

JACKPOT DIGITAL INC.

**Consolidated Financial Statements
Three Months Ended March 31, 2018 and 2017
(Expressed in Canadian Dollars)
(Unaudited)**

<u>Index</u>	<u>Page</u>
Notice of No Auditor Report	1
Condensed Consolidated Financial Statements	
Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Comprehensive Loss	3
Condensed Consolidated Statements of Changes in Shareholders' Deficiency	4
Condensed Consolidated Statements of Cash Flows	5
Notes to Condensed Consolidated Financial Statements	6 – 35

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed consolidated interim financial statements as at March 31, 2018 and for the three months ended March 31, 2018 and 2017.

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

	March 31, 2018	December 31, 2017
		(Audited)
Assets (note 10)		
Current		
Cash and cash equivalents (note 5)	\$ 64,565	\$ 162,239
Accounts receivable (note 5)	218,192	269,537
Prepaid expenses and deposits	46,904	46,904
	329,661	478,680
Deposits (parts)	270,904	571,683
Gaming Systems	2,304,492	1,908,154
Equipment	47,487	51,078
Mineral Property Interest	1	1
Investment	1	1
Intangible Assets	1,642,068	1,769,447
Total Assets	\$ 4,594,614	\$ 4,779,044
Liabilities		
Current		
Accounts payable and accrued liabilities (note 10)	\$ 1,394,942	\$ 1,325,852
Payable to Everi Holdings Inc. (note 6)	4,937,571	4,818,980
Interest payable	1,011,010	848,021
Loans payable (note 10)	349,873	342,465
Due to related parties (note 8)	160,302	166,769
Convertible debentures (note 10)	2,333,000	2,333,000
Non-convertible secured debentures (note 10)	3,037,537	2,854,790
Refundable subscription (note 9)	10,000	10,000
	13,234,235	12,699,877
Deferred Revenue (note 11)	363,120	334,474
Total Liabilities	13,597,355	13,034,351
Shareholders' Deficiency		
Capital Stock (note 7)	46,506,282	45,826,266
Reserves (note 7)	1,813,077	1,777,478
Convertible Debentures - Equity Portion (note 10)	101,601	114,101
Obligation to Issue Shares	-	229,400
Non-Controlling Interest (note 9)	(344,858)	(324,295)
Deficit	(57,078,843)	(55,878,257)
Total Shareholders' Deficiency	(9,002,741)	(8,255,307)
Total Liabilities and Shareholders' Deficiency	\$ 4,594,614	\$ 4,779,044

On behalf of the Board:

"Bedo H. Kalpakian" (signed)

.....
 Bedo H. Kalpakian, Director

"Neil Spellman" (signed)

.....
 Neil Spellman, Director

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

	March 31, 2018	March 31, 2017
Revenues		
Electronic gaming tables (note 11)	\$ 559,375	\$ 1,802,685
Licensing and other	-	(20,011)
	559,375	1,782,674
Royalty expense	10,821	15,131
Licensing fee	9,351	5,493
Cost of sales	220,064	138,822
	240,236	159,446
Gross Profit	319,139	1,623,228
Expenses		
Salaries and benefits	428,702	412,550
Interest expense and finance expense	263,755	344,997
Consulting fees	31,008	180,918
Rent, office and miscellaneous	138,779	99,603
Management fees	99,000	99,000
Travel, meals and entertainment	81,596	30,151
Advertising and promotion	57,994	38,376
Legal, accounting and audit	18,289	(27,529)
Regulatory and transfer agent fees	59,447	28,628
Foreign exchange (gain) loss	224,860	(94,025)
Amortization	205,014	231,799
Impairment loss on gaming systems	-	1,635
Interest and other income	-	(46)
	1,608,444	1,346,057
Net Income (Loss) and Comprehensive Income (Loss) for the Period	\$ (1,289,305)	\$ 277,171
Attributed to:		
Equity holders of the Company	\$ (1,269,719)	\$ 277,171
Non-controlling interest (note 9)	\$ (19,586)	\$ -
Basic and Diluted Income (Loss) Per Share	\$ (0.04)	\$ 0.00
Weighted Average Number of Common Shares Outstanding	36,638,347	28,888,250

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

	Capital Stock		Reserves		Equity Portion of Convertible Debentures	Obligation to Issue Shares	Deficit	Non- Controlling Interest	Shareholders' Deficiency
	Common Shares	Amount	Warrants	Options					
Balance, December 31, 2016	15,599,655	\$ 42,689,759	\$ 1,219,068	\$ 550,604	\$ 101,601	\$ -	\$ (51,768,866)	\$ -	\$ (7,207,834)
Net income (loss) for the period	-	-	-	-	-	-	277,171	-	277,171
Rights offering, net of issuance costs	15,599,655	1,429,179	-	-	-	-	-	-	1,429,179
Share -based payment	-	-	-	3,342	-	-	-	-	3,342
Balance, March 31, 2017	31,199,310	44,118,938	1,219,068	553,946	101,601	-	(51,491,695)	-	(5,498,142)
Net income (loss) for the period	-	-	-	-	-	-	(4,559,956)	(6,530)	(4,566,486)
Convertible debentures	-	-	-	-	12,500	-	-	-	12,500
Private placement, net of issuance costs	4,047,000	1,707,119	160,996	-	-	-	-	-	1,868,115
Proceeds from common shares to be issued, net of issuance costs	-	-	-	-	-	229,400	-	-	229,400
Exercise of warrants	419	209	-	-	-	-	-	-	209
Expiry of warrants	-	-	(150,482)	-	-	-	150,482	-	-
Expiry of options	-	-	-	(22,912)	-	-	22,912	-	-
Share-based payment	-	-	-	16,862	-	-	-	-	16,862
Net liabilities acquired in transaction	-	-	-	-	-	-	-	(317,765)	(317,765)
Balance, December 31, 2017	35,246,729	45,826,266	1,229,582	547,896	114,101	229,400	\$ (55,878,257)	\$ (324,295)	\$ (8,255,307)
Net loss for the period	-	-	-	-	-	-	(1,269,719)	(19,586)	(1,289,305)
Private placement, net of issuance costs	1,487,634	665,611	28,064	-	-	(229,400)	-	-	464,275
Issuance of bonus shares	60,000	12,500	-	-	(12,500)	-	-	-	-
Exercise of warrants	3,810	1,905	-	-	-	-	-	-	1,905
Expiry of options	-	-	-	(656)	-	-	656	-	-
Share based payment	-	-	-	8,191	-	-	-	-	8,191
Fractional share adjustment	1	-	-	-	-	-	-	-	-
Dilution of interest	-	-	-	-	-	-	68,477	(977)	67,500
Balance, March 31, 2018	36,798,174	\$ 46,506,282	\$ 1,257,646	\$ 555,431	\$ 101,601	\$ -	\$ (57,078,843)	\$ (344,858)	\$ (9,002,741)

See notes to consolidated financial statements.

JACKPOT DIGITAL INC.
Condensed Consolidated Statements of Cash Flows
Years Ended December 31
(Expressed in Canadian Dollars)

	March 31, 2018	March 31, 2017
Operating Activities		
Net income (loss)	\$ (1,289,305)	\$ 277,171
Adjustments to reconcile net income/(loss) to net cash used in operating activities		
Amortization	205,014	231,799
Interest expense and finance expense	263,174	344,465
Unrealized foreign exchange (gain) loss	92,542	(28,036)
Share-based payment	8,191	3,342
Repairs and maintenance	51,883	51,020
Impairment loss on gaming systems	-	1,635
	(668,501)	881,396
Changes in non-cash working capital		
Accounts receivable	51,345	(7,466)
Due from related parties	-	(29,282)
Prepaid expenses and deposits	-	4,404
Accounts payable and accrued liabilities	70,066	(80,943)
Deferred revenue (note 11)	9,305	(1,091,523)
Payable to Everi	137,932	(57,568)
	268,648	(1,262,378)
Cash Used in Operating Activities	(399,853)	(380,982)
Financing Activities		
Funds from rights offering	-	1,429,179
Private placement, net of issuance costs	464,275	-
Exercise of warrants	69,405	-
Funds from loan payable	100,000	-
Repayment of loan payable	(100,575)	(25,849)
Funds from related parties	50,850	100,500
Repayment of loan from related party	(60,946)	(542,228)
Interest payment of convertible debentures	-	(161,599)
Cash Provided by Financing Activities	523,009	800,003
Investing Activities		
Purchase of equipment	-	(39,602)
Purchase of gaming systems	(221,485)	(23,964)
Consideration paid on the transaction with Everi	-	(325,300)
Cash Used in Investing Activities	(221,485)	(388,866)
Effect of Foreign Currency Translation on Cash	655	108
Net Change in Cash and Cash Equivalents	(97,674)	30,263
Cash and Cash Equivalents, Beginning of Period	162,239	15,173
Cash and Cash Equivalents, End of Period	\$ 64,565	\$ 45,436

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

1. NATURE OF OPERATIONS

Effective June 18, 2015, the Company's name was changed from Las Vegas From Home.com Entertainment Inc. to Jackpot Digital Inc. (the "Company" or "Jackpot"). The Company develops and leases electronic table games to casino operators and is also a software developer and provider for online and mobile gaming platforms. The Company's common shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "JP" and on the OTCQB under the trading symbol "JPOTF". A certain number of warrants of the Company trade on the TSX-V under the symbol "JP.WT".

The Company's office is located at Suite 400 – 570 Granville Street, Vancouver, British Columbia, Canada, V6C 3P1, and the Company's warehouse is located at 4664 Lougheed Highway, Unit W030, Burnaby, British Columbia, Canada, V5C 5T5. The Company's registered office is located at Suite 1500 – 1055 West Georgia Street, PO Box 11117 Royal Centre, Vancouver, British Columbia, Canada, V6E 4N7.

On December 19, 2017 the Company caused to incorporate 10545856 Canada Inc. (Federally incorporated company) which subsequently changed its name to Electrium Mining Inc. ("Electrium"). Electrium is a partially owned subsidiary of the Company.

Effective April 20, 2018, the Company consolidated its common shares on the basis of 10 pre-consolidation common shares to 1 post-consolidation common share. All the figures as to the number of common shares, stock options, warrants, prices of issued shares, exercise prices of stock options and warrants, as well as loss per share, in the consolidated financial statements are post-consolidation amounts and the prior year comparatives have been retroactively restated to present the post-consolidation amounts.

2. GOING CONCERN

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

Several adverse conditions cast significant doubt on the validity of this assumption. The Company has incurred a net loss and comprehensive loss of \$1,289,305 during the three months ended March 31, 2018 (March 31, 2017: net income and comprehensive income of \$277, 171), has incurred significant operating losses over the past two fiscal years (2017 - \$4,289,315; 2016 - \$6,158,137), and has a working capital deficiency of \$12,904,574 (December 31, 2017: working capital deficiency of \$12,221,197). 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, is seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost-cutting measures. There can be no assurance that management's plan will be successful.

If the going concern assumption were not appropriate for these 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
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

3. BASIS OF PRESENTATION

(a) Statement of compliance

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34 Interim Financial Reporting using the accounting policies consistent with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). They do not include all of the information required for full annual financial statements.

(b) Basis of measurement

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

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

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

(c) Approval of the condensed consolidated interim financial statements

The condensed consolidated interim financial statements of Jackpot for the three months ended March 31, 2018 were approved and authorized for issue by the Board of Directors on May 30, 2018.

(d) Functional and presentation currency

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

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

Significant assumptions about the future and other sources of estimated uncertainty that management has made as at the 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:

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

3. BASIS OF PRESENTATION (Continued)

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

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 March 31, 2018, the Company recorded an allowance for doubtful accounts of \$nil (December 31, 2017 - \$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.

Critical accounting judgments

- Fair value of equity instruments

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

- 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
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

3. BASIS OF PRESENTATION (Continued)

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

- Recoverability of asset carrying values

Determining the amount of impairment of goodwill, 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.

- 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 IAS 39 *Financial Instruments: Recognition and Measurement* 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 March 31, 2018, no development expenditures have been capitalized.

- Functional currency

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

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

3. BASIS OF PRESENTATION (Continued)

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

- Business combination or asset acquisition

Management has had to apply judgments relating to the asset purchase transaction with Everi Holdings Inc. ("Everi") (note 6) and the acquisition of 37 Capital Inc. ("37 Capital") (note 9) with respect to whether the acquisitions were a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of the acquisition in order to reach a conclusion.

- Fair value of assets acquired in a business combination

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

- Assessment of control

In determining whether the Company controls 37 Capital, management is required to consider and assess the definition of control 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 of 37 Capital.

- 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.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(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 Touche Capital Inc. (incorporated in British Columbia) and partially owned subsidiary, 37 Capital Inc. ("37 Capital"), are included in the consolidated financial statements from the date that control commenced to the date of disposal or dissolution.

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

On November 2, 2017, the Company obtained control of 37 Capital (note 9). Non-controlling interests in the net assets of consolidated partially owned 37 Capital are identified separately from the Company's deficiency. The non-controlling interest consists of the non-controlling interest as at the date of the original acquisition plus the non-controlling interest's share of changes in deficiency since the date of acquisition.

(b) Cash and cash equivalents

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

(c) Financial instruments

(i) Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity and AFS. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Fair value through profit or loss

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

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (continued)

(i) Financial assets (continued)

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

Loans and receivables

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

Held-to-maturity

Held-to-maturity are non-derivative financial assets with fixed or determinable payments that the Company intends on holding to maturity and do not meet the definition of loans and receivables. Held-to-maturity financial assets are recognized on a trade-date basis and are initially measured at fair value using the effective interest rate method. As at March 31, 2018, there are no financial assets classified as held-to-maturity.

Available-for-sale

AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial assets categories. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income and classified as a component of equity. As at March 31, 2018, there are no financial assets classified as AFS.

(ii) Financial liabilities

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

Fair value through profit or loss

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss. As at March 31, 2018, there are no financial liabilities classified as FVTPL.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (continued)

(ii) Financial liabilities (continued)

Other financial liabilities

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost using the effective interest rate method. Any difference between the amount originally received, net of transaction costs, and the maturity amount is recognized in profit or loss over the period to maturity using the effective interest method. Other financial liabilities are classified as current or non-current based on their maturity date. The Company classifies accounts payable and accrued liabilities, loan payable, due to related parties, payable to Everi, interest payable, convertible debentures, non-convertible secured debentures, and refundable subscription as other financial liabilities.

(iii) Impairment

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

(d) Research and development

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

(e) Gaming systems and equipment

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

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

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Gaming systems and equipment (continued)

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

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

Gains and losses on disposal of an item of gaming systems and equipment are determined by comparing the proceeds from disposal with the carrying amount of the long-term asset and are recognized net in profit or loss.

(f) Intangible assets

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

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

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets (continued)

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

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

(g) Goodwill

The Company measures goodwill as the fair value of the consideration transferred less the net recognized amount (generally fair value) of the identifiable assets acquired and the liabilities assumed, all measured as of the acquisition date. Since goodwill results from the application of the acquisition method of accounting for a business combination, it requires judgment in the determination of the fair value of assets and liabilities. Goodwill is allocated to the Company's CGUs or group of CGUs that are expected to benefit from the synergies of the business combination. Goodwill is not amortized, but is tested for impairment at least annually. An impairment loss in respect of goodwill is not reversed. On the disposal or termination of a previously acquired business, any remaining balance of associated goodwill is included in the determination of the gain or loss on disposal. The Company performs the annual goodwill impairment tests on December 31.

(h) 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.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the product or service in the ordinary course of the Company's activities. The Company derives revenue from the lease of electronic gaming tables, maintenance, installation and support services related to those products, the sale of perpetual software licenses, software license subscriptions and professional services fees.

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

(i) Licensing revenue

The Company recognizes revenues from licensees upon completion of each game according to the terms and conditions of the license agreement. Revenue is recognized to the extent that the economic benefit will flow to the Company and the amount can be measured reliably.

(ii) Electronic gaming tables

For sales of gaming systems with multiple deliverables, revenue is generally recognized for the hardware and embedded software unit of accounting at time of delivery based on the relative selling price method using best estimate of selling price. Revenue related to professional services (installation and training) is recognized as those services are delivered, which usually occurs at or near the time of delivery of the gaming system. Revenue allocated to post contract services ("PCS") is recognized as those services are delivered on a ratable basis over the PCS term. Revenue recognized from the delivery of gaming systems and installation and training services are limited to those amounts that are not contingent upon the delivery of future PCS or other services.

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

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

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) 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.

(k) 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
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Earnings (loss) per share

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

(m) Capital stock

Proceeds from the exercise of stock options and warrants are recorded as capital stock in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Capital stock issued for 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.

(n) Foreign currency translation

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

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

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

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) New accounting pronouncements

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

IFRS 9 Financial Instruments

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

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

- *Classification and measurement of financial assets:*
Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- *Classification and measurement of financial liabilities:*
When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- *Impairment of financial assets:*
An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- *Hedge accounting:*
Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

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

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) New accounting pronouncements (continued)

IFRS 15 Revenue from Contracts with Customers

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

The five steps in the model are as follows:

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

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

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

IFRS 16 Leases

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

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

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Risk management overview

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

(b) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts payable and accrued liabilities, accounts receivable, payable to Everi, loans payable, due to related parties, due from related parties, interest payable, and refundable subscription approximate their carrying values due to the short-term maturity of these instruments. The non-convertible secured debentures and convertible debentures are classified as Level 3 financial instruments.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(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;
- Level 3: Inputs for assets or liabilities that are not based on observable market data.

(c) Credit risk

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

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

To reduce the credit risk of due from related parties, the Company regularly reviews the collectability of due from related parties to ensure there is no indication that these amounts will not be fully recoverable. As at March 31, 2018, allowances for doubtful accounts for due from related parties is \$nil (December 31, 2017 - \$nil).

To mitigate credit risk on the Company's trade receivables, the Company regularly reviews the collectability of the accounts receivable to ensure there is no indication that these amounts will not be fully recoverable. As at March 31, 2018, the Company had receivables from one customer representing 77% (December 31, 2017 - 67%) of total trade receivables. In addition, as at March 31, 2018, allowance for doubtful accounts is \$nil (December 31, 2017 - \$nil) and the Company's accounts receivable are due within 60 days.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to 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 March 31, 2018, the Company has cash and cash equivalents of \$64,565 (December 31, 2017 - \$162,239) available to apply against short-term business requirements and current liabilities of \$13,234,235 (December 31, 2017 - \$12,699,877). All of the liabilities presented as accounts payable and accrued liabilities are due within 90 days of March 31, 2018. As at March 31, 2018, all of the Company's debentures are due in fiscal 2018. 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 management is to manage and control market risk exposures within acceptable parameters while optimizing return on capital.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(e) Market risk (Continued)

(i) Currency risk

The Company is exposed to foreign currency risk and has significant financial assets and liabilities denominated in US dollars. The Company has not entered into any foreign currency contracts to mitigate this risk. As at March 31, 2018, the Company is exposed to currency risk for its US dollar equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars as follows:

	Held in US dollars (stated in Canadian dollars)	
	March 31, 2018	December 31, 2017
Cash	\$ 16,196	\$ 42,434
Accounts receivable	173,465	237,906
Prepaid	349,305	541,124
Accounts payable and accrued liabilities	(852,945)	(704,426)
Payable to Everi	(4,937,571)	(4,818,980)
Non-convertible secured debentures	(3,037,537)	(2,854,790)
Net financial liability	\$ (8,289,087)	\$ (7,556,732)

Based upon the above net exposure as at March 31, 2018 and assuming all other variables remain constant, a 4% depreciation or appreciation of the US dollar relative to the Canadian dollar would result in a change of approximately \$331,563 (December 31, 2017 - \$302,269) in the Company's consolidated net loss and comprehensive loss.

(ii) Interest rate risk

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

There are variable interest rates on loans payable. As at March 31, 2018, the interest rate on the non-convertible secured debentures, loans payable, and convertible secured debentures 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.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

6. TRANSACTION WITH EVERI HOLDINGS INC.

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

Pursuant to the Agreement, the consideration includes 750,000 warrants. Each warrant entitles the holder to purchase 1 common share of the Company for \$2.00 over a period of five years starting on August 10, 2015 being the "Closing Date" of the Transaction. The consideration includes "Cash Consideration" of which the amount is contingent on when it is paid:

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

The Company is required to pay monthly "Adjusted Installment Payments" which is applied against the total Cash Consideration payable (note 11). The Adjusted Installment Payments comprise 60% of monthly PokerTek net revenue less the amount of the "Regulated Credit" for the electronic gaming table regulated licenses. No Adjusted Installment Payment is required when the "Regulated Credit" exceeds 60% of monthly PokerTek net revenue.

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

Consideration	
Cash	\$ 9,568,365
Warrants	2,147
	<u>\$ 9,570,512</u>
Purchase Price Allocation	
Gaming systems – Gaming tables	\$ 1,526,703
Gaming systems – Parts	956,874
Acquired intangible assets	4,096,915
Fair value of identifiable net assets acquired	6,580,492
Goodwill	2,990,020
Total net assets acquired	<u>\$ 9,570,512</u>

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

The Company paid \$2,669,000, or US\$2,000,000, cash consideration and issued 750,000 warrants on the Closing Date. In 2016, the Company increased the payable to Everi by \$437,085 with a charge against profit or loss to recognize the change in total Cash Consideration payable to US\$7,500,000. In addition, during 2016, the Company paid Everi \$738,485, or US\$550,000, and during 2017, the Company paid Everi \$325,300, or US\$250,000. As at March 31, 2018, the Company has a payable to Everi of \$4,937,571, or US\$3,829,355 (December 31, 2017 - \$4,818,980, or US\$3,841,355).

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

6. TRANSACTION WITH EVERI HOLDINGS INC. (Continued)

On December 22, 2017, the Company entered into a debt settlement agreement with Everi whereby the Company and Everi have agreed to settle the Company's outstanding debt of US \$3,862,105 by making a payment to Everi of US\$1,762,105 on or before March 15, 2018, and by reducing the exercise price of the 750,000 warrants from \$2.00 per share purchase warrant to \$0.50 per share purchase warrant on or before January 22, 2018. The Company obtained the approval of the TSX-V for the reduction of the price of the share purchase warrants to \$0.50 per share purchase warrant on January 19, 2018, however, the Company did not make the required payment to settle the outstanding debt by March 15, 2018, and as such, the full balance remains outstanding.

7. CAPITAL STOCK

(a) Authorized

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

(b) Issued and outstanding

Preferred shares

No preferred shares have been issued.

Common shares

Effective April 20, 2018, the Company consolidated its common shares on the basis of 10 pre-consolidation common shares to 1 post-consolidation common share. All the figures as to the number of common shares, stock options, warrants, prices of issued shares, exercise prices of stock options and warrants, are post-consolidation amounts.

As of March 31, 2018, there are 36,798,174 common shares issued and outstanding.

During the three months ended March 31, 2018, the following transactions occurred:

- (i) On January 3, 2018, the Company closed the non-brokered private placement financing, which was announced on December 21, 2017 and consists of 1,053,550 units of the Company at \$0.50 per unit for gross proceeds of \$526,775. Each unit consists of one common share of the Company and one non-transferable share purchase warrant to acquire an additional common share of the Company at the price of \$0.60 for a period of five years. The Company incurred share issuance costs of \$15,600 and issued 45,084 finder's units, 45,084 broker warrants and 31,200 broker options. The broker warrants are exercisable at \$0.60 per share for a period of two years. The broker options are exercisable at \$0.50 per broker option for two years. Each broker option consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable at \$0.60 per share for two years.
- (ii) On January 24, 2018, the Company closed a non-brokered private placement, which consists of 389,000 units of the Company at a price of \$0.50 per unit for gross proceeds of \$194,500. Each unit consists of one common share of the Company and one non-transferable share purchase warrant to acquire an additional common share of the Company at the price of \$0.60 for a period of five years. The Company incurred share issuances costs of \$12,000 and issued 24,000

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

7. CAPITAL STOCK (Continued)

(b) Issued and outstanding (continued)

Common shares (continued)

broker options. The broker options are exercisable at \$0.50 per broker option for two years. Each broker option consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable at \$0.60 per share for two years.

During the year ended December 31, 2017, the following transactions occurred:

- (i) In December 2017, the Company received \$245,000 in subscription funds in advance of a private placement financing. Share issuance costs of \$15,600 were incurred on this placement.
- (ii) On November 28, 2017 and December 1, 2017, the Company closed a non-brokered private placement financing in two tranches which consists of 1,150,000 units of the Company at a price of \$0.50 per unit for gross proceeds of \$575,000. Of the gross proceeds, \$517,500 has been allocated to capital stock and \$57,500 has been allocated to warrant reserve. Each unit consists of one common share of the Company and one non-transferable share purchase warrant to acquire an additional common share of the Company at the price of \$0.60 for a period of five years. The Company issued 98,000 finder's shares fair valued at \$49,000 and 22,000 broker warrants fair valued at \$4,764. The broker warrants are exercisable at \$0.60 per share for a period of two years.
- (iii) On September 13, 2017, the Company closed the second and final tranche of the non-brokered private placement financing which was announced on August 10, 2017 which consists of 346,000 units of the Company at \$0.50 per unit for gross proceeds of \$173,000. Of the gross proceeds, \$173,000 has been allocated to capital stock and \$nil has been allocated to warrant reserve. Each unit consists of one common share of the Company and one non-transferable share purchase warrant to acquire an additional common share of the Company at the price of \$0.60 per share for a period of five years. The Company issued 23,000 finder's shares fair valued at \$11,500 and 3,750 broker warrants fair valued at \$1,152. The broker warrants are exercisable at \$0.60 per share for two years. Additional share issuance costs of \$876 were incurred on this placement.
- (iv) On August 21, 2017, the Company closed the first tranche of the non-brokered private placement financing, which was announced on August 10, 2017 and consists of 700,000 units of the Company at a price of \$0.50 per unit for gross proceeds of \$350,000. Of the gross proceeds, \$350,000 has been allocated to capital stock and \$nil has been allocated to warrant reserve. Each unit consists of one common share of the Company and one non-transferable share purchase warrant to acquire an additional common share of the Company at the price of \$0.60 per share for a period of five years. The Company issued 70,000 finder's shares fair valued at \$35,000 and 17,500 brokers warrants fair valued at \$6,713. The broker warrants are exercisable at \$0.60 per share for two years. Additional share issuance costs of \$9,009 were incurred on this placement.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

7. CAPITAL STOCK (Continued)

(b) Issued and outstanding (continued)

Common shares (continued)

(v) On July 27, 2017, the Company closed a non-brokered private placement financing, which was announced in June 2017 and consists of 1,560,000 units of the Company at a price of \$0.50 per unit for gross proceeds of \$780,000. Of the gross proceeds, \$702,000 has been allocated to capital stock and \$78,000 has been allocated to warrant reserve. Each unit consists of one common share of the Company and one transferable share purchase warrant to acquire an additional common share of the Company at the price of \$0.50 ("Warrants"). The Warrants have the same terms and conditions as the warrants that were issued by the Company pursuant to the rights offering, which completed on January 20, 2017. The Warrants trade on the TSX-V under the trading symbol "JP.WT". The Company issued 100,000 finder's shares fair valued at \$50,000 and 40,000 brokers warrants fair valued at \$12,867. The broker warrants are exercisable at \$0.50 per share for two years.

(v) On January 20, 2017, the Company completed its rights offering and issued 15,599,655 units comprised of 15,599,655 common shares and Rights Offering Warrants to purchase up to an additional 15,599,655 common shares for gross proceeds of \$1,559,966. Each Rights Offering Warrant entitles the holder to purchase one additional common share at a price of \$0.50 for a period of five years. The Rights Offering Warrants trade on the TSX-V. Additionally, the stand-by guarantors received bonus warrants entitling them to purchase a total of 3,237,500 common shares of the Company equal to 25% of the total number of units the stand-by guarantors had agreed to purchase under the stand-by commitments, exercisable at a price of \$0.50 per share for a period of five years. Share issuance costs of \$130,787 were incurred on the rights offering.

(c) Warrants

Warrants activity for the three months ended March 31, 2018 and the year ended December 31, 2017 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2016	13,687,131	\$ 1.10
Issued	22,676,406	\$ 0.50
Exercised	(419)	\$ 0.50
Expired	(5,980,988)	\$ 1.00
Balance, December 31, 2017	30,382,130	\$ 0.70
Issued	1,532,718	\$ 0.60
Exercised	(3,810)	\$ 0.50
Expired	(2,937,500)	\$ 1.00
Balance, March 31, 2018	28,973,538	\$ 0.65

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

7. CAPITAL STOCK (Continued)

(c) Warrants (continued)

Compound warrants or compensation broker options activity for the three months ended March 31, 2018 and 2017 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2016 and 2017	-	\$ -
Issued	55,200	\$ 0.50
Balance, March 31, 2018	55,200	\$ 0.50

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

7. CAPITAL STOCK (Continued)

(c) Warrants (continued)

At March 31, 2018 and 2017, the following warrants and compound warrants were outstanding and exercisable:

Expiry Date	Exercise Price	Number of Warrants	
		2018	2017
April 17, 2017	\$ 1.00	-	39,900
May 6, 2017	\$ 1.00	-	150,000
June 26, 2017	\$ 1.00	-	346,000
July 10, 2017	\$ 1.00	-	710,000
July 17, 2017	\$ 1.00	-	79,750
July 24, 2017	\$ 1.00	-	857,000
August 9, 2017	\$ 1.00	-	1,014,900
October 3, 2017	\$ 1.00	-	1,401,000
October 10, 2017	\$ 1.60	-	312,500
October 22, 2017	\$ 1.00	-	415,000
November 5, 2017	\$ 1.00	-	480,100
November 18, 2017	\$ 1.00	-	174,838
January 30, 2018	\$ 1.00	-	1,437,500
March 25, 2018	\$ 1.00	-	1,500,000
April 28, 2018	\$ 1.00	600,000	600,000
February 27, 2019	\$ 1.00*	850,000	850,000
March 3, 2019	\$ 1.00*	397,143	397,143
March 9, 2019	\$ 1.00*	271,500	271,500
April 17, 2019	\$ 1.00*	1,150,000	1,150,000
July 27, 2019	\$ 0.50	40,000	-
August 21, 2019	\$ 0.60	17,500	-
September 13, 2019	\$ 0.60	3,750	-
November 28, 2019	\$ 0.60	14,500	-
December 1, 2019	\$ 0.60	7,500	-
January 3, 2020	\$ 0.60	90,168	-
January 3, 2020	\$ 0.50**	31,200	-
January 24, 2020	\$ 0.50**	24,000	-
August 4, 2020	\$ 2.00	750,000	750,000
August 10, 2020	\$ 0.50***	750,000	750,000
January 20, 2022	\$ 0.50	17,155,427	15,599,655
January 20, 2022	\$ 0.50	3,237,500	3,237,500
August 21, 2022	\$ 0.60	700,000	-
September 13, 2022	\$ 0.60	346,000	-
November 28, 2022	\$ 0.60	850,000	-
December 1, 2022	\$ 0.60	300,000	-
January 3, 2023	\$ 0.60	1,053,550	-
January 24, 2023	\$ 0.60	389,000	-
	\$ 0.65	29,028,738	32,524,286

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

7. CAPITAL STOCK (Continued)

(c) Warrants (continued)

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

** Entitle the Holder to purchase one unit at \$0.50 per unit. Each Unit shall consist of one common share and one share purchase warrant. Each warrant is exercisable at \$0.60 per share for two years.

*** The exercise price has been reduced from \$2.00 to \$0.50.

The weighted average remaining contractual life for warrants outstanding at March 31, 2018 is 3.48 (March 31, 2017 – 3.12) years.

(d) Stock options

Pursuant to the Company's Amended 2004 Stock Option Plan, which has received TSX-V approval, the Company grants stock options to employees, directors, officers and consultants. On April 14, 2015, the TSX-V accepted the Company's new rolling stock option plan whereby a maximum of 10% of the issued shares of the Company will be reserved for issuance under the plan. As at March 31, 2018, there are 2,316,817 (March 31, 2017 – 1,672,931) stock options available for granting. The terms of the options are determined at the date of grant.

The following summarizes the officer, director, employee and consultant stock options that were granted, cancelled and expired during the three months ended March 31, 2018 and 2017. The options vest 25% on grant and thereafter at 25% every four or six months.

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2016	1,447,000	\$ 0.60
Issued	129,000	\$ 0.50
Expired	(210,000)	\$ 0.60
Balance, December 31, 2017	1,366,000	\$ 0.60
Expired	(3,000)	\$ 0.60
Balance, March 31, 2018	1,363,000	\$ 0.59

The weighted average remaining contractual life for options outstanding at March 31, 2018, is 0.35 (March 31, 2017 – 1.02) 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 \$8,191 (March 31, 2017 - \$nil) were recognized as salaries expense and \$nil (March 31, 2017 - \$3,342) was recognized as consulting fees for options granted to consultants.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

8. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the consolidated financial statements, related party transactions for the three months ended March 31, 2018 and 2017 are as follows.

As at March 31, 2018 the Company has a balance of \$nil (December 31, 2017 - \$nil) due from entities with common directors, net of allowance for doubtful accounts of \$nil (December 31, 2017 - \$nil). The amounts due from related parties are unsecured, due on demand without interest.

During the three months ended March 31, 2018 and 2017, the Company incurred the following related party transactions:

	2018	2017
Rent recovered from entities with common directors	\$ (7,200)	\$ (7,070)
Office and other expenses recovered from entities with common directors	\$ (21,242)	\$ (21,797)
Interest charged on amounts due to related parties	\$ 1,546	\$ 2,937

During the three months ended March 31, 2018, the Company has paid management fees totalling \$99,000 to a company owned by two directors (March 31, 2017: \$99,000).

Due to related parties

During the three months ended March 31, 2018, the Company:

- (a) Entered into two unsecured promissory notes with a director of the Company for an aggregate amount of \$38,000, bearing interest rate of 10% per annum and due on demand. As at March 31, 2018, the Company fully repaid the promissory notes and accrued interest totaling \$38,066.

During the year ended December 31, 2017, the Company:

- (a) Entered into two unsecured loans with a director for the amount \$2,500, bearing interest rate of prime plus 1% per annum and due on demand. During the year ended December 31, 2017, the Company fully repaid the loan and accrued interest totaling \$2,513.
- (b) Entered into seven unsecured promissory notes with a company owned by a director of the Company for an aggregate amount of \$255,500, bearing interest rate of 10% per annum and due on demand. During the year ended December 31, 2017, the Company repaid certain promissory notes and accrued interest totaling \$199,555. As at March 31, 2018, the total balance of the outstanding promissory note and accrued interest is \$63,814.
- (c) Entered into an unsecured promissory note with a company owned by two directors of the Company for the amount of \$9,500, bearing interest rate of 10% per annum and due on demand. During the year ended December 31, 2017, the Company fully repaid the promissory note and accrued interest totaling \$9,575.
- (d) Entered into two unsecured promissory notes with a family member of two directors of the Company for the amount of \$170,000, bearing interest rate of 10% per annum and due on demand. During the year ended December 31, 2017, the Company fully repaid the promissory notes and accrued interest totaling \$170,441.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

8. RELATED PARTY TRANSACTIONS (Continued)

Transaction with Green Arrow Resources Inc.

During the year ended December 31, 2017, the Company and two third parties (the "Assignees") entered into assignment of debt agreements whereby \$53,147 of the \$153,147 outstanding receivables owed from Green Arrow Resources Inc. ("Green Arrow") be paid in cash by the Assignees (received). Subsequently, the Company received 2,000,000 common shares of Green Arrow fair valued at \$80,000 to settle the remaining \$100,000 receivables, \$30,629 of which was recorded as a bad debt expense during fiscal year 2016 and recorded a \$10,629 recovery of bad debt expense. The Company disposed of the Green Arrow shares for proceeds of \$100,000 and recorded a gain on sale of \$20,000. Green Arrow and the Company ceased to be related parties in November 2017.

9. TRANSACTION WITH 37 CAPITAL INC.

On October 23, 2017, the Company and 37 Capital entered into a debt settlement agreement whereby on November 2, 2017, 37 Capital issued 4,249,985 units of 37 Capital to the Company as full settlement of the \$382,498 balance owed (the "Transaction"). Each 37 Capital unit consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable at \$0.12 per share for a period of five years.

As a result of the Transaction, the Company acquired a controlling interest of 65% of 37 Capital's issued and outstanding shares and began to consolidate the results of 37 Capital from November 2, 2017. The Company recorded the Transaction using the fair value of the receivable, and accordingly recognized loss of debt settlement \$702,724.

The fair value of 37 Capital's net liabilities at the date of acquisition were as follows:

Cash	\$	1,122
GST receivable		2,964
Mineral property		1
Investment		1
Accounts payable and accrued liabilities		(228,684)
Interest payable		(142,941)
Loan payable		(103,924)
Due to related parties		(104,150)
Convertible debt		(361,024)
Net liabilities	\$	(936,635)

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

9. TRANSACTION WITH 37 CAPITAL INC. (Continued)

The carrying value of the non-controlling interest at November 2, 2017 was as follows:

Proportionate share of identifiable net liabilities of 37 Capital on acquisition	\$ (317,765)
Share of post-acquisition loss for the period	(6,530)
Balance, December 31, 2017	(324,295)
Share of post-acquisition loss for the period	(19,586)
Dilution of interest	(977)
Balance, March 31, 2018	\$ (344,858)

37 Capital holds a 33% interest in the Extra High Claims located in British Columbia with a carrying value of \$1. The Extra High Claims expire on December 25, 2019.

In April 2013, 37 Capital entered into an agreement with a Mexican gaming company whereby as at December 31, 2013, 37 Capital invested \$800,000 in the Mexican gaming company. As at December 31, 2014, 37 Capital assessed the fair value of its investment in the Mexican gaming company to be \$1. Management has determined there has been no change in fair value of this investment as at March 31, 2018.

During the year ended December 31, 2016, 37 Capital cancelled subscription agreements of non-brokered private placement totaling \$45,000 and refunded \$35,000. As at March 31, 2018, \$10,000 remains outstanding to be repaid.

10. LOANS PAYABLE AND DEBENTURES

Loans payable

During the three months period ended March 31, 2018, the Company;

- (a) Entered into a loan agreement with an arm's length party totaling \$100,000, with a term of 12 months, bears interest at the rate of 10% per annum payable on a quarterly basis. As at March 31, 2018, the balance owing is \$101,068.

During the year ended December 31, 2017, the Company;

- (a) Entered into short-term one-month loan agreements with two arm's length parties totaling \$175,000 and repaid a portion of the loans and accrued interest totaling \$75,350. During the three months ended March 31, 2018, the Company fully repaid the outstanding loan and accrued interest totaling \$100,575.
- (b) Entered into a loan agreement with an arm's length party totaling \$150,000, with a term of 12 months, bears interest at the rate of 10% per annum payable on a quarterly basis. The amount of \$137,500 was recorded as the liability portion of the compound instrument. Pursuant to the agreement, the Company issued 60,000 bonus shares and the amount of \$12,500 has been recorded for the shares issued. As at March 31, 2018, \$144,881 has been recorded as the liability portion of the compound instrument.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

10. LOANS PAYABLE AND DEBENTURES (Continued)

Loans payable (continued)

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

Non-convertible secured debentures

During the year ended December 31, 2015, the Company entered into two non-convertible secured debenture agreements for an aggregate US\$2,500,000 with one arm's length party and one related party. The non-convertible secured debentures are secured against the Company's assets. The non-convertible debenture agreements provide for a term of three years and bear interest at 10% per annum, with interest payable quarterly. As additional consideration of the risk associated with the debenture, the Company issued 750,000 warrants to the lenders. Each warrant has a five-year expiry term and is exercisable into one common share at \$2.00.

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

The liability component of the non-convertible secured 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 represent the value of the warrants, which has been recognized as a component of equity.

As at March 31, 2018, the amount of \$3,037,537 (December 31, 2017 - \$2,854,790) has been recorded as the non-convertible secured debentures.

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

Convertible secured debentures

During the year ended December 31, 2016, the Company issued convertible secured debentures financing that was announced on April 22, 2016 for net proceeds of \$1,753,111. The convertible secured debentures have a term of 12 months, bear simple interest at the rate of 12% per annum and payable on a quarterly basis. The principal amount of the convertible secured debentures may be convertible into common shares of the Company at a price of \$0.50 per share. In connection with the convertible secured debentures, the Company has paid a cash commission of \$200,000 and a corporate finance fee of \$30,000 plus HST and other expenses of \$11,495 plus HST and has issued 600,000 broker warrants to Kingsdale Capital Markets Inc. (fair valued at \$31,128). The broker warrants are exercisable into common shares of the Company at the price of \$0.50 per share during the first year and at the price of \$1.00 per share during the second year. The convertible secured debentures are secured against the Company's assets.

During the year ended December 31, 2017, the Company paid \$222,098 of accrued interest and repaid the principal amounts totaling \$17,000 to two debenture holders.

As at March 31, 2018, the amount of \$1,983,000 (December 31, 2017 - \$1,983,000) has been recorded as the liability portion of convertible secured debentures and the amount of \$101,601 (December 31, 2017 - \$101,601) has been recorded as the equity portion of convertible secured debentures reserve. The effective interest rate was 20%.

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

10. LOANS PAYABLE AND DEBENTURES (Continued)

37 Capital Loan Payable and Debentures

Loan payable

During the year ended December 31, 2016, 37 Capital entered into an agreement with an arm's length party whereby the party would pay certain debts owed by 37 Capital. The loan is non-interest-bearing, unsecured and due on demand. As at March 31, 2018, the balance payable is \$103,924.

Convertible debentures

On January 6, 2015, 37 Capital closed a convertible debenture financing with a director and a former director and officer of 37 Capital for the amount of \$250,000. The convertible debentures matured on January 6, 2016, and bear interest at the rate of 12% per annum payable on a quarterly basis. The convertible debentures are convertible into common shares of 37 Capital at a conversion price of \$0.30 per share. As at March 31, 2018, the convertible debentures are in default; however, 37 Capital has not been served with a default notice.

During the year ended December 31, 2013, 37 Capital issued several convertible debentures for a total amount of \$975,000. The convertible debentures have a maturity date of 18 months from the date of closing, and bear interest at the rate of 15% per annum payable on a quarterly basis. The convertible debentures are convertible into common shares of 37 Capital at a conversion price of \$1.50 per share. As at March 31, 2018, \$100,000 of the \$975,000 remains outstanding and two convertible debentures are in default; however, 37 Capital has not been served with a default notice.

As at March 31, 2018, 37 Capital has recorded \$165,441 in accrued interest related to the convertible debentures.

11. DEFERRED REVENUE

As at March 31, 2018, the Company recorded \$nil (March 31, 2017 - \$5,932) in deferred revenue with respect to its license agreements.

In addition, the Company recorded \$363,120 (March 31, 2017 - \$294,732) in deferred revenue with respect to electronic gaming table regulated licenses. Everi receives funds from regulated licenses from customers and accordingly, the amount has been classified as deferred revenue until earned. The deferred revenue will be recognized as revenue upon the Company receiving the necessary gaming licenses. During the year ended December 31, 2017, the Company received its certain gaming licenses, and recognized \$1,082,098 as e-table gaming revenue. In accordance with the Agreement (note 6), this amount was netted against the payable balance to Everi.

12. COMMITMENTS

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

JACKPOT DIGITAL INC.
Notes to Consolidated Financial Statements
Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars, unless otherwise stated)

12. COMMITMENTS (Continued)

- invested stock options. Kalpakian Bros. may terminate the Agreement upon giving four months' notice.
- (b) The Company has entered into a lease agreement with an arm's length party ("Warehouse Lease"). The Warehouse Lease has a term commencing as of December 1, 2015 until May 31, 2016. The Warehouse Lease has been extended for a further period of three years commencing June 1, 2016 and expiring May 31, 2019. Effective January 2018, the Company pays basic rent of \$3,968 plus the operational cost and the applicable tax totaling \$10,058 per month. The Company has paid a deposit in the amount of \$8,930.
- (c) During April 2017, the Company together with 37 Capital have entered into an office lease agreement with an arm's length party (the "Lease"). The Lease has a three-year term with a commencement date of August 1, 2017. Effective January 2018, the basic rent is \$10,116 plus the operational costs and the applicable tax totaling \$18,830 per month. In respect to the Lease, the Company has paid a deposit in the amount of \$15,000.

13. CAPITAL MANAGEMENT

The Company considers its capital to be comprised of shareholders' deficiency and loans (note 10).

The Company's objective when managing capital is to maintain adequate levels of funding support for the development and marketing of the Company's online multi-player interactive games and of the Company's electronic gaming tables while maintaining the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds on acceptable terms in the future. There were no changes to the Company's approach to capital management during the three months ended March 31, 2018. The Company is not subject to externally imposed capital requirements.

14. EVENTS AFTER THE REPORTING DATE

- (a) A total of 600,000 warrants exercisable at \$1.00 per share expired unexercised.
- (b) On April 20, 2018, the Company entered into a loan agreement with a third party, for a loan in the principal amount of \$500,000, which has a term of six months and bears interest at the rate of 15% per annum payable on a quarterly basis (the "Loan"). In consideration of the Loan, subject to the approval of TSX-V, the Company will issue bonus shares to the Lender. The number of bonus shares will be calculated using a deemed price of the greater of (i) \$0.25 per common share, and (ii) the closing trading price of the Company's common shares on the TSX-V on April 30, 2018, which is the date that is six (6) trading days following the effective date of the Company's 10:1 share capital consolidation.
- (c) A total of 1,257,000 stock options exercisable at prices ranging from \$0.55 to \$0.60 per share expired unexercised.
- (d) The Company announced that it will be making a rights offering (the "Rights Offering") by means of which holders of record of the Company's common shares will receive rights to subscribe for units of the Company. Each shareholder of record on May 24, 2018 (the "Record Date") will receive one right (a "Right") for every three Jackpot common shares held. One Right will permit the shareholder to purchase one unit (a "Unit") at a price of \$0.15 per Unit. Each Unit will consist of one common share and one transferable share purchase warrant (a "Warrant"). Each Warrant will entitle the holder to purchase one additional common share at a price of \$0.50 until January 20, 2022. The Rights Offering is not subject to any minimum subscription level.