significant influence over 37 Capital and, therefore, accounts for the investment under the equity method as follows:

Balance at December 31, 2020	\$	3,899
Shares for debt		328,559
Impairment loss		(95,129)
Share of net loss		(135,774)
Balance at December 31, 2021	\$	101,555
Impairment loss		(81,078)
Share of net loss		(11,366)
Balance at December 31, 2022	\$	9,111

During January 2021, pursuant to a debt settlement agreement dated December 11, 2020, the Company acquired 597,380 common shares of 37 Capital with a total fair value of \$328,559 in settlement of outstanding debt in the amount of \$149,345. As a result, the Company recorded a gain on debt settlement of \$179,214 during the year ended December 31, 2021. There were no such transactions during the year ended December 31, 2022. As at December 31, 2022, the Company holds approximately 10.57% (2021 - 13.51%) of 37 Capital's issued and outstanding shares.

At December 31, 2021, the Company determined that there were indicators of impairment on its investment given the continuing losses and financial position of 37 Capital. The Company performed an impairment test and determined that the carrying amount exceeded the recoverable amount. Accordingly, an impairment loss of \$95,129 was recorded during the year ended December 31, 2021. The recoverable amount was determined using Level 1 inputs, based on the quoted price of 37 Capital shares held by the Company at December 31, 2021.

During the year ended December 31, 2022, the Company recorded an impairment loss of \$81,078. The recoverable amount was determined using Level 1 inputs, based on the quoted price of 37 Capital shares held by the Company at December 31, 2022.

Summarized financial information for 37 Capital is as follows:

	December 31, 2022	December 31, 2021
Current assets	\$ 1,682	\$ 3,067
Non-current assets	\$ 54,001	\$ 40,002
Current liabilities	\$ 816,925	\$ 698,403
Non-current liabilities	\$ -	\$ -
Net loss	\$ 115,036	\$ 1,004,992

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

13. DEPOSIT

On February 24, 2022, Jackpot entered into a binding Letter of Intent (“LOI”) with Huudl App Inc. (“Huudl”), Yo Eleven, and the principals of Huudl. Huudl has developed intellectual property known as the Huudl App Banner which is a marketing application. Pursuant to the LOI, the Company advanced \$38,000 to Huudl. In the event that Yo Eleven makes a subsequent payment of \$352,000 in the share capital of Huudl, then Jackpot shall own 6.6% of the share capital of Huudl. Additionally, Huudl will have the option to repay \$38,000 to Jackpot and \$352,000 to Yo Eleven within a period of 12 months. In the event that Huudl exercises its option and repays both Jackpot and Yo Eleven, then 4.5% of the share capital of Huudl will be owned by Jackpot. As at December 31, 2022, Yo Eleven has not made the subsequent payment of \$352,000 to Huudl; thus, Jackpot has not received 6.6% of the share capital of Huudl.

14. SALARIES AND BENEFITS

The Company included research and development costs in salaries and benefits in the consolidated statements of comprehensive loss for the years ended December 31, 2022 and 2021 as follows:

	2022	2021
Administrative salaries and benefits	\$ 854,131	\$ 1,051,889
Operational salaries	316,310	219,815
Research and development salaries	320,933	258,044
	\$ 1,491,374	\$ 1,529,748

During the year ended December 31, 2022, the Company received \$166,807 (2021 - \$nil) related to the British Columbia Interactive Digital Media Tax Credit. The Company also received a total of \$100,270 (2021 - \$392,561) in relation to the Hardest-Hit Business Recovery Program (“HHBRP”), which replaced the Canada Emergency Wage Subsidy (“CEWS”) in 2022.

15. LOANS PAYABLE AND DEBENTURES

Loans payable

	Principal	Accrued Interest	Total
Balance at December 31, 2020	\$ 534,683	\$ 137,959	\$ 672,642
Interest	-	19,354	19,354
Accretion	30,317	-	30,317
Repayment	(565,000)	(150,036)	(715,036)
Balance at December 31, 2021	\$ -	\$ 7,277	\$ 7,277
Additions	330,000	11,745	341,745
Repayments	(330,000)	(11,745)	(341,745)
Balance at December 31, 2022	\$ -	\$ 7,277	\$ 7,277

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

15. LOANS PAYABLE AND DEBENTURES (Continued)

Loans payable (continued)

The loans of \$210,000 issued during the year ended December 31, 2020 bore interest at the rate of 10%. During the year ended December 31, 2021, the Company repaid the full principal and a portion of accrued interest. As at December 31, 2022, the outstanding accrued interest is \$7,277.

During July and August 2022, the Company issued two promissory notes to arm's length parties for the amount of \$230,000. The promissory notes bore interest at the rate of 10% per annum and were fully repaid during the year ended December 31, 2022.

During August 2022, the Company issued a promissory note to an arm's length party for the amount of \$100,000. The promissory note had a fixed interest in the amount of \$10,000 which was fully repaid during the year ended December 31, 2022.

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 provided for a term of three years, maturing on August 4, 2018, and bear interest at 10% per annum, with interest compounding and payable quarterly. As additional consideration of the risk associated with the debenture, the Company issued 75,000 warrants to the lenders. Each warrant has a five-year expiry term and is exercisable into one common share at \$20.00. On August 9, 2019, the maturity date of the convertible debenture with the arm's length party was extended to July 1, 2021.

On September 23, 2020, an amendment agreement was entered into whereby the maturity date has been further extended to July 1, 2023 and the interest rate has been reduced from 10% to 7.5% per annum. As consideration, the Company issued 1,163,827 bonus warrants. Each warrant is exercisable into one common share at the price of \$0.10 until July 21, 2023.

In addition, the Company was required to pay the lenders a combined royalty of 2% of gross revenues from electronic gaming tables. The royalty agreement expired on April 30, 2021.

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 of \$2,386,286 represents the value of the warrants, which has been recognized as a component of equity.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

15. LOANS PAYABLE AND DEBENTURES (Continued)

Non-convertible secured debentures (continued)

As at December 31, 2022, the amount of \$2,905,887 (2021 - \$2,496,466) has been recorded as the non-convertible secured debentures. The following table reconciles the fair value of the liability component of non-convertible debentures on initial recognition to the carrying amount at December 31, 2022.

Balance at December 31, 2020	\$	2,346,880
Finance expense		509,306
Interest reclassified to interest payable		(345,152)
Principal repayment		(6,285)
Foreign exchange		(8,283)
Balance at December 31, 2021	\$	2,496,466
Finance expense		617,924
Interest reclassified to interest payable		(385,145)
Principal repayment		(3,211)
Foreign exchange		179,853
Balance at December 31, 2022	\$	2,905,887

Convertible debentures

Convertible debentures (April 2016)

During the year ended December 31, 2016, the Company issued convertible secured debentures for gross proceeds of \$2,000,000 (net proceeds of \$1,753,111). The convertible secured debentures have a term of 12 months, bear simple interest at the rate of 12% per annum, and are payable on a quarterly basis. The principal amount of the convertible secured debentures may be convertible into common shares of the Company at a price of \$5.00 per share. The convertible secured debentures are secured against the Company's assets. On initial recognition, the amount of \$101,601 was recorded as the equity portion of convertible secured debentures reserve. The effective interest rate was 20%.

On August 9, 2019, the maturity date of the convertible secured debentures was extended to July 1, 2021.

On September 23, 2020, an amendment agreement was entered into whereby the maturity date has been further extended to July 1, 2023 and the interest rate has been reduced from 10% to 7.5% per annum. As consideration the Company issued 836,173 bonus warrants. Each warrant is exercisable into one common share at the price of \$0.10 until July 21, 2023.

During the year ended December 31, 2022, the Company paid \$nil (2021 - \$5,134) of accrued interest and repaid principal amounts totaling \$nil (2021 - \$8,000).

During the year ended December 31, 2022, as a result of the lapsed convertible debenture conversion feature, the Company recorded \$1,764 from the reversal of the equity portion of convertible secured debenture reserve.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

15. LOANS PAYABLE AND DEBENTURES (Continued)

Convertible debentures (continued)

Convertible debenture (August 2018)

During August 2018, the Company entered into a convertible debenture with an arm's length party for the principal amount of \$328,000 which bears interest at the rate of 8% per annum and which was due and payable on October 30, 2018 (the "Term"). Subsequent to December 31, 2018, the Term was extended to July 15, 2019. On initial recognition, the amount of \$328,000 was recorded as the liability portion of convertible secured debentures and the amount of \$5,658 was recorded as the equity portion of convertible secured debentures reserve. The effective interest rate was 20%. During the year ended December 31, 2022, as a result of the lapsed convertible debenture conversion feature, the Company recorded \$5,658 from the reversal of the equity portion of convertible secured debentures reserve. As at December 31, 2022, the convertible debenture remains outstanding and is due on demand.

Convertible debentures (June 2020)

During June 2020, the Company entered into unsecured convertible debenture agreements for gross proceeds of \$446,000, \$75,000 of which was received during the year ended December 31, 2019. The debentures bear interest at 10% per annum and have a maturity date of 36 months from closing. The debentures are convertible into the Company's units at a conversion price of \$0.06 per unit in Year 1 and at a conversion price of \$0.10 per unit in Year 2 and Year 3. Each unit will consist of one common share and one share purchase warrant. Each share purchase warrant will be exercisable into one common share at a price of \$0.10 per share for a period of three years from the closing of the debenture financing. A total of 500,000 compensation warrants which are exercisable into units at \$0.06 per unit were issued in connection with this closing and were determined to have a fair value of \$40,451. On initial recognition, the amount of \$81,983 was recorded as the equity portion of convertible secured debentures reserve and remained outstanding at December 31, 2020. The effective interest rate was 20%. During the year ended December 31, 2021, a total of \$371,000 of the convertible debentures were converted at \$0.06 per unit and the Company issued a total of 6,183,333 units in the capital of the Company. In addition, the Company has issued 124,967 common shares of the Company at a fair value of \$23,744 in settlement of accrued interest totaling \$34,991, resulting in a gain on debt settlement of \$11,247. The common shares issued were subject to a hold period which expired December 24, 2021. As of December 31, 2022, \$75,000 of convertible debentures remain outstanding.

Convertible debentures (August 2020)

During August 2020, the Company entered into unsecured convertible debenture agreements for gross proceeds of \$135,000. The debentures bore interest at the rate of 10% per annum and have a maturity date of 36 months from closing. The debentures were convertible at a conversion price of \$0.10 per unit for three years. Each unit would have consisted of one common share and one share purchase warrant exercisable at the price of \$0.10 per share for a period of three years from closing. On initial recognition, the amount of \$24,816 was recorded as the equity portion of convertible secured debentures reserve. The effective interest rate was 20%. During the year ended December 31, 2021, \$15,000 of the convertible debentures were converted into 150,000 units at \$0.10 per unit, and the Company repaid the remaining \$120,000 of convertible debentures plus the accrued interest of \$12,197. As of December 31, 2022, the accrued interest for the convertible debenture of \$15,000 remains outstanding, in the amount of \$1,410.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

15. LOANS PAYABLE AND DEBENTURES (Continued)

Convertible debentures (continued)

As at December 31, 2022, the amount of \$2,279,631 (2021 - \$2,115,305) has been recorded as the convertible debentures. The following table reconciles the fair value of the liability and equity components of convertible debentures on initial recognition to the carrying amount at December 31, 2022:

	Liability Component	Equity Component	Total
Balance at December 31, 2020	\$ 2,494,975	\$ 93,301	\$ 2,588,276
Finance expense	445,982	-	445,982
Interest reclassified to interest payable	(211,652)	-	(211,652)
Principal repayment	(228,000)	-	(228,000)
Convertible debenture conversion	(386,000)	(73,344)	(459,344)
Balance at December 31, 2021	\$ 2,115,305	\$ 19,957	\$ 2,135,262
Finance expense	346,191	-	346,191
Interest reclassified to interest payable	(181,865)	-	(181,865)
Extinguishment of convertible debentures conversion	-	(7,421)	(7,421)
Balance at December 31, 2022	\$ 2,279,631	\$ 12,536	\$ 2,292,167

16. LEASE LIABILITY

The Company has a lease agreement for its warehouse in Burnaby, BC commencing May 1, 2021 until October 31, 2023. Upon entering into this lease, the Company recognized \$396,706 for a ROU asset and \$396,706 for a lease liability.

The Company has a lease agreement for its office in Vancouver, BC commencing August 1, 2021 until July 31, 2023. Upon entering into this lease, the Company recognized \$106,850 for a ROU asset and \$106,850 for a lease liability.

The Company has a lease agreement for its office in Burnaby, BC commencing December 15, 2021 until October 31, 2023. Upon entering into this lease, the Company recognized \$259,286 for a ROU asset and \$259,286 for a lease liability.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

16. LEASE LIABILITY (Continued)

The continuity of the ROU asset and lease liability for the years ended December 31, 2022 and 2021 is as follows:

Right-of-use asset	
Balance at December 31, 2020	\$ -
Additions	762,842
Depreciation	(139,322)
Balance at December 31, 2021	\$ 623,520
Depreciation	(347,387)
Balance at December 31, 2022	\$ 276,133
Lease liability	
Balance at December 31, 2020	\$ -
Warehouse lease renewal	762,842
Lease payments	(105,640)
Lease interest	25,191
Lease subsidy	(43,830)
Balance at December 31, 2021	\$ 638,563
Lease payments*	(352,900)
Lease interest	52,561
Lease subsidy	(40,262)
Balance at December 31, 2022	\$ 297,962

* Lease payments of \$65,527 (2021 - \$26,470) are included in accounts payable and accrued liabilities at December 31, 2022

* During the year ended December 31, 2022, the Company received a total reduction in rent payments of \$40,262 (2021 - \$141,317) due to the impacts of COVID-19, of which \$nil (2021 - \$97,487) is included in rent expense as it was received prior to the new lease agreements entered into during the year ended December 31, 2021.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

17. DEFERRED REVENUE

During the year ended December 31, 2022, the Company recorded \$503,321 (2021 - \$471,139) in deferred revenue with respect to electronic gaming table regulated licenses. The deferred revenue will be recognized as revenue upon the Company receiving the necessary gaming licenses.

During the year ended December 31, 2022, the Company recorded \$305,100 (2021 - \$nil) in deferred revenue with respect to the sale of electronic gaming tables. The deferred revenue will be recognized as revenue when the electronic gaming tables are delivered and the installation and training services are performed as per the selling agreements.

18. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27.00% (2021 - 27.00%) to loss before income taxes.

	2022	2021
Loss before income taxes	\$ (5,123,052)	\$ (6,555,039)
Statutory income tax rate	27.00%	27.00%
Income tax benefit computed at statutory tax rate	(1,383,224)	(1,769,861)
Items not deductible for income tax purposes	75,361	642,482
Change in timing differences	(17,129)	(618,705)
Under provided in prior years	(98,419)	(1,332,094)
Unrecognized benefit of deferred income tax assets	1,423,411	3,078,178
Income tax benefit	\$ -	\$ -

The Company recognizes tax benefits on losses or other deductible amounts where it is probably future taxable income for the recognition of deferred tax assets has been met. The significant components of deferred tax assets and liabilities recognized as of December 31 are as follows:

	2022	2021
Deferred tax asset from non-capital losses	\$ 149,000	\$ 399,000
Deferred tax liability from right-of-use assets	(75,000)	(168,000)
Deferred tax liability from non-convertible debentures	(48,000)	(160,000)
Deferred tax liability from convertible debentures	(26,000)	(71,000)
Net deferred income taxes	\$ -	\$ -

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

18. 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:

	2022	2021
Excess of unused exploration expenditures for Canadian tax purposes over carrying value of mineral property interests	\$ 269,000	\$ 269,000
Excess of undepreciated capital cost over carrying value of equipment	12,968,000	11,452,000
Excess of tax cost over carrying value of investment deposit	500,000	500,000
Share issuance costs	254,000	280,000
Unrealized foreign exchange	-	10,000
Cumulative eligible capital	7,084,000	7,052,000
Lease liability	298,000	639,000
Non-capital losses carried forward	37,038,000	33,824,000
Net capital losses carried forward	236,000	236,000
Unrecognized deductible temporary differences	\$ 58,647,000	\$ 54,262,000

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

2026	\$ 496,000
2027	3,876,000
2028	3,516,000
2029	2,935,000
2030	2,520,000
2031	2,405,000
2032	2,041,000
2033	-
2034	2,286,000
2035	2,221,000
2036	3,352,000
2037	610,000
2038	931,000
2039	757,000
2040	2,179,000
2041	3,073,000
2042	3,838,000
	\$ 37,036,000

The Company has available approximate net capital losses of \$236,000 that may be carried forward indefinitely.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

19. COMMITMENTS

The Company's commitments relate to the following:

- (a) In order to carry out the production and shipping of the Company's Jackpot Blitz[®] ETGs, the Company has leased a warehouse in Burnaby, BC which has an area of 9,792 square feet. The term of the lease has been extended from May 1, 2021 up to October 31, 2023 for a monthly rent of \$15,000 and the applicable tax.
- (b) During June 2021, the Company entered into an office lease agreement with an arm's length party in respect to 1,293 square feet of office space in Vancouver, BC commencing August 1, 2021 until July 31, 2023. The Company pays a monthly rent of \$5,056 and the applicable tax.
- (c) On July 1, 2020, the Company entered into a management services agreement with Kalpakian Bros. of B.C. Ltd. ("Kalpakian Bros.") with a term of five years at a monthly rate of \$33,000 plus applicable taxes. Kalpakian Bros. is a private company controlled by a director and officer of the Company.
- (d) During December 2021, the Company leased an office in Burnaby, BC which has an area of 4,002 square feet commencing December 15, 2021 until October 31, 2023. The Company pays monthly rent of \$12,708 and the applicable tax.
- (e) The Company entered into a royalty agreement with 52 Gaming and is committed to minimum royalty payments of US\$18,750 per quarter from January 1, 2022 up to December 31, 2026 (Note 6).

20. CAPITAL MANAGEMENT

The Company considers its capital to be comprised of shareholders' deficiency and loans (Note 15).

The Company's objective when managing capital is to maintain adequate levels of funding support for the development and marketing 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 year ended December 31, 2022. The Company is not subject to externally imposed capital requirements.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

21. SUPPLEMENTAL CASH FLOW INFORMATION

	2022	2021
Changes in non-cash working capital		
Accounts receivable	\$ (106,576)	\$ (198,502)
Due from/to related parties	(87,704)	1,358
Prepaid expenses and deposits	10,350	1,313
Accounts payable and accrued liabilities	357,480	(197,249)
Deferred revenue	203,160	(85,505)
	\$ 376,710	\$ (478,585)
	2022	2021
Supplemental information		
Non-cash items		
Interest paid	\$ 41,134	\$ 178,122
Income taxes paid	\$ -	\$ -
Fair value of brokers' warrants included in share issuance costs	\$ 75,408	\$ 207,363
Intangible asset additions included in accounts payable and accrued liabilities	\$ -	\$ 76,065
Due from related parties settled with shares	\$ -	\$ 149,345
Lease payments included in accounts payable and accrued liabilities	\$ 65,527	\$ 26,470

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

22. SEGMENTED INFORMATION

The Company has two operating segments, which are the Company's strategic business units. The reportable segments are the leasing of electronic gaming tables and the sale of electronic gaming tables. A breakdown of revenues and cost of sales for each reportable segment for the years ended December 31, 2022 and 2021 are as follows:

2022			
	Electronic Gaming Tables	Table Sales	Total
Revenue	\$ 1,401,220	\$ 30,000	\$ 1,431,220
Cost of sales	(317,285)	(47,012)	(364,297)
	\$ 1,083,935	\$ (17,012)	\$ 1,066,923

2021			
	Electronic Gaming Tables	Table Sales	Total
Revenue	\$ 334,244	\$ 85,505	\$ 419,749
Royalty expense	(20)	-	(20)
Cost of sales	(175,552)	(45,048)	(220,600)
	\$ 158,672	\$ 40,457	\$ 199,129

As at December 31, 2022, the Company's intangible assets, equipment and parts are located in Canada and the gaming tables are in the United States, Canada, and internationally. The majority of the operating costs pertain to the electronic gaming tables. Of the \$364,297 (2021 - \$220,600) cost of sales recorded during the year ended December 31, 2022, \$226,729 (2021 - \$185,081) relates to salaries and benefits.

23. EVENTS AFTER THE REPORTING DATE

The following events occurred after December 31, 2022:

- (a) A total of 913,633 share purchase warrants exercisable at prices ranging from \$0.25 to \$6.00 per share expired unexercised.
- (b) Pursuant to a private placement announced on February 7, 2023, Jackpot issued convertible debentures totaling \$456,050. The debentures bear interest at the rate of 10% per annum and will mature on November 20, 2025. The convertible debentures are convertible into 6,515,000 common shares at \$0.07 per common share until November 20, 2025. In addition, the Company has issued an aggregate of 6,515,000 share purchase warrants exercisable at \$0.10 per share until November 20, 2025. The Company paid finder's fee of \$7,550 in cash and issued 107,857 broker warrants exercisable at \$0.10 per common share for two years. All securities that have been issued in respect to this debenture financing are subject to applicable hold periods.
- (c) A total of 1,300,000 stock options exercisable at prices ranging from \$0.10 to \$0.245 per common share expired unexercised.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars, unless otherwise stated)

23. EVENTS AFTER THE REPORTING DATE (Continued)

- (d) On March 23, 2023, the Company entered into a Subsequent Amendment Agreement with the Company's major Debentureholders whereby they have agreed to extend the maturity date of the Debentures from July 1, 2023 to July 1, 2025 ("Amended Maturity Date of Jackpot's Debentures"). In consideration of the Company's major Debentureholders agreeing to the Amended Maturity Date of Jackpot's Debentures, the Company will pay on or before March 31, 2024 to the Company's major Debentureholders, on a pro-rata basis, the total amount of \$300,000 which shall be applied towards the outstanding interest and principal. Furthermore, in the event that the Company sells its Jackpot dealerless electronic table games ("ETGs") in two specific European countries, then the Company will pay 25% of the proceeds received from such sales to the Company's major Debentureholders which shall be applied towards the outstanding interest and principal.