

**JACKPOT DIGITAL INC.**

**Consolidated Financial Statements  
December 31, 2019 and 2018  
(Expressed in Canadian Dollars)**

<b><u>Index</u></b>	<b><u>Page</u></b>
<b>Independent Auditors' Report to the Shareholders</b>	2 – 4
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets	5
Consolidated Statements of Comprehensive Loss	6
Consolidated Statements of Changes in Shareholders' Deficiency	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9 – 53

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF JACKPOT DIGITAL INC.

#### *Opinion*

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

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' deficiency for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

#### *Basis for Opinion*

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

#### *Material Uncertainty Related to Going Concern*

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$1,670,588 during the year ended December 31, 2019 and, as of that date, the Company's working capital deficiency is \$8,306,828. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### *Other Information*

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

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

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

- ♦ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

*Smythe LLP*

Chartered Professional Accountants

Vancouver, British Columbia

June 15, 2020

**JACKPOT DIGITAL INC.**  
**Consolidated Balance Sheets**  
**As at December 31**  
**(Expressed in Canadian Dollars)**

	2019	2018
<b>Assets</b> (note 14)		
<b>Current</b>		
Cash and cash equivalents (note 5)	\$ 37,545	\$ 25,391
Accounts receivable (note 5)	337,058	378,585
Due from related parties (note 11)	130,445	-
Prepaid expenses and deposits (note 18)	53,688	46,904
	558,736	450,880
<b>Deposits</b> (note 8)	29,107	20,265
<b>Gaming Systems</b> (note 8)	2,827,910	3,055,612
<b>Investment in 37 Capital Inc.</b> (note 12)	4,673	-
<b>Equipment</b> (note 7)	62,452	80,121
<b>Intangible Assets</b> (note 9)	948,528	1,315,700
<b>Right-of Use Assets</b> (note 15)	178,876	-
<b>Mineral Property Interest</b>	-	1
<b>Investment</b>	-	1
<b>Total Assets</b>	\$ 4,610,282	\$ 4,922,580
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 14)	\$ 1,309,393	\$ 1,666,817
Lease liability (note 15)	191,685	28,127
Loan payable with Everi Holdings Inc. (note 6)	-	1,862,484
Interest payable	1,982,537	1,617,636
Deferred revenue (note 16)	46,624	-
Loans payable (note 14)	719,576	554,341
Due to related parties (note 11)	8,336	105,755
Convertible debentures (note 14)	2,169,614	2,661,000
Non-convertible secured debentures (note 14)	2,392,799	3,379,003
Refundable subscription (note 22)	75,000	10,000
	8,895,564	11,885,163
<b>Deferred Revenue</b> (note 16)	482,659	445,574
<b>Total Liabilities</b>	9,378,223	12,330,737
<b>Shareholders' Deficiency</b>		
<b>Capital Stock</b> (note 10)	52,224,590	49,543,650
<b>Reserves</b> (note 10)	2,337,109	1,988,435
<b>Convertible Debentures - Equity Portion</b> (note 14)	120,603	115,620
<b>Non-Controlling Interest</b> (note 12)	-	(575,031)
<b>Deficit</b>	(59,450,243)	(58,480,831)
<b>Total Shareholders' Deficiency</b>	(4,767,941)	(7,408,157)
<b>Total Liabilities and Shareholders' Deficiency</b>	\$ 4,610,282	\$ 4,922,580

On behalf of the Board:

"Jake H. Kalpakian" (signed)

.....  
 Jake H. Kalpakian, Director

"Neil Spellman" (signed)

.....  
 Neil Spellman, Director

**JACKPOT DIGITAL INC.**  
**Consolidated Statements of Comprehensive Loss**  
**Years Ended December 31**  
**(Expressed in Canadian Dollars)**

	<b>2019</b>	<b>2018</b>
<b>Revenues</b> (note 21)		
Electronic gaming tables	\$ 1,929,977	\$ 2,114,575
Table sales	247,667	-
	2,177,644	2,114,575
Royalty expense	36,521	39,689
Licensing fee	74,417	21,109
Cost of sales (note 21)	682,568	837,205
<b>Gross Profit</b>	<b>1,384,138</b>	<b>1,216,572</b>
<b>Expenses</b>		
Salaries and benefits (notes 10(d), 11 and 13)	1,493,193	2,067,276
Interest expense and finance expense (notes 11, 14 and 15)	1,027,503	1,134,781
Consulting fees (notes 10(d) and 11)	215,791	255,553
Rent, office and miscellaneous (notes 11 and 18)	215,548	531,050
Management fees (note 11)	396,000	396,000
Travel, meals and entertainment	358,914	301,273
Advertising and promotion	192,855	225,927
Legal, accounting and audit	178,767	227,162
Regulatory and transfer agent fees	111,050	149,815
Shareholder communications	8,372	5,333
Foreign exchange loss (gain)	(271,527)	654,037
Amortization (notes 7, 8, 9 and 15)	1,233,806	931,690
	5,160,272	6,879,897
Gain on debt settlement (note 6)	(1,475,169)	(2,678,332)
Impairment loss on gaming systems (note 8)	426,490	598,252
Gain on deconsolidation (note 12)	(135,669)	-
Gain on modification of debt (note 14)	-	(8,798)
Gain on extinguishment of debt (note 14)	(916,956)	-
Interest and other income	(4,567)	(122)
Share of net loss of 37 Capital Inc. (note 12)	325	-
	(2,105,546)	(2,089,000)
<b>Net Loss and Comprehensive Loss for the Year</b>	<b>\$ (1,670,588)</b>	<b>\$ (3,574,325)</b>
<b>Attributed to:</b>		
Equity holders of the Company	\$ (1,570,935)	\$ (3,508,666)
Non-controlling interest (note 12)	\$ (99,653)	\$ (65,659)
<b>Basic and Diluted Loss Per Share</b>	<b>\$ (0.20)</b>	<b>\$ (0.80)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>8,042,523</b>	<b>4,450,904</b>

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

	Capital Stock		Reserves		Equity Portion of Convertible Debentures	Obligation to Issue Shares	Deficit	Non- Controlling Interest	Shareholders' Deficiency
	Common Shares	Amount	Warrants and Other	Options					
Balance, December 31, 2017	3,524,673	\$ 45,826,266	\$ 1,229,582	\$ 547,896	\$ 114,101	\$ 229,400	\$ (55,878,257)	\$ (324,295)	\$ (8,255,307)
Net loss for the year	-	-	-	-	-	-	(3,508,666)	(65,659)	(3,574,325)
Convertible debentures	-	-	-	-	14,019	-	-	-	14,019
Rights offering, net of issuance costs	1,226,611	1,605,071	162,861	-	-	-	-	-	1,767,932
Private placement, net of issuance costs	696,572	1,642,663	30,672	-	-	(229,400)	-	-	1,443,935
Issuance of bonus shares	6,000	12,500	-	-	(12,500)	-	-	-	-
Shares and warrants issued for debt settlement	227,622	455,245	96,013	-	-	-	-	-	551,258
Exercise of warrants	381	1,905	-	-	-	-	-	-	1,905
Expiry of warrants	-	-	(31,128)	-	-	-	31,128	-	-
Expiry of options	-	-	-	(538,386)	-	-	538,386	-	-
Share-based payment	-	-	-	490,925	-	-	-	-	490,925
Fractional share adjustment	1	-	-	-	-	-	-	-	-
Dilution of interest	-	-	-	-	-	-	336,578	(185,077)	151,501
Balance, December 31, 2018	5,681,860	\$ 49,543,650	\$ 1,488,000	\$ 500,435	\$ 115,620	\$ -	\$ (58,480,831)	\$ (575,031)	\$ (7,408,157)
Net loss for the year	-	-	-	-	-	-	(1,570,935)	(99,653)	(1,670,588)
Convertible debentures	-	-	-	-	13,344	-	-	-	13,344
Rights offering, net of issuance costs	6,439,656	1,758,164	90,294	-	-	-	-	-	1,848,458
Private placement, net of issuance costs	757,797	914,415	15,264	-	-	-	-	-	929,679
Issuance of bonus shares	40,000	8,361	-	-	(8,361)	-	-	-	-
Expiry of warrants	-	-	(25,496)	-	-	-	25,496	-	-
Expiry of options	-	-	-	(79,297)	-	-	79,297	-	-
Share-based payment	-	-	-	347,909	-	-	-	-	347,909
Fractional share adjustment	(8)	-	-	-	-	-	-	-	-
Dilution of interest	-	-	-	-	-	-	496,730	(326,150)	170,580
Deconsolidation	-	-	-	-	-	-	-	1,000,834	1,000,834
<b>Balance December 31, 2019</b>	<b>12,919,304</b>	<b>\$ 52,224,590</b>	<b>\$ 1,568,062</b>	<b>\$ 769,047</b>	<b>\$ 120,603</b>	<b>\$ -</b>	<b>\$ (59,450,243)</b>	<b>\$ -</b>	<b>\$ (4,767,941)</b>

See notes to consolidated financial statements.

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

	<b>2019</b>	<b>2018</b>
<b>Operating Activities</b>		
Net loss	\$ (1,670,588)	\$ (3,574,325)
Items not affecting cash		
Amortization	1,233,806	931,690
Interest expense and finance expense	967,097	1,069,714
Unrealized foreign exchange loss (gain)	(214,928)	311,998
Share-based payment	347,909	490,925
Repairs and maintenance (note 8)	(24,370)	174,580
Gain on debt settlement	(1,475,169)	(2,678,332)
Gain on modification of debt	-	(8,798)
Gain on extinguishment of debt	(916,956)	
Impairment loss on gaming systems	426,490	598,252
Gain on deconsolidation	(136,069)	-
Share of net loss of 37 Capital Inc.	325	-
	(1,462,453)	(2,684,296)
Changes in non-cash working capital (note 20)	(22,175)	437,129
<b>Cash Used in Operating Activities</b>	<b>(1,484,628)</b>	<b>(2,247,167)</b>
<b>Financing Activities</b>		
Funds from loan payable	1,523,817	1,420,000
Repayment of loan payable	(1,303,817)	(1,240,000)
Funds from related parties	12,944	135,650
Repayment of due to related party	(12,944)	(210,950)
Funds from rights offering	1,848,458	1,767,932
Funds from convertible debenture	100,000	328,000
Issuance of common shares and warrants, net of share issuance costs	929,679	1,445,840
Exercise of 37 Capital warrants (note 12)	-	79,501
Refundable subscriptions	75,000	-
Payment of lease liability (note 15)	(374,477)	(14,880)
Repayment of non-convertible debentures	(263,232)	-
<b>Cash Provided by Financing Activities</b>	<b>2,535,428</b>	<b>3,711,093</b>
<b>Investing Activities</b>		
Purchase of equipment	-	(5,370)
Purchase of gaming systems	(843,698)	(1,666,013)
Proceeds from sale of shares (note 12)	170,580	72,000
Repayment to Everi	(365,530)	-
<b>Cash Used in Investing Activities</b>	<b>(1,038,648)</b>	<b>(1,599,383)</b>
<b>Effect of Foreign Currency Translation on Cash</b>	<b>2</b>	<b>(1,391)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>12,154</b>	<b>(136,848)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>25,391</b>	<b>162,239</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 37,545</b>	<b>\$ 25,391</b>

**Supplemental Cash Flow Information** (note 20)

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 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 "JJ" and on the OTCQB under the trading symbol "JPOTF". A certain number of the Company's warrants trade on the TSX-V under the symbols "JJ.WT.A" and "JJ.WT.B". 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, British Columbia, Canada, V6B 4P7.

Effective May 1, 2020, 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 significant operating losses over the past several years (2019 - \$1,670,588; 2018 - \$3,574,325), as at December 31, 2019 has a deficit of \$59,450,243 (2018 - \$58,480,831) and a working capital deficiency of \$8,306,828 (2018 - \$11,434,283). Although the Company recognized revenue of \$2,177,644 during the year ended December 31, 2019 (2018 - \$2,114,575), it has not recognized net income and there are no assurances that sufficient funding will be available to the Company to continue operations for an extended period of time.

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

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

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

**3. BASIS OF PRESENTATION**

(a) Statement of compliance

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

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 the standard.

As a result of the application of IFRS 16, the Company changed its accounting policies for leases as described in note 4.

(b) Basis of measurement

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

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

(c) Approval of the consolidated financial statements

The consolidated financial statements of Jackpot for the year ended December 31, 2019 were approved and authorized for issue by the Board of Directors on June 15, 2020.

(d) Functional and presentation currency

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

(e) Significant accounting judgments, estimates and assumptions

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

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

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

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

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

*Critical accounting estimates*

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

- Recoverability of accounts receivable and allowance for doubtful accounts

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

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

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

- Right-of-use assets and lease liability

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

- Discount rates for convertible debentures

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

*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.

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

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

- Development expenditures

The application of the Company's accounting policy for development expenditures requires judgment in determining whether it is likely that the future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If new information suggests future economic benefits are unlikely, the amount capitalized in excess over the recoverable value is written off to profit or loss in the period the new information becomes available. As at December 31, 2019 and 2018, no development expenditures have been capitalized.

- Functional currency

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

- Assessment of control

In determining whether the Company controls 37 Capital Inc. ("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.

- Right-of-use assets and lease liability

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

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

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

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

- Impairment of long-lived assets

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

**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, dissolution or loss of control.

The consolidated financial statements include the activities of 37 Capital up until September 30, 2019, which is the effective date that control ceased (Note 12).

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

(b) Cash and cash equivalents

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

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

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

(c) Financial instruments

The Company's financial instruments are classified as follows:

	<b>IFRS 9</b>
<b>Financial Asset</b>	
Cash and cash equivalents	Fair value through profit and loss ("FVTPL")
Accounts receivable	Amortized cost
Due from related parties	Amortized cost
<b>Financial Liability</b>	
Accounts payable and accrued liabilities	Amortized cost
Lease liability	Amortized cost
Loan payable with Everi	Amortized cost
Interest payable	Amortized cost
Loans payable	Amortized cost
Due to related parties	Amortized cost
Convertible debentures	Amortized cost
Non-convertible secured debentures	Amortized cost
Refundable subscription	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.

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.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 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)

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

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

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

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

(iii) Derecognition of financial assets

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

Financial liabilities

(i) Recognition and measurement of financial liabilities

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

(ii) Classification of financial liabilities

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

*Financial liabilities measured at amortized cost*

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

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 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 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 Consolidated Financial Statements**  
**Years Ended December 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.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

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

(f) Intangible assets

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

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

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

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

(g) Impairment of non-financial assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. When an impairment loss subsequently reverses (except for goodwill), the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

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

(h) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the product or service in the ordinary course of the Company's activities. The Company derives revenue 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.

(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 table basis over the PCS term. Revenue recognized from the delivery of gaming systems and installation and training services are limited to those amounts that are not contingent upon the delivery of future PCS or other services.

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

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

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

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

(i) Income taxes

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

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

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

(j) Share-based payments

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

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

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

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

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

(k) Earnings (loss) per share

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

(l) Capital stock

Proceeds from the exercise of stock options and warrants are recorded as capital stock in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Capital stock issued for consideration other than cash are valued at the fair value of assets received or services rendered. If the fair value of assets received or services rendered cannot be reliably measured, shares issued for consideration will be valued at the quoted market price at the date of issuance.

The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to capital stock based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve. Consideration received for the exercise of warrants is recorded in capital stock and the related residual value is transferred from warrant reserve to capital stock. For unexercised warrants that expire, the recorded value is transferred to deficit.

(m) Foreign currency translation

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

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

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

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

(n) Leases

*Change in accounting policy*

IFRS 16 Leases

The Company adopted IFRS 16 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 amortization, impairment losses and adjusted for certain remeasurements of the lease liability. The ROU asset is amortized from the commencement date over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator of impairment.

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

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

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

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

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

(n) Leases (continued)

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 profit or loss in the period in which they are incurred.

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

The Company applied the exemption not to recognize ROU asset and lease liabilities for leases with less than 12 months of lease term and leases for low-value assets 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 that is 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 \$528,871 as a lease liability, representing its 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	\$	572,701
Effect of discounting at incremental borrowing rate		(43,830)
<b>Lease liability recognized as of January 1, 2019</b>	<b>\$</b>	<b>528,871</b>

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

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

(o) Investment in 37 Capital Inc.

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

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

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

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

(p) Substantial modification of debentures

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

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

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

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

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

(a) Risk management overview

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

(b) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts receivable, due from related parties, accounts payable and accrued liabilities, lease liability, 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. The Company's cash and cash equivalents as at December 31, 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
<b>Cash and Cash Equivalents consists of:</b>		
Cash	\$ 20,295	\$ 8,141
Term deposit	17,250	17,250
	<b>\$ 37,545</b>	<b>\$ 25,391</b>

As at December 31, 2019, the Company had cashable term deposits of \$17,250 (2018 - \$17,250) readily convertible into cash, maturing July 31, 2020 with an annual interest rate of 0.60%.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

**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 December 31, 2019, the Company had receivables from one customer representing 91% (2018 - 90%) of total trade receivables. In addition, as at December 31, 2019, allowance for doubtful accounts is \$nil (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 December 31, 2019, the Company has cash and cash equivalents of \$37,545 (2018 - \$25,391) available to apply against short-term business requirements and current liabilities of \$8,895,564 (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 December 31, 2019. As at December 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.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

(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 December 31, 2019 and 2018, the Company is exposed to currency risk for its US dollar equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars as follows:

	Held in US dollars (stated in Canadian dollars)	
	<b>2019</b>	<b>2018</b>
Cash (cheques issued in excess of funds on deposit)	\$ 85	\$ (35)
Accounts receivable	305,786	343,847
Accounts payable and accrued liabilities	(303,512)	(331,788)
Interest payable	(1,286,746)	(992,142)
Loan payable with Everi	-	(1,862,484)
Non-convertible secured debentures	(2,392,799)	(3,379,003)
<b>Net financial liability</b>	<b>\$ (3,677,186)</b>	<b>\$ (6,221,605)</b>

Based upon the above net exposure as at December 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 \$147,087 (2018 - \$248,864) 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 December 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.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

**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 75,000 warrants from \$20.00 per share purchase warrant to \$5.00 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 \$5.00 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.

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 was 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 was reduced to US\$1,355,355 which bore simple interest at the rate of 8% per annum and which was 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 granted to Everi 100,000 common share purchase warrants in the capital of the Company which are exercisable at the price of \$3.50 per common share for a period of two years, and the Company issued to Everi as fully paid and non-assessable 227,622 common shares in the capital of the Company at a deemed price of \$2.00 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.

Effective on July 24, 2019, the Company entered into a Debt Settlement Agreement (the "Final Debt Settlement Agreement") with Everi. The Company made aggregate payments of US\$275,000 (\$365,530) to Everi during the year ended December 31, 2019 to settle the remaining US\$1,355,355 plus all accrued interest which was owed by the Company to Everi pursuant to previous Debt Settlement and Amendment Agreements. As a result, the Company recorded a gain on debt settlement of US\$1,114,092 (\$1,475,169)

During the year ended December 31, 2019, the Company recognized a gain on debt settlement of \$1,475,169 (US\$1,114,092). As at December 31, 2019, the Company has a payable to Everi of \$nil (December 31, 2018 - \$1,862,484; US\$1,365,257).

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**7. EQUIPMENT**

	Warehouse Equipment	Computer Equipment	Office Furniture	Total
<b>Cost</b>				
Balance at December 31, 2017	\$ -	\$ 136,012	\$ 25,080	\$ 161,092
Additions	43,007	5,370	-	48,377
Balance at December 31, 2018	43,007	\$ 141,382	\$ 25,080	209,469
Additions	-	-	-	-
Balance at December 31, 2019	\$ 43,007	\$ 141,382	\$ 25,080	\$ 209,469
<b>Accumulated Amortization</b>				
Balance at December 31, 2017	\$ -	\$ 90,952	19,062	\$ 110,014
Amortization expense	6,037	12,198	1,099	19,334
Balance at December 31, 2018	6,037	\$ 103,150	\$ 20,161	129,348
Amortization expense	6,753	10,019	897	17,669
Balance at December 31, 2019	\$ 12,790	\$ 113,169	\$ 21,058	\$ 147,017
<b>Carrying Amounts</b>				
December 31, 2018	\$ 36,970	\$ 38,232	\$ 4,919	\$ 80,121
December 31, 2019	\$ 30,217	28,213	4,022	\$ 62,452

Amortization expense for assets held under lease as at December 31, 2019 was \$6,753 (2018 - \$6,037). The net carrying amount of assets held under lease was \$30,217 (2018 - \$36,970).

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**8. GAMING SYSTEMS**

Parts as at December 31, 2019 and 2018 consist of the following:

Balance at December 31, 2017	\$ 402,327
Additions	2,313,877
Transfer to gaming tables	(1,699,366)
Parts used for repairs and maintenance	(174,580)
Impairment loss	(46,596)
Balance at December 31, 2018	795,662
Additions	747,171
Transfer to gaming tables	(875,071)
Parts used for repairs and maintenance	24,370
Impairment loss	(300,630)
Balance at December 31, 2019	\$ 391,502

Gaming tables at December 31, 2019 and 2018 consist of the following:

<b>Cost</b>	
Balance at December 31, 2017	\$ 2,148,228
Transfer from parts	1,699,366
Impairment loss	(1,165,521)
Salaries	65,022
Balance at December 31, 2018	2,747,095
Transfer from parts	875,071
Impairment loss	(371,527)
Salaries	20,396
Sales	(94,179)
Balance at December 31, 2019	\$ 3,176,856
<b>Accumulated Amortization</b>	
Balance at December 31, 2017	\$ 642,401
Amortization expense	458,609
Impairment loss	(613,865)
Balance at December 31, 2018	487,145
Amortization expense	498,970
Impairment loss	(245,667)
Balance at December 31, 2019	\$ 740,448
<b>Carrying Amounts</b>	
December 31, 2018	\$ 2,259,950
December 31, 2019	\$ 2,436,408

As at December 31, 2019, the Company had paid a deposit of \$29,107 for parts (2018 - \$20,265), which were received in 2019.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**9. INTANGIBLE ASSETS**

	Intellectual Property	Customer Relationships	Acquired Software	Patents	Total
<b>Cost</b>					
Balance at December 31, 2017	\$ 364,866	\$ 2,633,777	\$ 253,555	\$ 173,485	\$ 3,425,683
Balance at December 31, 2018	364,866	2,633,777	253,555	173,485	3,425,683
Balance at December 31, 2019	\$ 364,866	\$ 2,633,777	\$ 253,555	\$ 173,485	\$ 3,425,683
<b>Accumulated Amortization</b>					
Balance at December 31, 2017	\$ 364,866	\$ 950,905	\$ 202,152	\$ 138,313	\$ 1,656,236
Amortization expense	-	367,172	51,403	35,172	453,747
Balance at December 31, 2018	\$ 364,866	\$ 1,318,077	\$ 253,555	173,485	2,109,983
Amortization expense	-	367,172	-	-	367,172
Balance at December 31, 2019	\$ 364,866	\$ 1,685,249	\$ 253,555	\$ 173,485	\$ 2,477,155
<b>Carrying Amounts</b>					
December 31, 2018	\$ -	\$ 1,315,700	\$ -	\$ -	\$ 1,315,700
December 31, 2019	\$ -	948,528	-	-	948,528

As at December 31, 2018, the Company determined there were indicators of impairment given the actual revenue from the electronic gaming tables CGU was lower than budgeted and a forecast decline in cash flow projections. The Company performed impairment tests on its electronic gaming tables CGU and determined that the recoverable amount exceeded the carrying amount. As such, there was no impairment loss recorded during the year ended December 31, 2018. As at December 31, 2019, the Company determined there were no indicators of impairment and, as such, there was no impairment loss recorded during the year ended December 31, 2019.

**10. CAPITAL STOCK**

(a) Authorized

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

(b) Issued and outstanding

*Preferred shares*

No preferred shares have been issued.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

**10. CAPITAL STOCK (Continued)**

- (b) Issued and outstanding (continued)

*Common shares*

Effective May 1, 2020, 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 December 31, 2019, there are 12,919,304 common shares issued and outstanding.

During the year ended December 31, 2019, the following transactions occurred:

- (i) On September 26, 2019, the Company completed its rights offering and issued 6,439,656 units of the Company's securities at a price of \$0.30 per unit for gross proceeds of \$1,931,897. 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 of the Company at a price of \$1.00 until September 26, 2024. In respect to the rights offering, the Company incurred share issuance costs of \$83,439 and the stand-by guarantors received bonus warrants entitling them to purchase a total of 333,333 common shares of the Company exercisable at a price of \$1.00 per share until September 26, 2024. The bonus warrants were fair valued at \$90,294.
- (ii) 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 714,960 units of the Company at a price of \$1.35 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 \$1.80 per share for a period of two years. The Company incurred share issuance costs of \$35,516, issued in aggregate 42,837 common shares fair valued at \$57,830 and 17,778 warrants with a fair value of \$15,264 as finder's fees to arm's length parties. Each warrant entitles the holder to purchase one common share at a price of \$1.80 for two year.

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 171,250 units of the Company at a price of \$2.00 per unit for total gross proceeds to the Company of \$342,500. Each unit consists of one common share of the Company and one non-transferable share purchase warrant to acquire an additional common share of the Company at the price of \$2.50 for a period of 3 years. The Company issued in aggregate 19,531 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 15,000 units in the private placement. All the securities that have been issued in connection with this private placement were subject to a hold period which expired on March 9, 2019.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

**10. CAPITAL STOCK (Continued)**

(b) Issued and outstanding (continued)

*Common shares (continued)*

- (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 318,580 units of the Company at a price of \$2.00 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 \$2.50 for a period of 3 years. The Company issued in aggregate 38,448 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 11,000 units in the private placement.
- (iii) On June 18, 2018, the Company completed its rights offering and issued 1,226,611 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 \$5.00 until January 20, 2022. 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 38,900 units of the Company at a price of \$5.00 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 \$6.00 for a period of five years. The Company incurred share issuances costs of \$12,000 and issued 2,400 broker options fair valued at \$13,209. The broker options are exercisable at \$5.00 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 \$6.00 per share for two years.
- (v) On January 3, 2018, the Company closed the non-brokered private placement financing, which was announced on December 21, 2017 and consists of 105,355 units of the Company at \$5.00 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 \$6.00 for a period of five years. The Company incurred share issuance costs of \$15,600 and issued 4,508 finder's units fair valued at \$22,542, 4,508 broker warrants fair valued at \$nil and 3,120 broker options fair valued at \$17,463. The broker warrants are exercisable at \$6.00 per share for a period of two years. The broker options are exercisable at \$5.00 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 \$6.00 per share for two years.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**10. CAPITAL STOCK (Continued)**

(c) Warrants

Warrants activity for the years ended December 31, 2019 and 2018 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2017	3,038,213	\$7.00
Issued	2,117,573	\$ 4.40
Exercised	(381)	\$ 5.00
Expired	(353,750)	\$10.00
Balance, December 31, 2018	4,801,655	\$5.50
Issued	7,505,726	\$1.10
Expired	(275,189)	\$9.90
Balance, December 31, 2019	12,032,192	\$2.60

Compound warrants activity for the years ended December 31, 2019 and 2018 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2017	-	\$ -
Issued	5,520	\$ 5.00
Balance, December 31, 2018 and 2019	5,520	\$ 5.00

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**10. CAPITAL STOCK (Continued)**

(c) Warrants (continued)

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

Expiry Date	Exercise Price	Number of Warrants	
		2019	2018
February 27, 2019	\$ 10.00	-	85,000
March 3, 2019	\$ 10.00	-	39,714
March 9, 2019	\$ 10.00	-	27,150
April 17, 2019	\$ 10.00	-	115,000
July 27, 2019	\$ 5.00	-	4,000
August 21, 2019	\$ 6.00	-	1,750
September 13, 2019	\$ 6.00	-	375
November 28, 2019	\$ 6.00	-	1,450
December 1, 2019	\$ 6.00	-	750
January 3, 2020	\$ 6.00	9,017	9,017
January 3, 2020	\$ 5.00*	3,120	3,120
January 24, 2020	\$ 5.00*	2,400	2,400
August 4, 2020	\$ 20.00	75,000	75,000
August 10, 2020	\$ 5.00**	75,000	75,000
November 19, 2020	\$ 3.50	100,000	100,000
February 15, 2021	\$ 1.80	155,037	-
February 25, 2021	\$ 1.80	247,700	-
February 28, 2021	\$ 1.80	330,000	-
October 29, 2021	\$ 2.50	318,580	318,580
November 8, 2021	\$ 2.50	171,250	171,250
January 20, 2022	\$ 5.00	1,715,543	1,715,543
January 20, 2022	\$ 5.00	1,550,361	1,550,361
August 21, 2022	\$ 6.00	70,000	70,000
September 13, 2022	\$ 6.00	34,600	34,600
November 28, 2022	\$ 6.00	85,000	85,000
December 1, 2022	\$ 6.00	30,000	30,000
January 3, 2023	\$ 6.00	105,355	105,355
January 24, 2023	\$ 6.00	38,900	38,900
June 22, 2023	\$ 5.00	147,860	147,860
September 26, 2024	\$ 1.00	6,772,989	-
	\$ 2.60	12,037,712	4,807,175

\* Entitle the holder to purchase one unit at \$5.00 per unit. Each unit shall consist of one common share and one share purchase warrant. Each warrant is exercisable at \$6.00 per share for two years.

\*\* The exercise price has been reduced from \$20.00 to \$5.00 per share.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**10. CAPITAL STOCK (Continued)**

(c) Warrants (continued)

The weighted average remaining contractual life for warrants outstanding at December 31, 2019 is 3.52 (2018 – 2.92) years.

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

The fair value of each warrant issued during the years ended December 31, 2019 and 2018 was calculated using the following weighted average assumptions:

	<b>2019</b>	<b>2018</b>
Expected life (years)	4.85	3.00
Grant date fair value per share	\$0.30	\$1.10
Interest rate	1.59%	1.95%
Volatility	109%	114%
Dividend yield	0.00%	0.00%

(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 December 31, 2019, there are 748,930 (2018 – 78,186) stock options available for granting. The terms of the options are determined at the date of grant.

The following summarizes the officer, director, employee and consultant stock options that were granted, cancelled and expired during the years ended December 31, 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	136,600	\$ 6.00
Issued	480,000	\$ 1.80
Expired	(126,600)	\$ 6.00
Balance, December 31, 2018	490,000	\$ 1.90
Issued	120,000	\$0.50
Expired	(49,000)	\$2.50
Balance, December 31, 2019	561,000	\$1.50

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**10. CAPITAL STOCK (Continued)**

(d) Stock options (continued)

At December 31, 2019 and 2018, the following stock options were outstanding and exercisable:

Exercise Price	Expiry Date	Outstanding 2019	Exercisable 2019	Outstanding 2018	Exercisable 2018
\$ 5.00	November 1, 2020	-	-	10,000	7,500
\$ 5.00	December 1, 2020	300	300	300	225
\$ 1.80	August 28, 2020	-	-	5,000	1,250
\$ 1.80	August 28, 2021	440,700	330,525	474,700	118,675
\$ 0.50	December 16, 2022	80,000	20,000	-	-
\$ 0.50	December 20, 2022	40,000	10,000	-	-
		561,000	360,825	490,000	127,650

The weighted average remaining contractual life for options outstanding at December 31, 2019 is 1.94 (2018 – 2.63) 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 \$344,942 (2018 - \$485,099) were recognized as salaries expense and \$2,967 (2018 - \$5,826) was recognized as consulting fees for options granted to consultants.

The fair value of each option grant during the years ended December 31, 2019 and 2018 was calculated using the following weighted average assumptions:

	2019	2018
Expected life (years)	3	3
Grant date fair value per share	\$0.016	\$0.18
Interest rate	1.70%	2.11%
Volatility	100%	118%
Dividend yield	0.00%	0.00%

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

Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of 0% (2018 – 0%) in determining the expense recorded in the accompanying consolidated statements of comprehensive loss.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**11. RELATED PARTY TRANSACTIONS**

Except as disclosed elsewhere in the consolidated financial statements, related party transactions for the years ended December 31, 2019 and 2018 are as follows.

During the years ended December 31, 2019 and 2018, the Company incurred the following related party transactions:

	<b>2019</b>	<b>2018</b>
Interest charged on amounts due to related parties	\$ -	\$ 4,044
Rent and shared office expenditures charged	12,000	-

As at December 31, 2019, due from related parties consists of \$130,445 receivable from 37 Capital for rent and shared office expenditures. As at December 31, 2018, due from related parties is \$nil as it was eliminated on consolidation with 37 Capital.

**Key management compensation**

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include certain directors and officers. Key management personnel include the CEO, CFO and COO of the Company. The remuneration of key management personnel during the years ended December 31, 2019 and 2018 is as follows:

	<b>2019</b>	<b>2018</b>
Management fees (note 19)	\$ 396,000	\$ 396,000
Salaries and benefits	288,320	302,011
Share-based payments	183,759	250,507
<b>Total key management personnel compensation</b>	<b>\$ 868,079</b>	<b>\$ 948,518</b>

**Due to related parties**

During the year ended December 31, 2019, the Company:

- (a) A director of the Company advanced the principal amount of \$12,944, bearing interest rate of prime plus 1%. As at December 31, 2019, the Company fully repaid the advance and accrued interest totaling \$12,945.

During the year 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.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**12. INVESTMENT IN 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.

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 had 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.

During the year ended December 31, 2019, the Company sold 3,400,000 common shares in the capital of 37 Capital through the facilities of the Canadian Securities Exchange (CSE) for gross proceeds to the Company of \$170,580 thereby reducing its controlling interest to approximately 0.70% of 37 Capital's issued and outstanding shares and recorded \$326,150 in non-controlling interest as a result of the decrease in interest in 37 Capital. As a result of the sale, the Company determined that control of 37 Capital ceased effective September 30, 2019 and, as such, the assets, liabilities and non-controlling interest of 37 Capital were derecognized. On deconsolidation, the Company recognized assets of \$127,262 (including a derecognition of \$400 in cash and cash equivalents) and derecognized liabilities of \$1,009,241 and non-controlling interest of \$1,000,834, resulting in a gain on deconsolidation of \$135,669 (2018 - \$nil) being recorded during the year ended December 31, 2019.

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 year	(99,653)
Increase in interest	(326,150)
Deconsolidation	1,000,834
Balance at December 31, 2019	\$ -

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**12. INVESTMENT IN 37 CAPITAL INC. (Continued)**

Following the deconsolidation effective September 30, 2019, the Company determined that it had significant influence over 37 Capital and, therefore, accounted for the investment under the equity method as follows:

Balance at December 31, 2018	-
Fair value of investment on deconsolidation	4,999
Share of net loss	(325)
Balance at December 31, 2019	\$ 4,673

Summarized financial information for 37 Capital Inc. is as follows:

	<b>December 31, 2019</b>
Current assets	\$ 678
Non-current assets	\$ 32,502
Current liabilities	\$ 1,203,963
Non-current liabilities	\$ -
Net loss	\$ 147,137

**13. SALARIES AND BENEFITS**

The Company included research and development costs in salaries and benefits in the consolidated statements of comprehensive loss for the years ended December 31, 2019 and 2018 as follows:

	<b>2019</b>	<b>2018</b>
Administrative salaries and benefits	\$ 802,654	\$ 888,805
Operational salaries	317,648	542,097
Research and development salaries	372,891	636,374
	\$ 1,493,193	\$ 2,067,276

**14. LOANS PAYABLE AND DEBENTURES**

*Loans payable*

During the year ended December 31, 2019, the Company,

- (a) Entered into a promissory note with an arm's length party for the amount of \$50,000, bearing interest rate of 15% per annum which is due on or before January 20, 2020. As at December 31, 2019, the total balance of the outstanding loan and accrued interest is \$50,308.
- (b) Entered into two promissory notes with an arm's length party for the amount of \$300,000, bearing interest at the rate of 10% per annum which is due on demand. As at December 31, 2019, the total balance of the outstanding loan and accrued interest is \$316,315.
- (c) Entered into a promissory note with an arm's length party for the amount of \$20,000; the Company repaid the promissory note and interest totaling \$20,250 during the year ended December 31, 2019.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

**14. LOANS PAYABLE AND DEBENTURES (Continued)**

*Loans payable (continued)*

- (d) Entered into a promissory note with an arm's length party for the amount of \$50,000; the Company repaid the principal of \$50,000 and recorded an accrued interest of \$27 during the year ended December 31, 2019.
- (e) Entered into two promissory notes with an arm's length party for the amount of \$60,000, bearing interest at the rate of 10% per annum which is due on demand; the Company repaid the promissory notes and interest totaling \$61,715 during the year ended December 31, 2019.
- (f) Entered into a promissory note with an arm's length party for the amount of \$20,000, bearing interest at the rate of 10% per annum which is due on demand; the Company repaid the promissory note and interest totaling \$20,449 during the year ended December 31, 2019.
- (g) Entered into two promissory notes with an arm's length party for the amount of \$253,817 (US\$190,000); the Company repaid the promissory note and interest totaling \$255,116 (US\$190,978) during the year ended December 31, 2019.
- (h) Entered into a promissory note with an arm's length party for the amount of \$50,000; the Company repaid the principal and interest totaling \$50,247 and recorded an accrued interest of \$356 during the year ended December 31, 2019.
- (i) Entered into a promissory note with an arm's length party for the amount of \$70,000; the Company repaid the non-interest bearing promissory note totaling \$70,000 during the year ended December 31, 2019.
- (j) Entered into a promissory note with an arm's length party for the amount of \$50,000, bearing interest at the rate of 10% per annum which is due on demand; the Company repaid the promissory note and interest totaling \$50,247 during the year ended December 31, 2019.
- (k) Entered into a short-term loan agreement with an arm's length party for the amount of \$379,140, bearing interest at the rate of 5% per annum; the Company repaid the principal \$379,140 and the interest accrued of \$2,597 during the year ended December 31, 2019.
- (l) Entered into a short-term loan agreement with an arm's length party for the amount of \$189,542 bearing interest at the rate of 5% per annum; the Company repaid the principal and interest totaling \$191,178 during the year ended December 31, 2019.
- (m) Entered into a short-term loan agreement with an arm's length party for the amount of \$31,318 bearing interest at the rate of 5% per annum. As at December 31, 2019, the Company repaid the principal and interest totaling \$31,588.

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

- (n) 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.
- (o) 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.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

**14. LOANS PAYABLE AND DEBENTURES (Continued)**

*Loans payable (continued)*

- (p) 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 bears interest at the rate of 15% per annum payable on a quarterly basis. Pursuant to the agreement, the Company was required to issue 40,000 bonus shares. The amount of \$491,639 was recorded as the liability portion of the compound instruments and the amount of \$8,361 has been recorded as the equity portion. As at December 31, 2018, the Company fully repaid the outstanding loan and accrued interest totaling \$518,288. On November 4, 2019, the Company issued the 40,000 bonus shares at a price of \$0.30 per share. During the year ended December 31, 2018, \$8,798 was recorded as a gain on modification of debt due to the amendment of the term on June 28, 2018.
- (q) 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.
- (r) 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 December 31, 2019, the Company repaid the promissory note and accrued interest totaling \$40,373.
- (s) 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 December 31, 2019, the Company fully repaid the outstanding loan and accrued interest totaling \$91,000.
- (t) 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 December 31, 2019, the total balance of the outstanding loan and accrued interest is \$169,521.
- (u) During the year ended December 31, 2017, the Company 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 December 31, 2019, \$180,452 (2018 - \$165,452) has been recorded as the liability portion of the compound instrument including accrued interest.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**14. LOANS PAYABLE AND DEBENTURES (Continued)**

*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 75,000 warrants to the lenders. Each warrant has a five-year expiry term and is exercisable into one common share at \$20.00. On August 9, 2019, the maturity date of the convertible debenture with the arm's length party was extended to July 1, 2021. The modification of maturity date was considered an extinguishment of the existing non-convertible debenture and a new non-convertible debenture was recognized as the modified terms were substantially different from the original terms. The difference between the fair value and carrying value on the extinguishment date was determined to be \$656,727.

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 December 31, 2019, the amount of \$2,392,799 (2018 - \$3,379,003) has been recorded as the non-convertible secured debentures. The following table reconciles the fair value of the liability component of non-convertible debentures on initial recognition to the carrying amount at December 31, 2019.

Balance at December 31, 2017	\$	2,854,790
Finance expense		700,123
Interest reclassified to interest payable		(439,355)
Foreign exchange		263,445
Balance at December 31, 2018		3,379,003
Finance expense		508,869
Interest reclassified to interest payable		(422,091)
Principal repayment		(263,232)
Gain on extinguishment		(656,727)
Foreign exchange		(153,023)
Balance at December 31, 2019	\$	2,392,799

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

**14. LOANS PAYABLE AND DEBENTURES (Continued)**

*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 \$5.00 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 60,000 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 \$5.00 per share during the first year and at the price of \$10.00 per share during the second year and expired unexercised. The convertible secured debentures are secured against the Company's assets. On initial recognition, the amount of \$101,601 was recorded as the equity portion of convertible secured debentures reserve and remains outstanding at December 31, 2019. The effective interest rate was 20%.

On August 9, 2019, the maturity date of the convertible secured debentures was extended to July 1, 2021. The modification of maturity date was considered an extinguishment of the existing convertible debentures and a new convertible debenture balance was recognized as the modified terms were substantially different from the original terms. The difference between the fair value and carrying value on the extinguishment date was determined to be \$260,229.

During the year ended December 31, 2019, the Company paid \$nil (2018 - \$nil) of accrued interest and repaid principal amounts totaling \$nil (2018 - \$nil).

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. As at December 31, 2019 the convertible debenture is owing and is due on demand.

As at December 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%.

During June 2019, the Company entered into a convertible debenture with an arm's length party for the principal amount of \$100,000 which bears interest at the rate of 10% per annum and which is due and payable on June 21, 2021 (the "Term"). At any time prior to the expiry of the Term, all or part of the principal amount may be converted into units of the Company at the price of \$1.00 per unit. Each Unit consists of one common share and one share purchase warrant. Each share purchase warrant shall be exercisable at the price of \$2.50 per share for a period of two years. 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.

On initial recognition, the amount of \$13,344 was recorded as the equity portion of convertible debenture reserve and remains outstanding at December 31, 2019. The effective interest rate was 20%. As at December 31, 2019, the amount of \$89,734 has been recorded as the liability portion of convertible debentures including accrued interest.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**14. LOANS PAYABLE AND DEBENTURES (Continued)**

*Convertible secured debentures (continued)*

On initial recognition, the amount of \$13,344 was recorded as the equity portion of convertible debenture reserve and remains outstanding at December 31, 2019. The effective interest rate was 20%. As at December 31, 2019, the amount of \$89,734 has been recorded as the liability portion of convertible debentures including accrued interest.

As at December 31, 2019, the amount of \$2,169,614 (2018 - \$2,661,000) has been recorded as the convertible secured debentures. The following table reconciles the fair value of the liability and equity components of convertible debentures on initial recognition to the carrying amount at December 31, 2019, excluding 37 Capital debentures.

	Liability Component	Equity Component	Total
Balance at December 31, 2017	\$ 1,983,000	\$ 114,101	\$ 2,097,101
Additions	322,342	14,019	336,361
Finance expense	252,676	-	252,676
Interest reclassified to interest payable	(247,018)	-	(247,018)
Issuance of bonus shares	-	(12,500)	(12,500)
Balance at December 31, 2018	2,311,000	115,620	2,426,620
Additions	86,656	13,344	100,000
Finance expense	301,675	-	301,675
Interest reclassified to interest payable	(269,488)	-	(269,488)
Issuance of bonus shares	-	(8,361)	(8,361)
Gain on extinguishment	(260,229)	-	(260,229)
Balance at December 31, 2019	\$ 2,169,614	\$ 120,603	\$ 2,290,217

*37 Capital Loan Payable and Debentures*

As a result of the deconsolidation effective September 30, 2019, the following balances are not included on the consolidated balance sheet at December 31, 2019. The disclosures below are for the purposes of reconciling the balances of 37 Capital which are included on the consolidated balance sheet at December 31, 2018.

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 December 31, 2018, 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 December 31, 2018, one convertible debenture is in default and another convertible debenture has been extended indefinitely. As at December 31, 2018, principal of \$100,000 related to these debentures remains outstanding.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**14. LOANS PAYABLE AND DEBENTURES (Continued)**

*37 Capital Loan Payable and Debentures (continued)*

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 December 31, 2019, the two convertible debentures are in default.

As at December 31, 2018, 37 Capital has recorded \$199,191 in accrued interest related to the convertible debentures.

**15. LEASE LIABILITY**

*Office and Warehouse Leases*

The Company has a lease agreement for its headquarter office space in Vancouver, BC as well as its warehouse in Burnaby, BC. Upon transition to IFRS 16, the Company recognized \$528,871 for a ROU asset and \$528,871 for a lease liability.

The continuity of the ROU asset and Lease liability for the year ended December 31, 2019 is as follows:

**Right-of-use asset**

Value of right-of-use asset as at January 1, 2019	\$ 528,871
Depreciation	(349,995)
<b>Value of right-of-use asset as at December 31, 2019</b>	<b>\$ 178,876</b>

**Lease liability**

Lease liability recognized as of January 1, 2019	\$ 528,871
Lease payments	(374,478)
Lease interest	37,292
<b>Lease liability recognized as of December 31, 2019</b>	<b>\$ 191,685</b>

Current portion	\$ 191,685
Long-term portion	-
	<b>\$ 191,685</b>

*Forklift Lease*

On 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, which was personally guaranteed by Jake Kalpakian, the President & CEO of the Company. The Company initially 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. At the end of the term, the Company exercised its option to purchase the forklift for \$10. During the year ended December 31, 2019, the Company recorded a finance expense of \$1,294 (2018 - \$3,192) on the lease. The effective interest rate was 11%.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**16. DEFERRED REVENUE**

During the year ended December 31, 2019, the Company recorded \$482,659 (2018 - \$445,574) in deferred revenue with respect to electronic gaming table regulated licenses. Everi receives funds from regulated licenses from customers and accordingly, the amount has been classified as deferred revenue until earned. The deferred revenue will be recognized as revenue upon the Company receiving the necessary gaming licenses.

During the year ended December 31, 2019, the Company recorded \$46,624 (2018 - \$nil) in deferred revenue with respect to a gaming table sold but not delivered as of December 31, 2019.

**17. INCOME TAXES**

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27.00% (2017 - 26.00%) to loss before income taxes.

	<b>2019</b>	<b>2018</b>
Loss before income taxes	\$ (1,670,588)	\$ (4,289,315)
Statutory income tax rate	27.00%	26.00%
Income tax benefit computed at statutory tax rate	(451,059)	(1,115,222)
Items not deductible for income tax purposes	101,775	183,650
Change in timing differences	(393,116)	86,565
Effect of change in tax rates	-	(361,406)
Overprovided in prior years	465,449	(207,808)
Unrecognized benefit of deferred income tax assets	276,951	1,414,221
Income tax benefit	\$ -	\$ -

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

	<b>2019</b>	<b>2018</b>
Excess of unused exploration expenditures for Canadian tax purposes over carrying value of mineral property interests	\$ 269,000	\$ 2,926,000
Excess of undepreciated capital cost over carrying value of equipment	5,000,000	4,651,000
Excess of tax cost over carrying value of investment deposit	500,000	1,400,000
Share issuance costs	220,000	279,000
Unrealized foreign exchange	274,000	-
Non-convertible debt	192,000	-
Cumulative eligible capital	4,321,000	3,954,000
Non-capital losses carried forward	29,352,000	33,635,000
Net capital losses carried forward	237,000	1,409,000
Unrecognized deductible temporary differences	\$ 40,365,000	\$ 48,254,000

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**17. INCOME TAXES** (Continued)

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

2026	\$ 687,000
2027	3,876,000
2028	3,516,000
2029	2,935,000
2030	2,520,000
2031	2,405,000
2032	2,041,000
2033	-
2034	2,286,000
2035	2,221,000
2036	3,352,000
2037	610,000
2038	931,000
2039	1,972,000
	<b>\$ 29,352,000</b>

The Company has available approximate net capital losses of \$237,000 that may be carried forward indefinitely.

**18. COMMITMENTS**

The Company's commitments consist of \$301,454 over the year ending December 31, 2020 related to the following:

- (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 a director and officer 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.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

**18. 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 Company entered into an Extension of Lease Agreements on January 24, 2019 extending the term to May 31, 2020. The Company pays basic rent of \$6,528 plus the operational cost and the applicable tax per month. The Company has paid a deposit in the amount of \$8,930.

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 is \$121,396 plus estimated annual operating costs of approximately \$88,000. 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.

**19. CAPITAL MANAGEMENT**

The Company considers its capital to be comprised of shareholders' deficiency and loans (note 14). The agreement to extend the maturity date on its convertible debentures and non-convertible secured debentures included a covenant requiring the Company to transfer certain operating assets to a wholly-owned subsidiary and to pledge the shares of that subsidiary to the debenture holders prior to December 31, 2019. As at December 31, 2019, the Company had not complied with this covenant and, as such, the convertible debentures and non-convertible secured debentures are classified as current liabilities.

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 year ended December 31, 2019. The Company is not subject to externally imposed capital requirements.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**20. SUPPLEMENTAL CASH FLOW INFORMATION**

	<b>2019</b>	<b>2018</b>
Changes in non-cash working capital		
Accounts receivable	\$ 40,579	\$ (109,048)
Due from/to related parties	1,523	12,364
Prepaid expenses and deposits	(6,784)	-
Accounts payable and accrued liabilities	(39,884)	179,497
Deferred revenue	23,895	33,358
Loan payable with Everi Holdings Inc.	(41,504)	320,958
	<b>\$ (22,175)</b>	<b>\$ 437,129</b>

	<b>2019</b>	<b>2018</b>
<b>Supplemental information</b>		
Non-cash items		
Loan payable with Everi recorded in intangible assets	\$ -	\$ 1,315,700
Loan payable with Everi recorded in gaming systems	\$ -	\$ -
Deferred revenue reducing loan payable with Everi	\$ (59,814)	\$ 77,742
Gaming systems in accounts payable and accrued liabilities	\$ -	\$ 161,468
Equipment included in lease liability	\$ -	\$ 28,127
Interest paid	\$ 60,406	\$ 65,067
Income taxes paid	\$ -	\$ -

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

**21. SEGMENTED INFORMATION**

The Company has two operating segments, which are the Company's strategic business units. The reportable segments are the licensing of gaming software and the leasing of electronic gaming tables. A breakdown of revenues and cost of sales for each reportable segment for the years ended December 31, 2019 and 2018 are as follows:

<b>2019</b>				
	Electronic Gaming Tables*		Table Sales	Total
Revenue	\$	1,929,977	\$ 247,667	\$ 2,177,644
Royalty expense		(36,521)	-	(36,521)
Licensing fee		(74,417)	-	(74,417)
Cost of sales		(588,389)	(94,179)	(682,568)
	\$	1,230,650	\$ 153,488	\$ 1,384,138
<b>2018</b>				
	Electronic Gaming Tables*		Table Sales	Total
Revenue	\$	2,114,575	\$ -	\$ 2,114,575
Royalty expense		(39,689)	-	(39,689)
Licensing fee		(21,109)	-	(21,109)
Cost of sales		(837,205)	-	(837,205)
	\$	1,216,572	\$ -	\$ 1,216,572

\*Revenue from *Electronic Gaming Tables* does not include *Licensing Gaming Software Revenue* as there was no such revenue earned during the years ended December 31, 2019 and 2018.

As at December 31, 2019, the Company's intangible assets, equipment and parts are located in Canada and the gaming tables are in the United States, Canada, and internationally. Majority of the operating costs pertain to the electronic gaming tables. Of the \$682,568 (2017 - \$837,205) cost of sales recorded during the year ended December 31, 2019, \$437,277 (2018 - \$368,563) relates to salaries and benefits.

As at December 31, 2019, the Company had receivables from one customer representing 91% (2018 - 90%) of total trade receivables. Revenue for the year ended December 31, 2019 from this customer represents 89% (2018 - 97%) of total revenue. A failure of this customer would have a significant effect on the Company's results of operations.

**JACKPOT DIGITAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**  
**(Expressed in Canadian Dollars, unless otherwise stated)**

---

**22. EVENTS AFTER THE REPORTING DATE**

The following events occurred after December 31, 2019:

- (a) A total of 9,017 share purchase warrants exercisable at \$6.00 per share expired unexercised.
- (b) A total of 5,520 compound warrants exercisable at \$5.00 per share expired unexercised.
- (c) A total of 18,000 stock options exercisable at \$1.80 per share have expired unexercised.
- (d) Entered into a debenture agreement with an arm's length party for the amount of \$100,000. The debenture bears interest at 10% per annum for a term of five years. A total of 100,000 share purchase warrants exercisable at \$0.50 per share for five years were issued as bonus warrants in respect to this debenture.
- (e) Entered into a promissory note with an arm's length party for the amount of \$200,000, plus interest of \$40,000. On June 11, 2020, the Company repaid the amount of \$200,000, plus interest of \$40,000.
- (f) Renewed the office support agreement services between the Company and 37 Capital as disclosed in note 18.
- (g) Closed the first tranche of an unsecured convertible debenture financing raising gross proceeds of \$446,000. The debentures bear interest at 10% per annum and have a maturity date of 36 months from closing. The debentures are convertible into units at a conversion price of \$0.06 per unit in Year 1 and at a conversion price of \$0.10 per unit in Year 2 and Year 3. Each unit will consist of one common share and one share purchase warrant. Each share purchase warrant will be exercisable into one common share at a price of \$0.10 per share for a period of three years from the closing of the debenture financing. A total of 500,000 compensation warrants which are exercisable into units at \$0.06 per unit were issued in connection with this closing. A total of \$75,000 related to this financing was received during the year ended December 31, 2019 and included in refundable subscriptions.
- (h) Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has caused, and is continuing to cause, significant disruption in the financial markets both globally and in the United States, and will continue to impact, possible materially, the Company's business, financial condition and results of operations. As of late March 2020, the Company was no longer generating revenue from its largest customer as the customer's casino operations were halted with the restrictions on the travel industry. Although the industry is set to slowly reopen, several travel restrictions remain in effect which could have a significant impact on the Company's ability to generate revenue. The Company cannot predict the degree, or duration, to which its operations will be affected by the COVID-19 outbreak, and the effects could be material.
- (i) The Company entered into a lease amendment and extension agreement extending the office lease term until September 30, 2020.
- (j) The Company entered into a Modification of Lease Agreement in respect to its warehouse lease, extending the Company's lease until June 30, 2020.
- (k) Due to the impacts of COVID-19, the Company applied for the Canada Emergency Wage Subsidy and received \$55,192 for the period March 15 to April 11, 2020 and \$49,352 for the period April 12 to May 9, 2020.