

JACKPOT DIGITAL INC.

**Condensed Consolidated Interim Financial Statements
Three Months Ended March 31, 2019 and 2018
(Expressed in Canadian Dollars)
(Unaudited)**

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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, 2019 and for the three months ended March 31, 2019 and 2018.

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

	March 31, 2019	December 31, 2018
		(Audited)
Assets (note 10)		
Current		
Cash and cash equivalents (note 5)	\$ 11,637	\$ 25,391
Accounts receivable (note 5)	414,290	378,585
Prepaid expenses and deposits	36,230	46,904
	462,157	450,880
Deposits (parts)	19,850	20,265
Gaming Systems	3,075,195	3,055,612
Equipment	75,264	80,121
Intangible Assets	1,223,907	1,315,700
Right of Use Assets (note 4)	227,800	-
Mineral Property Interest	1	1
Investment	1	1
Total Assets	\$ 5,084,175	\$ 4,922,580
Liabilities		
Current		
Accounts payable and accrued liabilities (note 10)	\$ 1,623,531	\$ 1,666,817
Lease liabilities (notes 4 & 11)	251,011	28,127
Loan payable with Everi Holdings Inc. (note 6)	1,843,663	1,862,484
Interest payable	1,731,827	1,617,636
Loans payable (note 10)	584,335	554,341
Due to related parties (note 8)	104,927	105,755
Convertible debentures (note 10)	2,661,000	2,661,000
Non-convertible secured debentures (note 10)	3,207,120	3,379,003
Refundable subscription (note 9)	10,000	10,000
	12,017,414	11,885,163
Deferred Revenue (note 12)	456,506	445,574
Total Liabilities	12,473,920	12,330,737
Shareholders' Deficiency		
Capital Stock (note 7)	50,484,845	49,543,650
Reserves (note 7)	2,149,659	1,988,435
Convertible Debentures - Equity Portion (note 10)	115,620	115,620
Non-Controlling Interest (note 9)	(594,201)	(575,031)
Deficit	(59,545,668)	(58,480,831)
Total Shareholders' Deficiency	(7,389,745)	(7,408,157)
Total Liabilities and Shareholders' Deficiency	\$ 5,084,175	\$ 4,922,580

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, 2019	March 31, 2018
Revenues		
Electronic gaming tables	\$ 618,729	\$ 559,375
	618,729	559,375
Royalty expense	10,328	10,821
Licensing fee	33,992	9,351
Cost of sales	211,543	220,064
	255,863	240,236
Gross Profit	362,866	319,139
Expenses		
Salaries and benefits	479,600	428,702
Interest expense and finance expense	235,438	263,755
Consulting fees	25,698	31,008
Rent, office and miscellaneous	108,206	138,779
Management fees	99,000	99,000
Travel, meals and entertainment	107,575	81,596
Advertising and promotion	63,318	57,994
Legal, accounting and audit	11,270	18,289
Regulatory and transfer agent fees	61,338	59,447
Shareholder communications	2,190	-
Foreign exchange loss (gain)	(131,842)	224,860
Amortization	268,901	205,014
Impairment loss on gaming systems	116,681	-
Interest and other income	(500)	-
	1,446,873	1,608,444
Net Loss and Comprehensive Loss for the Period	\$ (1,084,007)	\$ (1,289,305)
Attributed to:		
Equity holders of the Company	\$ (1,064,837)	\$ (1,269,719)
Non-controlling interest (note 9)	\$ (19,170)	\$ (19,586)
Basic and Diluted Loss Per Share	\$ (0.02)	\$ (0.04)
Weighted Average Number of Common Shares Outstanding	59,747,627	36,638,347

JACKPOT DIGITAL INC.
Condensed 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, 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 income (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)
Net income (loss) for the period	-	-	-	-	-	-	(2,238,947)	(46,073)	(2,285,020)
Convertible debentures	-	-	-	-	14,019	-	-	-	14,019
Rights offering, net of issuance costs	12,266,108	1,605,071	162,861	-	-	-	-	-	1,767,932
Private placement, net of issuance costs	5,478,087	977,052	2,608	-	-	-	-	-	979,660
Shares and warrants issued for debt settlement	2,276,225	455,245	96,013	-	-	-	-	-	551,258
Expiry of warrants	-	-	(31,128)	-	-	-	31,128	-	-
Expiry of options	-	-	-	(537,730)	-	-	537,730	-	-
Share-based payment	-	-	-	482,734	-	-	-	-	482,734
Dilution of interest	-	-	-	-	-	-	268,101	(184,100)	84,001
Balance, December 31, 2018	56,818,594	49,543,650	1,488,000	500,435	115,620	-	(58,480,831)	(575,031)	(7,408,157)
Net income (loss) for the period	-	-	-	-	-	-	(1,064,837)	(19,170)	(1,084,007)
Private placement, net of issuance costs	7,577,968	941,195	-	-	-	-	-	-	941,195
Share-based payment	-	-	-	161,224	-	-	-	-	161,224
Balance, March 31, 2019	64,396,562	\$ 50,484,845	\$ 1,488,000	\$ 661,659	\$ 115,620	\$ -	\$ (59,545,668)	\$ (594,201)	\$ (7,389,745)

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

	March 31, 2019	March 31, 2018
Operating Activities		
Net loss	\$ (1,084,007)	\$ (1,289,305)
Items not affecting cash		
Amortization	268,901	205,014
Interest expense and finance expense	185,049	263,174
Unrealized foreign exchange loss (gain)	(89,211)	92,542
Share-based payment	161,224	8,191
Repairs and maintenance	(6,052)	51,883
Gain on sale of gaming system table	(76,280)	-
Impairment loss on gaming systems	116,681	-
	(523,695)	(668,501)
Changes in non-cash working capital		
Accounts receivable	(35,705)	51,345
Due from related parties	(4,793)	-
Prepaid expenses and deposits	10,674	-
Accounts payable and accrued liabilities	(43,286)	70,066
Deferred revenue (note 12)	(9,011)	9,305
Payable to Everi	(34,004)	137,932
	(116,125)	268,648
Cash Provided by/(used in) Operative activities	(639,820)	(399,853)
Financing Activities		
Funds from loan payable	170,000	100,000
Repayment of loan payable	(150,000)	(100,575)
Funds from related parties	9,344	50,850
Repayment of due to related party	(6,444)	(60,946)
Issuance of common shares and warrants, net of share issuance costs	941,195	464,275
Exercise of 37 Capital warrants (note 9)	-	69,405
Payment of lease liability (note 11)	(54,414)	-
Repayment of non-convertible debentures	(102,254)	-
Cash Provided by Financing Activities	807,427	523,009
Investing Activities		
Purchase of gaming systems	(301,283)	(221,485)
Proceeds from sale of gaming tables	119,920	-
Cash Used in Investing Activities	(181,363)	(221,485)
Effect of Foreign Currency Translation on Cash	2	655
Net Change in Cash and Cash Equivalents	(13,754)	(97,674)
Cash and Cash Equivalents, Beginning of Period	25,391	162,239
Cash and Cash Equivalents, End of Period	\$ 11,637	\$ 64,565

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2019 and 2018

(Expressed in Canadian Dollars, unless otherwise stated)

1. NATURE OF OPERATIONS

The principal business of Jackpot Digital Inc. (the "Company" or "Jackpot") is the developing, marketing, and leasing of electronic table games to casino operators. The Company's common shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "JP" and on the OTCQB under the trading symbol "JPOTF". A certain number of the Company's warrants trade on the TSX-V under the symbol "JP.WT". The Company's common shares are also listed for trading on the Frankfurt and Berlin Exchanges under the symbol "LVH2".

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 3200-650 West Georgia Street, Vancouver BC V6B 4P7.

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 \$1,084,007 during the three months ended March 31, 2019 (March 31, 2018 - \$1,289,305), has incurred significant operating losses over the past two fiscal years (2018: \$3,574,325; 2017: \$4,289,315), has a working capital deficiency of \$11,555,257 (December 31, 2018: working capital deficiency of \$11,434,283). There are no assurances that sufficient funding will be available to the Company to continue operations for an extended period of time.

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

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

JACKPOT DIGITAL INC.
Notes to Condensed Consolidated Interim Financial Statements
Three months ended March 31, 2019 and 2018
(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.

Effective January 1, 2019, the Company adopted IFRS 16 Leases (“IFRS 16”). IFRS 16 was adopted retrospectively with no restatement of comparative periods, as permitted by the transition provisions of each standard.

As a result of the application of IFRS 16, the Company changed its accounting policies for financial assets and impairment thereon, as described in note 4.

(b) Basis of measurement

These condensed consolidated interim financial statements have been prepared under the historical cost basis, except for certain financial instruments, 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.

(c) Approval of the consolidated financial statements

The condensed consolidated interim financial statements of Jackpot for the three months ended March 31, 2019 were approved and authorized for issue by the Board of Directors on May 30, 2019.

(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.

JACKPOT DIGITAL INC.
Notes to Condensed Consolidated Interim Financial Statements
Three months ended March 31, 2019 and 2018
(Expressed in Canadian Dollars, unless otherwise stated)

3. BASIS OF PRESENTATION (Continued)

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

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

Critical accounting estimates

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

- Recoverability of accounts receivable and allowance for doubtful accounts

The Company monitors its exposure for credit losses on its customer and related parties receivable balances and the credit-worthiness of the customers and related parties on an ongoing basis and records related allowances for doubtful accounts. Allowances are estimated based upon specific customer and related parties balances, where a risk of default has been identified, and also include a provision for non-customer specific defaults based upon historical experience and aging of accounts. As of March 31, 2019, the Company recorded an allowance for doubtful accounts of \$nil (March 31, 2018 - \$nil). If circumstances related to specific customers and related parties change, estimates of the recoverability of receivables could also change.

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

Amortization is recorded on the straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed at least annually and are updated if expectations change as a result of the technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets, gaming systems and equipment resulting in a change in related amortization expense.

- Fair value of equity instruments

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

- Recoverability of asset carrying values

Determining the amount of impairment of 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.

JACKPOT DIGITAL INC.
Notes to Condensed Consolidated Interim Financial Statements
Three months ended March 31, 2019 and 2018
(Expressed in Canadian Dollars, unless otherwise stated)

3. BASIS OF PRESENTATION (Continued)

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

Critical accounting judgments

- Recovery of deferred tax assets

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

- Debentures

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

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

- Modification verses extinguishment of financial liability

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

- Development expenditures

The application of the Company's accounting policy for development expenditures requires judgment in determining whether it is likely that the future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If new information suggests future economic benefits are unlikely, the amount capitalized in excess over the recoverable value is written off to profit or loss in the period the new information becomes available. As at March 31, 2019, 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 Condensed Consolidated Interim Financial Statements
Three months ended March 31, 2019 and 2018
(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 the acquisition of 37 Capital Inc. ("37 Capital") (note 9) with respect to whether the acquisitions was a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of the acquisition in order to reach a conclusion.

- Fair value of assets acquired in a business combination

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

- 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 Condensed Consolidated Interim Financial Statements
Three months ended March 31, 2019 and 2018
(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), Touche Capital Inc. (incorporated in British Columbia) and partially owned subsidiary, 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

The Company adopted the new accounting standard IFRS 9 *Financial Instruments* effective January 1, 2018 using the modified retrospective approach. The Company has not restated comparative information for prior periods with respect to the classification and measurement requirements of IFRS 9 and accordingly, the comparative information for the year ended December 31, 2017 is presented under IAS 39 *Financial Instruments: recognition and measurement*. There were no changes to the carrying value of any of the Company's financial assets or liabilities as a result of this new accounting standard.

JACKPOT DIGITAL INC.
Notes to Condensed Consolidated Interim Financial Statements
Three months ended March 31, 2019 and 2018
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (continued)

The Company did a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

			January 1, 2018	
			IAS 39	IFRS 9
Financial Asset				
Cash and cash equivalents	Fair value through profit and loss ("FVTPL")			FVTPL
Accounts receivable	Amortized cost			Amortized cost
Financial Liability				
Accounts payable and accrued liabilities	Amortized cost			Amortized cost
Loans payable	Amortized cost			Amortized cost
Due to related parties	Amortized cost			Amortized cost
Loan payable with Everi	Amortized cost			Amortized cost
Interest payable	Amortized cost			Amortized cost
Convertible debentures	Amortized cost			Amortized cost
Non-convertible secured debentures	Amortized cost			Amortized cost
Refundable subscription	Amortized cost			Amortized cost

Financial assets

(i) Recognition and measurement of financial assets

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

(ii) Classification of financial assets

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

Financial assets measured at amortized cost

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

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

JACKPOT DIGITAL INC.
Notes to Condensed Consolidated Interim Financial Statements
Three months ended March 31, 2019 and 2018
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (continued)

(ii) Classification of financial assets (continued)

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

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

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income. Accumulated gains or losses recognized through other comprehensive income are directly transferred to deficit when the financial instrument is derecognized or its fair value substantially decreases.

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

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

(iii) Derecognition of financial assets

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

Financial liabilities

(i) Recognition and measurement of financial liabilities

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

(ii) Classification of financial liabilities

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

JACKPOT DIGITAL INC.
Notes to Condensed Consolidated Interim Financial Statements
Three months ended March 31, 2019 and 2018
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (continued)

(ii) Classification of financial liabilities (continued)

Financial liabilities measured at amortized cost

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

Financial liabilities measured at fair value through profit or loss

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

(iii) Derecognition of financial liabilities

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

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

Impairment of financial assets

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

(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.

JACKPOT DIGITAL INC.
Notes to Condensed Consolidated Interim Financial Statements
Three months ended March 31, 2019 and 2018
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Gaming systems and equipment

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

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

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

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

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

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

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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets (continued)

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

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

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

(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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of non-financial assets (continued)

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.

(i) Revenue recognition

The Company adopted the requirements of IFRS 15 *Revenue from Contracts with Customers* effective January 1, 2018, which replaces IAS 18 *Revenue* using the modified retrospective approach. The Company reviewed its revenue streams and major contracts with customers using the IFRS 15 five step model as follows:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price, which is the total consideration provided by the customer;
- allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
- recognize revenue when the relevant criteria are met for each performance obligation.

The adoption of IFRS 15 did not result in any changes to the Company's accounting policies for revenue recognition and therefore, did not result in any transitional adjustments to the Company's consolidated financial statements.

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 performance obligations identified in the license agreement are satisfied.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Revenue recognition (continued)

(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, as the performance obligations are satisfied, over the contract term. For leases with participation features, where consideration varies based on the monthly amount of revenue earned by the customer, revenue is generally recognized on a monthly basis as the lease price for each period becomes fixed and determinable. To the extent that installation and training services are provided in a lease arrangement, those professional services are treated as separate units of accounting and the allocated amounts are recognized as those services are delivered, limited to the amount that is not contingent upon the delivery of future services.

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

(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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income taxes (continued)

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.

(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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Capital stock (continued)

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.

(o) Leases

The Company adopted IFRS 16 *Leases* effective January 1, 2019. The following is the new accounting policy for leases under IFRS 16.

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

The Company, as lessee, is required to recognize a right-of-use asset ("ROU asset"), representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The Company may elect to not apply IFRS 16 to leases with a term of less than 12 months or to low value assets, which is made on an asset by asset basis.

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

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Leases (Continued)

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

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

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

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

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

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

Adoption of IFRS 16 Leases

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach. The comparative figures for the 2018 reporting period have not been restated and are accounted for under IAS 17 Leases, and IFRIC 4 Determining Whether an Arrangement Contains a Lease, as permitted under the specific transitional provisions in the standard.

The Company applied the exemption not to recognize ROU asset and lease liabilities for leases with less than 12 months of lease term and leases for low-value assets when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

The Company has an office lease for its headquarters in Vancouver, British Columbia and a warehouse lease for its warehouse in Burnaby, British Columbia, both of which were classified as operating leases under IAS 17. Upon transition to IFRS 16, these lease liabilities were measured at the present value of the remaining lease payments and discounted using an incremental borrowing rate of 10% as of January 1, 2019. As a result, the Company, as a lessee, has recognized \$272,620 as a lease liability, representing its

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Leases (Continued)

obligation to make lease payments. A ROU asset of the same amount was recognized as a Right-of-use Asset, representing its right to use the underlying asset.

The following table summarizes the difference between the operating lease commitments disclosed immediately preceding the date of initial application and lease liability recognized on the consolidated balance sheet at the date of initial application:

Operating lease liability as at December 31, 2018	\$	295,456
Effect of discounting at incremental borrowing rate		(22,836)
Lease liability recognized as of January 1, 2019	\$	272,620

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, 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.

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, 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.

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5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Credit risk (Continued)

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, 2019, the Company had receivables from one customer representing 70% (December 31, 2018 - 90%) of total trade receivables. In addition, as at March 31, 2019, allowance for doubtful accounts is \$nil (December 31, 2018 - \$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, 2019, the Company had cash of \$11,637 (December 31, 2018 - \$25,391) available to apply against short-term business requirements and current liabilities of \$12,017,414 (December 31, 2018 - \$11,885,163). All of the liabilities presented as accounts payable and accrued liabilities and due to related parties are due within 90 days of March 31, 2019. As at March 31, 2019, all of the Company's debentures and loans have reached maturity. 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.

(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, 2019 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, 2019	December 31, 2018
Cash (cheques issued in excess of funds on deposit)	\$ 131	\$ (35)
Accounts receivable	290,160	343,847
Prepaid expenses	19,850	20,265
Accounts payable and accrued liabilities	(424,829)	(331,788)
Interest payable	(1,029,938)	(992,142)
Loan payable with Everi	(1,843,663)	(1,862,484)
Non-convertible secured debentures	(3,207,120)	(3,379,003)
Net financial liability	\$ (6,195,409)	\$ (6,201,340)

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5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(e) Market risk (Continued)

(i) Currency risk (Continued)

Based upon the above net exposure as at March 31, 2019 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 \$247,816 (December 31, 2018 - \$248,054) 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.

As at March 31, 2019, the interest rate on the non-convertible secured debentures, loans payable, and convertible debenture balances have fixed interest rates. As such, the Company is exposed to interest rate price risk to the extent of these financial liabilities.

(iii) Other price risk

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not exposed to significant other price risk.

6. LOAN PAYABLE 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").

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.

On December 22, 2017, the Company entered into a debt settlement agreement with Everi whereby the Company and Everi 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.

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6. LOAN PAYABLE WITH EVERI HOLDINGS INC. (Continued)

On October 18, 2018, the Company entered into an amendment to the previously executed debt settlement agreement (the "New Debt Settlement Agreement") with Everi. The New Debt Settlement Agreement has been accepted by the TSX-V. Pursuant to the New Debt Settlement Agreement, the Company's outstanding debt to Everi in the amount of US \$3,805,355 has been reduced to US\$1,355,355 which shall bear simple interest at the rate of 8% per annum and which shall be payable eighteen months after the effective date of the New Debt Settlement Agreement. In consideration for the elimination and reduction of the debt by a total amount of US\$2,450,000 (\$3,229,590) the Company has granted to Everi 1,000,000 common share purchase warrants in the capital of the Company which are exercisable at the price of \$0.35 per common share for a period of two years, and the Company has issued to Everi as fully paid and non-assessable 2,276,225 common shares in the capital of the Company at a deemed price of \$0.20 per share.

The Company recorded the settlement using the fair value of the equity instruments issued of \$551,258, and accordingly recognized a gain on debt settlement of \$2,678,332 during the year ended December 31, 2018.

As at March 31, 2019, the Company has a payable to Everi of \$1,843,663, (US\$1,379,678) (December 31, 2018 - \$1,862,484; US\$1,365,257).

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, 2019, there are 64,396,562 common shares issued and outstanding.

During the three months ended March 31, 2019, the following transactions occurred:

- (i) The Company closed the non-brokered private placement financing which was announced on January 24, 2019 and February 25, 2019, whereby the Company issued a total of 7,149,593 units of the Company at a price of \$0.135 per unit for gross proceeds of \$965,195. Each unit consists of one common share of the Company and one share purchase warrant to acquire an additional common share of the Company at the price of \$0.18 per share for a period of two years. The Company paid a cash commission of \$24,000, issued in aggregate 428,375 common shares at a deemed price of \$0.135 per share and 177,778 warrants as finder's fees to arm's length parties.

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7. CAPITAL STOCK (Continued)

(b) Issued and outstanding (continued)

Common shares (continued)

During the year ended December 31, 2018, the following transactions occurred:

- i) On November 8, 2018, the Company closed the second tranche of the non-brokered private placement which was announced on September 28, 2018 and which consists of 1,712,500 units of the Company at a price of \$0.20 per unit for total gross proceeds to the Company of \$342,500. Of the gross proceeds, \$342,500 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 \$0.25 for a period of 3 years. The Company issued in aggregate 195,312 common shares fair valued at \$39,062 as finder's fees to arm's length parties. A company controlled by two directors and officers of the Company subscribed for 150,000 units in the private placement.
- ii) On October 29, 2018, the Company closed the first tranche of the non-brokered private placement which was announced on September 28, 2018 and which consists of 3,185,800 units of the Company at a price of \$0.20 per unit for total gross proceeds to the Company of \$637,160. Of the gross proceeds, \$637,160 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 \$0.25 for a period of 3 years. The Company issued in aggregate 384,475 common shares fair valued at \$76,895 as finder's fees to arm's length parties. A director and officer of the Company subscribed for 110,000 units in the private placement.
- iii) On June 18, 2018, the Company completed its rights offering and issued 12,266,108 units of the Company's securities for gross proceeds of \$1,839,916. Each unit consists of one common share and one Rights Offering Warrant. Each Rights Offering Warrant entitles the holder to purchase one additional common share at a price of \$0.50 until January 20, 2022. The Rights Offering Warrants trade on the TSX-V. Additionally, in respect to the rights offering, the Company incurred share issuance costs of \$71,984 and the stand-by guarantors received bonus warrants entitling them to purchase a total of 1,478,601 common shares of the Company exercisable at a price of \$0.50 per share until June 22, 2023. The bonus warrants were fair valued at \$162,861.
- iv) 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. Of the gross proceeds, \$194,500 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 for a period of five years. The Company incurred share issuances costs of \$12,000 and issued 24,000 broker options fair valued at \$13,209. 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.

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8. CAPITAL STOCK (Continued)

(b) Issued and outstanding (continued)

Common shares (continued)

(v) 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. Of the gross proceeds, \$526,775 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 for a period of five years. The Company incurred share issuance costs of \$15,600 and issued 45,084 finder's units fair valued at \$22,542, 45,084 broker warrants fair valued at \$nil and 31,200 broker options fair valued at \$17,463. 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.

(c) Warrants

Warrants activity for the three months ended March 31, 2019 and 2018 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2017	30,382,130	\$ 0.70
Issued	21,175,727	\$ 0.44
Exercised	(3,810)	\$ 0.50
Expired	(3,537,500)	\$ 1.00
Balance, December 31, 2018	48,016,547	\$ 0.55
Issued	7,327,371	\$ 0.18
Expired	(1,518,643)	\$ 1.00
Balance, March 31, 2019	53,825,275	\$0.49

Compound warrants activity for the three months ended March 31, 2019 and 2018 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2017	-	\$ -
Issued	55,200	\$ 0.50
Balance, December 31, 2018 & March 31, 2019	55,200	\$ 0.50

JACKPOT DIGITAL INC.**Notes to Condensed Consolidated Interim Financial Statements****Three months ended March 31, 2019 and 2018****(Expressed in Canadian Dollars, unless otherwise stated)****7. CAPITAL STOCK (Continued)**

(c) Warrants (continued)

At March 31, 2019 and 2018, the following warrants and compound warrants were outstanding and exercisable:

Expiry Date	Exercise Price	Number of Warrants	
		2019	2018
April 28, 2018	\$ 1.00	-	600,000
February 27, 2019	\$ 1.00*	-	850,000
March 3, 2019	\$ 1.00*	-	397,143
March 9, 2019	\$ 1.00*	-	271,500
April 17, 2019	\$ 1.00*	1,150,000	1,150,000
July 27, 2019	\$ 0.50	40,000	40,000
August 21, 2019	\$ 0.60	17,500	17,500
September 13, 2019	\$ 0.60	3,750	3,750
November 28, 2019	\$ 0.60	14,500	14,500
December 1, 2019	\$ 0.60	7,500	7,500
January 3, 2020	\$ 0.60	90,168	90,168
January 3, 2020	\$ 0.50**	31,200	31,200
January 24, 2020	\$ 0.50**	24,000	24,000
August 4, 2020	\$ 2.00	750,000	750,000
August 10, 2020	\$ 0.50***	750,000	750,000
November 19, 2020	\$ 0.35	1,000,000	-
February 15, 2021	\$ 0.18	1,550,370	-
February 25, 2021	\$ 0.18	2,477,000	-
February 28, 2021	\$ 0.18	3,122,223	-
February 28, 2021	\$ 0.18	177,778	-
October 29, 2021	\$ 0.25	3,185,800	-
November 8, 2021	\$ 0.25	1,712,500	-
January 20, 2022	\$ 0.50	17,155,427	17,155,427
January 20, 2022	\$ 0.50	3,237,500	3,237,500
January 20, 2022	\$ 0.50	12,266,108	-
August 21, 2022	\$ 0.60	700,000	700,000
September 13, 2022	\$ 0.60	346,000	346,000
November 28, 2022	\$ 0.60	850,000	850,000
December 1, 2022	\$ 0.60	300,000	300,000
January 3, 2023	\$ 0.60	1,053,550	1,053,550
January 24, 2023	\$ 0.60	389,000	389,000
June 22, 2023	\$ 0.50	1,478,601	-
	\$ 0.49	53,880,475	29,028,738

* 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 per share.

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7. CAPITAL STOCK (Continued)

(c) Warrants (continued)

The weighted average remaining contractual life for warrants outstanding at March 31, 2019 is 2.63 (March 31, 2018 – 3.48) 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, 2019, there are 1,539,656 (March 31, 2018 – 2,316,817) 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, 2019 and 2018. 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, 2017	1,366,000	\$ 0.60
Issued	4,800,000	\$ 0.18
Expired	(1,266,000)	\$ 0.60
Balance, December 31, 2018 and March 31, 2019	4,900,000	\$ 0.19

The weighted average remaining contractual life for options outstanding at March 31, 2019 is 2.39 (March 31, 2018 – 0.35) 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 \$160,541 (March 31, 2018 - \$8,191) were recognized as salaries expense and \$683 (March 31, 2018 - \$nil) was recognized as consulting fees for options granted to consultants.

7. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the condensed consolidated interim financial statements, related party transactions for the three months ended March 31, 2019 and 2018 are as follows.

During the three months ended March 31, 2019 and 2018, the Company incurred the following related party transactions:

	2019	2018
Rent recovered from entities with common directors	\$ -	\$ 0
Office and other expenses recovered from entities with common directors	\$ -	\$ 0
Interest charged on amounts due to related parties	\$ 1,065	\$ 1,546

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8. RELATED PARTY TRANSACTIONS (Continued)

During the three months ended March 31, 2019, the Company has paid management fees totaling \$99,000 to a company owned by two directors (March 31, 2018: \$99,000).

Effective as of May 1, 2018, 37 Capital entered into an agreement for office support services with the Company. Under the office support services agreement, 37 Capital is entitled to receive office support services from the Company at a monthly rate of \$1,000 plus applicable taxes. The agreement expires on April 30, 2019, and either Jackpot or 37 Capital may terminate this agreement by giving each other a three months' notice in writing.

Due to related parties

During the three months ended March 31, 2019, the Company:

- (a) A director of the Company advanced the principal amount of \$6,444, non-interest bearing. The amount of \$6,444 was repaid in full on the same day.

During the year ended months ended December 31, 2018, the Company:

- (a) Entered into three unsecured promissory notes with a director of the Company for an aggregate amount of \$43,000, bearing interest rate of 10% per annum and due on demand. As at December 31, 2018, the Company fully repaid the promissory notes and accrued interest totaling \$43,086.
- (b) Entered into an unsecured promissory note with a family member of two directors of the Company for the amount of \$75,000, bearing interest rate of 10% per annum and due on demand. As at December 31, 2018, the Company fully repaid the promissory note and accrued interest totaling \$76,397.

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 until November 2, 2022.

As a result of the Transaction, the Company acquired a controlling interest of 65% of 37 Capital's then 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, as well as the units received and the net liabilities acquired, and accordingly recognized loss of debt settlement \$702,724 during the year ended December 31, 2017.

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9. TRANSACTION WITH 37 CAPITAL INC. (Continued)

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)

The carrying value of the non-controlling interest is determined 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 at December 31, 2017	(324,295)
Share of post-acquisition loss for the year	(65,659)
Increase in interest	(185,077)
Balance at December 31, 2018	(575,031)
Share of post-acquisition loss for the period	(19,170)
Balance, March 31, 2019	\$ (594,201)

During the year ended December 31, 2018, the Company entered into a Purchase & Sale Agreement with an arm's length party whereby the Company sold to the arm's length party 800,000 units in the capital of 37 Capital for a cash payment of \$72,000. As at December 31, 2018, the Company has a controlling interest of approximately 49% of 37 Capital's issued and outstanding shares and recorded \$185,077 in non-controlling interest as a result of the decrease in interests of 37 Capital.

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, 2019.

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, 2019, \$10,000 remains outstanding to be repaid (March 31, 2018 - \$10,000).

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10. LOANS PAYABLE AND DEBENTURES

Loans payable

During the three months ended March 31, 2019, the Company:

- (a) Entered into a promissory note with an arm's length party for the amount of \$150,000, bearing interest at the rate of 10% per annum which is due on demand. As at March 31, 2019, the total balance of the outstanding loan and accrued interest is \$153,041.
- (b) Entered into a promissory note with an arm's length party for the amount of \$20,000. As at March 31, 2019, the Company repaid the promissory note and interest totaling \$20,250.

During the year ended December 31, 2018, the Company:

- (a) Entered into a loan agreement with an arm's length party for the amount of \$100,000, with a term of 12 months, bears interest at the rate of 10% per annum payable on a quarterly basis. As at December 31, 2018, the Company fully repaid the outstanding loan and accrued interest totaling \$103,479.
- (b) Entered into four promissory notes with an arm's length party for the amount of \$265,000, bearing interest rate of 10% per annum and due on demand. As at December 31, 2018, the Company fully repaid the promissory notes and accrued interest totaling \$267,442.
- (c) Entered into a loan agreement with an arm's length party, as amended on June 28, 2018, for the amount of \$500,000, with a term of twelve months and bore interest at the rate of 15% per annum payable on a quarterly basis. Pursuant to the agreement, the Company is required to issue 400,000 bonus shares. The amount of \$491,639 was recorded as the liability portion of the compound instruments and the amount of \$8,361 was recorded as the equity portion. As at December 31, 2018, the Company fully repaid the outstanding loan and accrued interest totaling \$518,288 but has not yet issued the bonus shares. \$8,798 was recorded as a gain on modification of debt due to the amendment of the term on June 28, 2018.
- (d) Entered into a promissory note with an arm's length party for the amount of \$75,000, bearing interest rate of 10% per annum and due on demand. As at December 31, 2018, the Company fully repaid the promissory notes and accrued interest totaling \$75,288.
- (e) Entered into a promissory note with an arm's length party for the amount of \$40,000, bearing interest rate of 10% per annum and due on demand. As at March 31, 2019, the Company fully repaid the promissory note and accrued interest totaling \$40,373.
- (f) Entered into two promissory notes with an arm's length party for the amount of \$290,000, bearing interest rate of 10% per annum and due on demand. As at December 31, 2018, the Company repaid \$204,822. As at March 31, 2019, the Company fully repaid the outstanding loan and accrued interest totaling \$91,000.
- (g) An arm's length party has advanced to the Company the amount of \$150,000, which bears interest at the rate of 10% per annum and which is due on demand. As at March 31, 2019, the total balance of the outstanding loan and accrued interest is \$158,219.

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10. LOANS PAYABLE AND DEBENTURES (Continued)

Loans payable (continued)

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

- (a) 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. Pursuant to the agreement, the Company issued 60,000 bonus shares and the amount of \$12,500 has been recorded for the shares issued. The amount of \$137,500 was recorded as the liability portion of the compound instrument. As at March 31, 2019, \$169,151 has been recorded as the liability portion of the compound instrument including accrued interest.

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, maturing on August 4, 2018, and bear interest at 10% per annum, with interest compounding and payable quarterly. As additional consideration of the risk associated with the debenture, the Company issued 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 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, 2019, the amount of \$3,207,120 (December 31, 2018 - \$3,379,003) has been recorded as the non-convertible secured debentures.

Convertible secured debentures

During the year ended December 31, 2016, the Company issued convertible secured debentures for gross proceeds of \$2,000,000 (net proceeds of \$1,753,111). The convertible secured debentures have a term of 12 months, bear simple interest at the rate of 12% per annum and 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 were 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 and have expired unexercised. The convertible secured debentures are secured against the Company's assets.

During the three months ended March 31, 2019, the Company paid \$nil of accrued interest and repaid principal amounts totaling \$nil.

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10. LOAN PAYABLE AND DEBENTURES (Continued)

Convertible secured debentures (Continued)

As at March 31, 2019, the amount of \$1,983,000 (December 31, 2018 - \$1,983,000) has been recorded as the liability portion of convertible secured debentures and the amount of \$101,601 (December 31, 2018 - \$101,601) has been recorded as the equity portion of convertible secured debentures reserve. The effective interest rate was 20%.

Convertible debenture

During August 2018, the Company has entered into a convertible debenture with an arm's length party for the principal amount of \$328,000 which bears interest at the rate of 8% per annum and which was due and payable on October 30, 2018 (the "Term"). Subsequent to December 31, 2018, the Term has been extended to July 15, 2019. At any time prior to the expiry of the Term, at the sole discretion of the Company, all or part of the principal amount together with all accrued interest may be converted into common shares of the Company at the price of \$0.18 per share. The securities that may be issued pursuant to the convertible debenture shall be subject to four months and a day hold period in accordance with applicable Canadian securities laws.

As at March 31, 2019, the amount of \$328,000 has been recorded as the liability portion of convertible secured debentures and the amount of \$5,658 has been recorded as the equity portion of convertible secured debentures reserve. The effective interest rate was 20%.

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, 2019, the balance payable is \$103,924.

Convertible debentures

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, 2019, one convertible debenture is in default and another convertible debenture has been extended indefinitely.

On January 6, 2015, 37 Capital closed a convertible debenture financing with two directors 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, 2019, the two convertible debentures are in default.

As at March 31, 2019, 37 Capital has recorded \$210,441 in accrued interest related to the convertible debentures.

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11. LEASE LIABILITIES

Effective January 1, 2019, the Company adopted IFRS 16 *Leases*. Upon the transition to IFRS 16, the Company has recorded the ROU assets and the lease liabilities in respect to office and warehouse leases as described in Note 13. During the three months ended March 31, 2019, the Company recorded an interest expense of \$4,678 (March 31, 2018 - \$nil) on the leases. The effective interest rate was 11%.

Effective April 1, 2018, the Company entered into an agreement with an arm's length party to lease a forklift (the "Forklift Lease Agreement") for a term ending September 30, 2019. For the first five months of the term, the Company shall pay a net leasing fee of \$1,000 plus the applicable tax per month. For the remaining 13 months, the Company shall pay a net leasing fee of \$3,268 plus the applicable tax per month. The Forklift Lease Agreement allows for an option to purchase the forklift at the end of the term for \$10 plus applicable taxes. The Forklift Lease Agreement has been personally guaranteed by the President & CEO of the Company.

The Company has recorded the Forklift Lease Agreement as equipment and a lease liability in the consolidated balance sheet. At the commencement of the date of the lease, the lease liability was measured at the present value of the lease payments. During the three months ended March 31, 2019, the Company recorded a finance expense of \$685 (March 31, 2018 - \$nil) on the lease. The effective interest rate was 11%.

12. DEFERRED REVENUE

The Company recorded \$456,506 (March 31, 2018 - \$363,120) 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.

13. COMMITMENTS

The Company has commitments over the next two years as follows:

2019	\$	617,414
2020		301,454
	\$	918,868

- (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 controlled by two directors and officers of the Company. The Company is entitled to receive management services from Kalpakian Bros. at a monthly rate of \$33,000 plus applicable taxes. On July 1, 2015, the Agreement has been renewed for a term of five years. Kalpakian Bros. is also entitled to reimbursement for all traveling and other expenses incurred by it in connection with performing its services. If the Agreement is terminated by the Company other than for just cause, or is terminated by Kalpakian Bros. for good reason, then Kalpakian Bros. is entitled to be paid the annual remuneration for the unexpired term of the Agreement and is also entitled to immediate vesting of all unvested stock options. Kalpakian Bros. may terminate the Agreement upon giving four months' notice.

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13. COMMITMENTS (Continued)

- (b) In order to carry out the production and shipping of the Company's Jackpot Blitz™ ETGs, the Company has leased a warehouse in Burnaby, BC which has an area of 9,792 square feet for a term ending May 31, 2019 (the "Term"), and upon expiry of the Term, the Term may be extended by the Company up to May 31, 2020. The Company pays basic rent of \$4,982 plus the operational cost and the applicable tax per month. The Company has paid a deposit in the amount of \$8,930.

Upon the extension of the Term, the Company shall pay a basic rent of \$6,528 plus the operational cost and the applicable tax per month. Subsequent to December 31, 2018, the Company extended the Term to May 31, 2020.

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

In respect to the Office Lease Agreement effective as of May 1, 2018, the Company and 37 Capital have agreed that 37 Capital shall pay a monthly rent of \$1,000 plus applicable taxes to the Company, and either the Company or 37 Capital may terminate this agreement by giving each other a three months' notice in writing.

14. CAPITAL MANAGEMENT

The Company considers its capital to be comprised of shareholders' deficiency and loans.

The Company's objective when managing capital is to maintain adequate levels of funding support for the development and marketing of the Company's online multi-player interactive games and of the Company's electronic gaming tables while maintaining the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds on acceptable terms in the future. There were no changes to the Company's approach to capital management during the three months ended March 31, 2019. The Company is not subject to externally imposed capital requirements.

15. EVENTS AFTER THE REPORTING DATE

The following events occurred after March 31, 2019:

- (a) A total of 1,150,000 warrants exercisable at \$1.00 per share have expired unexercised.
- (b) A total of 160,000 stock options exercisable at \$0.18 per share have expired unexercised.
- (c) On May 1, 2019, the Company and 37 Capital renewed the office support services agreement for a further one year term.
- (d) The Company entered into a promissory note with an arm's length party for the amount of US\$130,000, bearing interest at the rate of 10% per annum and due on demand.