LAS VEGAS FROM HOME.COM ENTERTAINMENT INC.

Consolidated Financial Statements
December 31, 2011 and 2010
(Expressed in Canadian Dollars)

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Las Vegas From Home.com Entertainment Inc. are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and reflect management's best estimates and judgment based on information currently available.

Management has developed and maintains a system of internal control to ensure that the Company's assets are protected from loss or improper use, transactions are authorized and properly recorded, and financial records are reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control through an audit committee, which is comprised primarily of non-management directors. The audit committee reviews the results of the audit and the annual consolidated financial statements prior to their submission to the Board of Directors for approval.

The financial statements have been audited by Smythe Ratcliffe LLP, Chartered Accountants and their report outlines the scope of their examination and gives their opinion on the audited consolidated financial statements.

"Jacob H. Kalpakian" (signed)
…………………………………….
Jacob H. Kalpakian, President

Vancouver, British Columbia
April 30, 2012

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Las Vegas From Home.com Entertainment Inc., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, shareholders' equity and cash flow for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Las Vegas From Home.com Entertainment Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its operations and cash flow for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of $3,058,096 during the year ended December 31, 2011 and, as of that date, the Company's current liabilities exceeded its current assets by $57,863. These conditions, along with other matters set forth in note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
April 30, 2012

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LAS VEGAS FROM HOME.COM ENTERTAINMENT INC.
Consolidated Balance Sheets
(Expressed in Canadian Dollars)

	December 31, 2011	December 31, 2010 (note 17)	January 1, 2010 (note 17)
Assets			
Current			
Cash and cash equivalents (notes 5(a) and 6)	$ 149,756	$ 175,340	$ 851,006
Short-term investment (note 7)	50,000	-	-
Marketable securities (note 8)	-	-	73,200
Accounts receivable	33,377	69,521	31,600
Due from related parties (note 13)	8,400	22,127	4,534
Inventory	660	-	-
Prepaid expenses	20,283	4,243	17,982
	262,476	271,231	978,322
Investment Deposit (note 11)	500,000	1,000,000	-
Lease Deposit	23,557	23,557	23,557
Equipment and Software Development (note 10)	203,344	272,162	402,619
Total Assets	$ 989,377	$ 1,566,950	$ 1,404,498
Liabilities			
Current			
Accounts payable and accrued liabilities (note 9)	$ 236,977	$ 170,197	$ 160,360
Unearned revenues	83,362	41,998	-
	320,339	212,195	160,360
Shareholders' Equity			
Capital Stock (note 12)	36,041,909	33,748,064	31,219,593
Reserves (note 12)	702,010	662,088	166,249
Accumulated Other Comprehensive Loss	-	-	(10,100)
Deficit	(36,074,881)	(33,055,397)	(30,131,604)
Total Shareholders' Equity	669,038	1,354,755	1,244,138
Total Liabilities and Shareholders' Equity	$ 989,377	$ 1,566,950	$ 1,404,498

On behalf of the Board:

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

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

See notes to consolidated financial statements.

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

	2011	2010
		(note 17)
Revenues		
Sales	$ 519,327	$ 282,636
Licensing	175,885	296,475
	695,212	579,111
Cost of Goods Sold	12,404	-
Operating Income	682,808	579,111
Expenses		
Advertising and promotion	2,078	146,536
Amortization	70,138	155,999
Bad debt	330,603	-
Consulting and professional fees	359,157	367,088
Donation	1,500	-
Foreign exchange loss (gain)	(9,172)	15,129
Legal, accounting and audit	199,541	103,944
Management fees (note 13)	396,000	360,000
Regulatory and transfer agent fees	12,873	11,326
Rent, office and miscellaneous	334,369	334,604
Salaries and benefits	1,307,143	1,908,715
Shareholder communications	1,043	1,017
Travel, meals and entertainment	250,713	190,177
	3,255,986	3,594,535
Loss Before Other Items	(2,573,178)	(3,015,424)
Other Items		
Interest income	2,014	424
Other income	3,068	-
Loss on sale of marketable securities	-	(25,755)
Gain (loss) on sale of equipment	10,000	(24,377)
Impairment of investment deposit	(500,000)	-
Impairment of equipment	-	(261)
	(484,918)	(49,969)
Net Loss for the Year	(3,058,096)	(3,065,393)
Other Comprehensive Loss		
Transfer of unrealized loss upon sale of marketable securities	-	10,100
Comprehensive Loss for the Year	$ (3,058,096)	$ (3,055,293)
Basic and Diluted Loss Per Share	$ (0.02)	$ (0.02)
Weighted Average Number of Common Shares Outstanding	184,635,841	140,026,757

See notes to consolidated financial statements.

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

	Capital Stock			Reserves		Accumulated Other Comprehensive Income	Total Shareholders' Equity (Deficiency)
	Common Shares	Amount	Deficit	Warrants	Options		
Balance, January 1, 2010 (note 17)	117,149,545	$ 31,219,593	$ (30,131,604)	$ -	$ 166,249	$ (10,100)	$ 1,244,138
Net loss for year	-	-	(3,065,393)	-	-	-	(3,065,393)
Transfer of unrealized loss upon sale of marketable securities	-	-	-	-	-	10,100	10,100
Private placement, net of issuance costs	54,390,000	2,494,000	-	66,780	-	-	2,560,780
Options exercised	226,000	22,600	-	-	-	-	22,600
Transfer of fair value recorded in option reserve on exercise of share options	-	11,871	-	-	(11,871)	-	-
Expiry of options	-	-	141,600	-	(141,600)	-	-
Share-based payment	-	-	-	-	582,530	-	582,530
Balance, December 31, 2010 (note 17)	171,765,545	33,748,064	(33,055,397)	66,780	595,308	-	1,354,755
Net loss for year	-	-	(3,058,096)	-	-	-	(3,058,096)
Private placement, net of issuance costs	19,235,500	1,521,755	-	33,046	-	-	1,554,801
Warrants exercised	4,715,000	471,500	-	-	-	-	471,500
Transfer of fair value recorded in warrant reserve on exercise of warrants	-	8,000	-	(8,000)	-	-	-
Options exercised	1,837,500	183,750	-	-	-	-	183,750
Transfer of fair value recorded in option reserve on exercise of options	-	108,840	-	-	(108,840)	-	-
Expiry of options	-	-	35,246	-	(35,246)	-	-
Forfeiture of options	-	-	3,366	-	(3,366)	-	-
Share-based payment	-	-	-	-	162,328	-	162,328
Balance, December 31, 2011	197,553,545	$ 36,041,909	$ (36,074,881)	$ 91,826	$ 610,184	$ -	$ 669,038

See notes to consolidated financial statements.

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

	2011	2010
Operating Activities		
Comprehensive loss	$ (3,058,096)	$ (3,065,393)
Items not affecting cash		
Amortization	70,138	155,999
Effect of foreign currency translation on cash	(9,172)	15,129
Share-based payment	162,328	582,530
Impairment of investment deposit	500,000	-
Loss on sale of marketable securities	-	25,755
Loss (gain) on sale of equipment	(10,000)	24,377
Write-off of equipment	-	261
	(2,344,802)	(2,261,342)
Changes in non-cash working capital		
Short-term investment	(50,000)	-
Accounts receivable	36,144	(37,921)
Due from related parties	13,727	(17,593)
Inventory	(660)	-
Prepaids and lease deposits	(16,040)	13,739
Accounts payable and accrued liabilities	66,780	9,837
Unearned revenues	41,364	41,998
	91,315	10,060
Cash Used in Operating Activities	(2,253,487)	(2,251,282)
Financing Activities		
Proceeds from common shares and warrants issued, net of share issuance costs	2,210,051	2,583,380
Investing Activities		
Proceeds from sale of marketable securities	-	57,545
Proceeds from sale of equipment	10,000	2,440
Purchase of equipment	(1,320)	(52,620)
Investment deposit	-	(1,000,000)
Cash Provided by (Used in) Investing Activities	8,680	(992,635)
Effect of Foreign Currency Translation on Cash	9,172	(15,129)
Net Change in Cash and Cash Equivalents	(25,584)	(675,666)
Cash and Cash Equivalents, Beginning of Year	175,340	851,006
Cash and Cash Equivalents, End of Year	$ 149,756	$ 175,340

Supplemental Cash Flow Information (note 18)

1. NATURE OF OPERATIONS

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

The Company's head office is located at 1000 – 1177 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2K3.

2. GOING CONCERN

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

Several adverse conditions cast substantial doubt on the validity of this assumption. The Company has incurred significant operating losses over the past two fiscal years (2011 - $3,058,096; 2010 - $3,065,393), has a deficit of $36,074,881 (December 31, 2010 - $33,055,397; January 1, 2010 - $30,131,604), a working capital deficiency of $57,863 (December 31, 2010 (surplus) - $59,036; January 1, 2010 (surplus) - $817,962), has limited revenues and resources, and has no assurances that sufficient funding will be available to continue operations for an extended period of time.

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

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

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

3. BASIS OF PRESENTATION AND ADOPTION OF IFRS

(a) Statement of compliance

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

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

3. BASIS OF PRESENTATION AND ADOPTION OF IFRS (Continued)

(a) Statement of compliance (continued)

These financial statements are the Company's first IFRS annual financial statements. Previously, the Company prepared its financial statements in accordance with pre-changeover generally accepted accounting principles ("GAAP"). The impact of the transition from Canadian GAAP to IFRS is explained in note 17. IFRS 1 *First-Time Adoption of International Financial Reporting Standards* has been applied.

The significant accounting policies set out in note 4 have been applied consistently to all periods presented and in the preparation of the opening balance sheet at January 1, 2010 (note 17) for purposes of transition to IFRS. The Company's functional and reporting currency is the Canadian dollar.

(b) Approval of the financial statements

The consolidated financial statements of LVFH for the year ended December 31, 2011 were approved and authorized for issue by the Board of Directors on April 30, 2012.

(c) New accounting pronouncements

All of the new and revised standards described below may be early-adopted.

IFRS 9 *Financial Instruments* (2009)

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

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

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

This standard is only applicable if it is optionally adopted for annual periods beginning before January 1, 2015. For annual periods beginning on or after January 1, 2015, the Company must adopt IFRS 9 (2010).

IFRS 9 *Financial Instruments* (2010)

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

3. BASIS OF PRESENTATION AND ADOPTION OF IFRS (Continued)

(c) New accounting pronouncements (continued)

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

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

This standard applies to annual periods beginning on or after January 1, 2015 and supersedes IFRS 9 (2009). However, for annual reporting periods beginning before January 1, 2015, an entity may early-adopt IFRS 9 (2009) instead of applying this standard.

IFRS 13 *Fair Value Measurement*

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

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

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

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

This standard is applicable to annual reporting periods beginning on or after January 1, 2013.

Amendments to IFRS 7 *Financial Instruments: Disclosures*

This standard makes amendments resulting from the IASB's comprehensive review of off balance sheet activities.

The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

This standard applies to annual periods beginning on or after July 1, 2011.

3. BASIS OF PRESENTATION AND ADOPTION OF IFRS (Continued)

(d) Use of estimates

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

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Company include the following:

(a) Principles of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of the Company's wholly-owned subsidiaries, MT Ventures Inc. and Blue Cactus Enterprises Inc., are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

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

(b) Cash and cash equivalents

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

(c) Short-term investment

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments

(i) Financial assets

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

Fair value through profit or loss

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

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss on receivables is based on a review of all outstanding amounts at period-end. Bad debts are written off during the year in which they are identified. Interest income is recognized by applying the effective interest rate method.

Held-to-maturity

Held-to-maturity financial assets are recognized on a trade-date basis and are initially measured at fair value using the effective interest rate method.

Available-for-sale

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

(ii) Financial liabilities

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (continued)

(ii) Financial liabilities (continued)

Fair value through profit or loss

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

Other financial liabilities

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost using the effective interest rate method. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. Other financial liabilities are classified as current or non-current based on their maturity date.

Derivative financial liabilities

Derivatives, including separated embedded derivatives are classified as held-for-trading and recognized at fair value with changes in fair value recognized in profit or loss unless they are designated as effective hedging instruments.

(iii) Effective interest method

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

(iv) Fair value hierarchy

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Software development costs

Research costs are expensed as incurred. Costs related to the development of software are expensed as incurred unless such costs meet the criteria for deferral and amortization under IFRS. The criteria includes identifiable costs attributable to a clearly defined product, the establishment of technical feasibility, demonstration of the Company's intention and ability to complete the software and use or sell it, identification of a market for the software, the Company's intent to market the software and the existence of adequate resources to complete the project. Software development costs are amortized over an estimated useful life of five years or prorated over its expected revenue stream, whichever is higher, beginning in the year when commercial sales of the products commence.

(f) Amortization

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

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

(g) Revenue recognition

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

(i) Rake percentages from licensees

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

(ii) Sales revenue

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

(h) Income taxes

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Income taxes (continued)

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

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

(i) Share-based payments

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

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

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

(j) Earnings (loss) per share

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

(k) Capital stock

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

(l) Foreign currency translation

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

(i) Monetary assets and liabilities, at the rate of exchange in effect at the balance sheet date;

(ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and

(iii) Revenue and expense items (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange prevailing at the transaction date.

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

(m) Impairment

Financial assets

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment (continued)

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

Non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived.

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

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

(n) Operating segment

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

5. FINANCIAL INSTRUMENTS

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

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

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

5. FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk

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

The Company's concentration of credit risk and maximum exposure thereto is as follows relating to funds held in Canada:

	2011	2010
Bank accounts	$ 132,506	$ 158,090
Term deposits	17,250	17,250
Short-term investment	50,000	-
	$ 199,756	$ 175,340

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

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

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The contractual financial liabilities of the Company as of December 31, 2011 equal $236,977 (December 31, 2010 - $170,197; January 1, 2010 - $160,360). All of the liabilities presented as accounts payable are due within 90 days of December 31, 2011.

(c) Market risk

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

5. FINANCIAL INSTRUMENTS (Continued)

(c) Market risk (continued)

(i) Currency risk

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

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

At December 31, 2011, the Company is exposed to currency risk for its US dollar equivalent of financial assets and liabilities denominated in currencies other than US dollars as follows:

	Held in US dollars (stated in Canadian dollars)	
	2011	**2010**
Cash	$ 2,463	$ 148,842
Accounts receivable	17,356	39,263
Accounts payable	(1,370)	(38,352)
Net financial assets (liabilities)	$ 18,449	$ 149,753

Based upon the above net exposure as at December 31, 2011 and assuming all other variables remain constant, a 5% depreciation or appreciation of the US dollar relative to the Canadian dollar could result in a decrease/increase of $922 (2010 - $7,488) in the Company's net losses.

(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 is at nominal interest rates and therefore the Company does not consider interest rate risk to be significant. The Company has no interest-bearing 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. TERM DEPOSIT

The following term deposit is included in cash and cash equivalents at December 31, 2011, as it is convertible to cash on demand:

Interest Rate	Maturity	December 31, 2011
0.50%	July 27, 2012	$ 17,250

The following term deposit is included in cash and cash equivalents at December 31, 2010, as it is convertible to cash on demand:

Interest Rate	Maturity	December 31, 2010
0.50%	July 27, 2011	$ 17,250

The following term deposit is included in cash and cash equivalents at January 1, 2010, as it is convertible to cash on demand:

Interest Rate	Maturity	January 1, 2010
0.55%	November 24, 2010	$ 800,000

7. SHORT-TERM INVESTMENT

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

Interest Rate	Maturity	December 31, 2011
Prime minus 2.05% (currently 0.95%)	July 12, 2012	$ 50,000

At December 31, 2010 and January 1, 2010, the Company had no short-term investments.

8. MARKETABLE SECURITIES

	December 31, 2011		December 31, 2010		January 1, 2010	
	Number of Shares	Fair Value	Number of Shares	Fair Value	Number of Shares	Fair Value
Chartwell Technology Inc.	-	$ -	-	$ -	60,000	$ 73,200

During the year ended December 31, 2010, the Company sold 60,000 Chartwell Technology Inc. common shares for proceeds of $57,545.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables	$ 140,842	$ 100,197	$ 90,360
Accrued liabilities	96,135	70,000	70,000
	$ 236,977	$ 170,197	$ 160,360

10. EQUIPMENT AND SOFTWARE DEVELOPMENT

Cost	Software and Development Costs	Computer Equipment	Furniture	Total
Balance at January 1, 2010	$ 526,577	$ 974,317	$ 21,400	$ 1,522,294
Net additions	-	(90,324)	-	(90,324)
Balance at December 31, 2010	526,577	883,993	21,400	1,431,970
Net additions	-	1,320	-	1,320
Balance at December 31, 2011	$ 526,577	$ 885,313	$ 21,400	$ 1,433,290

Accumulated amortization	Software and Development costs	Computer Equipment	Furniture	Total
Balance at January 1, 2010	$ 460,895	$ 651,677	$ 7,103	$ 1,119,675
Disposals	-	(115,866)	-	(115,866)
Amortization expense	65,682	87,705	2,612	155,999
Balance at December 31, 2010	526,577	623,516	9,715	1,159,808
Amortization expense	-	68,004	2,134	70,138
Balance at December 31, 2011	$ 526,577	$ 691,520	$ 11,849	$ 1,229,946

Carrying amounts	Software and Development costs	Computer Equipment	Furniture	Total
January 1, 2010	$ 65,682	$ 322,640	$ 14,297	$ 402,619
December 31, 2010	$ -	$ 260,477	$ 11,685	$ 272,162
December 31, 2011	$ -	$ 193,793	$ 9,551	$ 203,344

11. INVESTMENT DEPOSIT

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

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

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

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

(iii) The issuance of 30,000,000 units of the Company. Each unit shall consist of one common share and one share purchase warrant. Each share purchase warrant shall entitle the holder to purchase one additional common share of the Company at a price of $0.10 in the first year or at a price of $0.25 in the second year. Each unit will be subject to hold periods and restrictions on resale in accordance with applicable securities laws, and the rules and regulations of the TSX-V;

(iv) An earn-out bonus of one common share of the Company for each US $1.00 of net profit that shall be earned by the Mexican Gaming Company for a period of three years for a maximum number of 30,000,000 common shares of the Company;

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

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

As at December 31, 2011, the Company has not yet obtained approval from the TSX-V as required by the terms of the agreement. As a result of the delay, management recorded an impairment provision of $500,000 against the investment deposit.

12. CAPITAL STOCK

(a) Authorized

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

(b) Issued

There are no preferred shares issued.

12. CAPITAL STOCK (Continued)

(b) Issued (continued)

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

(i) During June 2011, the Company completed in tranches a non-brokered private placement and issued an aggregate of 14,135,500 units at $0.10 per unit for total proceeds to the Company of $1,413,550. Each unit consists of one common share and one share purchase warrant entitling the holders to acquire an additional common share of the Company at a price of $0.25 for a period of two years until June 8, 2013 with respect to the first tranche and until June 22, 2013 with respect to the second and third tranches. Finder's fees paid in connection with the private placement consisted of $78,750 paid in cash, 360,000 common shares of the Company valued at $36,000 and 787,500 agent warrants valued at $33,046 (see note 12(c)).

(ii) During December 2011, the Company completed the first tranche of a private placement and issued a total of 4,400,000 units at a price of $0.05 per unit for gross proceeds of $220,000. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at $0.15 until December 29, 2012. The Company issued 340,000 common shares of the Company valued at $17,000 as finder's fees.

Private placement financings during the year ended December 31, 2010 were:

(iii) The Company completed non-brokered private placement financings with various investors and issued a total of 51,390,000 units in the securities of the Company at a price of $0.05 per unit for total gross proceeds of $2,569,500. Each unit consists of one common share and one share purchase warrant, which entitles the warrant holder to purchase one additional common share of the Company at a price of $0.10 in the first year of closing and at a price of $0.25 in the second year from closing. The proceeds were allocated as $2,534,100 to common shares and $35,400 to warrants using residual value method. Share issue costs associated with the private placement totaled $190,100, consisting of 3,000,000 common shares issued valued at $150,000, $8,720 in cash and $31,380 for the value of agent warrants issued. All the securities issued pursuant to this private placement financing had a hold period of four months.

(c) Warrants

During the year ended December 31, 2011, the Company issued 14,135,500 share purchase warrants and 787,500 finder's warrants pursuant to the private placement that closed on June 8, 2011 and June 22, 2011. Each share purchase warrant entitles the warrant holder to purchase an additional common share of the Company at a price of $0.25 for two years from the closing date. In addition, the Company also issued 2,200,000 share purchase warrants pursuant to the private placement that closed on December 29, 2011. Each whole warrant entitles the holder to purchase one additional common share of the Company at $0.15 until December 29, 2012.

12. CAPITAL STOCK (Continued)

(c) Warrants (continued)

The fair value of the agent warrants issued of $33,046 (as previously disclosed in 12(b)) was recorded as share issuance costs with a corresponding increase in warrants and was calculated using the Black-Scholes pricing model with the following weighted average assumptions: risk-free interest rate: 1.51%; expected dividend yield: 0; expected stock price volatility: 117.16%; expected life in years: 2, and a grant date fair value of $0.10. Expected stock price volatility is based on the historical volatility of the Company to the extent of the expected life of the warrant.

During the year ended December 31, 2010, the Company issued 51,390,000 share purchase warrants (as previously disclosed in 12(b)(iii)) and 300,000 agent warrants in connection with the private placements conducted in 2010. Each share purchase warrant entitles the warrant holder to purchase an additional common share of the Company at a price of $0.10 in the first year and at a price of $0.25 in the second year. The fair value of the agent warrants of $31,380 was recorded as share issuance costs with a corresponding increase in warrants and was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate: 1.62%;

Expected dividend yield: 0; expected stock price volatility: 238.08%; expected life in years: 2 and a grant date fair value of $0.12. Expected stock price volatility is based on the historical volatility of the Company to the extent of the expected life of the warrant.

	Number of Warrants	Weighted Average Exercise Price
Balance, January 1, 2010	-	-
Issued	51,690,000	$ 0.25
Balance, December 31, 2010	51,690,000	$ 0.25
Issued	17,123,000	$ 0.24
Exercised*	(4,715,000)	$ 0.10
Balance, December 31, 2011	64,098,000	$ 0.25

* The average share price during the year ended December 31, 2011 was $0.10.

12. CAPITAL STOCK (Continued)

(c) Warrants (continued)

At December 31, 2011 and 2010, the following warrants were outstanding and exercisable:

Expiry Date	Exercise Price	Number of Warrants 2011	2010
June 17, 2012	$ 0.25*	21,900,000	24,100,000
July 12, 2012	$ 0.25*	6,560,000	7,400,000
July 14, 2012	$ 0.25*	2,740,000	3,540,000
August 3, 2012	$ 0.25*	150,000	150,000
September 30, 2012	$ 0.25*	5,100,000	5,100,000
October 6, 2012	$ 0.25*	6,525,000	7,000,000
November 18, 2012	$ 0.25*	4,000,000	4,400,000
December 29, 2012	$ 0.15	2,200,000	-
June 8, 2013	$ 0.25	7,473,000	-
June 22, 2013	$ 0.25	7,450,000	-
	$ 0.25	64,098,000	51,690,000

* Exercisable at $0.10 in the first year and at $0.25 in the second year

(d) Stock options

Pursuant to the Company's Amended 2004 Stock Option Plan, which has received TSX Venture Exchange approval, the Company grants stock options to employees, directors, officers and consultants. As at December 31, 2011, there are 75,094 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, exercised, forfeited and expired during the years ended December 31, 2011 and 2010. The options vest 25% on grant and thereafter at 25% every four or six months.

	Number of Options	Weighted Average Exercise Price
Balance, January 1, 2010	2,192,500	$ 0.15
Granted	11,660,000	$ 0.10
Exercised**	(226,000)	$ 0.10
Cancelled	(130,000)	$ 0.10
Expired	(1,495,000)	$ 0.17
Balance, December 31, 2010	12,001,500	$ 0.10
Granted	950,000	$ 0.10
Exercised**	(1,837,500)	$ 0.10
Cancelled	(405,000)	$ 0.10
Expired	(200,000)	$ 0.15
Balance, December 31, 2011	10,509,000	$ 0.10

* The average share price during the year ended December 31, 2011 was $0.10 (2010 - $0.06).

12. CAPITAL STOCK (Continued)

(d) Stock options (continued)

At December 31, 2011 and 2010, the following stock options were outstanding:

Exercise Price	Expiry Date	Outstanding 2011	Exercisable 2011	Outstanding 2010	Exercisable 2010
$ 0.15	February 25, 2011	-	-	200,000	200,000
$ 0.10	May 15, 2011	-	-	50,000	50,000
$ 0.10	June 4, 2011	-	-	250,000	250,000
$ 0.10	May 18, 2013	7,309,000	7,309,000	9,251,500	4,625,750
$ 0.10	June 22, 2013	1,000,000	1,000,000	1,000,000	500,000
$ 0.10	August 9, 2012	750,000	562,500	750,000	187,500
$ 0.10	August 18, 2012	500,000	375,000	500,000	125,000
$ 0.12	June 1, 2014	150,000	75,000	-	-
$ 0.10	March 20, 2014	800,000	200,000	-	-
		10,509,000	9,521,500	12,001,500	5,938,250

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its stock options granted. Accordingly, share-based payment of $133,760 (2010 - $421,346) was recognized as salaries expense and $28,568 (2010 - $161,184) was recognized as consulting fees for options granted to consultants.

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

	2011	**2010**
Expected life (years)	1.67	2.90
Grant date fair value per share	0.07	0.07
Interest rate	1.00%	1.93%
Volatility	114.64%	206.34%
Dividend yield	0.00%	0.00%

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

13. RELATED PARTY TRANSACTIONS

The Company shares office space and certain expenses with entities controlled by key management personnel. Rent for the office premises are paid by the Company and these entities are charged for their proportionate share of office rent and office services provided by the Company.

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

	December 31, 2011	**December 31, 2010**	**January 1, 2010**
Receivable from entities controlled by key management personnel	$ 8,400	$ 22,127	$ 4,534

13. RELATED PARTY TRANSACTIONS (Continued)

	2011	2010
Rent charged to entities controlled by key management personnel	$ 6,600	$ 5,700
Office and other expenses charged to entities controlled by key management personnel	$ 69,410	$ 26,970

Key management and personnel compensation is as follows:

	2011	2010
Management fees charged by an entity controlled by key management personnel	$ 396,000	$ 360,000
Short-term employee benefits	136,433	84,222
Share-based payments	112,753	291,926
Total key management personnel compensation	$ 645,186	$ 736,148

14. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26.5% (2010 - 28.5%) to income before income taxes. The reasons for the differences are as follows:

	2011	2010
Loss before income taxes	$ (3,058,096)	$ (3,065,393)
Statutory income tax rate	26.5%	28.5%
Income tax benefit computed at statutory tax rate	(810,395)	(873,637)
Items not deductible for income tax purposes	53,618	(144,637)
Change in timing differences	(14,022)	414,000
Effect of change in tax rate	(753)	292,000
Differences attributable to income tax rates of other countries	35,944	29,000
Unrecognized benefit of deferred income tax assets	735,608	283,274
Deferred income tax expense (recovery)	$ -	$ -

Effective January 1, 2011, the Canadian federal corporate tax rate decreased from 18.0% to 16.5% and the British Columbia provincial tax decreased from 10.5% to 10.0%. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rate from 28.5% to 26.5%.

14. 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:

	2011	2010
Excess of unused exploration expenditures for Canadian tax purposes over carrying value of mineral property interests	$ 268,000	$ 268,000
Excess of undepreciated capital cost over carrying value of fixed assets	2,584,000	2,512,000
Excess of tax cost over carrying value of investment deposit	500,000	-
Share issuance costs	176,000	152,000
Non-capital losses carried forward	16,752,000	14,404,000
Net capital losses carried forward	604,000	604,000
Unrecognized deductible temporary differences	$ 20,884,000	$ 17,940,000

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

2014	$ 640,000
2026	687,000
2027	3,876,000
2028	3,503,000
2029	2,935,000
2030	2,715,000
2031	2,396,000
	$ 16,752,000

The Company has available approximate net capital losses of $1,209,000 that may be carried forward indefinitely. The Company has available resource-related deductions of approximately $269,000 that may be carried forward indefinitely.

15. COMMITMENTS

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

The Company entered into a sublease agreement with an arm's length party on September 15, 2009, which has a term of two years and seven months, commencing October 1, 2009 in respect to approximately 4,817 square feet of office space. Current monthly payment for the sublease consists of $6,021 plus HST for rent and $6,551 plus HST for the Company's proportionate share of the property taxes and operating expenses. The Company's remaining commitment associated with this agreement is $50,288, which is required to be paid in 2012.

16. CAPITAL MANAGEMENT

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

The Company's objective when managing capital is to maintain adequate levels of funding to support the development and marketing of the Company's online Asian multi-player interactive games while maintaining the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds on acceptable terms in the future.

There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements. The Company's risk management procedures and policies are detailed in note 5.

17. TRANSITION TO IFRS

An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position and comprehensive loss is set out in this note.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

IFRS 1 generally requires that first-time adopters retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date. IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions to this general principle.

The Company has elected under IFRS 1 to not apply IFRS 2 *Share-based Payment* to options that vested before the date of transition to IFRS. In addition as part of its transition to IFRS, the Company elected not to restate business combinations that occurred prior to January 1, 2010.

Adjustments on transition to IFRS

However, there are important differences with regard to recognition, measurement and disclosure. While adoption of IFRS did not change the Company's actual cash flows, it resulted in changes to the Company's balance sheet, statement of comprehensive loss and statement of shareholders' equity as set out below.

(a) Share-based payments

On transition to IFRS the Company changed its accounting policy for the treatment of share-based payments whereby amounts recorded in options reserves for unexercised stock options are transferred to deficit upon their expiration. Previously, the Company's Canadian GAAP policy was to leave such amounts in option reserves.

In addition, under IFRS, the fair value of the share-based awards is recognized based on a graded method as opposed to the straight-line method under Canadian GAAP. The difference arises in the recognition of the share-based expense. Each tranche of an award with different vesting dates is considered a separate tranche and the fair value of each tranche is amortized over the vesting period of the respective tranches under IFRS. Under Canadian GAAP, the fair value of share-based awards is calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period of the entire grant.

17. TRANSITION TO IFRS (Continued)

(a) Share-based payments (continued)

The impact on the balance sheets due to the change in accounting policy is as follows:

	December 31, 2010	January 1, 2010
Decrease in value of reserves – options	$ (3,061,459)	$ (3,082,025)
Reduction to deficit	$ 3,061,459	$ 3,082,025

The impact on the statement of comprehensive loss for the year ended December 31, 2010 is an increase in share-based payment expense of $162,166, which is allocated as follows: a decrease in consulting and professional fees of $29,026 and an increase of salaries and benefits of $191,192.

During the fourth quarter of the year ended December 31, 2010, 226,000 options were exercised during the same period for which $12,342 was transferred from options reserves to capital stock under Canadian GAAP. Under IFRS, the transfer should have been for $11,871. As a result, the difference of $471 has been re-allocated from capital stock back into options reserves.

(b) Warrants

The Company has changed its accounting policy for the treatment of unit offerings to the residual value method, whereby proceeds exceeding the fair value of the common shares are allocated to the share purchase warrants. Previously, the Company's Canadian GAAP policy was to allocate proceeds based on the relative fair value method. In addition, the Company has changed its accounting policy for the treatment of unexercised expired warrants. Previously the Company had transferred the carrying amount of unexercised expired warrants from the warrants account to contributed surplus. Under the new policy, the carrying amounts of unexercised expired warrants will be transferred from the warrants reserves to deficit.

The impact on the balance sheets due to the change in accounting policy is as follows:

	December 31, 2010	January 1, 2010
Decrease in value of reserve – warrants	$ (1,136,606)	$ -
Increase in value of capital stock	$ 1,136,606	$ -

(c) Reconciliation to previously reported financial statements.

A reconciliation of the above noted changes is included in the following balance sheets and statement of comprehensive loss for the dates noted below. The effects of the transition from GAAP to IFRS on the cash flow are immaterial. Therefore, a reconciliation of cash flows has not been presented.

- Transitional Balance Sheet reconciliation – January 1, 2010
- Balance Sheet reconciliation – December 31, 2010
- Statement of Comprehensive Loss Reconciliation – December 31, 2010

17. TRANSITION TO IFRS (Continued)

The January 1, 2010 Canadian GAAP balance sheet has been reconciled to IFRS as follows:

	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current			
Cash	$ 851,006	$ -	$ 851,006
Marketable securities	73,200	-	73,200
Accounts receivable	31,600	-	31,600
Due from related parties	4,534	-	4,534
Prepaid expenses	17,982	-	17,982
	978,322	-	978,322
Lease Deposit	23,557	-	23,557
Equipment and Software Development	402,619	-	402,619
Total Assets	$ 1,404,498	$ -	$ 1,404,498
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 160,360	$ -	$ 160,360
Shareholders' Equity			
Capital Stock	31,219,593	-	31,219,593
Reserves - Options (note 17(a))	3,248,274	(3,082,025)	166,249
Accumulated Other Comprehensive Loss	(10,100)	-	(10,100)
Deficit (note 17(a))	(33,213,629)	3,082,025	(30,131,604)
	1,244,138	-	1,244,138
Total Liabilities and Shareholders' Equity	$ 1,404,498	$ -	$ 1,404,498

17. TRANSITION TO IFRS (Continued)

The December 31, 2010 Canadian GAAP balance sheet has been reconciled to IFRS as follows:

	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current			
Cash	$ 175,340	$ -	$ 175,340
Accounts receivable	69,521	-	69,521
Due from related parties	22,127	-	22,127
Prepaid expenses	4,243	-	4,243
	271,231	-	271,231
Investment Deposit	1,000,000		1,000,000
Lease Deposit	23,557	-	23,557
Equipment and Software Development	272,162	-	272,162
Total Assets	$ 1,566,950	$ -	$ 1,566,950
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 170,197	$ -	$ 170,197
Unearned revenues	41,998	-	41,998
	212,195	-	212,195
Shareholders' Equity			
Capital Stock (note 17(b))	32,611,929	1,136,135	33,748,064
Reserves - Warrants (note 17(b))	1,203,386	(1,136,606)	66,780
Reserves - Options (notes 17(a) and (b))	3,656,296	(3,060,988)	595,308
Deficit (note 17(a))	(36,116,856)	3,061,459	(33,055,397)
	1,354,755	-	1,354,755
Total Liabilities and Shareholders' Equity	$ 1,566,950	$ -	$ 1,566,950

17. TRANSITION TO IFRS (Continued)

The Canadian GAAP statement of comprehensive loss for the year ended December 31, 2010 has been reconciled to IFRS as follows:

	Canadian GAAP	Effect of Transition to IFRS	IFRS
Revenues			
Sales	$ 282,636	$ -	$ 282,636
Licensing	296,475	-	296,475
	579,111	-	579,111
Expenses			
Advertising and promotion	146,536	-	146,536
Amortization	155,999	-	155,999
Consulting and professional fees	396,114	(29,026)	367,088
Foreign exchange loss	15,129	-	15,129
Legal, accounting and audit	103,944	-	103,944
Management fees	360,000	-	360,000
Regulatory and transfer agent fees	11,326	-	11,326
Rent, office and miscellaneous	334,604	-	334,604
Salaries and benefits	1,717,523	191,192	1,908,715
Shareholder communication	1,017	-	1,017
Travel, meals and entertainment	190,177	-	190,177
	3,432,369	162,166	3,594,535
Loss Before Other Items	(2,853,258)	(162,166)	(3,015,424)
Other Items			
Interest income	424	-	424
Write-off of equipment	(261)	-	(261)
Loss on sale of equipment	(24,377)	-	(24,377)
Loss on sale of marketable securities	(25,755)	-	(25,755)
	(49,969)	-	(49,969)
Net Loss for Year	(2,903,227)	(162,166)	(3,065,393)
Other Comprehensive Income (Loss)			
Transfer of unrealized loss upon sale of marketable securities	10,100	-	10,100
Comprehensive Loss for Year	$ (2,893,127)	$ (162,166)	$ (3,055,293)

18. SUPPLEMENTAL CASH FLOW INFORMATION

		2011		2010
Cash and Cash Equivalents consist of:				
Cash	$	132,506	$	158,090
Term deposits		17,250		17,250
Cash and Cash Equivalents, End of Year	$	149,756	$	175,340

Supplemental information				
Non-cash items:				
Warrants issued as finder's fees	$	33,046	$	66,780
Fair value of warrants transferred to capital stock	$	(8,000)	$	-
Fair value of options exercised	$	(108,840)	$	11,871
Options cancelled/expired/forfeited and recorded to deficit	$	38,612	$	141,600
Interest paid	$	-	$	-
Income taxes paid	$	-	$	-

19. SUBSEQUENT EVENTS

(a) On January 25, 2012, the Company completed the second tranche of a private placement by issuing 2,600,000 units at a price of $0.05 per unit for gross proceeds of $130,000. Each unit consists of one common share and one-half of one share purchase warrant. One whole warrant entitles the holder to purchase one additional common share of the Company at $0.15 until January 25, 2013. Finder's fees paid in connection with the private placement consisted of $13,000 paid in cash, 260,000 common shares of the Company and 130,000 agent warrants with the same terms as the private placement warrants.

(b) On February 28, 2012, the Company completed the third tranche of a private placement by issuing 3,465,000 units at a price of $0.05 per unit for gross proceeds of $173,250. Each unit consists of one common share and one-half of one share purchase warrant. One whole warrant entitles the holder to purchase one additional common share of the Company at $0.15 until February 28, 2013. Finder's fees paid in connection with the private placement consisted of 146,500 common shares of the Company.

(c) On March 30 2012, the Company completed the final tranche of a private placement by issuing 2,000,000 units at a price of $0.05 per unit for gross proceeds of $100,000. Each unit consists of one common share and one-half of one share purchase warrant. One whole warrant entitles the holder to purchase one additional common share of the Company at $0.15 until March 30, 2013. Finder's fees paid in connection with the private placement consisted of 200,000 common shares of the Company.

(d) On April 9, 2012, a total of 1,000,000 stock options exercisable at $0.10 per common shares which were previously granted to a director were cancelled.

(e) On April 12, 2012, a total of 1,000,000 stock options exercisable at $0.10 per common share have been issued to three consultants.

(f) On April 23, 2012, a total of 30,000 stock options exercisable at $0.10 per common share which were previously granted to an employee were cancelled.

19. SUBSEQUENT EVENTS (Continued)

(g) On April 24, 2012, the Company entered into two credit facilities with two directors, whereby the Company may draw-down up to $170,000 from each of the two facilities ($340,000 in the aggregate) as and when needed by the Company. Amounts advanced under the facilities bear interest at 5% per annum and are payable on demand. The financing under the credit facilities is subject to TSX-V approval.

(h) In respect to the office space subleased by the Company (Note 15 – Commitments), on April 24, 2012 a Notice of Claim was filed in the Small Claims Court of Vancouver, British Columbia by the landlord for unpaid rent in the amount of $25,000.