# CONTAGIOUS GAMING INC.

## Condensed Consolidated Interim Financial Statements

## December 31, 2017

*Unaudited*

*Expressed in Canadian Dollars*

**NOTICE OF NO AUDITOR REVIEW OF**
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The Company’s auditors have not reviewed these unaudited condensed interim consolidated financial statements.

# CONTAGIOUS GAMING INC.

## Condensed Consolidated Interim Statements of Financial Position

| *(Expressed in Canadian Dollars)* | Notes | | December 31, 2017 | | March 31, 2017 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current** | | | | | |
| Cash | | $ | 93,818 | $ | 356,608 |
| Accounts receivable | 5 | | 70,667 | | 132,001 |
| Prepaid expenses | | | 5,086 | | 16,899 |
| Due from related parties | 8 | | - | | 9,844 |
| | | | 169,571 | | 515,352 |
| **Long-term** | | | | | |
| Intangible assets | 7 | | 299,667 | | 277,995 |
| **Total Assets** | | $ | 469,238 | $ | 793,347 |
| **LIABILITIES** | | | | | |
| **Current** | | | | | |
| Accounts payable and accrued liabilities | | $ | 624,273 | $ | 545,696 |
| Customer deposits | | | 116,000 | | 16,000 |
| Due to related parties | 8 | | 286,277 | | 163,391 |
| Convertible note payable | 9 | | 300,000 | | 288,005 |
| | | | 1,326,550 | | 1,013,092 |
| **Long-term** | | | | | |
| Accounts payable and accrued liabilities | | | 190,698 | | 275,480 |
| **Total Liabilities** | | | 1,517,248 | | 1,288,572 |
| **EQUITY** | | | | | |
| Share capital | 11 | | 19,658,110 | | 19,658,110 |
| Reserves | 11 | | 2,859,756 | | 2,857,127 |
| Accumulated other comprehensive income | | | (134,089) | | (124,673) |
| Deficit | | | (23,431,787) | | (22,885,789) |
| **Total Equity** | | | (1,048,010) | | (495,225) |
| **Total Liabilities and Equity** | | $ | 469,238 | $ | 793,347 |
| **Commitments and contingencies** | 10 | | | | |

Approved on behalf of the Board of Directors:

*"Vic Wells"*, Director                *"Charles Shin"*, Director

The accompanying notes form an integral part of these consolidated financial statements

## CONTAGIOUS GAMING INC.

### Condensed Consolidated Interim Statements of Comprehensive Loss

| *Expressed in Canadian Dollars* | Notes | | Three Months Ended December 31 2017 | 2016 | | Nine Months Ended December 31 2017 | 2016 |
|---|---|---|---|---|---|---|---|
| **Revenue** – Continuing activities | | $ | 75,549 | 279,697 | $ | 239,123 | 1,110,185 |
| **Direct costs** | | | 5,309 | (56,429) | | (56,450) | (240,444) |
| **Gross margin** | | | 80,858 | 223,268 | | 182,673 | 869,741 |
| **Expenses** | | | | | | | |
| Operating | | | 14,928 | 42,493 | | 45,768 | 170,202 |
| General and administrative | | | 219,934 | 299,910 | | 622,977 | 1,137,413 |
| Amortization of intangible assets | | | 27,392 | 477,308 | | 82,176 | 1,474,340 |
| Financing costs | | | - | 11,963 | | 23,551 | 35,629 |
| Foreign exchange loss (gain) | | | (6,819) | 2,066 | | 3,247 | 21,629 |
| Stock based compensation | 11c | | 580 | 2,656 | | 2,629 | 68,148 |
| Gain on settlement of debt | | | (51,677) | - | | (51,677) | - |
| | | | 204,338 | 836,396 | | 728,671 | 2,907,361 |
| **Loss before income taxes** | | | (123,480) | (613,128) | | (545,998) | (2,037,620) |
| Deferred tax credit | 12 | | - | 87,540 | | - | 146,266 |
| **Net loss for the period from continuing operations** | | | (123,480) | (525,588) | | (545,998) | (1,891,354) |
| **Net gain (loss) for the period from discontinued operations** | 4 | | - | (159,833) | | - | 66,091 |
| **Total net loss for the period** | | | (123,480) | (685,421) | | (545,998) | (1,825,263) |
| Other comprehensive income Items that may or will be reclassified to profit or loss | | | | | | | |
| Cumulative translation differences | | | (4,572) | (136,932) | | (9,416) | (646,022) |
| **Comprehensive loss for the period** | | $ | (128,052) | (822,353) | $ | (555,414) | (2,471,285) |
| **Loss per share - basic and diluted** | 11,17 | $ | (0.02) | (0.10) | $ | (0.07) | (0.30) |
| **Loss per share - basic and diluted continuing operations** | 11,17 | | (0.02) | (0.06) | | (0.07) | (0.23) |
| **Profit/(loss) per share - basic and diluted discontinued operations** | 11,17 | | 0.00 | (0.02) | | 0.00 | 0.01 |
| **Weighted average number of shares outstanding - basic and diluted** | 11 | | 7,384,948 | 8,185,748 | | 7,384,948 | 8,185,748 |

The accompanying notes form an integral part of these consolidated financial statements

## Condensed Consolidated Interim Statements of Changes in Equity

| *Expressed in Canadian Dollars* | Share Capital *(Note 11)* Number of Shares* | Share Capital *(Note 11)* Amount $ | Reserves *(Note 11)* $ | Accumulated Other Comprehensive Income $ | Deficit $ | Total $ |
|---|---|---|---|---|---|---|
| **Balance at March 31, 2016** | 8,185,748 | 19,978,430 | 2,785,190 | 158,763 | (14,425,061) | 8,497,322 |
| Stock based compensation | - | - | 68,148 | - | - | 68,148 |
| Foreign currency translation | - | - | - | (509,090) | - | (509,090) |
| Net loss for the period | - | - | - | - | (1,139,842) | (1,139,842) |
| **Balance at December 31, 2016** | 8,185,748 | 19,978,430 | 2,853,338 | (350,327) | (15,564,903) | 6,916,538 |

| *Expressed in Canadian Dollars* | Share Capital *(Note 11)* Number of Shares* | Share Capital *(Note 11)* Amount $ | Reserves *(Note 11)* $ | Accumulated Other Comprehensive Income $ | Deficit $ | Total $ |
|---|---|---|---|---|---|---|
| **Balance at March 31, 2017** | 7,384,948 | 19,658,110 | 2,857,127 | (124,673) | (22,885,789) | (495,225) |
| Stock based compensation | - | - | 2,629 | - | - | 2,629 |
| Foreign currency translation | - | - | - | (9,416) | - | (9,416) |
| Net loss for the period | - | - | - | - | (545,998) | (545,998) |
| **Balance at December 31, 2017** | 7,384,948 | 19,658,110 | 2,859,756 | (134,089) | (23,431,787) | (1,048,010) |

*On September 27, 2017, the Company consolidated its issued and outstanding common shares, stock options, share purchase warrants and restricted share units on the basis of one new share for every ten existing shares. Unless otherwise indicated, all references to share capital, stock options, share purchase warrants and restricted share units presented in these condensed interim consolidated financial statements and notes thereto are on a post-consolidation basis.

## CONTAGIOUS GAMING INC.

### Condensed Consolidated Interim Statements of Cash Flows
### For the Nine Months Ended December 31, 2017 and 2016

| *Expressed in Canadian Dollars* | 2017 | 2016 |
|---|---|---|
| **Cash provided by (used in) operations** | | |
| Total net loss for the period | $ (545,998) | $ (1,825,263) |
| Items not affecting cash: | | |
| Amortization of intangible assets | 82,176 | 1,631,990 |
| Depreciation of equipment | - | 28,943 |
| Accretion of convertible loan | 23,305 | 34,694 |
| Stock based compensation | 2,629 | 68,148 |
| Impairment loss | - | 134,333 |
| Gain on settlement of debt | (51,677) | - |
| Movement in contingent consideration | - | 93,079 |
| Deferred income taxes recovery | - | (146,266) |
| | (489,565) | 19,658 |
| **Changes in non-cash working capital:** | | |
| Accounts receivable | 61,334 | 50,466 |
| Accounts payable and accrued liabilities | 78,579 | (96,751) |
| Prepaid expenses | 11,813 | 38,119 |
| Inventory | - | 4,914 |
| Customer deposits | 100,000 | - |
| Deferred revenue | - | (47,986) |
| Long term payables | (33,105) | - |
| | (270,944) | (31,580) |
| **Cash flows from investing activities:** | | |
| Purchase of property and equipment | - | (1,825) |
| Purchase of intangible assets | (103,848) | (575,889) |
| | (103,848) | (577,714) |
| **Cash flows from financing activities:** | | |
| Due from/(paid to) related parties | 132,730 | (569,527) |
| Interest paid on convertible loan | (11,312) | (18,082) |
| Loans payable | - | (20,368) |
| | 121,418 | (607,977) |
| **Decrease in cash for the period** | (253,374) | (1,217,271) |
| **Effect of foreign exchange rate changes** | (9,416) | (21,182) |
| **Cash at beginning of period** | 356,608 | 1,838,882 |
| **Cash at end of period** | $ 93,818 | $ 600,429 |

The accompanying notes form an integral part of these consolidated financial statements

## 1. CORPORATE INFORMATION

Contagious Gaming Inc. (on consolidated basis the "**Company**" or "**Contagious**") is in the business of developing software solutions for regulated gaming and lottery markets. The Company is currently focused on deploying its first-to-market lottery-style sports betting platform in the United Kingdom and its proprietary digital instant lottery content in the United States and other international jurisdictions, while expanding its third party game development work. The Company's head office address is at #800 – 789 West Pender Street, Vancouver, BC, V6C 1H2. The registered and records office address is at Suite 1500-1055 West Georgia Street, P.O. Box 11117, Vancouver, British Columbia, V6E 4N7. The Company is listed on the TSX Venture Exchange ("TSX.V") under the symbol "CNS" and on the Frankfurt Stock Exchange under the symbol "RHRC".

Contagious Gaming Inc. (as a stand-alone entity "**Contagious Gaming**") was incorporated under the name Braddick Resources Ltd. pursuant to The Company Act (British Columbia) on October 14, 1993. On July 8, 2002, Contagious Gaming changed its name to Kingsman Resources Inc. and on September 17, 2014 it changed its name to Contagious Gaming Inc.

On September 17, 2014, Contagious Gaming consolidated its common shares, share purchase warrants and share purchase options on a basis of 1 new for 2 old securities. All references made in these financial statements to common shares, stock options and share purchase warrants of Contagious Gaming and the Company are referring to post-consolidated structure.

On September 19, 2014, Contagious Gaming acquired a 100% ownership in Telos Entertainment Inc. ("Telos") via a reverse takeover transaction ("RTO") and Contagious Sports Inc. (Contagious Sports").

Concurrently with the RTO on September 19, 2014, Contagious completed a brokered equity financing and tranche 1 of a non-brokered equity financing for gross proceeds of $5,152,800 and $850,000 respectively. On September 26, 2014, Contagious completed tranche 2 of the non-brokered equity financing for gross proceeds of $118,000, for aggregate gross proceeds of $6,120,800.

On November 30, 2015, the Company acquired all the issued and outstanding common shares of Digitote Ltd and Digitote Software GmbH (together "Digitote") in consideration for the issuance to former shareholders of Digitote an aggregate of 800,800 common shares valued at $0.90 per share for a total of $720,720, and contingent cash consideration valued at $1,814,895.

On March 31, 2017, the Company sold all the issued and outstanding common shares of Digitote to the previous shareholders, essentially unwinding the acquisition. In return, the Company received it's 800,800 common shares back, and a perpetual and irrevocable, single, free of charge, royalty free, fully paid-up, worldwide user licence for Digitote Xturf backend and frontend for desktop and mobile, with an option to acquire a second similar licence (see note 4).

On September 27, 2017, the Company consolidated its issued and outstanding common shares, stock options, share purchase warrants and restricted share units on the basis of one new share for every ten existing shares. Unless otherwise indicated, all references to share capital, stock options, share purchase warrants and restricted share units presented in these condensed interim consolidated financial statements and notes thereto are on a post-consolidation basis.

## 2. BASIS OF PRESENTATION

### a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee. The policies set out below were consistently applied to all the years presented unless otherwise noted.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on February 27, 2018.

## 2. BASIS OF PRESENTATION - *CONTINUED*

### b) Basis of Measurement

These financial statements have been prepared on the historical cost basis, with the exception of items that IFRS requires to be carried at fair value, as explained in the accounting policies set out in Note 3.

### c) Basis of Consolidation

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognized at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

These consolidated financial statements include the accounts of Contagious Gaming and the following wholly-owned subsidiaries: (i) Canadian subsidiary Telos (ii) U.K. subsidiary Contagious Sports (iii) The Isle of Man subsidiary Digitote Limited and German subsidiary Digitote Software GmbH (together “Digitote”) from the date of its acquisition on November 30, 2015 to the date of sale March 31, 2017.

### d) Going concern

As at December 31, 2017, the Company does not have sufficient cash to meet anticipated cash needs for working capital and capital expenditures through the next twelve months. The Company intends on raising financing within the 4th quarter of fiscal 2018 (see note 18). In addition, the company has an agreement in principle to restructure the note payable that matured in September 2017 (see note 9) and certain creditors (see note 18). Should the Company not be successful in obtaining additional financing, the Company’s cash resources are expected to be fully depleted by the end of fiscal 2018. The Company will require additional financing in the near term to enable the launch of current initiatives.

There can be no assurance however, that additional financing can be obtained in a timely manner, or at all.

Not raising sufficient additional financing on a timely basis may result in delays and possible termination of all or some of the Company’s initiatives, and as a result, these conditions indicate the existence of a material uncertainty which, may cast significant doubt as to the ability of the Company to operate as a going concern and accordingly, the appropriateness of the use of the accounting principles applicable to a going concern. The Company cannot predict whether it will be able to raise the necessary funds it needs to continue as a going concern.

## 2. BASIS OF PRESENTATION – *CONTINUED*

### e) Functional and Presentation Currency

The functional currency of a company is the currency of the primary economic environment in which the company operates. The presentation currency for a company is the currency in which the company chooses to present its financial statements.

These consolidated financial statements are presented in Canadian dollars. The functional currency of the Canadian legal parent company Contagious Gaming and its legal Canadian subsidiary Telos is the Canadian dollar. The functional currency of the UK subsidiary Contagious Sports is the British Pound Sterling ("GBP" or "£"). The functional currency of the The Isle of Man (IOM) subsidiary Digitote Limited and the German subsidiary Digitote Software GmbH is the Euro ("Eur" or "€") for the period ending December 31, 2017. The subsidiaries financial statements amounts are translated into Canadian dollars as follows: assets and liabilities at the closing rate as at the balance sheet date, and income and expenses at the average rate of the period. All resulting changes are recognized in other comprehensive income (loss) as cumulative translation differences.

## 3. SIGNIFICANT ACCOUNTING POLICIES

All significant accounting policies have been applied on a basis consistent with those applied in the most recent audited annual financial statements. The policies applied in these condensed interim financial statements are based on IFRS issued and effective for the periods as at February 27, 2018, the date the Board of Directors approved and authorized to issue these condensed interim consolidated financial statements.

**Going Concern**

The Company's financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and settlement of liabilities in the ordinary course of business. After making many enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual reports and accounts (see note 2 (d)).

**Recent Accounting Pronouncements**

The International Accounting Standard Board has issued the following standards, which have not yet been adopted by the Company. Effective dates of the standards are described below with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements. The Company does not expect to adopt these new and amended standards before their effective dates.

IFRS 15 - Revenue from Contracts with Customers. The purpose is to establish principles to record revenues from contracts for the sale of goods or services, unless the contracts are in the scope of IAS 17 – Leases or other IFRSs. The new standard also provides guidance relating to contract costs and for the measurement and recognition of gains and losses on the sale of certain non-financial assets such as property and equipment. Additional disclosures will also be required under the new standard. IFRS 15 must be adopted for annual periods beginning on or after January 1, 2018 using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach.

We are continuing to evaluate the impact of IFRS 15 on our financial statements. However, based on our work to date and the Company's current revenue contracts, we do not anticipate this will have a significant impact on our financial reporting.

*Expressed in Canadian Dollars*

## 3. SIGNIFICANT ACCOUNTING POLICIES - *CONTINUED*

IFRS 16 – Leases. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019.

We are currently evaluating the impact of IFRS 16 on our financial statements.

IFRS 9 – Financial Instruments. IFRS 9 is part of the project to replace IAS 39. The new standard amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. This includes replacing the categorization to one of three categories of financial assets, amortized cost, fair value through profit or loss or fair value through other comprehensive income. IFRS 9 also introduces a new impairment model that is applicable to financial assets measured at amortized cost and debt instruments at fair value through other comprehensive income. IFRS 9 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019.

We are currently evaluating the impact of IFRS 9 on our financial statements.

## 4. DISPOSALS

On March 31, 2017, the Company sold all the issued and outstanding common shares of Digitote Ltd. and Digitote Software GmbH (together “Digitote”) to the former shareholders of Digitote, in consideration for the return of 800,800 common shares valued at $0.40 per share (being the share price on date of closing) for a total of $320,320, and the cancellation of contingent cash consideration resulting from the acquisition and valued at $2,122,293.

Details of the fair value of identifiable assets, liabilities disposed of and sale consideration are as follows:

| | | Fair Value |
|---|---|---|
| Cash | $ | 51,113 |
| Accounts Receivable | | 471,004 |
| Prepaid expenses | | 26,870 |
| Inventory | | 15,136 |
| Property and equipment | | 129,309 |
| Intangible assets | | 2,752,824 |
| Accounts payable and accrued liabilities | | (451,612) |
| Due to related party | | (501,243) |
| **Total net assets** | $ | **2,493,401** |
| | | |
| Fair value of consideration received | | |
| | | |
| Common shares | | 320,320 |
| Fair value of contingent cash consideration | | 2,122,293 |
| | | |
| **Total consideration** | $ | **2,442,613** |
| | | |
| **Loss on disposal before recycling of foreign exchange** | $ | **50,788** |
| Recycling of foreign exchange | $ | 322,738 |
| **Loss on disposal** | $ | **373,526** |

*Expressed in Canadian Dollars*

## 4. DISPOSALS - *CONTINUED*

During the period ended December 31, 2017, Digitote recorded revenue of $nil ($1,508,412 in 2016), expenses of $nil ($1,215,117 in 2016), a pre-tax income of $nil ($66,091 in 2016), and net income of $nil ($66,091 in 2016).

During the period ended December 31, 2016 Digitote recorded net cash inflows from operations of $473,189, net cash outflows from investing activities of $343,683, net cash outflows from financing activities of $528,253.

## 5. ACCOUNTS RECEIVABLE

| | | December 31, 2017 | | March 31, 2017 |
|---|---|---|---|---|
| Trade receivable | $ | 47,527 | $ | 102,652 |
| GST/HST/VAT receivable | | 13,296 | | 27,912 |
| Other receivables | | 9,844 | | 1,437 |
| | $ | 70,667 | $ | 132,001 |

## 6. PROPERTY AND EQUIPMENT

| (i) Cost or valuation | | Furniture, Fixtures and Equipment | | Computer Equipment | | Total |
|---|---|---|---|---|---|---|
| Balance as at March 31, 2016 | $ | 159,554 | $ | 55,173 | $ | 214,727 |
| Additions | | - | | 1,825 | | 1,825 |
| Business disposals | | (152,624) | | (33,037) | | (185,661) |
| Foreign exchange | | (6,930) | | (1,170) | | (8,100) |
| Balance as at March 31, 2017 | $ | - | $ | 22,791 | $ | 22,791 |
| Additions | | - | | - | | - |
| Balance as at December 31, 2017 | $ | - | $ | 22,791 | $ | 22,791 |

| (ii) Accumulated depreciation or impairment | | Furniture, Fixtures and Equipment | | Computer Equipment | | Total |
|---|---|---|---|---|---|---|
| Balance as at March 31, 2016 | $ | 13,297 | $ | 28,342 | $ | 41,639 |
| Depreciation | | 31,537 | | 5,973 | | 37,510 |
| Business disposals | | (44,798) | | (11,553) | | (56,351) |
| Foreign exchange | | (36) | | 29 | | (7) |
| Balance as at March 31, 2017 | $ | - | $ | 22,791 | $ | 22,791 |
| Depreciation | | - | | - | | - |
| Balance as at December 31, 2017 | $ | - | $ | 22,791 | $ | 22,791 |

| (iii) Net Book Value | | Furniture, Fixtures and Equipment | | Computer Equipment | | Total |
|---|---|---|---|---|---|---|
| Balance as at March 31, 2016 | $ | 146,257 | $ | 26,831 | $ | 173,088 |
| Balance as at March 31, 2017 | $ | - | $ | - | $ | - |
| Balance as at December 31, 2017 | $ | - | $ | - | $ | - |

*Expressed in Canadian Dollars*

## 7. INTANGIBLE ASSETS

| (i) Cost or valuation | | Online Gaming Platforms | | Customer Relationships | | Total |
|---|---|---|---|---|---|---|
| Balance as at March 31, 2016 | $ | 12,436,739 | $ | 266,000 | $ | 12,702,739 |
| Purchases | | 763,546 | | - | | 763,546 |
| Business disposals | | (3,130,290) | | (266,000) | | (3,396,290) |
| Foreign exchange | | (830,769) | | - | | (830,769) |
| Balance as at March 31, 2017 | $ | 9,239,226 | $ | - | $ | 9,239,226 |
| Purchases | | 103,848 | | - | | 103,848 |
| Balance as at December 31, 2017 | $ | 9,343,074 | $ | - | $ | 9,343,074 |

| (ii) Accumulated depreciation or impairment | | Online Gaming Platforms | | Customer Relationships | | Total |
|---|---|---|---|---|---|---|
| Balance as at March 31, 2016 | $ | 3,686,144 | $ | 29,556 | $ | 3,715,700 |
| Amortization | | 2,060,739 | | 87,233 | | 2,147,972 |
| Impairment loss | | 3,550,034 | | 134,333 | | 3,684,367 |
| Business disposals | | (392,344) | | (251,122) | | (643,466) |
| Foreign exchange | | 56,658 | | - | | 56,658 |
| Balance as at March 31, 2017 | $ | 8,961,231 | $ | - | $ | 8,961,231 |
| Amortization | | 82,176 | | - | | 82,176 |
| Balance as at December 31, 2017 | $ | 9,043,407 | $ | - | $ | 9,043,407 |

| (iii) Net Book Value | | Online Gaming Platforms | | Customer Relationships | | Total |
|---|---|---|---|---|---|---|
| Balance as at March 31, 2016 | $ | 8,750,595 | $ | 236,444 | $ | 8,987,039 |
| Balance as at March 31, 2017 | $ | 277,995 | $ | - | $ | 277,995 |
| Balance as at December 31, 2017 | $ | 299,667 | $ | - | $ | 299,667 |

The Company's BOMA and eWallet platform were located in the UK, eInstant and iLottery platform is located in Canada. The XTURF platform and the customer relationships were related to Digitote and were located in The Isle of Man.

As at March 31, 2017, the Company performed a test on goodwill and the remaining intangible assets for impairment and concluded that the BOMA and eWallet platform, and goodwill related to the Sports CGU were fully impaired. This resulted in a write down of $3,837,688 related to the BOMA and eWallet platform, and an additional $1,659,548 related to goodwill. The recoverable amount of each cash-generating unit is calculated based on value in use. With the move to the XTURF platform, and the subsequent sale of Digitote, significant uncertainty exists as to the unit's ability to generate positive future cash flows. Management have prepared probability scenarios of the future plans to calculate the value in use. Based on these scenarios, the value in use as of year end is considered to be nil.

As at March 31, 2017, the Company performed a test on the intangible assets of Telos Entertainment for impairment. The recoverable amount of each cash-generating unit is calculated based on value in use, which was determined by discounting the future cash flows generated from the continuing use of the cash-generating unit. The cash flow projections reflect management's expectations of revenue growth, expenses and margin for the cash-generating unit. There was no impairment noted on these assets.

*Expressed in Canadian Dollars*

## 8. RELATED PARTIES TRANSACTIONS AND BALANCES

### a) Amounts Due From (To) Related Parties

| | | December 31, 2017 | | March 31, 2017 |
|---|---|---|---|---|
| **Due from related parties:** | | | | |
| Due from Telos International (i) | | - | | 9,844 |
| | $ | - | $ | 9,844 |
| **Due to related party:** | | | | |
| Due to directors, officers and their companies (ii) | | 286,277 | | 163,391 |
| | $ | 286,277 | $ | 163,391 |

(i) Telos Entertainment Inc. was related to Telos International Inc. as this company was 100% owned by a director in common. Telos International ceased to be a related party in the quarter ended September 30, 2017. The amounts receivable and payable are non-interest bearing, unsecured and are due on demand.

(ii) Amounts due to directors, officers and their companies are for accrued salaries, fees and travel costs. These amounts are unsecured, non-interest bearing and are due on demand.

### b) Compensation of Key Management Personnel

Key management personnel are those persons that have authority and responsibility for planning, directing and controlling the activities of the Company, directly and indirectly. As of December 31, 2017, the Company's key management personnel consist of the Company's directors and senior management (Chief Executive Officer, Corporate Secretary and Chief Financial Officer). The Company incurred fees and expenses in the normal course of operations in connection with the key management and directors. Details are as follows:

| Nature of Transactions | | December 31 2017 | | December 31 2016 |
|---|---|---|---|---|
| Management fees and salaries | $ | 72,000 | $ | 91,609 |
| Directors' fees | | 37,500 | | 16,250 |
| Advisory fees | | 54,000 | | 18,000 |
| Stock based compensation | | 2,629 | | 26,020 |
| | $ | 166,129 | $ | 151,879 |

During the current period, the Company recorded $17,433 (2016 - $5,086) of legal fees to McMillan LLP, a law firm in which Desmond Balakrishnan, the Company's director, is a partner.

*Expressed in Canadian Dollars*

## 9. CONVERTIBLE NOTE PAYABLE

On July 31, 2012, as subsequently amended, Telos entered into a private loan agreement with Weston and Constance MacAleer, shareholders of the Company, for a total of $480,000 plus interest. The loan was unsecured and was bearing a simple annual interest rate of 24%. On January 31, 2014, the lenders, Telos and Contagious Gaming entered into an agreement pursuant to which $300,000 of the loan principal and interest was converted into 2,000,000 Class B Common shares at $0.15 per share, and the remaining $300,000 of loan principal and interest will be assumed by Contagious Gaming upon completion of the reverse takeover acquisition of Telos. As of March 31, 2014, the carrying value of this loan payable was $295,322, consisting of $180,000 of principal and $115,322 of accrued interest. As of March 31, 2014, the entire amount of the loan plus interest was classified as a liability. The reverse takeover was completed on September 19, 2014, and the remaining loan principal and interest of $300,000 was assumed by Contagious Gaming.

On September 19, 2014, Contagious Gaming issued to the lenders a Convertible Note payable with a face value of $300,000, accruing interest at a rate of 8% per annum compounded quarterly, with interest payable on quarterly basis, unsecured and with a maturity date of September 19, 2017 in settlement for the loan and interest outstanding. At any time before the maturity date, at the option of the lenders the Convertible Note can be converted into common shares of Contagious Gaming at the rate of $10.00 per share.

The Convertible Notes were classified as a liability, with the exception of the portion relating to the conversion features, resulting in the carrying value of the loans being less than their face value. The fair value of the liability portion of the convertible note payable of $237,470 was determined using a 17% discount rate. The value of the conversion feature was a residual amount of $62,530. The value of the conversion feature was included in the equity reserves account. The discount has been accreted over the term of the loans, utilizing the effective interest rate method.

Details of the carrying value of the convertible note are as follows:

| | | December 31, 2017 | | March 31, 2017 |
|---|---|---|---|---|
| Face value of the convertible note | $ | 300,000 | $ | 300,000 |
| Less value of the conversion feature recorded in equity | | (62,530) | | (62,530) |
| Carrying value on September 19, 2014 | | 237,470 | | 237,470 |
| Accretion expense | | 134,598 | | 111,290 |
| Interest paid | | (72,068) | | (60,755) |
| | $ | 300,000 | $ | 288,005 |

The Company currently has an agreement in principle with Weston and Constance MacAleer regarding a two year extension of the note. The extension would be for 24 months, bearing interest at a rate of 8% per annum compounded quarterly, with interest payable on quarterly basis, unsecured, and no longer convertible into common shares of the Company.

## 10. COMMITMENTS AND CONTINGENCIES

As part of the Board's ongoing compliance process, the Board continues to monitor legal and regulatory developments and their potential impact on the Group.

The Group takes legal advice as to the potential outcomes of claims and actions and provisions are made where appropriate. No provision is made where the directors consider, based on that advice, that the action is unlikely to succeed. Contingent liabilities are disclosed where the Company cannot make a sufficiently reliable estimate of the potential obligation.

Management is not aware of any contingencies that may have a significant impact on the financial position of the Group.

## 11. SHARE CAPITAL

### a) Authorized and Issued Share Capital

The Company's authorized share capital consists of an unlimited number of common shares without par value.

Pursuant to resolutions of shareholders dated October 23, 2015, the Company is also authorized to issue an unlimited number of Class A Preferred Shares without par value. No Class A Preferred Shares were issued as of the date of this report.

On September 27, 2017, the Company consolidated its issued and outstanding common shares, stock options, share purchase warrants and restricted share units on the basis of one new share for every ten existing shares (1:10). Unless otherwise indicated, all references to share capital, stock options, share purchase warrants and restricted share units presented in these condensed interim consolidated financial statements and notes thereto are on a post-consolidation basis.

### b) Share Capital Transactions

On March 31, 2017, the Company received beneficial ownership of 800,800 of its own common shares ($320,320) as part of the sale of Digitote (see Note 4). Once the share ownership has legally transferred, the shares will be cancelled.

### c) Stock Options

The Company has a stock option plan in place under which it is authorized to grant options of up to 10% of its outstanding shares of the Company to officers, directors, employees and consultants. The exercise price of each option is to be determined by the Board of Directors but shall not be less than the discounted market price as defined by the TSX Venture Exchange. The expiry date for each option should be for a maximum term of five years. Stock options granted vest over the period determined by the Board of Directors. Stock options granted to investor relations consultants vest according to TSX Venture Exchange policy.

*Expressed in Canadian Dollars*

## 11. SHARE CAPITAL – *CONTINUED*

### c) Stock Options – *Continued*

The following is a summary of stock options activity:

| March 31, 2016 | Expired | Cancelled | March 31, 2017 | Weighted Average Exercise Price | Expiry Date |
|---|---|---|---|---|---|
| 20,000 | - | - | 20,000 | $1.20 | Sep 17, 2018 |
| 380,000 | - | 35,000 | 345,000 | $4.00 | Sep 19, 2019 |
| 205,000 | - | - | 205,000 | $1.00 | Dec 23, 2020 |
| 605,000 | - | 35,000 | 570,000 | $2.80 | |

| March 31, 2017 | Expired | Cancelled | December 31, 2017 | Weighted Average Exercise Price | Expiry Date |
|---|---|---|---|---|---|
| 20,000 | - | 20,000 | - | $1.20 | Sep 17, 2018 |
| 345,000 | 25,000 | 320,000 | - | $4.00 | Sep 19, 2019 |
| 205,000 | 100,000 | 105,000 | - | $1.00 | Dec 23, 2020 |
| 570,000 | 125,000 | 445,000 | - | $3.17 | |

During the period, the Company recorded share-based compensation expense of $2,629 (December 31, 2016 - $68,148). All outstanding options were cancelled in the period.

### d) Share Purchase Warrants

The following is a summary of activity in share purchase warrants:

| March 31, 2016 | Forfeited | Exercised | Expired | March 31 2017 | Weighted Average Exercise Price | Expiry Date |
|---|---|---|---|---|---|---|
| 153,750 | - | - | | 153,750 | $2.00 | Aug 20, 2018 (i) |
| 90,174 | - | - | 90,174 | - | $4.00 | Sep 19, 2016 (ii) |
| 146,667 | - | - | | 146,667 | $13.60 | Aug 31, 2017 to Feb 28, 2018 (iii) |
| 390,591 | - | - | 90,174 | 300,417 | $7.70 | |

| March 31, 2017 | Forfeited | Exercised | Expired | December 31, 2017 | Weighted Average Exercise Price | Expiry Date |
|---|---|---|---|---|---|---|
| 153,750 | - | - | - | 153,750 | $2.00 | Aug 20, 2018 (i) |
| 146,667 | - | - | 80,000 | 66,667 | $15.00 | Feb 28, 2018 (iii) |
| 300,417 | - | - | 80,000 | 220,417 | $5.93 | |

(i) These are share purchase warrants of Contagious Gaming assumed by Telos on the completion of the RTO on September 19, 2014. Their fair value was determined to be $472,000 using the Black-Scholes option pricing model. The fair value of these warrants was expensed as public listing costs.

(ii) On September 19, 2014, the Company completed a brokered equity offering. As part of compensation for the agents, the Company issued 90,174 warrants. These warrants could be exercised at $4.00 per share on or before September 19, 2016. The fair value of the warrants was estimated to be $238,000 using the Black-Scholes option pricing model.

(iii) Pursuant to an amending marketing service agreement dated September 25, 2014, as approved by TSX-V on November 5, 2014, the Company issued to Trinity Mirror share purchase warrants to acquire an aggregate of up to 271,666 common shares of the Company (refer to note 18) as follows:

*Expressed in Canadian Dollars*

## 11. SHARE CAPITAL – *CONTINUED*

### d) Share Purchase Warrants – *Continued*

| Number of Warrants | Exercise Price | Exercisable From | Expiry Date |
|---|---|---|---|
| 125,000 | $8.00 | 05-Nov-14 | 29-Feb-16 |
| 80,000 | $12.50 | 01-Mar-16 | 31-Aug-17 |
| 66,667 | $15.00 | 01-Sep-17 | 28-Feb-18 |
| 271,667 | | | |

The fair value of 271,666 Trinity Mirror warrants was estimated to be $338,074 using the Black-Scholes option pricing model with the following weighted average assumptions, and was expensed as stock based marketing compensation:

| | |
|---|---|
| Stock price volatility | 110.84% |
| Risk-free interest rate | 1.03% |
| Expected life | 1.36 years |
| Expected dividend yield | 0.00% |

### e) Escrow Shares

As of December 31, 2017, 183,910 (March 31, 2017 – 787,416) common shares of the Company were held in escrow. Details are as follows:

(i) In accordance with the requirement of the TSX.V and pursuant to escrow agreements dated September 17, 2014, 4,023,377 common shares of the Company held by key management, directors and investors were placed in escrow. 10% (402,337) of these escrow shares were released following TSX.V acceptance of the RTO on September 19, 2014 and 15% (603,506) of the escrowed shares were released every six months thereafter, with the final release having occurred on September 19, 2017.

(ii) In connection with the September 25, 2014 amending agreement with Trinity Mirror and pursuant to an escrow agreement dated September 25, 2014, 183,910 common shares of the Company were placed in escrow upon TSX-V approval on November 5, 2014. 25% of the escrowed shares are to be released for each £150,000 of advertising to be performed by Trinity Mirror under a £600,000 advertising credit. As at December 31, 2017, no shares were released from escrow.

### f) Reserves

| | Reserves ($) | | | | |
|---|---|---|---|---|---|
| | Contribution | Options | Warrants | Convertible Note | Total |
| **Balance – March 31, 2017** | 202,877 | 1,543,646 | 1,048,074 | 62,530 | 2,857,127 |
| Stock based compensation *(Note 11c)* | - | 2,629 | - | - | 2,629 |
| **Balance – December 31, 2017** | 202,877 | 1,546,275 | 1,048,074 | 62,530 | 2,859,756 |

Contribution reserve arose on the issuance of the redeemable Class A Preferred Shares in 2006 and 2007.

Options and warrants reserves represent fair value of share purchase options and share purchase warrants issued for services.

Convertible note reserve relates to the equity portion of the convertible note payable as included in Note 9

*Expressed in Canadian Dollars*

## 12. INCOME TAX

The Company's tax charge, which relates fully to deferred taxes, differs from the amount obtained by applying the Canadian statutory tax rate due to the following:

| | | December 31, 2017 | | March 31, 2017 |
|---|---|---|---|---|
| Loss before taxes | $ | (545,998) | $ | (8,899,166) |
| Canadian statutory tax rate | | 26.00% | | 26.00% |
| Income tax recovery | $ | (141,959) | $ | (2,313,783) |
| Foreign and provincial tax rate differences | | 2,636 | | 432,747 |
| Items non-deductible for tax purposes | | (13,298) | | 494,328 |
| Operating losses not set-up as deferred tax assets | | 152,621 | | 948,270 |
| Future income tax recovery | $ | - | $ | (438,438) |

Details of deferred income tax assets (liabilities) are as follows:

| | | December 31, 2017 | | March 31, 2017 |
|---|---|---|---|---|
| **Deferred income tax assets related to:** | | | | |
| Non-capital losses | $ | 2,110,596 | $ | 1,947,419 |
| Share issuance costs | | 59,873 | | 87,536 |
| Total future income tax assets | | 2,170,469 | | 2,034,955 |
| Valuation allowance | | - | | - |
| Less non-capital losses for which deferred income tax assets are not recognized | | (2,170,469) | | (2,034,955) |
| Deferred income tax assets recognized | | - | | - |
| **Deferred income tax liabilities related to:** | | | | |
| Intangible assets | | - | | - |
| **Net deferred income tax liability** | $ | - | $ | - |

As at December 31, 2017, the Company had non-capital losses in Canada of approximately $5,769,805 that may be applied against future income for income tax purposes. These losses expire at various dates between 2026 and 2038. As at December 31, 2017, the Company's UK subsidiary had taxable non-capital losses of approximately $2,610,870 that may be applied against future income for income tax purposes. These losses can be carried forward indefinitely. The potential future tax benefits of some of these tax losses have been recognized to reduce the deferred income tax liability related to intangible assets.

## 13. FINANCIAL INSTRUMENTS

### a) Categories of Financial Assets and Liabilities

The Company's financial instruments are classified into the following categories:

| | | December 31, 2017 | | March 31, 2017 |
|---|---|---|---|---|
| Loans and receivables (i) | $ | 164,485 | $ | 498,453 |
| Other financial liabilities (ii) | $ | 1,210,546 | $ | 1,272,571 |

(i) Financial instruments classified as loans and receivables consist of cash, accounts receivable and amounts due from related parties.

## 13. FINANCIAL INSTRUMENTS - *CONTINUED*

(ii) Financial instruments classified as other financial liabilities consist of accounts payable and accrued liabilities, amounts due to related parties, loans payable and convertible note payable.

### b) Fair Value of Financial Instruments

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuation based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates;

Level 3: Valuation based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.
There were no transfers between levels during the year.

The fair values of accounts receivable, accounts payable and accrued liabilities, loans payable and balances with related parties approximate their carrying value due to their short term maturities. The fair value of the convertible note payable is not materially different to the net book value.

### c) Management of Risks Arising from Financial Instruments

The Company's financial instruments are exposed to the following financial risks:

*Credit risk*

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from credit sales. The Company provides credit to its customers in the normal course of its operations and credit sales represent a significant portion of the Company's sales activities. The Company does not obtain collateral or security to support trade receivables but mitigates this risk by granting credit only to financially reliable customers. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information.

As of December 31, 2017, there were receivables from one customer (March 31, 2017 - one) representing 96% (March 31, 2017 - 51%) of total trade receivables. During the nine months ended December 31, 2017, sales to two customers (2016 - two) accounted for 99% (2016 - 77%) of total revenue. The loss of a large customer would have a significant effect on the Company. There are no debtors past due as at December 31, 2017.

Cash is spread across the company with different institutions which helps to manage cash credit risk. Excess cash is held in Canadian Guaranteed Investment Certificates. The Company only engages banks with appropriate credit ratings.

*Currency risk*

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency fluctuation due to group operations in different countries, resulting in different functional currencies. The Company's main operations are conducted in Canada using Canadian dollars and in the UK using British Pound Sterling. The Group seeks to minimise currency risk by minimising the use of currencies outside each group company's functional currency.

## 13. FINANCIAL INSTRUMENTS -- *CONTINUED*

The Group generates a significant amount of revenue in United States Dollars. The Group is exposed to fluctuations in exchange rates on trade receivables, funds are received into Canadian dollar bank accounts. Management conclude the exposure to currency risk is not material. At the balance sheet date, management identified foreign currency trade receivables of CAD $26,061 (CAD $55,694 in 2017) held in group entities where the functional currency was CAD.

**c) Management of Risks Arising from Financial Instruments** – *Continued*

*Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to this risk mainly with respect to ensuring the sufficiency of funds for working capital and commitments. The Company monitors the maturity dates of existing accounts payables and accrued liabilities, loans payable, and commitments to mitigate this risk.

The following table outlines the remaining contractual maturities for the Company's financial liabilities and the financial period in which they fall due:

| March 31, 2017 | 2017<br>$ | 2018<br>$ | 2019<br>$ | Total<br>$ |
|---|---|---|---|---|
| Accounts payable | 666,175 | - | - | 666,175 |
| Due to related parties | 163,391 | - | | 163,391 |
| Convertible note payable | - | 312,000 | - | 312,000 |
| | 829,566 | 312,000 | - | 1,141,566 |

| December 31, 2017 | 2018<br>$ | 2019<br>$ | 2020<br>$ | Total<br>$ |
|---|---|---|---|---|
| Accounts payable | 814,971 | - | - | 814,971 |
| Due to related parties | 286,277 | - | | 286,277 |
| Convertible note payable | 300,000 | - | - | 300,000 |
| | 1,401,248 | - | - | 1,401,248 |

## 14. NATURE OF EXPENSE

| | December 31, 2017 | March 31, 2017 |
|---|---|---|
| Salaries and benefits included in: | | |
| Direct costs | $ 84,674 | $ 326,599 |
| General and administrative expense | 42,290 | 851,333 |
| Operating expenses | 42,057 | 82,231 |
| | $ 169,021 | $ 1,260,163 |

*Expressed in Canadian Dollars*

## 15. CAPITAL MANAGEMENT

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to grow the Company's operations. The Company depends on revenue generated and external financing to fund its activities. The capital structure of the Company currently consists of common shares, share purchase options, share purchase warrants, loans payable, convertible note payable and related party debt. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may arrange more loans, issue new shares through private placements, or sell assets to fund operations. Management reviews its capital management approach on a regular basis. The Company is not subject to externally imposed capital requirements.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly-rated financial instruments, such as cash and other short-term guaranteed deposits, all held with major financial institutions. Additional information regarding capital management is disclosed in Note 1.

## 16. SEGMENTED INFORMATION

The Company is engaged in the business of development and production of video games and development of content for regulated gaming and lottery markets. Senior management reviews gross margins on a project by project basis and operating expenses are reviewed on an overall basis. Financial information, including revenues and related expenses, are not reviewed on a business line basis by the Company's senior management. Hence, based on the Company's organizational structure and the manner in which the operations are managed and evaluated by senior management, the Company is considered to be operating in one reportable segment. Substantially all of the Company's revenues were generated in Canada. The Company's intangible assets are located in Canada.

Details by geographic location are as follows:

| **Revenues for the period ended 31 December** | Canada | UK | Isle of Man | Germany | Total |
|---|---|---|---|---|---|
| 2017 continuing | $ 239,123 | $ - | $ - | $ - | $ 239,123 |
| 2017 discontinued | $ - | - | - | - | $ - |
| 2016 continuing | $ 1,110,185 | $ - | $ - | $ - | $ 1,110,185 |
| 2016 discontinued | $ - | $ | 1,494,029 | 14,383 | $ 1,508,412 |

| **Non-current Assets** | Canada | UK | Isle of Man | Germany | Total |
|---|---|---|---|---|---|
| As at December 31, 2017 | $ 299,667 | $ - | $ - | $ - | $ 299,667 |
| As at March 31, 2017 | $ 277,995 | $ - | $ - | $ - | $ 277,995 |

## 17. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share has been calculated based on the weighted average number of common shares issued and outstanding during the reporting period.

Diluted and basic loss per share are the same because the effects of potential issuances of shares under the convertible note, stock options and warrants would be anti-dilutive.

## 18. SUBSEQUENT EVENTS

### *a) Private Placement of Units*

On February 13, 2018, the Company announced a non-brokered private placement of up to 17,000,000 units at a price of $0.06 per unit for gross proceeds of up to $1,020,000. Each unit will consist of one common share of the Company and one-half of one common share purchase warrant. Each warrant will entitle the holder to purchase one additional Common Share at a price of $0.10 for a period of twenty-four months from the closing of the offering. The warrants will have an acceleration provision pursuant to which the Company has the option to force conversion if the weighted average daily trading price of the Company's common shares on the TSX Venture Exchange is $0.25 or more for ten consecutive trading days. This transaction is currently pending approval from the TSX.

### *b) Shares for Debt*

On January 10, 2018 the Company announced that it intends to settle an aggregate of $273,780 of indebtedness owed to certain arm's length and non-arm's creditors through the issuance of common shares. The Company determined to satisfy the indebtedness with common shares in order to preserve its cash position. The shares will be issued upon acceptance by the TSX Venture Exchange and approval by the directors of the Company. All common shares issued in satisfaction of the indebtedness will be subject to a four month hold period form the date of issuance. This transaction is currently pending approval from the TSX.