JACKPOT DIGITAL INC.

Consolidated Financial Statements
December 31, 2016 and 2015
(Expressed in Canadian Dollars)

Smythe CPA

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF JACKPOT DIGITAL INC.

We have audited the accompanying consolidated financial statements of Jackpot Digital Inc., which comprise the consolidated balance sheets as at December 31, 2016 and 2015 and the consolidated statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Jackpot Digital Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
May 1, 2017

Vancouver
7th Floor 355 Burrard St
Vancouver, BC V6C 2G8
T: 604 687 1231
F: 604 688 4675

Langley
305 – 9440 202 St
Langley, BC V1M 4A6
T: 604 282 3600
F: 604 357 1376

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

Smythe LLP | **smythecpa.com**

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

	2016	2015
Assets (note 14)		
Current		
Cash and cash equivalents (note 5)	$ 15,173	$ 227,481
Accounts receivable (note 5)	364,056	273,427
Due from related parties (notes 5 and 12)	122,518	259,911
Prepaid expenses and deposits (note 17)	56,177	56,924
	557,924	817,743
Gaming Systems (note 8)	1,655,972	2,064,929
Equipment (note 7)	62,359	33,476
Intangible Assets (note 9)	2,815,855	3,833,066
Goodwill (note 10)	1,269,700	2,990,020
Total Assets	$ 6,361,810	$ 9,739,234
Liabilities		
Current		
Accounts payable and accrued liabilities (note 14)	$ 1,442,767	$ 887,540
Deferred revenue (note 15)	1,097,455	46,787
Payable to Everi Holdings Inc. (note 6)	5,575,482	6,907,881
Loan payable (note 14)	25,726	126,438
Due to related parties (note 12)	529,726	-
Convertible debentures (note 14)	1,916,224	-
	10,587,380	7,968,646
Deferred Revenue (note 15)	270,715	575,820
Non-Convertible Debentures (note 14)	2,711,549	2,498,191
Total Liabilities	13,569,644	11,042,657
Shareholders' Deficiency		
Capital Stock (note 11)	42,689,759	42,689,759
Reserves (note 11)	1,769,672	1,953,064
Convertible Debentures - Equity Portion (note 14)	101,601	-
Deficit	(51,768,866)	(45,946,246)
Total Shareholders' Deficiency	(7,207,834)	(1,303,423)
Total Liabilities and Shareholders' Deficiency	$ 6,361,810	$ 9,739,234

On behalf of the Board:

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

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

See notes to consolidated financial statements.

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

	2016	2015
Revenues (note 20)		
Electronic gaming tables	$ 2,638,771	$ 1,001,337
Licensing	152,058	135,461
Other	2,654	5,380
	2,793,483	1,142,178
Royalty expense	248,626	253,439
Licensing fee	204,597	108,463
Cost of sales (note 20)	801,017	67,745
Gross Profit	1,539,243	712,531
Expenses		
Impairment loss on goodwill (note 10)	1,720,320	-
Salaries and benefits (notes 11(d), 12 and 13)	1,234,922	1,602,172
Interest expense and finance expense (notes 12 and 14)	1,124,180	282,353
Consulting fees (notes 11(b), 11(d) and 12)	573,782	559,534
Fair value change of consideration obligation (note 6)	437,085	-
Management fees (note 12)	396,000	396,000
Bad debt expense (notes 5 and 12)	363,805	-
Legal, accounting and audit	310,470	166,370
Impairment loss on intangible assets (note 9)	304,529	-
Rent, office and miscellaneous (notes 12 and 17)	262,152	118,670
Travel, meals and entertainment	190,609	159,975
Regulatory and transfer agent fees	69,367	93,050
Advertising and promotion	45,780	-
Shareholder communications	1,641	69
Impairment loss on gaming systems (note 8)	814	312,474
Interest and other income	(537)	(1,963)
Foreign exchange loss (gain)	(334,716)	376,544
Amortization (notes 7, 8 and 9)	997,177	416,100
	7,697,380	4,481,348
Net Loss and Comprehensive Loss for the Year	$ (6,158,137)	$ (3,768,817)
Basic and Diluted Loss Per Share	$ (0.04)	$ (0.03)
Weighted Average Number of Common Shares Outstanding	155,996,550	149,812,198

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

	Capital Stock		Reserves		Equity Portion		Total
	Common Shares	Amount	Warrants	Options	of Convertible Debentures	Deficit	Shareholders' Deficiency
Balance, December 31, 2014	128,390,121	$ 41,549,764	$ 1,179,920	$ 82,496	$ -	(42,954,515)	$ (142,335)
Net loss for the year	-	-	-	-	-	(3,768,817)	(3,768,817)
Private placement, net of issuance costs	26,856,429	1,085,086	7,714	-	-	-	1,092,800
Issuance of shares pursuant to agreements (note 11(b))	750,000	45,000	-	-	-	-	45,000
Issuance of warrants with debentures (note 14)	-	-	1,035,312	-	-	-	1,035,312
Issuance of warrants pursuant to Transaction (note 6)	-	-	2,147	-	-	-	2,147
Reclassification of reserves on exercise of warrants	-	9,909	(9,909)	-	-	-	-
Expiry of warrants	-	-	(738,824)	-	-	738,824	-
Expiry of options	-	-	-	(38,262)	-	38,262	-
Share-based payment	-	-	-	432,470	-	-	432,470
Balance, December 31, 2015	155,996,550	42,689,759	1,476,360	476,704	-	(45,946,246)	(1,303,423)
Net loss for the year	-	-	-	-	-	(6,158,137)	(6,158,137)
Convertible debentures (note 14)	-	-	-	-	101,601	-	101,601
Issuance of broker warrants (note 14)	-	-	31,128	-	-	-	31,128
Expiry of warrants	-	-	(288,420)	-	-	288,420	-
Expiry of options	-	-	-	(47,097)	-	47,097	-
Share-based payment	-	-	-	120,997	-	-	120,997
Balance, December 31, 2016	155,996,550	$ 42,689,759	$ 1,219,068	$ 550,604	$ 101,601	$ (51,768,866)	$ (7,207,834)

See notes to consolidated financial statements.

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

	2016	2015
Operating Activities		
Net loss	$ (6,158,137)	$ (3,768,817)
Items not affecting cash		
Amortization	997,177	416,100
Shares issued for consulting fees (note 11(b))	-	45,000
Interest expense and finance expense	1,109,068	282,353
Unrealized foreign exchange loss (gain)	(68,845)	83,829
Share-based payment	120,997	432,470
Bad debt expense	363,805	-
Repairs and maintenance (note 8)	194,900	-
Gain on sale of gaming system tables	(27,492)	-
Fair value change of consideration obligation	437,085	-
Impairment loss on gaming systems	814	312,474
Impairment loss on intangible assets	304,529	-
Impairment loss on goodwill	1,720,320	-
	(1,005,779)	(2,196,591)
Changes in non-cash working capital (note 19)	(537,368)	612,546
Cash Used in Operating Activities	(1,543,147)	(1,584,045)
Financing Activities		
Funds from loan payable	311,000	125,000
Repayment of loan payable	(411,000)	(50,000)
Funds from related parties	551,500	-
Repayment of due to related party	(31,500)	-
Issuance of common shares and warrants, net of share issuance costs	-	1,092,800
Issuance of non-convertible debentures	-	3,336,250
Issuance of convertible debentures	1,753,111	-
Repayment of non-convertible debentures	(29,823)	-
Cash Provided by Financing Activities	2,143,288	4,504,050
Investing Activities		
Purchase of equipment	(42,171)	(13,516)
Proceeds from sale of gaming system tables	64,450	-
Proceeds of sale of gaming system parts	704	-
Purchase of gaming systems	(95,626)	(19,447)
Consideration paid on the Transaction with Everi	(738,485)	(2,669,000)
Cash Used in Investing Activities	(811,128)	(2,701,963)
Effect of Foreign Currency Translation on Cash	(1,321)	1,519
Net Change in Cash and Cash Equivalents	(212,308)	219,561
Cash and Cash Equivalents, Beginning of Year	227,481	7,920
Cash and Cash Equivalents, End of Year	$ 15,173	$ 227,481

Supplemental Cash Flow Information (note 19)

1. NATURE OF OPERATIONS

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

The Company's office is located at Suite 300 – 570 Granville Street, Vancouver, British Columbia, Canada, V6C 3P1, and the Company's warehouse is located at 4664 Lougheed Highway, Unit W030, Burnaby, British Columbia, Canada, V5C 5T5. The Company's registered office is located at Suite 1500 – 1055 West Georgia Street, PO Box 11117 Royal Centre, Vancouver, British Columbia, Canada, V6E 4N7.

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 two fiscal years (2016 - $6,158,137; 2015 - $3,768,817), as at December 31, 2016 has a deficit of $51,768,866 (2015 - $45,946,246) and a working capital deficiency of $10,029,456 (2015 - $7,150,903). Although the Company recognized revenue of $2,793,483 during the year ended December 31, 2016 (2015 - $1,142,178), 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, is seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost-cutting measures. There can be no assurance that management's plan will be successful.

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

3. BASIS OF PRESENTATION

(a) Statement of compliance

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

(b) Basis of measurement

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

3. BASIS OF PRESENTATION (Continued)

(b) Basis of measurement (continued)

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

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

(c) Approval of the consolidated financial statements

The consolidated financial statements of Jackpot for the year ended December 31, 2016 were approved and authorized for issue by the Board of Directors on May 1, 2017.

(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.

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, 2016, the Company recorded an allowance for doubtful accounts of $363,805 (2015 - $nil). If circumstances related to specific customers and related parties change, estimates of the recoverability of receivables could also change.

3. BASIS OF PRESENTATION (Continued)

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

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

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

Critical accounting judgments

- Fair value of equity instruments

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

- Recovery of deferred tax assets

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

- Impairment of goodwill and intangible assets

  Determining the amount of impairment of goodwill and intangible assets requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many factors used in assessing recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period.

- Debentures

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

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

3. BASIS OF PRESENTATION (Continued)

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

- Modification verses extinguishment of financial liability

  Judgment is required in applying IAS 39 *Financial Instruments: Recognition and Measurement* to determine whether the amended terms of the loan agreements are a substantial modification of an existing financial liability and whether it should be accounted for as an extinguishment of the original financial liability.

- Development expenditures

  The application of the Company's accounting policy for development expenditures requires judgment in determining whether it is likely that the future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If new information suggests future economic benefits are unlikely, the amount capitalized in excess over the recoverable value is written off to profit or loss in the period the new information becomes available. As at December 31, 2016 and 2015, 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.

- Business combination

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

- Fair value of assets acquired in a business combination

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

- 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.

3. BASIS OF PRESENTATION (Continued)

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

- 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.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Company include the following:

(a) Principles of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The financial statements of the Company's wholly owned subsidiaries, Jackpot Digital (NV), Inc. (incorporated in the USA) and Touche Capital Inc. (incorporated in British Columbia), are included in the consolidated financial statements from the date that control commenced to the date of disposal or dissolution.

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

(b) Cash and cash equivalents

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

(c) Financial instruments

(i) Financial assets

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

Fair value through profit or loss

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (continued)

(i) Financial assets (continued)

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

Loans and receivables

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

Held-to-maturity

Held-to-maturity are non-derivative financial assets with fixed or determinable payments that the Company intends on holding to maturity and do not meet the definition of loans and receivables. Held-to-maturity financial assets are recognized on a trade-date basis and are initially measured at fair value using the effective interest rate method. As at December 31, 2016 and 2015, there are no financial assets classified as held-to-maturity.

Available-for-sale

AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial assets categories. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income and classified as a component of equity. As at December 31, 2016 and 2015, there are no financial assets classified as AFS.

(ii) Financial liabilities

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

Fair value through profit or loss

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss. As at December 31, 2016 and 2015, there are no financial liabilities classified as FVTPL.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (continued)

(ii) Financial liabilities (continued)

Other financial liabilities

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

(iii) Impairment

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

(d) Research and development

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

(e) Gaming systems and equipment

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Gaming systems and equipment (continued)

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

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

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

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

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

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

(f) Intangible assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets (continued)

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

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

(g) Goodwill

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

(h) Impairment of non-financial assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Revenue recognition

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

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

(i) Licensing revenue

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

(ii) Electronic gaming tables

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income taxes

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

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

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

(k) Share-based payments

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Earnings (loss) per share

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

(m) Capital stock

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

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

(n) Foreign currency translation

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

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

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

(iii) Revenues and expenses (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange on the transaction date.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) New accounting pronouncements

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

IFRS 9 Financial Instruments

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

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

- *Classification and measurement of financial assets:*
  Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: “amortized cost”, “fair value through other comprehensive income”, or “fair value through profit or loss” (default). Equity instruments are classified and measured as “fair value through profit or loss” unless upon initial recognition elected to be classified as “fair value through other comprehensive income”.

- *Classification and measurement of financial liabilities:*
  When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity’s own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.

- *Impairment of financial assets:*
  An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at “amortized cost” or “fair value through other comprehensive income”, lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.

- *Hedge accounting:*
  Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

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

(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) New accounting pronouncements (continued)

IFRS 15 *Revenue from Contracts with Customers*

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

The five steps in the model are as follows:

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

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

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

IFRS 16 *Leases*

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

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

(p) Comparative information

Certain comparative information has been reclassified to conform to the consolidated financial statement presentation adopted for the current year. To provide more useful disclosures, the Company has recast inventory of spare parts as a component of gaming systems. The recast of the comparative information did not have a material effect on the Company's financial position or results of operations. The opening consolidated statement of financial position as January 1, 2015 is not disclosed as there is no impact given the Company acquired these assets during the year ended December 31, 2015. Accordingly, the consolidated financial statements as at December 31, 2015 and for the year then ended have been recast as follows:

	As previously reported	Adjustment	Recast
Consolidated Balance Sheet			
Inventory	$ 663,847	$ (663,847)	$ -
Current assets	$ 1,481,590	$ (663,847)	$ 817,743
Gaming systems	$ 1,401,082	$ 663,847	$ 2,064,929
Total non-current assets	$ 8,257,644	$ 663,847	$ 8,921,491
Working capital deficiency	$ (6,487,056)	$ (663,847)	$ (7,150,903)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Comparative information (continued)

	As previously reported	Adjustment	Recast
Statement of Comprehensive Loss			
Impairment loss on inventory	$ 312,474	$ (312,474)	$ -
Impairment loss on gaming systems	$ -	$ 312,474	$ 312,474
Net loss and comprehensive loss	$ (3,768,817)	$ -	$ (3,768,817)

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Risk management overview

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

(b) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts payable and accrued liabilities, trade accounts receivable, payable to Everi, loan payable, due to related parties and due from related parties approximate their carrying values due to the short-term maturity of these instruments. The non-convertible debenture and convertible debentures are classified as Level 2 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.

(Expressed in Canadian Dollars, unless otherwise stated)

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Credit risk

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

The financial instruments that potentially subject the Company to a significant concentration of credit risk consist of cash and cash equivalents, due from related parties and accounts receivable. The Company mitigates its exposure to credit loss associated with cash by placing its cash and cash equivalents in a major financial institution. The Company's cash and cash equivalents as at December 31, 2016, and 2015 are as follows:

	2016	2015
Cash and Cash Equivalents consists of:		
Cash	$ 1,197	$ 210,231
Cheques issued in excess of funds	(3,274)	-
Term deposit	17,250	17,250
	$ 15,173	$ 227,481

As at December 31, 2016, the Company had cashable term deposits of $17,250 (2015 - $17,250) readily convertible into cash, maturing July 31, 2017 with an annual interest rate of 0.60%.

To reduce the credit risk of due from related parties, the Company regularly reviews the collectability of due from related parties to ensure there is no indication that these amounts will not be fully recoverable. As at December 31, 2016, allowances for doubtful accounts for due from related parties is $323,524 (2015 - $nil).

To mitigate credit risk on the Company's trade receivables, the Company regularly reviews the collectability of the accounts receivable to ensure there is no indication that these amounts will not be fully recoverable. As at December 31, 2016, the Company had receivables from one customer representing 83% (2015 - 87%) of total trade receivables. In addition, as at December 31, 2016, allowance for doubtful accounts is $40,281 (2015 - $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 meets 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, 2016, the Company has cash and cash equivalents of $15,173 (2015 - $227,481) available to apply against short-term business requirements and current liabilities of $9,489,925 (2015 - $7,921,859). All of the liabilities presented as accounts payable and accrued liabilities are due within 90 days of December 31, 2016. As December 31, 2016, amounts due to related parties, loan payable, and convertible debenture are due in fiscal 2017. The non-convertible debentures mature in fiscal 2018 (notes 12 and 14). Subsequent to December 31, 2016, the Company completed its rights offering and issued 155,996,550 units for gross proceeds of $1,559,966 (note 21).

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. At December 31, 2016 and 2015, 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)	
	2016	**2015**
Cash (cheques issued in excess of funds on deposit)	$ (2,969)	$ 7,779
Accounts receivable	316,333	249,149
Accounts payable and accrued liabilities	(411,486)	(402,973)
Payable to Everi	(5,575,482)	(6,907,881)
Non-convertible debenture	(2,711,549)	(2,498,191)
Net financial assets (liability)	$ (8,385,153)	$ (9,552,117)

Based upon the above net exposure as at December 31, 2016 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 $335,406 (2015 - $382,085) in the Company's consolidated net loss and comprehensive loss.

(ii) Interest rate risk

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

There are variable interest rates on loans payable. As at December 31, 2016, the interest rate on the non-convertible secured debenture balances is fixed at 10% and the interest rate on the convertible secured debenture balances is fixed at 12%. 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.

(Expressed in Canadian Dollars, unless otherwise stated)

6. TRANSACTION WITH EVERI HOLDINGS INC.

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

Pursuant to the Agreement, the consideration includes 7,500,000 warrants. Each warrant entitles the holder to purchase 1 common share of the Company for $0.20 over a period of five years starting on August 10, 2015 being the "Closing Date" of the Transaction. The consideration includes "Cash Consideration" of which the amount is contingent on when it is paid:

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

The Company is required to pay monthly "Adjusted Installment Payments" which is applied against the total Cash Consideration payable (note 15). The Adjusted Installment Payments comprise 60% of monthly PokerTek net revenue less the amount of the "Regulated Credit" for the electronic gaming table regulated licenses. No Adjusted Installment Payment is required when the "Regulated Credit" exceeds 60% of monthly PokerTek net revenue.

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

Consideration		
Cash	$	9,568,365
Warrants		2,147
	$	9,570,512

Purchase Price Allocation		
Gaming systems – Gaming tables	$	1,526,703
Gaming systems – Parts		956,874
Acquired intangible assets		4,096,915
Fair value of identifiable net assets acquired		6,580,492
Goodwill		2,990,020
Total net assets acquired	$	9,570,512

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

The Company paid $2,669,000 or US$2,000,000 cash consideration and issued 7,500,000 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. As at December 31, 2016, the Company has a payable to Everi of $5,575,482 or US$4,152,440 (2015 - $6,907,881 or US$4,991,243).

(Expressed in Canadian Dollars, unless otherwise stated)

7. EQUIPMENT

	Computer Equipment	Office Furniture	Total
Cost			
Balance at December 31, 2014	$ 78,200	$ 21,400	$ 99,600
Additions	13,516	-	13,516
Balance at December 31, 2015	91,716	21,400	113,116
Additions	42,171	-	42,171
Balance at December 31, 2016	$ 133,887	$ 21,400	$ 155,287
Accumulated Amortization			
Balance at December 31, 2014	$ 54,700	$ 16,185	$ 70,885
Amortization expense	7,802	953	8,755
Balance at December 31, 2015	62,502	17,138	79,640
Amortization expense	12,509	779	13,288
Balance at December 31, 2016	$ 75,011	$ 17,917	$ 92,928
Carrying Amounts			
December 31, 2015	$ 29,214	$ 4,262	$ 33,476
December 31, 2016	$ 58,876	$ 3,483	$ 62,359

8. GAMING SYSTEMS

Parts as at December 31, 2016 and 2015 consist of the following:

Balance at December 31, 2014	$ -
Acquired from Transaction (note 6)	956,874
Additions	19,447
Impairment loss	(312,474)
Balance at December 31, 2015	663,847
Additions	76,626
Transfer to gaming tables	(156,551)
Parts used for repairs and maintenance	(194,900)
Disposal	(704)
Impairment loss	(814)
Balance at December 31, 2016	$ 387,504

(Expressed in Canadian Dollars, unless otherwise stated)

8. GAMING SYSTEMS (Continued)

Gaming tables at December 31, 2016 and 2015 consist of the following:

Cost		
Balance at December 31, 2014	$	-
Acquired from Transaction (note 6)		1,526,703
Balance at December 31, 2015		1,526,703
Transfer from parts		156,551
Disposal		(36,958)
Salaries		19,000
Balance at December 31, 2016	$	1,665,296
Accumulated Amortization		
Balance at December 31, 2014	$	-
Amortization expense		125,621
Balance at December 31, 2015		125,621
Disposal		-
Amortization expense		271,207
Balance, December 31, 2016	$	396,828
Carrying Amounts		
December 31, 2015	$	1,401,082
December 31, 2016	$	1,268,468

During the year ended December 31, 2016, the Company sold gaming tables with a carrying value of $36,958 (2015 - N/A) for gross proceeds of $64,450 (2015 - N/A) which is recorded in electronic gaming tables revenue in the consolidated statements of comprehensive loss.

(Expressed in Canadian Dollars, unless otherwise stated)

9. INTANGIBLE ASSETS

	Intellectual Property	Customer Relationships	Acquired Software	Patents	Total
Cost					
Balance at December 31, 2014	$ 20,625	$ -	$ -	$ -	$ 20,625
Additions	733,975	2,935,900	253,555	173,485	4,096,915
Balance at December 31, 2015	754,600	2,935,900	253,555	173,485	4,117,540
Impairment loss	(2,406)	(302,123)	-	-	(304,529)
Balance at December 31, 2016	$ 752,194	$ 2,633,777	$ 253,555	$ 173,485	$ 3,813,011
Accumulated Amortization					
Balance at December 31, 2014	$ 2,750	$ -	$ -	$ -	$ 2,750
Amortization expense	61,636	164,319	33,113	22,656	281,724
Balance at December 31, 2015	64,386	164,319	33,113	22,656	284,474
Amortization expense	150,920	419,414	84,519	57,829	712,682
Balance at December 31, 2016	$ 215,306	$ 583,733	$ 117,632	$ 80,485	$ 997,156
Carrying Amounts					
December 31, 2015	$ 690,214	$ 2,771,581	$ 220,442	$ 150,829	$ 3,833,066
December 31, 2016	$ 536,888	$ 2,050,044	$ 135,923	$ 93,000	$ 2,815,855

As at December 31, 2016, the Company determined there were indicators of impairment given the actual revenue from the electronic gaming tables CGU was lower than budgeted and the decline in cash flow projections. The Company performed impairment tests on its electronic gaming tables CGU and determined that the carrying amounts exceeded the recoverable amounts. Accordingly, an impairment loss of $304,529 was recognized. The recoverable amounts have been determined using Level 3 inputs, based on value-in-use calculation using pre-tax cash flow projections from financial budgets approved by senior management for 2017, forecasts over a four-year period based on management's best estimates, a 2% growth rate (2015 - 1%), and a pre-tax discount rate of 24% (2015 - 20.4%).

(Expressed in Canadian Dollars, unless otherwise stated)

10. GOODWILL

Goodwill as at December 31, 2016 and 2015 is as follows:

Balance at December 31, 2014	$	-
Additions		2,990,020
Balance at December 31, 2015		2,990,020
Impairment loss		(1,720,320)
Balance at December 31, 2016	$	1,269,700

The Company performs an annual impairment test of goodwill at December 31. The Company determined there were indicators of impairment given the actual revenue from the electronic gaming tables CGU was lower than budgeted and the decline in cash flow projections. The recoverable amounts have been determined using Level 3 inputs, based on value-in-use calculation using pre-tax cash flow projections from financial budgets approved by senior management for 2017, forecasts over a four-year period based on management's best estimates, a 2% growth rate (2015 - 1%), and a pre-tax discount rate of 24% (2015 - 20.4%).

The most significant assumptions used in the impairment calculation are the discount rate and the estimates used in determining future expected cash flows. Following the impairment tests, it was determined that the carrying value of the Company's goodwill exceeded their recoverable amount. Accordingly, the Company recorded an impairment loss of $1,720,320 (2015 - $nil).

11. CAPITAL STOCK

(a) Authorized

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

(b) Issued and outstanding

Preferred shares

No preferred shares have been issued.

Common shares

As of December 31, 2016, there are 155,996,550 common shares issued and outstanding.

There were no common share issuances during the year ended December 31, 2016.

During the year ended December 31, 2015, the following share transactions occurred:

- On February 27 and March 3, 2015, the Company closed the first and second tranches of a non-brokered private placement financing that was announced on February 25, 2015 and issued an aggregate 12,471,429 units of the Company at $0.035 per unit for gross proceeds of $436,500. Each unit consists of one common share and one share purchase warrant exercisable at a price of $0.10 for two years from the date of issuance. Securities issued in the first tranche had a hold period, which expired June 28, 2015, and securities issued in the second tranche were subject to a hold period, which expired July 4, 2015. The Company has paid finder's fees totalling $2,275 to arm's length third parties.

(Expressed in Canadian Dollars, unless otherwise stated)

11. CAPITAL STOCK (Continued)

(b) Issued and outstanding (continued)

- On March 9, 2015, the Company closed the third and final tranches of a non-brokered private placement financing that was announced on February 25, 2015 and issued an aggregate 2,715,000 units of the Company at $0.035 per unit for gross proceeds of $95,025. Each unit consists of one common share and one share purchase warrant exercisable at a price of $0.10 for two years from the date of issuance. All securities issued were subject to a hold period, which expired July 10, 2015.

- On April 17, 2015, the Company closed a non-brokered private placement financing that was announced on April 2, 2015 and issued 11,500,000 units of the Company at a price of $0.05 per unit for total gross proceeds to the Company of $575,000. Each unit consists of one common share and one share purchase warrant exercisable at a price of $0.10 for two years from the date of issuance. The Company has paid finder's fees totalling $11,450 in cash, 170,000 units fair valued at $8,500 and 229,000 share purchase warrants fair valued at $7,714 to arm's length third parties. Each unit consists of one common share and one common share purchase warrant exercisable at $0.10 for a period of two years from the grant date. The share purchase warrants have the same terms as the warrants in the units. All securities issued were subject to a hold period, which expired August 18, 2015.

(c) Warrants

Warrants activity for the years ended December 31, 2016 and 2015 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2014	91,116,315	$ 0.10
Issued	42,085,429	$ 0.14
Expired	(964,680)	$ 0.10
Balance, December 31, 2015	132,237,064	$ 0.11
Issued	6,000,000	$ 0.10
Expired	(1,365,750)	$ 0.11
Balance, December 31, 2016	136,871,314	$ 0.11

Compound warrants activity for the years ended December 31, 2016 and 2015 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2014	5,979,838	$ 0.06
Expired	(4,699,838)	$ 0.05
Balance, December 31, 2015	1,280,000	$ 0.08
Expired	(1,280,000)	$ 0.08
Balance, December 31, 2016	-	$ -

(Expressed in Canadian Dollars, unless otherwise stated)

11. CAPITAL STOCK (Continued)

(c) Warrants (continued)

At December 31, 2016 and 2015, the following warrants and compound warrants were outstanding and exercisable:

Expiry Date		Exercise Price	Number of Warrants 2016	2015
January 30, 2016	$	0.10	-	1,267,500
March 25, 2016	$	0.08***	-	1,280,000
March 25, 2016	$	0.10	-	98,250
February 27, 2017	$	0.10	8,500,000	8,500,000
March 3, 2017	$	0.10	3,971,429	3,971,429
March 9, 2017	$	0.10	2,715,000	2,715,000
April 17, 2017	$	0.10	11,899,000	11,899,000
May 6, 2017	$	0.10	1,500,000	1,500,000
June 26, 2017	$	0.10**	3,460,000	3,460,000
July 10, 2017	$	0.10****	7,100,000	7,100,000
July 17, 2017	$	0.10****	797,500	797,500
July 24, 2017	$	0.10****	8,570,000	8,570,000
August 9, 2017	$	0.10****	10,149,000	10,149,000
October 3, 2017	$	0.10****	14,010,000	14,010,000
October 10, 2017	$	0.16*	3,125,000	3,125,000
October 22, 2017	$	0.10****	4,150,000	4,150,000
November 5, 2017	$	0.10****	4,801,000	4,801,000
November 18, 2017	$	0.10****	1,748,385	1,748,385
January 30, 2018	$	0.10*****	14,375,000	14,375,000
March 25, 2018	$	0.10*****	15,000,000	15,000,000
April 28, 2018	$	0.05/0.10	6,000,000	-
August 4, 2020	$	0.20	7,500,000	7,500,000
August 10, 2020	$	0.20	7,500,000	7,500,000
	$	0.11	136,871,314	133,517,064

* During the year ended December 31, 2014, the exercise price was amended from $0.80 to $0.16 and the term extended from October 10, 2014 to October 10, 2016, and further extended until October 10, 2017.

** Exercisable at $0.10 and the term extended to June 26, 2017.

*** These warrants are exercisable into one unit. Each unit consists of one common share and one share purchase warrant. Once exercised, each share purchase warrant is exercisable at $0.10 for two years from the date of issuance.

**** The expiry of these warrants has been extended for a further two year period from 2015 to 2017.

***** The expiry of these warrants has been extended for a further two year period from 2016 to 2018.

(Expressed in Canadian Dollars, unless otherwise stated)

11. CAPITAL STOCK (Continued)

(c) Warrants (continued)

The weighted average remaining contractual life for warrants outstanding at December 31, 2016 is 1.03 (2015 - 3.22) 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, 2016 and 2015 was calculated using the following weighted average assumptions:

	2016	**2015**
Expected life (years)	2	2
Grant date fair value per share	0.005	0.03
Interest rate	0.66%	0.62%
Volatility	116%	133%
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, 2016, there are 1,129,655 (2015 - 503,905) 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, 2016 and 2015. 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, 2014	1,100,750	$ 0.10
Expired	(535,000)	$ 0.10
Granted	14,530,000	$ 0.06
Balance, December 31, 2015	15,095,750	$ 0.06
Expired	(625,750)	$ 0.11
Balance, December 31, 2016	14,470,000	$ 0.06

(Expressed in Canadian Dollars, unless otherwise stated)

11. CAPITAL STOCK (Continued)

(d) Stock options (continued)

At December 31, 2016 and 2015, the following stock options were outstanding and exercisable:

Exercise Price	Expiry Date	Outstanding 2016	Exercisable 2016	Outstanding 2015	Exercisable 2015
$ 0.80	January 3, 2016	-	-	3,750	3,750
$ 0.10	August 8, 2016	-	-	200,000	200,000
$ 0.10	August 26, 2016	-	-	192,000	192,000
$ 0.10	January 16, 2016	-	-	100,000	50,000
$ 0.11	May 5, 2016	-	-	100,000	50,000
$ 0.06	September 1, 2017	2,000,000	1,500,000	2,000,000	1,000,000
$ 0.06	May 14, 2018	12,470,000	12,470,000	12,500,000	6,250,000
		14,470,000	13,970,000	15,095,750	7,745,750

The weighted average remaining contractual life for options outstanding at December 31, 2016 is 1.27 (2015 - 2.20) 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 $106,434 (2015 - $343,296) were recognized as salaries expense and $14,563 (2015 - $89,174) was recognized as consulting fees for options granted to consultants.

The fair value of each option grant during the years ended December 31, 2016 and 2015 was calculated using the following weighted average assumptions:

	2016	**2015**
Expected life (years)	N/A	2.86
Grant date fair value per share	N/A	$0.05
Interest rate	N/A	0.65%
Volatility	N/A	181%
Dividend yield	N/A	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% (2015 - 0%) in determining the expense recorded in the accompanying consolidated statements of comprehensive loss.

(Expressed in Canadian Dollars, unless otherwise stated)

12. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the consolidated financial statements, related party transactions for the years ended December 31, 2016 and 2015 are as follows.

As at December 31, 2016, the Company has a balance of $122,518 (2015 - $259,911) due from entities with common directors (note 17), net of allowance for doubtful accounts of $323,524 (2015 - $nil). The amounts due from related parties are unsecured, due on demand without interest.

During the years ended December 31, 2016 and 2015, the Company incurred the following related party transactions:

		2016		2015
Rent recovered from entities with common directors	$	(54,239)	$	(58,807)
Office and other expenses recovered from entities with common directors	$	(142,230)	$	(147,161)
Interest charged on amounts due to related parties	$	9,726	$	193

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 and CFO of the Company. The remuneration of key management personnel during the years ended December 31, 2016 and 2015 is as follows:

		2016		2015
Management fees (note 17)	$	396,000	$	396,000
Short-term benefits		97,856		92,694
Share-based payment		84,162		269,709
Total key management personnel compensation	$	578,018	$	758,403

During the year ended December 31, 2016, the Company:

(a) Entered into two loans with a company owned by a director of the Company for the amounts of $300,000 and $20,000, bearing interest rates of 10% and prime plus 1% per annum, respectively, which are unsecured and due on demand. As at December 31, 2016, the total balance of these loans including interest accrued is $322,550.

(b) Entered into promissory notes with a family member of two directors of the Company for the amount of $231,500, bearing an interest rate of 10% per annum, unsecured and due on demand. The Company repaid the amount of $31,500 prior to year-end. As at December 31, 2016, the total balance of the promissory notes including interest accrued is $207,176.

(Expressed in Canadian Dollars, unless otherwise stated)

13. RESEARCH AND DEVELOPMENT

The Company included research and development costs in salaries and benefits in the consolidated statements of comprehensive loss for the years ended December 31, 2016 and 2015 as follows:

	2016	2015
Administrative salaries and benefits	$ 352,740	$ 329,843
Research and development salaries	882,182	1,272,329
	$ 1,234,922	$ 1,602,172

14. LOAN PAYABLE AND DEBENTURES

Loan payable

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

During the year ended December 31, 2015, the Company entered into a loan agreement with a third party for a total amount of $125,000. The loan bears interest at the rate of 10% per annum, payable on a quarterly basis and is due December 31, 2015. During the year ended December 31, 2016, the Company repaid $137,157 of the loan together with accrued interest ($12,157).

During the year ended December 31, 2014, the Company entered into a loan agreement with a third party for a total amount of $50,000. The loan bore interest at the rate of 10% per annum, which was payable on a quarterly basis and was due December 31, 2015. The Company repaid $50,000 together with the accrued interest during the year ended December 31, 2015.

Non-convertible secured debentures

During the year ended December 31, 2015, the Company entered into two non-convertible secured debenture agreements for an aggregate US$2,500,000 with one arm's length party and one related party. The non-convertible secured debentures are secured against the Company's assets. The non-convertible debenture agreements provide for a term of three years and bear interest at 10% per annum, with interest payable quarterly. As additional consideration of the risk associated with the debenture, the Company issued 7,500,000 warrants to the lenders. Each warrant has a five year expiry term and is exercisable into one common share at $0.20.

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 represent the value of the warrants, which has been recognized as a component of equity.

(Expressed in Canadian Dollars, unless otherwise stated)

14. LOAN PAYABLE AND DEBENTURES (Continued)

As at December 31, 2016, the amount of $2,711,549 (2015 - $2,498,191) has been recorded as the non-convertible secured debentures. The following table reconciles the fair value of the non-convertible debentures on initial recognition to the carrying amount at December 31, 2016 and 2015.

		Total
Balance, December 31, 2014	$	-
Issuance of non-convertible debentures		1,625,766
Finance expense		282,353
Interest reclassified to accounts payable and accrued liabilities		(141,244)
Foreign exchange		731,316
Balance, December 31, 2015		2,498,191
Finance expense		645,757
Interest reclassified to accounts payable and accrued liabilities		(332,410)
Repayment		(29,823)
Foreign exchange		(70,166)
Balance, December 31, 2016	$	2,711,549

Convertible secured debentures

During the year ended December 31, 2016, the Company issued convertible secured debentures financing that was announced on April 22, 2016 for net proceeds of $1,753,111. The convertible secured debentures have a term of 12 months, bear simple interest at the rate of 12% per annum and payable on a quarterly basis. The principal amount of the convertible secured debentures may be convertible into common shares of the Company at a price of $0.05 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 6,000,000 broker warrants to Kingsdale Capital Markets Inc. (fair valued at $31,128). The broker warrants are exercisable into common shares of the Company at the price of $0.05 per share during the first year and at the price of $0.10 per share during the second year. The convertible secured debentures are secured against the Company's assets.

As at December 31, 2016, the amount of $1,916,224 has been recorded as the liability portion of convertible secured debentures and the amount of $101,601 has been recorded as the equity portion of convertible secured debentures reserve. The effective interest rate was 20%.

The following table reconciles the fair value of the convertible debentures on initial recognition to the carrying amount at December 31, 2016.

		Liability Component		Equity Component		Total
Balance, December 31, 2015	$	-	$	-	$	-
Issuance of convertible debentures		1,882,364		117,636		2,000,000
Transaction costs		(256,588)		(16,035)		(272,623)
Finance expense		454,151		-		454,151
Interest reclassed to accounts payable and accrued liabilities		(163,703)		-		(163,703)
Balance, December 31, 2016	$	1,916,224	$	101,601	$	2,017,825

(Expressed in Canadian Dollars, unless otherwise stated)

15. DEFERRED REVENUE

As at December 31, 2016, the Company recorded $15,357 (2015 - $62,144) in deferred revenue with respect to its license agreements.

In addition, the Company recorded $1,352,812 (2015 - $560,463) 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. Subsequent to December 31, 2016, the Company received its certain gaming licenses, and of the amount recorded as deferred revenue, $1,082,098 is expected to be recognized in fiscal 2017. In accordance with the Agreement (note 6), this amount has been netted against the payable balance to Everi, once the revenue earned.

16. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26.00% (2015 - 26.00%) to loss before income taxes.

	2016	2015
Loss before income taxes	$ (6,158,137)	$ (3,768,817)
Statutory income tax rate	26.00%	26.00%
Income tax benefit computed at statutory tax rate	(1,601,115)	(979,892)
Items not deductible for income tax purposes	4,221	212,687
Change in timing differences	131,927	(7,475)
Overprovided in prior years	206,312	205,703
Unrecognized benefit of deferred income tax assets	1,258,655	568,977
Income tax expense	$ -	$ -

(Expressed in Canadian Dollars, unless otherwise stated)

16. INCOME TAXES (Continued)

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

	2016	2015
Excess of unused exploration expenditures for Canadian tax purposes over carrying value of mineral property interests	$ 268,000	$ 268,000
Excess of undepreciated capital cost over carrying value of equipment	2,622,000	2,467,000
Excess of tax cost over carrying value of investment deposit	1,000,000	1,000,000
Share issuance costs	324,000	197,000
Cumulative eligible capital	2,331,000	237,000
Non-capital losses carried forward	25,391,000	22,998,000
Net capital losses carried forward	178,000	113,000
Unrecognized deductible temporary differences	$ 32,114,000	$ 27,280,000

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

2026	$ 687,000
2027	3,875,000
2028	3,516,000
2029	2,935,000
2030	2,520,000
2031	2,405,000
2032	2,041,000
2034	2,286,000
2035	2,220,000
2036	2,906,000
	$ 25,391,000

The Company has available approximate net capital losses of $356,000 that may be carried forward indefinitely.

17. COMMITMENTS

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

17. COMMITMENTS (Continued)

(b) The Company has an agreement for office support services with 37 Capital Inc. ("37 Capital"), a public company with common directors. Under the agreement, the Company is committed to provide to 37 Capital office support services for $7,000 plus applicable taxes per month. The agreement expires April 30, 2017. The agreement can be terminated by either party upon giving three months' written notice.

(c) The Company had an agreement for office support services with Green Arrow Resources Inc. ("Green Arrow"), a public company with common directors. Under the agreement, the Company was committed to provide to Green Arrow office support services for $5,000 plus applicable taxes per month. The agreement was mutually terminated as of December 1, 2016.

(d) The Company, together with 37 Capital and Green Arrow, have entered into an office lease agreement with an arm's length party (the "Lease"). The Lease has a one-year term with a commencement date of August 1, 2014, which was extended until July 31, 2016. The Lease has been further extended for another one-year period until July 31, 2017. Under the Lease, effective as of August 1, 2016, the three companies are required to pay monthly basic rent of $7,194 plus property and operating expenses. In respect to the Lease, the Company has paid a deposit in the amount of $10,000.

Effective as of December 1, 2016, Green Arrow is no longer required or obligated to pay basic rent and operating expenses. During the year ended December 31, 2016, the Company incurred $144,628 (2015 - $150,603) in rent and operating expenses.

(e) The Company has entered into a lease agreement with an arm's length party ("Warehouse Lease"). The Warehouse Lease has a term commencing as of December 1, 2015 until May 31, 2016. The Warehouse Lease has been extended for a further period of three years commencing June 1, 2016 and expiring May 31, 2019. The Company pays basic rent of $3,968 plus the operational cost and the applicable tax totalling $9,420 per month. The Company has paid a deposit in the amount of $8,930. During the year ended December 31, 2016, the Company incurred $102,057 (2015 - $9,874) in rent and operating expenses.

18. CAPITAL MANAGEMENT

The Company considers its capital to be comprised of shareholders' deficiency and loans (note 14).

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, 2016. The Company is not subject to externally imposed capital requirements.

(Expressed in Canadian Dollars, unless otherwise stated)

19. SUPPLEMENTAL CASH FLOW INFORMATION

		2016		2015
Changes in non-cash working capital				
Accounts receivable	$	(125,516)	$	(260,746)
Due from related parties		(186,131)		(149,527)
Prepaid expenses and deposits		747		(14,128)
Accounts payable and accrued liabilities		58,968		490,175
Deferred revenue		(46,786)		(20,060)
Payable to Everi Holdings Inc.		(238,650)		566,832
	$	(537,368)	$	612,546

		2016		2015
Supplemental information				
Non-cash items				
Warrants issued as part of Transaction	$	-	$	2,147
Payable to Everi recorded in intangible assets	$	4,417,935	$	4,417,935
Payable to Everi recorded in gaming systems	$	1,745,092	$	2,483,577
Deferred revenue reducing payable to Everi	$	1,097,454	$	560,463
Interest paid	$	33,140	$	-
Income taxes paid	$	-	$	-

20. 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, 2016 and 2015 are as follows:

	2016					
		Electronic Gaming Tables		Licensing Gaming Software		Total
Revenue	$	2,638,771	$	154,712	$	2,793,483
Royalty expense		248,626		-		248,626
Licensing fee		204,597		-		204,597
Cost of sales		801,017		-		801,017
	$	1,384,531	$	154,712	$	1,539,243

	2015					
		Electronic Gaming Tables		Licensing Gaming Software		Total
Revenue	$	1,001,337	$	140,841	$	1,142,178
Royalty expense		253,439		-		253,439
Licensing fee		108,463		-		108,463
Cost of sales		67,745		-		67,745
	$	571,690	$	140,841	$	712,531

20. SEGMENTED INFORMATION (Continued)

All revenues are generated in the United States and as at December 31, 2016 and 2015, the Company's equipment and parts are located in Canada and the gaming tables are in the United States and international waters. Majority of the operating costs pertain to the electronic gaming tables. Of the $801,017 cost of sales recorded during the year ended December 31, 2016, $475,960 (2015 - $nil) relates to salaries and benefits.

As at December 31, 2016, the Company had receivables from one customer representing 83% (2015 - 87%) of total trade receivables. Revenue for the years ended December 31, 2016 from this customer represents 71% (2015 - 80%) of total revenue. A failure of this customer would have a significant effect on the Company's results of operations.

21. EVENTS AFTER THE REPORTING DATE

The following events occurred after December 31, 2016:

(a) On January 20, 2017, the Company completed its rights offering and issued 155,996,550 units comprised of 155,996,550 common shares and share purchase warrants to purchase up to an additional 155,996,550 common shares, for total gross proceeds of $1,559,966. Each warrant entitles the holders to purchase one additional common share at a price of $0.05 until January 20, 2022. The share purchase warrants trade on the TSX-V.

Additionally, the stand-by guarantors received bonus warrants entitling them to purchase a total of 32,375,000 common shares of the Company equal to 25% of the total number of units the stand-by guarantors had agreed to purchase under the stand-by commitments, exercisable at a price of $0.05 per share until January 20, 2022.

(b) During January 2017, the Company repaid loans totaling $324,066 together with the accrued interest to a company owned by a director of the Company (note 12).

(c) During January 2017, the Company repaid loans totalling $208,162 together with the accrued interest to family member of a director of the Company (note 12).

(d) During February 2017, the TSX-V approved the extension of the expiry term of certain warrants totalling 26,686,429 for a further two-year period.

(e) During April 2017, a total of 399,000 finder's warrants with an exercise price of $0.10 per share expired unexercised.