# eQube Gaming Limited
# Condensed Interim Consolidated Financial Statements

*For the Three Months Ended May 31, 2015*
*(Unaudited)*

# eQube Gaming Limited
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**eQube Gaming Limited**
**Interim Consolidated Statements of Financial Position**
(Expressed in Canadian dollars)
(Unaudited)

| | May 31, 2015 | February 28, 2015 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $ **1,545,659** | $ 2,132,829 |
| Accounts receivable | **938,034** | 381,697 |
| Accrued receivables (Note 6) | **460,000** | 460,000 |
| Supplies and components | **46,319** | 62,076 |
| Prepaid expenses and deposits | **151,992** | 352,014 |
| | **3,142,004** | 3,388,616 |
| Accrued receivables (Note 6) | **430,991** | 888,670 |
| Property and equipment (Note 7) | **2,754,114** | 2,894,792 |
| Intangible assets (Note 8) | **375,460** | 323,478 |
| Total assets | $ **6,702,569** | $ 7,495,556 |
| **Liabilities** | | |
| Current liabilities | | |
| Bank indebtedness (Note 9) | $ **192,215** | $ 117,440 |
| Accounts payable and accrued liabilities | **706,048** | 492,846 |
| Demand term loans (Note 10) | **1,495,395** | 1,569,109 |
| Current portion of shareholders loans (Note 11) | **-** | 304,704 |
| Current portion of other related loans (Note 11) | **948,843** | 926,660 |
| | **3,342,501** | 3,410,759 |
| Long term liabilities | | |
| Shareholders loans (Note 11) | **395,239** | 117,052 |
| Other related loans (Note 11) | **1,355,873** | 1,601,566 |
| Preferred shares (Note 12) | **2,060,000** | 2,060,000 |
| Total liabilities | **7,153,613** | 7,189,377 |
| **Equity (deficiency)** | | |
| Share capital (Note 13) | **8,135,041** | 8,082,700 |
| Warrants (Note 14) | **328,297** | 212,179 |
| Contributed surplus | **365,292** | 365,996 |
| Deficiency | **(9,279,674)** | (8,354,696) |
| Total (deficiency) equity | **(451,044)** | 306,179 |
| Total liabilities and equity | $ **6,702,569** | $ 7,495,556 |

On behalf of the Board

______________________ Director ____________________ Director

See accompanying notes to the condensed interim consolidated financial statements.

# eQube Gaming Limited
# Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)
(Unaudited)

| | Three months ended May 31, | |
|---|---|---|
| | **2015** | 2014 |
| Sales, service and other revenue (Note 16) | **$ 1,109,185** | $ 1,607,782 |
| Direct costs | **385,397** | 1,082,381 |
| Gross profit | **723,788** | 525,401 |
| Expenses | | |
| General and administrative expenses (Note 17) | **1,064,241** | 715,711 |
| Impairment of supplies and components | **19,034** | 15,446 |
| Total expenses | **1,083,275** | 731,157 |
| Loss before other expenses (income) | **(359,487)** | (205,756) |
| Other expenses (income) | | |
| Finance income (Note 18) | **(4,612)** | (3,481) |
| Finance costs (Note 18) | **163,904** | 110,189 |
| Depreciation and amortization | **413,112** | 382,236 |
| Loss on disposal of property and equipment | **-** | 27,145 |
| Foreign exchange gain | **(6,913)** | (72,382) |
| Total other expenses | **565,491** | 443,707 |
| Loss before income taxes | **(924,978)** | (649,463) |
| Current income tax expense | **-** | 1,583 |
| Net loss and comprehensive loss | **$ (924,978)** | $ (651,046) |
| Loss per share (Note 21) | | |
| Basic | **$ (0.03)** | $ (0.04) |
| Diluted | **$ (0.03)** | $ (0.04) |

See accompanying notes to the condensed interim consolidated financial statements.

# eQube Gaming Limited
## Interim Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)
(Unaudited)

| For the three months ended May 31 | Share capital amount | Warrants | Contributed surplus | Deficiency | Total equity |
|---|---|---|---|---|---|
| Opening balance at March 1, 2014 | $ 2,958,800 | $ - | $ 107,099 | $ (2,582,957) | $ 482,942 |
| Net loss for the three months ended May 31, 2014 | - | - | - | (651,046) | (651,046) |
| Share-based compensation related to stock options granted and vested | - | - | 9,713 | - | 9,713 |
| Balance at May 31, 2014 | $ 2,958,800 | $ - | $ 116,812 | $ (3,234,003) | $ (158,391) |
| | | | | | |
| Opening balance at March 1, 2015 | $ 8,082,700 | $ 212,179 | $ 365,996 | $ (8,354,696) | $ 306,179 |
| Net loss for the three months ended May 31, 2015 | - | - | - | (924,978) | (924,978) |
| Consideration Warrants (Note 14) | - | 116,118 | - | - | 116,118 |
| Share-based compensation related to stock options granted and vested | - | - | 1,417 | - | 1,417 |
| Exercise of stock options | 52,341 | - | (2,121) | - | 50,220 |
| **Balance at May 31, 2015** | **$ 8,135,041** | **$ 328,297** | **$ 365,292** | **$ (9,279,674)** | **$ (451,044)** |

See accompanying notes to the condensed interim consolidated financial statements.

# eQube Gaming Limited
## Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
(Unaudited)

| | Three months ended May 31, 2015 | 2014 |
|---|---|---|
| **Operating** | | |
| Net loss | $ **(924,978)** | $ (651,046) |
| Adjustments for: | | |
| Accrued revenue | - | 460,000 |
| Finance income | **(2,321)** | (3,481) |
| Interest expense | **110,695** | 57,651 |
| Dividends on preferred shares | **51,923** | 51,252 |
| Depreciation of property and equipment | **381,501** | 346,457 |
| Amortization of intangible assets | **31,611** | 35,779 |
| Impairment of supplies and components | **19,034** | 15,446 |
| Loss on disposal of property and equipment | - | 27,145 |
| Amortization of finance fees | **1,286** | 1,286 |
| Share-based compensation | **1,417** | 9,713 |
| Consideration Warrants (Note 14) | **116,118** | - |
| Change in non-cash operating working capital (Note 20) | **313,610** | (722,644) |
| Net cash flows provided by (used in) operating activites | **99,896** | (372,442) |
| **Financing** | | |
| Repayment of demand term loans | **(75,000)** | (1,000,000) |
| Repayment of shareholders loans | **(26,517)** | (3,347) |
| Repayment of other related loans | **(223,510)** | (3,085) |
| Repayment of finance lease obligations | - | (17,736) |
| Proceeds on shareholders loans | - | 300,000 |
| Proceeds on other related loans | - | 923,293 |
| Proceeds from the issuance of preferred shares | - | 250,000 |
| Proceeds from the exercise of stock options | **50,220** | - |
| Interest paid | **(110,695)** | (57,022) |
| Dividends paid | **(51,923)** | (51,252) |
| Net cash flows (used in) provided by financing activities | **(437,425)** | 340,851 |
| **Investing** | | |
| Purchase of property and equipment | **(240,823)** | (447,543) |
| Purchase of and capitalization of intangible assets | **(83,593)** | (3,219) |
| Net cash flows used in investing activities | **(324,416)** | (450,762) |
| Net decrease in cash and cash equivalents | **(661,945)** | (482,353) |
| Cash and cash equivalents, beginning of year | **2,015,389** | 408,086 |
| Cash and cash equivalents, end of year | $ **1,353,444** | $ (74,267) |

Supplemental cash flow information (Note 20)

See accompanying notes to the condensed interim consolidated financial statements.

## 1. Reporting entity

eQube Technology and Software Inc. ("eQube") was incorporated under the Business Corporations Act of Alberta on March 11, 1999 as SGC-Link Corp. The name was changed to eQube Technology and Software Inc. on August 23, 2005.

On July 2, 2014, eQube entered into an amalgamation agreement (the "Amalgamation Agreement") with Triox Limited ("Triox") and 1824721 Alberta Ltd., a wholly owned subsidiary of Triox, to combine their business operations.

Triox Limited ("Triox") was incorporated under the laws of Hong Kong on August 4, 2011, and was classified as a Capital Pool Company as defined pursuant to Policy 2.4 of the TSX Venture Exchange (the "TSXV"). In anticipation of the closing of the Amalgamation Agreement, Triox changed its name from Triox Limited to eQube Gaming Limited (the "Company") on September 26, 2014.

The transaction was completed on October 30, 2014 and constituted a "Qualifying Transaction" of the Company (as such term is defined within the meaning of Policy 2.4 of the TSXV). The ordinary shares of the Company resumed trading on the TSXV on November 4, 2014 under the new name "eQube Gaming Limited". The Company's registered office is located at #100, 10493 – 184 Street, Edmonton, Alberta.

While the Company was the legal acquirer of eQube and is the continuing legal entity whose ordinary shares are listed on the TSXV and for which these financial statements are being reported, the accounting acquirer was deemed to have been eQube, and these financial statements are presented on the basis of reverse acquisition accounting principles. Unless the context requires, when the term "eQube" is used herein, it refers to the actions or operations of the acquired company prior to the closing of the Qualifying Transaction.

Pursuant to the Amalgamation Agreement, eQube and 1824721 Alberta Ltd. amalgamated under the Business Corporations Act (Alberta) to form a new company under the corporate name "eQube Technology and Software Inc." ("Amalco"). Amalco will carry on the business previously carried on by eQube as a subsidiary of the Company.

The Company is engaged in the design, development, distribution, licensing and sale of technology-based electronic bingo and social gaming solutions for the regulated gaming markets in Canada, the United States and Ireland.

## 2. Basis of presentation

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, and do not include all of the information required for full annual financial statements. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, as at and for the year ended February 28, 2015.

These condensed interim consolidated financial statements are presented in Canadian dollars, except where otherwise indicated.

## 2. Basis of presentation (continued)

These condensed interim consolidated financial statements for the three months ended May 31, 2015, including comparatives, were authorized for issue by the Board of Directors on July 27, 2015.

## 3. Significant accounting policies

The interim consolidated financial statements have been prepared in accordance with the accounting policies adopted in the Company's most recent annual consolidated financial statements for the year ended February 28, 2015.

### a) Use of estimates and management judgment

When preparing the interim consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgments, estimates and assumptions applied in the interim consolidated financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Company's last annual consolidated financial statements for the year ended February 28, 2015.

### b) Recent accounting pronouncements not yet effective

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the Company have been disclosed in the audited consolidated financial statements as at and for the year ended February 28, 2015. No additional standards, interpretations, amendments and improvements applicable to the Company were issued prior to May 31, 2015.

(Expressed in Canadian dollars)

## 4. Capital disclosures

The Company's objectives and policies for managing capital are to safeguard the Company's ability to continue as a going concern, to provide an adequate return to shareholders and to meet external capital requirements on the Company's credit facilities. For the three months ended May 31, 2015, there were no changes in the Company's objectives and policies for capital management.

The Company includes the following in the definition of capital:

| | May 31, 2015 | February 28, 2015 |
|---|---|---|
| Demand term loans | $ 1,495,395 | $ 1,569,109 |
| Shareholders loans | 395,239 | 421,756 |
| Other related loans | 2,304,716 | 2,528,226 |
| Preferred shares | 2,060,000 | 2,060,000 |
| (Deficiency) equity | (451,044) | 306,179 |
| | $ 5,804,306 | $ 6,885,270 |

To manage the Company's capital requirements, the Company has in place a planning and budgeting process which helps determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company plans to continue to fund its short-term cash requirements through operations, debt financing and proceeds raised through the brokered and non-brokered offerings (the "Offerings") concluded in the prior year. The Company has an operating line of credit in place that can be drawn upon, if required.

Under the Company's credit facilities for the operating line of credit and demand term loans, the annual debt service coverage ratio measured at February 28 must not be less than 1.25 to 1. At February 28, 2015 the Company was in violation of this covenant. Subsequent to May 31, 2015, a waiver of this covenant breach was granted by the lender which is in effect until the next measurement date of February 29, 2016.

## 5. Financial instruments and risk exposures

Fair value measurement

The Company's financial assets include cash, accounts receivable and accrued receivables. The Company's financial liabilities include bank indebtedness, accounts payable and accrued liabilities, demand term loans, shareholders loans, other related loans and preferred shares.

The Company has classified its cash, accounts receivable and accrued receivables as loans and receivables, measured at amortized cost using the effective interest method. Bank indebtedness, accounts payable and accrued liabilities, demand term loans, shareholders loans, other related loans and preferred shares are classified as other financial liabilities, measured at amortized cost using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

The carrying value of cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities reasonably approximate their fair value due to their immediate or short term maturity. The carrying value of accrued receivables (measured at amortized cost) reasonably approximates fair value as the effect of any difference between the effective interest rate applied and the estimated current market rate is not significant.

The carrying value of demand term loans, shareholders loans, other related loans and preferred shares reasonably approximate their fair value. The fair value is a Level 2 measurement and is based on discounted future cash flows using rates that reflect observable current market rates for similar instruments with similar terms and conditions. These estimates are subjective in nature as current interest rates are selected from a range of potentially acceptable rates and, accordingly, other fair value estimates are possible.

Credit risk

Credit risk is the risk of a financial loss if a customer or counterparty to a financial instrument fails to meet its obligations under a contract. This risk primarily arises from the Company's receivables from customers.

The Company's exposure to credit risk is dependent upon the characteristics of each customer. Credit exposure in Canada is minimized as the Company's primary revenue sources are the respective gaming commissions of provincial governments. In its foreign operations, the Company does not obtain collateral or other security to support financial instruments subject to credit risk but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate loss for non-performance. Each customer is assessed for credit worthiness and their financial well-being monitored on a continual basis.

The Company does not have credit insurance or other financial instruments to mitigate its credit risk as management has determined that the exposure is minimal due to the composition of its customer base.

(Expressed in Canadian dollars)

## 5. Financial instruments and risk exposures (continued)

The Company regularly reviews the collectability of its accounts receivable and accrued receivables and establishes an allowance account for credit losses based on its best estimate of any potentially uncollectible accounts. As at May 31, 2015, the balance of the allowance account for credit losses was $nil (February 28, 2015 - $nil).

Generally, payment terms for accounts receivable are 30 days. The Company has certain accounts receivable that have not been settled by the contractual date but are not considered to be impaired. The amounts at May 31, 2015 and February 28, 2015, by length of time past due, are:

| | May 31, 2015 | February 28, 2015 |
|---|---|---|
| 1 to 30 days past due | **$ 127,342** | $ 132,108 |
| 31 to 60 days past due | **54,666** | 41,273 |
| Greater than 60 days past due | **1,092** | - |
| Total | **$ 183,100** | $ 173,381 |

As at May 31, 2015, the Company had three customers owing more than $50,000 each that accounted for approximately 79% of all the trade accounts receivable owing (February 28, 2015 – three customers owing more than $50,000; approximately 62% of trade accounts receivable). Trade accounts receivable associated with customers that each individually exceeded 10% of the Company's sales, service and other revenue for the year totalled 17% of trade accounts receivable (February 28, 2015 – 45%). In addition, the balance in accrued receivables relates primarily to one customer (Note 6).

The Company may also have credit risk relating to cash, which it manages by dealing with large banks. The Company's objective is to minimize its exposure to credit risk in order to prevent losses on financial assets by placing its investments in highly liquid investments such as guaranteed investment funds. The Company's cash carrying value as at May 31, 2015, totalled $1,545,659 (February 28, 2015 - $2,132,829), accounts receivable totalled $938,034 (February 28, 2015 - $381,697), and accrued receivables totalled $890,991 (February 28, 2015 - $1,348,670), representing the maximum exposure to credit risk of these financial assets.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company has in place a planning and budgeting process which helps determine funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives.

To manage this risk the Company maintains an operating line of credit which provides access to funds to meet short-term financing obligations.

(Expressed in Canadian dollars)

### 5. Financial instruments and risk exposures (continued)

As at May 31, 2015, the Company had cash of $1,545,659 (February 28, 2015 - $2,132,829), accounts receivable of $938,034 (February 28, 2015 -$381,697), and current portion of accrued receivables of $460,000 (February 28, 2015 - $460,000) for a total of $2,943,693 (February 28, 2015 - $2,974,526). Current and on demand obligations from bank indebtedness, accounts payable and accrued liabilities, interest bearing loans, and dividend paying preferred shares total $3,830,374 (February 28, 2015 - $3,853,015). The deficiency of current assets to cover the Company's short-term obligations will be funded through operations, by refinancing existing loans and by managing accounts payable terms.

Demand loans are classified as current due to the demand feature associated with each of the loans. Each demand loan has scheduled repayment terms as described in Note 10.

The Company's contractual obligations at May 31, 2015 were as follows:

| | On demand | 2016 | 2017 | 2018 | Total |
|---|---|---|---|---|---|
| Bank indebtedness | $ 192,215 | $ - | $ - | $ - | $ 192,215 |
| Accounts payable and accrued liabilities | - | 706,048 | - | - | 706,048 |
| Demand term loans | 1,500,538 | - | - | - | 1,500,538 |
| Shareholders loans | - | 29,643 | 39,524 | 395,238 | 464,405 |
| Other related loans | - | 845,387 | 1,127,182 | 602,125 | 2,574,694 |
| Preferred shares | - | 154,077 | 1,956,907 | 250,671 | 2,361,655 |
| Total | $ 1,692,753 | $ 1,735,155 | $ 3,123,613 | $ 1,248,034 | $ 7,799,555 |

The Company's contractual obligations at February 28, 2015 are as follows:

| | On demand | 2016 | 2017 | 2018 | Total |
|---|---|---|---|---|---|
| Bank indebtedness | $ 117,440 | $ - | $ - | $ - | $ 117,440 |
| Accounts payable and accrued liabilities | - | 492,846 | - | - | 492,846 |
| Demand term loans | 1,575,538 | - | - | - | 1,575,538 |
| Shareholders loans | - | 334,009 | 119,095 | - | 453,104 |
| Other related loans | - | 1,127,182 | 1,127,182 | 602,125 | 2,856,489 |
| Preferred shares | - | 206,000 | 1,956,907 | 250,671 | 2,413,578 |
| Total | $ 1,692,978 | $ 2,160,037 | $ 3,203,184 | $ 852,796 | $ 7,908,995 |

The contractual obligations included in the tables above include interest and dividend payments where applicable.

## 5. Financial instruments and risk exposures (continued)

At February 28, 2015 the Company was in violation of a lending covenant related to the Company's operating line of credit (Note 9) and demand term loans (Note 10). Subsequent to May 31, 2015, a waiver of this covenant breach was granted by the lender which is in effect until the next measurement date of February 29, 2016.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company is exposed to currency risk as a result of certain costs being denominated in the United States dollars and Euros. The Company holds cash and accounts receivable and has liabilities in currencies other than the Canadian dollar. As a result, the Company is subject to gains and losses due to fluctuations in foreign currency exchange rates. The Company does not use derivative financial instruments to alter the risks associated with the foreign exchange fluctuations.

A 1% appreciation (depreciation) in the Canadian dollar price of United States dollars would result in gain (loss) of approximately $2,000 for the three months ended May 31, 2015 (2014 - $nil). A 1% appreciation (depreciation) in the Canadian dollar price of Euros would result in gain (loss) of approximately $nil for the three months ended May 31, 2015 (2014 - $nil).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's operating line of credit (bank indebtedness) and demand term loans which are subject to floating interest rates.

The Company does not enter into any interest rate swaps to mitigate interest rate risk.

A 1% decrease (increase) in the bank's prime rate would result in a gain (loss) of approximately $15,000 for the three months ended May 31, 2015 (2014 - $22,000).

(Expressed in Canadian dollars)

## 6. Accrued receivables

In May 2012, the Company entered into a multi-element sales arrangement with a customer for the provision of software, customer support and other ancillary services. Total proceeds to be received under the contract are $3,090,000. Under the terms of the agreement, the customer is to make instalment payments to the Company as follows:

| | Amount |
|---|---|
| Payments received prior to May 31, 2015 | $ 1,710,000 |
| Included in accounts receivable | 460,000 |
| Future instalment payments by fiscal year: | |
| 2017 | 460,000 |
| 2018 | 460,000 |
| | $ 3,090,000 |

Revenue for the arrangement is recognized as follows:

| Fiscal Year | Sales Revenue | Interest Income | Total Revenue Recognized |
|---|---|---|---|
| 2013 | $ 2,345,379 | $ 10,443 | $ 2,355,822 |
| 2014 | 637,500 | 13,924 | 651,424 |
| 2015 | 37,500 | 13,924 | 51,424 |
| 2016 | - | 13,924 | 13,924 |
| 2017 | - | 13,924 | 13,924 |
| 2018 | - | 3,482 | 3,482 |
| | $ 3,020,379 | $ 69,621 | $ 3,090,000 |

Accrued receivables relating to this and other revenue amounts earned, but not yet invoiced are:

| | **May 31, 2015** | February 28, 2015 |
|---|---|---|
| Accrued receivables | **$ 890,991** | $ 1,348,670 |
| Less: current portion | **(460,000)** | (460,000) |
| | **$ 430,991** | $ 888,670 |

(Expressed in Canadian dollars)

## 7. Property and equipment

| | Gaming systems | Computer equipment | Office furniture and equipment | Test equipment | Automotive equipment | Leasehold improvements | Total |
|---|---|---|---|---|---|---|---|
| **Cost or deemed cost** | | | | | | | |
| Balance at February 28, 2014 | $ 8,126,953 | $ 258,433 | $ 113,443 | $ 415,956 | $ 25,299 | $ 46,396 | $ 8,986,480 |
| Additions | 899,043 | 8,678 | - | 5,714 | - | 4,603 | 918,038 |
| Disposals | (172,867) | - | - | - | - | - | (172,867) |
| Balance at February 28, 2015 | 8,853,129 | 267,111 | 113,443 | 421,670 | 25,299 | 50,999 | 9,731,651 |
| Additions | 224,247 | - | 16,576 | - | - | - | 240,823 |
| **Balance at May 31, 2015** | **$ 9,077,376** | **$ 267,111** | **$ 130,019** | **$ 421,670** | **$ 25,299** | **$ 50,999** | **$ 9,972,474** |
| **Depreciation and impairment losses** | | | | | | | |
| Balance at February 28, 2014 | $ 4,753,012 | $ 248,507 | $ 94,841 | $ 359,518 | $ 24,691 | $ 13,742 | $ 5,494,311 |
| Depreciation | 1,411,816 | 6,486 | 4,160 | 18,390 | 183 | 18,358 | 1,459,393 |
| Disposals | (116,845) | - | - | - | - | - | (116,845) |
| Balance at February 28, 2015 | 6,047,983 | 254,993 | 99,001 | 377,908 | 24,874 | 32,100 | 6,836,859 |
| Depreciation | 371,836 | 1,645 | 1,199 | 3,355 | 319 | 3,147 | 381,501 |
| **Balance at May 31, 2015** | **$ 6,419,819** | **$ 256,638** | **$ 100,200** | **$ 381,263** | **$ 25,193** | **$ 35,247** | **$ 7,218,360** |
| **Carrying amounts** | | | | | | | |
| At February 28, 2015 | $ 2,805,146 | $ 12,118 | $ 14,442 | $ 43,762 | $ 425 | $ 18,899 | $ 2,894,792 |
| **At May 31, 2015** | **$ 2,657,557** | **$ 10,473** | **$ 29,819** | **$ 40,407** | **$ 106** | **$ 15,752** | **$ 2,754,114** |

(Expressed in Canadian dollars)

## 8. Intangible assets

| | Computer software | Deferred development costs | Gaming intellectual property | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at February 28, 2014 | $ 71,872 | $ 466,101 | $ - | $ 537,973 |
| Additions | 21,669 | 126,495 | - | 148,164 |
| Impairments | - | (5,490) | - | (5,490) |
| Balance at February 28, 2015 | 93,541 | 587,106 | - | 680,647 |
| Additions | - | 15,000 | 68,593 | 83,593 |
| **Balance at May 31, 2015** | **$ 93,541** | **$ 602,106** | **$ 68,593** | **$ 764,240** |
| | | | | |
| **Amortization** | | | | |
| Balance at February 28, 2014 | $ 67,741 | $ 126,084 | $ - | $ 193,825 |
| Amortization | 7,437 | 155,907 | - | 163,344 |
| Balance at February 28, 2015 | 75,178 | 281,991 | - | 357,169 |
| Amortization | 1,611 | 30,000 | - | 31,611 |
| **Balance at May 31, 2015** | **$ 76,789** | **$ 311,991** | $ **-** | **$ 388,780** |
| | | | | |
| **Carrying amounts** | | | | |
| At February 28, 2015 | $ 18,363 | $ 305,115 | $ - | $ 323,478 |
| **At May 31, 2015** | **$ 16,752** | **$ 290,115** | **$ 68,593** | **$ 375,460** |

## 9. Bank indebtedness

The Company has a credit facility arrangement that provides an operating line of credit of $250,000 at May 31, 2015 (February 28, 2015 - $250,000). The operating line bears interest at the bank’s prime rate plus 3.00% which totalled 5.85% at May 31, 2015 (February 28, 2014 – prime plus 3.00%, totaling 5.85%). The operating line is secured by a general security agreement over the assets of the Company. There was $192,215 drawn on the operating line at May 31, 2015 (February 28, 2015 - $117,440).

Under the Company’s credit facilities for the operating line of credit and demand term loans (Note 10), the annual debt service coverage ratio must not be less than 1.25 to 1. At February 28, 2015 the Company was in violation of this covenant. Subsequent to May 31, 2015, a waiver of this covenant breach was granted by the lender which is in effect until the next measurement date of February 29, 2016.

(Expressed in Canadian dollars)

## 10. Demand term loans

The Company has the following demand term loans:

a) Demand term loan in the amount of $900,000 (February 28, 2015 - $900,000). At May 31, 2015, $900,000 was drawn on the loan (February 28, 2015 - $900,000). The demand term loan bears interest at the bank's prime rate plus 4.0% which totalled 6.85% at May 31, 2015 (February 28, 2015 – prime plus 4.0% which totalled 6.85%). Interest is payable monthly and principal is repayable in two equal annual payments of $450,000 on July 1 of each year until 2016. The loan is secured by an assignment of proceeds under a specific customer contract and a general security agreement over all present and after acquired real property of the Company.

b) Demand term loan in the amount of $900,000 (February 28, 2015 - $900,000). The amount drawn on the loan at May 31, 2015 was $600,538 (February 28, 2015 - $675,538). The demand term loan bears interest at the bank's prime rate plus 4.0% which totalled 6.85% at May 31, 2015 (February 28, 2015 – prime plus 4.0% which totalled 6.85%). The demand term loan required interest only payments until June 30, 2014. Beginning July 1, 2014, principal payments of $25,000 plus interest are payable monthly until June 2017 or until the loan is repaid, whichever is sooner. The loan is guaranteed by Export Development Canada and secured by a general security agreement over all present and after acquired real property of the Company.

| | **May 31, 2015** | February 28, 2015 |
|---|---|---|
| Demand term loans | **$ 1,500,538** | $ 1,575,538 |
| Less debt issuance costs, net of accumulated amortization of $12,857 (February 28, 2015 - $11,571) | **(5,143)** | (6,429) |
| | **$ 1,495,395** | $ 1,569,109 |

The demand loans are classified as current due to the demand feature associated with each of the loans. Each loan has scheduled repayment terms as described above.

During the three months ended May 31, 2015 interest expense of $39,916 (2014 - $30,359) was recorded and is included in finance costs (Note 18).

Under the Company's credit facilities for the operating line of credit (Note 9) and demand term loans, the annual debt service coverage ratio must not be less than 1.25 to 1. At February 28, 2015 the Company was in violation of this covenant. Subsequent to May 31, 2015, a waiver of this covenant breach was granted by the lender which is in effect until the next measurement date of February 29, 2016.

(Expressed in Canadian dollars)

## 11. Related party transactions

### a) Shareholders loans and other related loans

| | **May 31, 2015** | February 28, 2015 |
|---|---|---|
| Shareholders loans | | |
| Loan, bearing interest at 18% to Apr 30, 2013 then 10% thereafter, monthly interest only payments of $1,318 until March 1, 2017 (February 28, 2015 – monthly payments of $12,011 beginning Nov 28, 2014, maturing May 28, 2016). | **$ 158,101** | $ 168,706 |
| Loans, bearing interest at 10%, monthly interest only payments of $1,411 until March 1, 2017 (February 28, 2015 - monthly payments of $9,229 beginning Nov 28, 2014, maturing on Nov 28, 2016), convertible at lender's option into ordinary shares at $0.75/share. The conversion option has been valued at $nil (February 28, 2015- $nil). | **169,371** | 177,123 |
| Loan, bearing interest at 10%, monthly interest only payments of $565 until March 1, 2017 (February 28, 2015 - monthly payments of $8,792 beginning Nov 28, 2014, maturing on Nov 28, 2015). | **67,767** | 75,927 |
| Other related loans | | |
| Loan, bearing interest at 9.5%, monthly payments of $64,066 beginning Nov 1, 2014, maturing on Oct 28, 2017. | **1,654,247** | 1,804,766 |
| Loan, bearing interest at 9.5%, monthly payments of $29,866 beginning Jun 21, 2014, maturing on May 21, 2017. | **650,469** | 723,460 |
| | **$ 2,699,955** | $ 2,949,982 |
| Less current portion: | | |
| Shareholders loans | **$ -** | $ 304,704 |
| Other related loans | **$ 948,843** | $ 926,660 |
| Long-term portion: | | |
| Shareholders loans | **$ 395,239** | $ 117,052 |
| Other related loans | **$ 1,355,873** | $ 1,601,566 |

(Expressed in Canadian dollars)

**11. Related party transactions (continued)**

All loans are secured by a second fixed charge over all present and after-acquired property of the Company. This security is secondary to the bank security (Note 10).

The shareholders and other related loans contain demand features. The lenders have waived the demand provisions for not less than 365 days after May 31, 2015.

On March 31, 2014, the Company entered into a new financing arrangement for a demand term loan in the amount of $3,000,000 from an entity controlled by a director of the Company. Each draw under the agreement has a three-year term. The amount drawn on the loan at May 31, 2015 was $2,304,716 (February 28, 2015 - $2,528,226) and included in "other related loans". The proceeds of this loan were used in the year ended February 28, 2015 to repay the remaining balance of a $1,000,000 demand term loan, repay certain existing shareholders and other related loans, and to purchase equipment for customer deployment. The loan bears interest at 9.5%. Interest and principal were payable monthly beginning June 21, 2014.

During the three months ended May 31, 2015, the Company entered into new shareholders loans in the amount of $nil (2014 - $300,000). Proceeds received during the year ended February 28, 2015 were used to pay transaction costs associated with the Qualifying Transaction.

During the three months ended May 31, 2015, interest expense on shareholders and other related loans of $68,385 (2014 - $25,656) was recorded as expense and is included in finance costs (Note 18).

**b) Key management compensation**

Compensation of key management personnel including the Company's executive management, Board of Directors, and board advisors are as follows:

| | Three months ended May 31, | |
|---|---|---|
| | **2015** | 2014 |
| Short-term employee benefits | **$ 96,114** | $ 82,500 |
| Share-based payments | **904** | 6,069 |
| | **$ 97,018** | $ 88,569 |

The board advisors will become directors subsequent to May 31, 2015, pending regulatory approval. Stock options granted to board advisors do not vest until they receive regulatory approval to become directors.

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel and are included in compensation and benefits expense. Short-term benefits consist of wages and salaries paid or payable to employees, accrued vacation, and other benefits paid or payable within 12 months.

(Expressed in Canadian dollars)

## 12. Preferred shares

| | eQube Class "F" Preferred Shares | Amalco Preferred Shares |
|---|---|---|
| Balance at February 28, 2014 | $ 1,810,000 | $ - |
| Class F preferred shares issued for cash | 250,000 | - |
| Balance at May 31, 2014 | 2,060,000 | - |
| Exchange of shares pursuant to the Amalgamation | (2,060,000) | 2,060,000 |
| **Balance at May 31, 2015 and February 28, 2015** | **$ -** | **$ 2,060,000** |

During the three months ended May 31, 2015 no Amalco Preferred shares were issued (2014 - 250,000 eQube Class F Shares were issued at $1 per share for issuance proceeds of $250,000).

The Company declared and paid dividends of $51,923 for the three months ended May 31, 2015 (2014 - $51,252), which are included in finance costs (Note 18).

## 13. Share capital

*Ordinary Shares*

The Company has authorized unlimited ordinary voting shares without par value.

| **Ordinary Shares of the Company** | **Number** | **Share Capital** |
|---|---|---|
| Balance at May 31, 2014 and February 28, 2014 | 6,078,134 | $ 2,958,800 |
| eQube private placement | 95,000 | 142,500 |
| eQube share split (3:1) | 12,346,268 | - |
| Brokered private placement | 5,220,000 | 2,610,000 |
| Non-brokered private placement | 1,355,000 | 677,500 |
| Issuance of shares pursuant to Amalgamation | 3,766,667 | 1,883,334 |
| Exercise of stock options | 801,658 | 228,948 |
| Share issuance costs, net of tax of nil | - | (418,382) |
| Balance at February 28, 2015 | 29,662,727 | $ 8,082,700 |
| Exercise of stock options (Note 15) | 558,000 | 52,341 |
| **Balance at May 31, 2015** | **30,220,727** | **$ 8,135,041** |

(Expressed in Canadian dollars)

## 13. Share capital (continued)

As at May 31, 2015, 9,685,897 (February 28, 2015 – 11,623,076) of the issued shares were held in escrow. 1,937,179 of these shares will be released from escrow on November 4, 2015 and every six months thereafter.

## 14. Warrants

| | Number | | Warrants |
|---|---|---|---|
| Balance at May 31, 2014 and February 28, 2014 | - | $ | - |
| Issuance of eQube Broker Warrants | 7,600 | | 3,314 |
| Replacement of eQube Broker Warrants on Amalgamation | (7,600) | | - |
| Issuance of Broker Warrants on Amalgamation | 22,800 | | - |
| Issuance of Agent Warrants | 417,600 | | 60,552 |
| Issuance of Consideration Warrants * | 5,932,545 | | 148,313 |
| Balance at February 28, 2015 | 6,372,945 | | 212,179 |
| Issuance of Consideration Warrants * | 111,600 | | 116,118 |
| **Balance at May 31, 2015** | **6,484,545** | **$** | **328,297** |

* The number of Consideration Warrants to be issued shall not exceed 20% of the issued and outstanding capital of the Company, up to a maximum of 54,000,000 Ordinary Shares.

*Consideration Warrants*

The total cost of the Consideration Warrants recognized during the three months ended May 31, 2015 of $116,118 (2014 - $nil) was recorded as general and administrative expense and an increase to warrants (a component of equity). The amount recognized reflects management's estimates of the number of Consideration Warrants expected to ultimately vest, which as at May 31, 2015 is estimated to be 6,044,145 (February 28, 2015 – 5,932,545) based on the issued and outstanding ordinary shares of the Company. No warrants vested under this agreement during the three months ended May 31, 2015.

(Expressed in Canadian dollars)

## 15. Share-based compensation

Stock options outstanding are as follows:

| Stock options outstanding | Number of options | Weighted average exercise price | Weighted average measurement date fair value |
|---|---|---|---|
| Balance at February 28, 2014 | 645,000 | $ 0.78 | $ 0.137 |
| Replacement of eQube Options on Amalgamation | (645,000) | 0.78 | 0.137 |
| Issuance of Options on Amalgamation | 1,935,000 | 0.27 | 0.046 |
| Acquisition of Triox | 372,949 | 0.30 | 0.171 |
| Granted | 1,350,000 | 0.50 | 0.169 |
| Exercised | (801,658) | 0.18 | 0.074 |
| Balance at February 28, 2015 | 2,856,291 | $ 0.41 | $ 0.113 |
| Exercised | (558,000) | 0.09 | 0.007 |
| **Balance at May 31, 2015** | 2,298,291 | $ 0.48 | $ 0.138 |
| **Options exercisable at May 31, 2015** | **1,423,291** | **$ 0.47** | **$ 0.129** |
| Options exercisable at February 28, 2015 | 1,981,291 | $ 0.36 | $ 0.095 |

The Options outstanding as at May 31, 2015 have exercise prices ranging from $0.09 - $0.50 and a weighted average remaining contractual life of 6.50 years (February 28, 2015 – exercise prices ranging from $0.09 - $0.50 and weighted average remaining contractual life of 5.45 years).

For Options exercised during the three months ended May 31, 2015, the weighted average share price at the date of exercise was $0.21.

The total share-based compensation recognized during the three months ended May 31, 2015, including options previously granted that vested during the period, of $1,417 (2014 - $9,713) was recorded as an expense and an increase to contributed surplus.

Subsequent to May 31, 2015, 75,000 Options were granted to employees in accordance with the Company's Stock Option Plan (Note 22).

(Expressed in Canadian dollars)

## 16. Segment information

The Company does not currently identify separate operating segments as the operating results are monitored by the Company's chief operating decision maker and strategic decisions are made on the basis of consolidated operating results.

The Company, together with its subsidiaries, is engaged in the design, development, distribution, licensing and sale of technology-based electronic bingo and social gaming solutions for regulated gaming markets in Canada, the United States and Ireland. Similar products and services are generally provided to external customers across all jurisdictions. The Company's revenues from external customers and its non-current assets (other than financial instruments and deferred tax assets) are divided into the following geographical areas:

| | Sales, service and other revenue | | Non-current assets | |
|---|---|---|---|---|
| | Three months ended May 31, | | May 31, | February 28, |
| | **2015** | 2014 | **2015** | 2015 |
| Canada | **$ 528,071** | $ 594,206 | **$ 1,448,654** | $ 2,112,952 |
| United States | **407,857** | 942,289 | **1,251,861** | 730,263 |
| Ireland and other | **173,257** | 71,287 | **429,059** | 375,055 |
| | **$ 1,109,185** | $ 1,607,782 | **$ 3,129,574** | $ 3,218,270 |

Revenues from external customers in the Company's major markets (Canada, the United States and Ireland) have been identified on the basis of the customer's geographical location. Non-current assets are allocated based on their physical location.

For the three months ended May 31, 2015, $577,736 or 52.09% (2014 - $1,179,502 or 73.36%) of the Company's revenues depended on two customers that each individually exceeded 10% of the Company's sales, service and other revenue.

An analysis of the Company's sales, service and other revenue for each major category is as follows:

| | Three months ended May 31, | |
|---|---|---|
| | **2015** | 2014 |
| Hardware and software rentals | **$ 697,319** | $ 498,944 |
| Customer support and other services | **378,729** | 398,118 |
| Hardware and software sales | **33,137** | 710,720 |
| | **$ 1,109,185** | $ 1,607,782 |

(Expressed in Canadian dollars)

## 17. General and administrative expenses

| | Three months ended May 31, 2015 | 2014 |
|---|---|---|
| Compensation and benefits | **$ 524,436** | $ 433,333 |
| Professional fees | **152,724** | 97,518 |
| Consideration Warrants (Note 14) | **116,118** | - |
| Advertising and promotion | **93,178** | 45,868 |
| Office and other | **72,373** | 72,486 |
| Business taxes, insurance and licenses | **58,386** | 33,015 |
| Rent | **47,026** | 33,491 |
| | **$ 1,064,241** | $ 715,711 |

## 18. Finance income and costs

| | Three months ended May 31, 2015 | 2014 |
|---|---|---|
| Finance income | | |
| Interest income | **$ (4,612)** | $ (3,481) |
| Finance costs | | |
| Interest on short-term debt and accounts payable | **$ 2,394** | $ 629 |
| Interest on finance leases | **-** | 1,007 |
| Interest on demand term loans | **39,916** | 30,359 |
| Interest on shareholders and other related loans | **68,385** | 25,656 |
| Dividends on preferred shares | **51,923** | 51,252 |
| Amortization of finance fees | **1,286** | 1,286 |
| | **$ 163,904** | $ 110,189 |

(Expressed in Canadian dollars)

## 19. Contingencies

A breach of contract lawsuit was filed against the Company in December 2012. The matter is currently in the legal examination phase. Management believes the success of the claim is not determinable and no provision relating to the claim has been recorded in these financial statements.

A wrongful dismissal lawsuit was filed against the Company during the year ended February 29, 2012. The matter is currently in the legal examination phase. Management believes the matter was appropriately settled upon the employee's termination, but will defend against the claim should it continue. Management believes the success of the claim is not determinable and no provision relating to the claim has been recorded in these financial statements.

## 20. Supplemental cash flow information

| | Three months ended May 31, 2015 | 2014 |
|---|---|---|
| Change in non-cash operating working capital: | | |
| Accounts receivable | **$ (96,337)** | $ (615,942) |
| Accrued receivables | **-** | 15,398 |
| Supplies and components | **(3,277)** | (12,905) |
| Prepaid expenses and deposits | **200,022** | 300,557 |
| Accounts payable and accrued liabilities | **213,202** | 337,995 |
| Deferred revenue | **-** | (747,747) |
| | **$ 313,610** | $ (722,644) |

For the purpose of the statement of cash flows, cash and cash equivalents is comprised of the following:

| | May 31, 2015 | February 28, 2015 | May 31, 2014 |
|---|---|---|---|
| Cash | **$ 1,545,659** | $ 2,132,829 | $ - |
| Bank indebtedness | **(192,215)** | (117,440) | (74,267) |
| | **$ 1,353,444** | $ 2,015,389 | $ (74,267) |

(Expressed in Canadian dollars)

## 21. Loss per share

| | Three months ended May 31, 2015 | 2014 |
|---|---|---|
| Net loss | **$ (924,978)** | $ (651,046) |
| Basic weighted average number of common shares | **30,034,727** | 18,234,402 |
| Diluted weighted average number of common shares | **30,034,727** | 18,234,402 |
| Basic loss per share | **$ (0.03)** | $ (0.04) |
| Diluted loss per share | **$ (0.03)** | $ (0.04) |

Loss per share has been calculated as if the conversion of each eQube Class A Share into three Ordinary Shares had occurred pro-rata for all share transactions prior to the Amalgamation on October 30, 2014.

For the three months ended May 31, 2015 and 2014, the diluted loss per share was the same as the basic loss per share as the inclusion of stock options and warrants would have been anti-dilutive. Accordingly, the diluted loss per share for the period was calculated using the basic weighted average number of common shares outstanding.

## 22. Post reporting events

The following events occurred subsequent to May 31, 2015:

*Acquisition of the Alberta Satellite Bingo business*

On June 19, 2015, the Company acquired the operations of Alberta Satellite Bingo, which is comprised of Alberta Satellite Bingo Limited Partnership, 657255 Alberta Ltd. and The Satellite Bingo Network (TSBN) Inc. The acquisition includes assets, intellectual property and existing personnel to operate a linked bingo game in the Province of Alberta. The business is expected to contribute to revenue, but will have minimal impact on net earnings in the first year following acquisition. The acquisition will have significant strategic benefit to the Company in the future as the Company digitizes the game and rolls it out on the Company's gaming systems already in use in Alberta. The purchase price for the acquisition was $75,000. The Company is currently in the process of determining the purchase price allocation.

*Issuance of stock options*

Subsequent to May 31, 2015 the Company granted 75,000 stock options to employees in accordance with the Company's Stock Option Plan. The options have an exercise price of $0.50 and vest one third July 1, 2015, one third on July 1, 2016 and one third on July 1, 2017.