eQube Gaming Limited
Consolidated Financial Statements

For the Years Ended February 29, 2016 and February 28, 2015

Table of Contents

Independent Auditor's Report

Grant Thornton LLP
1701 Scotia Place 2
10060 Jasper Avenue NW
Edmonton, AB
T5J 3R8

T +1 780 422 7114
F +1 780 426 3208
E Edmonton@ca.gt.com
www.GrantThornton.ca

To the Shareholders of eQube Gaming Limited

We have audited the accompanying consolidated financial statements of eQube Gaming Limited, which comprise the consolidated statements of financial position as at February 29, 2016, and February 28, 2015, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended February 29, 2016 and February 28, 2015, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

Grant Thornton

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of eQube Gaming Limited as at February 29, 2016, and February 28, 2015, and its financial performance and its cash flows for the years ended February 29, 2016 and February 28, 2015 in accordance with International Financial Reporting Standards.

Edmonton, Canada

Grant Thornton LLP

May 30, 2016

Chartered Professional Accountants, Chartered Accountants

eQube Gaming Limited
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

		February 29, 2016		February 28, 2015
Assets				
Current assets				
Cash	$	**183,009**	$	2,132,829
Accounts receivable		**537,284**		381,697
Accrued receivables (Note 8)		**559,166**		460,000
Supplies and components		**109,506**		62,076
Prepaid expenses and deposits		**133,096**		352,014
		1,522,061		3,388,616
Accrued receivables (Note 8)		**442,594**		888,670
Property and equipment (Note 9)		**3,166,787**		2,894,792
Intangible assets (Note 10)		**462,773**		323,478
Total assets	$	**5,594,215**	$	7,495,556
Liabilities				
Current liabilities				
Bank indebtedness (Note 11)	$	**164,574**	$	117,440
Accounts payable and accrued liabilities (Note 12)		**792,232**		492,846
Demand term loans (Note 13)		**824,252**		1,569,109
Current portion of shareholder loans (Note 14)		**60,000**		304,704
Current portion of other related loans (Note 14)		**1,433,312**		926,660
Current portion of obligations under finance lease (Note 15)		**11,275**		-
Current income tax payable		**41,146**		-
Preferred shares (Note 17)		**1,810,000**		-
		5,136,791		3,410,759
Long term liabilities				
Accounts payable and accrued liabilities (Note 12)		**386,856**		-
Shareholder loans (Note 14)		**395,239**		117,052
Other related loans (Note 14)		**1,248,435**		1,601,566
Obligations under finance lease (Note 15)		**42,490**		-
Preferred shares (Note 17)		**250,000**		2,060,000
Total liabilities		**7,459,811**		7,189,377
Equity (deficiency)				
Share capital (Note 18)		**8,135,041**		8,082,700
Warrants (Note 19)		**63,866**		212,179
Contributed surplus		**371,040**		365,996
Deficiency		**(10,630,149)**		(8,354,696)
(Deficiency) equity attributable to owners of the Company		**(2,060,202)**		306,179
Non-controlling interest (Note 5)		**194,606**		-
Total (deficiency) equity		**(1,865,596)**		306,179
Total liabilities and equity	$	**5,594,215**	$	7,495,556

On behalf of the Board

“Andrew Janko” Director   “Robb McNaughton” Director

See accompanying notes to the consolidated financial statements.

eQube Gaming Limited
Consolidated Statements of Loss and Comprehensive Loss
For the years ended February 29, 2016 and February 28, 2015
(Expressed in Canadian dollars)

		2016		2015
Sales, service and other revenue (Note 21)	$	**5,381,942**	$	4,634,821
Direct costs		**1,736,809**		2,164,334
Gross profit		**3,645,133**		2,470,487
Expenses				
General and administrative expenses (Note 22)		**3,637,479**		3,735,748
Impairment of supplies and components		**76,458**		43,671
Impairment of intangible assets (Note 10)		**-**		5,490
Total expenses		**3,713,937**		3,784,909
Loss before other expenses (income)		**(68,804)**		(1,314,422)
Other expenses (income)				
Finance income (Note 23)		**(18,545)**		(13,924)
Finance costs (Note 23)		**616,396**		577,159
Depreciation and amortization		**1,811,787**		1,622,737
(Gain) loss on disposal of property and equipment		**(10,087)**		56,022
Foreign exchange loss (gain)		**2,217**		(63,128)
Transaction cost (Note 4)		**-**		2,087,492
Total other expenses		**2,401,768**		4,266,358
Loss before income taxes		**(2,470,572)**		(5,580,780)
Income tax expense (Note 16)		**41,880**		190,959
Net loss and comprehensive loss	$	**(2,512,452)**	$	(5,771,739)
Total net loss and comprehensive loss attributable to:				
Owners of the Company	$	**(2,275,453)**	$	(5,771,739)
Non-controlling interest (Note 5)		**(236,999)**		-
	$	**(2,512,452)**	$	(5,771,739)
Loss per share (Note 27)				
Basic	$	**(0.08)**	$	(0.26)
Diluted	$	**(0.08)**	$	(0.26)

See accompanying notes to the consolidated financial statements.

eQube Gaming Limited
Consolidated Statements of Changes in Equity

For the years ended February 29, 2016 and February 28, 2015
(Expressed in Canadian dollars)

	Share capital amount	Warrants	Contributed surplus	Deficiency	Total	Non-controlling interest	Total equity
Balance at February 28, 2014	$ 2,958,800	$ -	$ 107,099	$ (2,582,957)	$ 482,942	$ -	$ 482,942
Net loss	-	-	-	(5,771,739)	(5,771,739)	-	(5,771,739)
Shares from treasury	142,500	-	-	-	142,500	-	142,500
Acquisition of Triox Limited (Note 4)	1,883,334	-	96,221	-	1,979,555	-	1,979,555
Shares issued on Amalgamation (Note 4)	3,287,500	-	-	-	3,287,500	-	3,287,500
Consideration Warrants (Note 19)	-	148,313	-	-	148,313	-	148,313
Transaction costs, net of tax of nil	(418,382)	63,866	-	-	(354,516)	-	(354,516)
Share-based compensation related to stock options granted and vested	-	-	251,278	-	251,278	-	251,278
Exercise of stock options	228,948	-	(88,602)	-	140,346	-	140,346
Balance at February 28, 2015	$ 8,082,700	$ 212,179	$ 365,996	$ (8,354,696)	$ 306,179	$ -	$ 306,179
Balance at February 28, 2015	$ 8,082,700	$ 212,179	$ 365,996	$ (8,354,696)	$ 306,179	$ -	$ 306,179
Net loss	-	-	-	(2,275,453)	(2,275,453)	(236,999)	(2,512,452)
Acquisition of subsidiary (Note 5)	-	-	-	-	-	431,605	431,605
Consideration Warrants (Note 19)	-	(148,313)	-	-	(148,313)	-	(148,313)
Share-based compensation related to stock options granted and vested	-	-	7,165	-	7,165	-	7,165
Exercise of stock options	52,341	-	(2,121)	-	50,220	-	50,220
Balance at February 29, 2016	**$ 8,135,041**	**$ 63,866**	**$ 371,040**	**$ (10,630,149)**	**$ (2,060,202)**	**$ 194,606**	**$ (1,865,596)**

See accompanying notes to the consolidated financial statements.

eQube Gaming Limited
Consolidated Statements of Cash Flows
For the years ended February 29, 2016 and February 28, 2015
(Expressed in Canadian dollars)

		2016		2015
Operating				
Net loss	$	**(2,512,452)**	$	(5,771,739)
Adjustments for:				
Accrued revenue		**460,000**		460,000
Finance income		**(13,924)**		(13,924)
Interest expense		**404,689**		366,688
Dividends on preferred shares		**206,564**		205,329
Depreciation of property and equipment		**1,638,828**		1,459,393
Amortization of intangible assets		**175,482**		163,344
Impairment of supplies and components		**76,458**		43,671
Impairment of intangible assets		**-**		5,490
Deferred tax expense (recovery)		**-**		190,959
(Gain) loss on disposal of property and equipment		**(10,087)**		56,022
Amortization of finance fees		**5,143**		5,142
Share-based compensation		**7,165**		251,278
Consideration Warrants (Note 19)		**(148,313)**		148,313
Transaction cost on Amalgamation		**-**		2,087,492
Change in non-cash operating working capital (Note 26)		**675,411**		(1,007,968)
Net cash flows provided by (used in) operating activites		**964,964**		(1,350,510)
Financing				
Repayment of demand term loans		**(750,000)**		(1,650,000)
Repayment of shareholder loans		**(26,517)**		(460,609)
Repayment of other related loans		**(906,479)**		(441,854)
Repayment of finance lease obligations		**(7,496)**		(35,332)
Proceeds on demand term loans		**-**		476,285
Proceeds on shareholder loans		**60,000**		400,000
Proceeds on other related loans		**1,060,000**		2,933,396
Proceeds from the issuance of preferred shares		**-**		250,000
Proceeds from the issuance of ordinary shares		**-**		3,430,000
Transaction costs paid on issuance of ordinary shares		**-**		(354,516)
Proceeds from the exercise of stock options		**50,220**		42,931
Interest paid		**(404,689)**		(366,688)
Dividends paid		**(206,564)**		(205,329)
Net cash flows (used in) provided by financing activities		**(1,131,525)**		4,018,284
Investing				
Cash acquired in Amalgamation		**-**		5,731
Acquisition of subsidiary, net of cash acquired		**173,720**		-
Purchase of property and equipment		**(1,772,965)**		(918,038)
Purchase of and capitalization of intangible assets		**(245,975)**		(148,164)
Proceeds on disposal of property and equipment		**14,827**		-
Net cash flows used in investing activities		**(1,830,393)**		(1,060,471)
Net (decrease) increase in cash and cash equivalents		**(1,996,954)**		1,607,303
Cash and cash equivalents, beginning of year		**2,015,389**		408,086
Cash and cash equivalents, end of year	$	**18,435**	$	2,015,389

Supplemental cash flow information (Note 26)

See accompanying notes to the 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 consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

These consolidated financial statements for the year ended February 29, 2016, including comparatives, were authorized for issue by the Board of Directors on May 30, 2016.

3. Significant accounting policies

The Company's significant accounting policies are outlined below:

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiaries. Subsidiaries are all entities to which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company's subsidiaries are as follows:

- eQube Technology and Software Inc. ("Amalco", Note 4)
- eQube International Inc.
- eQube Service Corp. (voluntarily dissolved on April 24, 2014)
- eQube Technology and Software (UK) Limited (formerly, eQube Gaming Limited, a UK incorporated company)
- e3 Gaming Limited (an Irish company incorporated December 15, 2014)
- The Satellite Bingo Network (TSBN) Inc. ("TSBN", Note 5)
- 657255 Alberta Ltd. (Note 5)
- Alberta Satellite Bingo Limited Partnership ("Alberta Satellite Bingo LP", Note 5)
- e3 Bingo Limited (an Irish company incorporated February 11, 2016)

Subsidiaries are consolidated from the date that control commences and continue to be consolidated until control ceases or the operations are wound up and the company dissolved. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances and transactions have been eliminated. The Company attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

b) Business combinations

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

3. Significant accounting policies (continued)

Non-controlling interests are measured at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

c) Segment information

Separate operating segments are identified when a component of the Company engages in business activities, the separate operating results of the component are regularly reviewed by the Company's chief operating decision maker, and discrete financial information for the component is available.

d) Use of estimates and management judgment

When preparing the 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.

Management estimates

Information about assumptions and estimation uncertainties that have the most significant effect on recognition and measurement of asset, liabilities, income and expenses is described below.

Impairment of long-lived tangible and definite life intangible assets

In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on the higher of fair value less cost of disposal and their value in use. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Useful lives of depreciable assets

The Company reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utilization of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utilization of certain software and equipment.

Supplies and components

The Company estimates the net realizable values of supplies and components, taking into account the most reliable evidence available at each reporting date. The future realization of these supplies and components may be affected by future technology or other market-driven changes that may impact their future use.

Business combinations

In a business combination, the Company may acquire assets and assume certain liabilities of an acquired entity. Estimates are made as to the fair value of property and equipment, intangible assets, and goodwill, among other items. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income and discount rates.

3. Significant accounting policies (continued)

Share-based payments and warrants

The Company measures the cost of equity settled transactions (stock options and warrants) by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions and warrants requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock options or warrants, volatility and dividend yield and making assumptions thereon. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models may not necessarily provide a reliable measure of the fair value of the Company's share-based payments and warrants.

In addition, the Company measures the cost of Consideration Warrants (Note 19) by estimating the number of warrants that may ultimately vest and the vesting period. These estimates are highly subjective and changes in assumptions can materially affect the results. Therefore the existing estimates may not necessarily provide a reliable measure of the cost of the Company's warrants.

Management judgment

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

Revenue recognition

Within multi-element sales arrangements judgment is required in allocating revenue to individual units of accounting based on fair value, which may not coincide with contractual elements.

Classification of preferred shares

Judgement is required in applying International Accounting Standard 32, *Financial Instruments: Presentation*, to determine the classification of preferred shares as a liability or equity.

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Company's future taxable income against which the deferred tax assets can be utilized. In addition, significant judgment is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

Capitalization of deferred development costs

Distinguishing the research and development phases of a new customized software project and determining whether the recognition requirements of the capitalization of development costs are met requires judgement. After capitalization, management monitors whether the recognition requirements continue to be met and whether there are any indicators that the capitalized costs may be impaired.

3. Significant accounting policies (continued)

Control assessment

Judgement is required in applying International Financial Reporting Standard 10, Consolidated Financial Statements, to assess whether the Company controls an investee through power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Company's returns.

e) Share capital

The Company's ordinary shares are classified as equity.

Transaction costs directly attributable to the issuance of share capital (such as legal, finders' and regulatory fees) are recognized as a decrease in share capital net of related income tax effects, if any. Broker or agent warrants issued in a private placement are also included in transaction costs at their estimated fair value on the issue date, as determined using the Black-Scholes Option Pricing Model. An offsetting credit is recorded in equity.

When broker or agent warrants are exercised, the proceeds received together with the amount previously recognized in equity are added to share capital.

f) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net earnings (loss) by the weighted average number of ordinary shares outstanding during the period. Diluted earnings (loss) per share reflect the potential dilution that would occur if stock options and warrants were exercised. Diluted earnings (loss) per share is calculated by dividing net earnings (loss) available to ordinary shareholders by the sum of the weighted average number of ordinary shares outstanding and all additional ordinary shares that would have been outstanding arising from the exercise of potentially dilutive stock options and warrants outstanding during the period.

The Company uses the treasury stock method for outstanding options and warrants which assumes that the proceeds that could be obtained upon exercise of options and warrants are used to purchase the Company's ordinary shares at the average market price during the period. Anti-dilutive amounts are not considered in computing diluted earnings (loss) per share.

g) Foreign currency translation

The Company and its foreign subsidiaries use the Canadian dollar as their functional currencies, which is also the presentation currency of the Company.

Monetary items denominated in foreign currencies are translated to Canadian dollars at the rate of exchange in effect at the balance sheet date. All revenue and expenses denominated in foreign currencies are translated at the monthly average rate in effect at the time of the transaction to approximate the rate on the transaction date. Non-monetary items denominated in foreign currencies are translated to Canadian dollars at the applicable historical rate. Gains or losses on translation are included in profit or loss.

3. Significant accounting policies (continued)

h) Share-based payments

The Company grants stock options to buy ordinary shares of the Company to directors, officers, board advisors, employees, management company employees and consultants of the Company pursuant to the Company's Stock Option Plan. The Board of Directors grants such options for periods of up to ten years, with vesting periods determined at its sole discretion and at prices determined at the grant date.

Under this method, the Company recognizes compensation expense for stock options awarded based on the fair value of the options at the grant date using the Black-Scholes Option Pricing Model. The fair value of the options is amortized over the vesting period and is included in general and administrative expense with a corresponding increase in contributed surplus, a component of equity. The amount recognized as an expense is adjusted to reflect the number of stock options expected to eventually vest.

i) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash net of outstanding bank indebtedness (operating line of credit) as the operating line of credit is considered an integral part of the Company's cash management.

j) Prepaid expenses and deposits

Included in prepaid expenses and deposits are prepayments related to materials, insurance premiums and other deposits required in the normal course of business which are less than one year.

k) Supplies and components

Supplies and components are stated at the lower of cost and net realizable value, with cost being determined using a first-in first-out costing formula. Supplies and components are recorded net of any obsolescence provisions. When there is a significant change in economic circumstances, supplies and components that had been previously written down below cost may be written back up provided the reversal does not exceed the original write down.

l) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided using the following methods and rates, which approximates the useful lives of the assets:

Assets	Method	Rate
Gaming systems	Straight-line	3 - 7 years
Computer equipment	Declining balance	30 – 55%
Office furniture and equipment	Declining balance	20%
Test equipment	Declining balance	20 – 45%
Automotive equipment	Declining balance	30%
Leasehold improvements	Straight-line	Life of the lease

3. Significant accounting policies (continued)

When significant parts of property and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognized in profit or loss as incurred.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end.

m) Intangible assets

Intangible assets consist of acquired software and gaming intellectual property and deferred development costs which are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is provided using the following methods and rates, which approximates the useful lives of the assets:

Assets	Method	Rate
Software	Declining balance	50%
Deferred development costs	Straight-line	3 - 4 years
Gaming intellectual property	Straight-line	3 – 6 years

n) Impairment of long-lived assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit or loss.

An impairment loss is reversed if there is an indication that an impairment loss recognized in prior periods may no longer exist. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized previously. Such reversal is recognized in the profit or loss.

3. Significant accounting policies (continued)

o) Financial instruments

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

The Company categorizes its fair value measurements for financial assets and financial liabilities measured at fair value according to a three level hierarchy which prioritizes the inputs used in the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the overall fair value measurement. The three levels of the fair value hierarchy based on the reliability of inputs are as follows:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date;
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not observable.

Financial assets

Financial assets are classified into one of four categories:

- Financial assets at fair value through profit or loss ("FVTPL");
- Held-to-maturity investments;
- Loans and receivables; and
- Available-for-sale financial assets.

The Company determines the classification of its financial assets at initial recognition, depending on the nature and purpose of the financial asset.

Financial assets at FVTPL are recognized initially at fair value with transaction costs expensed as incurred. All other financial assets are recognized initially at fair value plus directly attributable transaction costs.

3. Significant accounting policies (continued)

The Company's financial assets include cash, accounts receivable and accrued receivables. The subsequent measurement of financial assets depends on their classification as follows:

i. Loans and receivables

The Company has classified cash, accounts receivable and accrued receivables as loans and receivables. These are measured at amortized cost using the effective interest method.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding accounts receivable and accrued receivables, is directly reduced by the impairment loss. The carrying amounts of accounts receivable and accrued receivables are reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the profit or loss.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. The Company determines the classification of its financial liabilities at initial recognition. Financial liabilities at FVTPL are recognized initially at fair value with transaction costs expensed as incurred. All other financial liabilities are recognized initially at fair value, net of transaction costs. The classification of preferred shares as a financial liability does not alter the underlying economic interest of the preferred shareholders in net assets.

Other financial liabilities include bank indebtedness, accounts payable and accrued liabilities, demand term loans, shareholders loans, other related loans, obligations under finance lease and preferred shares. Financial liabilities are measured subsequently at amortized cost using the effective interest method.

3. Significant accounting policies (continued)

p) Convertible debt

Upon issuance, convertible debt is separated into the debt component and the equity component. The debt component of the convertible debt is recognized initially at the fair value of a similar debt instrument without the embedded derivative feature, with the residual being allocated to equity. Subsequent to initial recognition, the debt component is measured at amortized cost using the effective interest method and the equity component is not re-measured.

q) Revenue recognition

The Company earns revenues from the sale and lease of software and hardware, service and support, and installations. These services are set out in the Company's contractual arrangements such that the total price paid by the customer will vary as a result of inclusion or exclusion of various licenses and services.

Sales of hardware and software

Revenue from the sale of hardware is measured at the fair value of the consideration received or receivable, net of estimated returns. Revenue from the sale of hardware is recognized when persuasive evidence exists (usually in the form of an executed sales agreement), the significant risks and rewards of ownership have been transferred to the buyer (usually when hardware has been delivered to the customer), recovery of the consideration is probable, the associated costs and possible return of products can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from the sale of software licenses is recognized upon delivery to the client when it has a stand-alone value and when the post-contract customer support ("PCS") is sold separately. In cases where the fair value of the PCS is not determinable, the revenue from the contract is recognized on a straight line basis over the life of the license. In cases where a license or right is sold for a fixed fee or non-refundable guarantee under a non-cancellable contract which allows the licensee to exploit these rights freely and the licensor has no remaining obligations to perform is considered a sale, the revenue is recognized when the technology or user license is granted, regardless of whether the license is time based or perpetual.

Rental of hardware and software

The Company earns rental revenue from the use of its intangible assets and property and equipment, including a portion based on revenue sharing agreements. Rental revenue earned from the use of the Company's assets is recorded on a daily basis as the assets are used. Revenue earned from revenue sharing is recorded based on the Company's proportionate share of gross receipts when it is probable that economic benefits will flow to the Company and the amount receivable can be measured reliably.

The Company has retained substantially all the risks and rewards of ownership of its assets under rental agreement and therefore accounts for these leases as operating leases. Assets under rental agreement are included in intangible assets and property and equipment.

3. Significant accounting policies (continued)

Service, support and installations

Revenue from the provision of services including customer support, consulting, installations and training is recognized when the amount can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred for the transaction and costs to complete the transaction can be measured reliably.

Multiple-element revenue arrangements

When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit. If the fair value of the delivered item is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered item.

The Company's multiple-element sales arrangements include arrangements where hardware with embedded software licenses and the associated post contract customer support ("PCS") are sold together.

Deferred revenue

Revenue that has been received but does not yet qualify for recognition under the Company's policies is reflected as either deferred revenue (revenue to be recognized in less than one year) or long term deferred revenue (revenue to be recognized in more than one year).

Game revenue

The Company earns shared revenue from its games for the administration of linked session bingo, hall operations and other games. Game revenue is recognized when it is probable that the economic benefits will flow to the Company and the amount receivable can be measured reliably. Hall operation revenue is recognized net of prize payouts.

r) Research and development costs

Research costs are expensed as incurred. Development costs are capitalized as deferred development costs if the product or process and its market or usefulness is clearly defined, the product or process has reached technical feasibility, adequate resources exist or are expected to exist to complete the project and management intends to market or use the product or process. If at any time these criteria are not met, the development costs are expensed as incurred.

3. Significant accounting policies (continued)

s) Government contributions

Government funding of eligible research and development expenditures are credited when earned against product development expenses or the cost of property and equipment to which the funding relate. The Company amortizes the cost of the related property and equipment over its useful life according to the Company's accounting policy relating to property and equipment. The Company recognizes government grants only when there is reasonable assurance that the Company will comply with the conditions attached to the grant and the grant will be received. The Company presents the grant as a deduction of the carrying amount of the asset the grant relates to in the consolidated statement of financial position and the consolidated statement of loss and comprehensive loss over the life of the depreciable assets as a reduced depreciation expense.

t) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in profit or loss.

Current income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred taxes are recorded using the liability method. Under this method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority, and when the Company intends to settle its current tax assets and liabilities on a net basis.

u) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is in profit or loss.

3. Significant accounting policies (continued)

v) Leases

Finance leases

Management applies judgement in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards of incidental ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Company obtains ownership of the asset at the end of the lease term.

The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

Operating leases

All other leases are treated as operating leases. Where the Company is a lessee, payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

w) 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 annual financial statements for the year ended February 29, 2016. Management has not yet assessed the impact on the consolidated financial statements of the following changes that are applicable to the Company:

IFRS 9 – Financial Instruments

IFRS 9 will replace *IAS 39 – Financial Instruments: Recognition and Measurement*. The new standard includes guidance on recognition and derecognition of financial assets and financial liabilities, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 replaces *IAS 11 – Construction Contracts*, *IAS 18 – Revenue* and *IFRIC 13 – Customer Loyalty Programmes*. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

3. Significant accounting policies (continued)

IFRS 16 - Leases

IFRS 16 will replace *IAS 17 – Leases, IFRIC 4 – Determining whether an arrangement contains a lease, SIC 15 – Operating leases and SIC 27 – Evaluating the substance of transactions involving the legal form of a lease.* The new standard provides a single lessee accounting model, requiring a lessee to recognise assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged from IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

IAS 1 – Presentation of Financial Statements

IAS 1 was amended to clarify the use of materiality, disclosure of line items on the statement of financial position and statement of profit or loss and other comprehensive income and possible ways of ordering the notes to the financial statements. The IAS 1 disclosure initiative is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

4. Qualifying Transaction

Amalgamation

Pursuant to the Amalgamation Agreement, eQube and 1824721 Alberta Ltd. ("Subco") amalgamated (the "Amalgamation") 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.

On October 29, 2014, the Company consolidated (the "Consolidation") all of its issued and outstanding ordinary shares (the "Ordinary Shares") and all outstanding options and warrants to purchase Ordinary Shares on the basis of one post-Consolidation Ordinary Share for every three pre-Consolidation Ordinary Shares. Following completion of the Consolidation and pursuant to the Amalgamation (with each Ordinary Share being issued on a post-Consolidation basis):

- the holders of class "A" common shares of eQube ("eQube Class A Shares") received three Ordinary Shares for each eQube Class A Share held in exchange for the issuance to the Company of three common shares of Amalco ("Amalco Common Shares") for each eQube Class A Share so exchanged;
- the holders of class "F" preferred shares of eQube ("eQube Class F Shares") received one preferred share of Amalco ("Amalco Preferred Shares") for each eQube Class F Share held;
- the Company received one Amalco Common Share for each class "A" common share of Subco ("Subco Share") held;
- the holders of Subco Shares (other than the Company and including Subco Shares issued pursuant to the Offerings (as defined below)) received one Ordinary Share for each Subco Share held in exchange for the issuance to the Company of one Amalco Common Share for each Subco Share so exchanged;
- all of the options to purchase eQube Class A Shares ("eQube Options") were replaced with options ("Options") to purchase three Ordinary Shares for each eQube Class A Share issuable on exercise of the eQube Options; and

4. Qualifying Transaction (continued)

- all of the Subco Agent Warrants (as defined below) were replaced with Agent Warrants (as defined below) to purchase one Ordinary Share for each Subco Share issuable on exercise of the Subco Agent Warrants.

Private placement financings

As a condition to and prior to the closing of the Amalgamation, Subco completed a brokered private placement for 5,220,000 class "A" common shares of Subco ("Subco Shares") at a price of $0.50 per Subco Share for gross proceeds of $2,610,000 (the "Brokered Offering"). Subco also completed a non-brokered private placement for 1,355,000 Subco Shares at a price of $0.50 per Subco Share for gross proceeds of $677,500 (the "Non-Brokered Offering"). Collectively, the Brokered Offering and the Non-Brokered Offering are referred to herein as the "Offerings".

Pursuant to the Brokered Offering, the broker received a commission equal to 8% of the aggregate gross proceeds placed under the Brokered Offering, payable in cash, and was paid a corporate finance fee. The broker was also granted warrants by Subco (the "Subco Agent Warrants") to acquire the number of Subco Shares equal to 8% of the total number of Subco Shares sold under the Brokered Offering, exercisable at a price of $0.50 per Subco Agent Warrant for a period of 24 months from the closing date of the Brokered Offering.

Under the Amalgamation: (i) each Subco Share issued pursuant to the Offerings were exchanged for one Ordinary Share; and (ii) the Subco Agent Warrants were replaced with agent warrants ("Agent Warrants") to purchase one Ordinary Share for each Subco Share issuable on exercise of the Subco Agent Warrants.

Reverse acquisition

The substance of the Qualifying Transaction is a reverse acquisition of the non-operating company. The Qualifying Transaction does not constitute a business combination as the accounting acquiree does not meet the definition of a business under IFRS 3. As a result, the Qualifying Transaction has been accounted for as an acquisition of assets with eQube identified as the accounting acquirer and the equity consideration being measured at fair value. The resulting financial statements are presented as a continuation of eQube and comparative amounts presented in the consolidated financial statements after the reverse acquisition are those of eQube.

IFRS 2 applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or services received in return. Because the Company issued shares with a value in excess of the net assets deemed received, IFRS 2 dictates the difference is to be recognized in comprehensive income as a transaction cost. The amount assigned to transaction cost of $2,087,492 is the difference between the fair value of the consideration and the net identifiable assets deemed acquired by eQube and is included in the statement of loss and comprehensive loss as a transaction cost included in other expenses.

(Expressed in Canadian dollars)

4. Qualifying Transaction (continued)

The fair value of the consideration of the Qualifying Transaction includes the fair value of 3,766,667 Ordinary Shares and 372,949 stock options of the Company (being the unexercised stock options of Triox outstanding on the date of Amalgamation). The fair value of the 3,766,667 Ordinary Shares was determined to be $0.50 per share based on the fair value of eQube shares at the time of the Qualifying Transaction.

The fair value of $0.258 per option granted was estimated using the Black-Scholes Option Pricing Model using the following grant date assumptions: exercise price $0.30; amalgamation date stock price $0.50; risk-free rate 1.11%; expected volatility 48.69%; annual dividend yield 0%; expected remaining life of the options of 3 years. The expected volatility is based on historic volatility of similar companies in the public market.

Based on the statement of financial position of the Company at the time of the Qualifying Transaction, the net assets at estimated fair value that were deemed acquired by eQube of negative $107,937, and the resulting transaction cost charged to the statement of loss and comprehensive loss were as follows:

Consideration:		
Ordinary shares	$	1,883,334
Stock options		96,221
	$	1,979,555
Identifiable net assets acquired:		
Cash	$	5,731
Accounts payable and accrued liabilities		(113,668)
Total identifiable net assets acquired		(107,937)
Transaction cost		2,087,492
Total net identifiable assets and transaction cost	$	1,979,555

(Expressed in Canadian dollars)

5. 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 LP, 657255 Alberta Ltd. and TSBN. The acquisition includes assets, intellectual property and existing personnel to operate a linked bingo game in the Province of Alberta. The Company acquired the operations of Alberta Satellite Bingo to provide a complimentary service line to the Company's existing gaming systems in Alberta.

a) Consideration transferred

The table below summarises the acquisition date fair value of each major class of consideration transferred.

Cash at closing date	$	50,000
Contingent consideration		16,764
	$	**66,764**

The contingent consideration, consisting of cash, was a maximum of $25,000. This amount was dependent on the former shareholders meeting certain performance conditions and settling all pre-acquisition expenses of TSBN which totaled $8,236 (Note 5c). The adjusted amount of $16,764 was paid on September 30, 2015.

b) Acquisition related costs

The Company incurred acquisition related costs of $1,139 for legal fees. These costs are included in general and administrative expenses.

c) Identifiable assets acquired and liabilities assumed

The following table summarises the recognized amounts of assets acquired and liabilities assumed at the acquisition date.

(Expressed in Canadian dollars)

5. Acquisition of the Alberta Satellite Bingo business (continued)

	TSBN	657255 Alberta Ltd.	Alberta Satellite Bingo LP	Total
Cash	$ 4,533	$ -	$ 235,950	$ 240,483
Accounts receivable	747	100	62,503	63,350
Supplies and components	-	-	74,860	74,860
Property and equipment	5,004	-	76,334	81,338
Intangible assets	68,878	-	-	68,878
Accounts payable and accrued liabilities	(13,580)	-	(16,960)	(30,540)
	$ 65,582	**$ 100**	**$ 432,687**	**$ 498,369**
Percentage of interest held	100%	100%	0.25%	-

The accounts receivable is comprised of gross contractual amounts due of $63,350, of which $nil is expected to be uncollectible at the acquisition date.

Fair values previously measured on a provisional basis:

- The contingent consideration adjustment was not final at the date of acquisition. During the measurement period, management received all of the pre-acquisition costs which were used to finalise the contingent consideration payment of $16,764 (Note 5a).
- Management has assessed the recoverability of the accrued receivable balance of $119,207 that was recognized at the date of acquisition as $nil based on additional information obtained during the measurement period.

d) Goodwill

Goodwill arising from the acquisition has been recognised as follows.

Consideration transferred	$ 66,764
Non-controlling interest, based on their proportionate interest in the recognised amounts of the assets and liabilities of Alberta Satellite Bingo LP	431,605
Fair value of identifiable net assets	(498,369)
Goodwill	**$ -**

(Expressed in Canadian dollars)

5. Acquisition of the Alberta Satellite Bingo business (continued)

e) Contribution to the consolidated results

The operations of Alberta Satellite Bingo contributed $489,858 of revenue and a net loss of $213,179 to the consolidated net loss for the June 19, 2015 to February 29, 2016 period.

Based on unaudited financial information available, management estimates that if the operations had been acquired on March 1, 2015, the Company's consolidated revenue would have been $5,711,360 and the consolidated net loss would have been $2,519,408.

f) Non-controlling interest ("NCI")

The following table summarises the information relating to the Company's subsidiary as at February 29, 2016 that has a material NCI, before any intra-group eliminations.

	Alberta Satellite Bingo LP	Intra-Group Eliminations	Total
NCI Percentage	99.75%		
Current assets	$ 167,059	$ -	$ 167,059
Non-current assets	59,027	-	59,027
Current liabilities	(30,991)	-	(30,991)
Net assets	$ 195,095	$ -	$ 195,095
Carrying amount of NCI	**$ 194,606**	**$ -**	**$ 194,606**
Revenue	$ 489,858	$ -	$ 489,858
Net loss and comprehensive loss	(237,593)	3,345	(234,248)
Net loss allocated to NCI	**$ (236,999)**	**$ -**	**$ (236,999)**
Net cash flows used in operating activities	$ (235,709)	$ -	$ (235,709)
Net cash flows from financing activities	10,000	-	10,000
Net decrease in cash and cash equivalents	**$ (225,709)**	**$ -**	**$ (225,709)**

(Expressed in Canadian dollars)

6. 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 year ended February 29, 2016, there were no changes in the Company's objectives and policies for capital management.

The Company includes the following in the definition of capital:

	February 29, 2016	February 28, 2015
Demand term loans	**$ 824,252**	$ 1,569,109
Shareholder loans	**455,239**	421,756
Other related loans	**2,681,747**	2,528,226
Obligations under finance lease	**53,765**	-
Preferred shares	**2,060,000**	2,060,000
(Deficiency) equity	**(2,060,202)**	306,179
	$ 4,014,801	$ 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 brokered and non-brokered offerings. 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 29 must not be less than 1.25 to 1. At February 29, 2016 the Company was in violation of this covenant.

7. Financial instruments and risk exposures

<u>Fair value measurement</u>

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, current income tax payable demand term loans, shareholders loans, other related loans, obligations under finance lease and preferred shares.

7. Financial instruments and risk exposures (continued)

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, current income tax payable, demand term loans, shareholders loans, other related loans, obligations under finance lease 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, accounts payable and current accrued liabilities and current income tax payable 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 the non-current accrued liabilities, the demand term loans, shareholders loans, other related loans, obligations under finance lease 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.

<u>Credit risk</u>

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 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.

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 receivables and accrued receivables. As at February 29, 2016, the balance of the allowance account for credit losses was $nil (February 28, 2015 - $nil).

(Expressed in Canadian dollars)

7. Financial instruments and risk exposures (continued)

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 February 29, 2016 and February 28, 2015, by length of time past due, are:

	February 29, 2016	February 28, 2015
1 to 30 days past due	**$ 389,174**	$ 132,108
31 to 60 days past due	**43,691**	41,273
Greater than 60 days past due	**8,391**	-
Total	**$ 441,256**	$ 173,381

As at February 29, 2016, the Company had one customer owing more than $50,000 that accounted for approximately 35% 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 35% of trade accounts receivable (February 28, 2015 – 45%). In addition, the balance in accrued receivables relates primarily to one customer.

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 February 29, 2016, totalled $183,009 (February 28, 2015 - $2,132,829), accounts receivable totalled $537,284 (February 28, 2015 - $381,697), and accrued receivables totalled $1,001,760 (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)

7. Financial instruments and risk exposures (continued)

As at February 29, 2016, the Company had cash of $183,009 (February 28, 2015 - $2,132,829), accounts receivable of $537,284 (February 28, 2015 - $381,697), and current portion of accrued receivables of $559,166 (February 28, 2015 - $460,000) for a total of $1,279,459 (February 28, 2015 - $2,974,526). Current and on demand obligations from bank indebtedness, accounts payable and accrued liabilities, current income tax payable, interest bearing loans, and dividend paying preferred shares total $5,585,089 (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 new debt financing 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 13.

The Company's contractual obligations at February 29, 2016 summarized by fiscal year are as follows:

	On demand	2017	2018	2019	2020	Thereafter	Total
Bank indebtedness	$ 164,574	$ -	$ -	$ -	$ -	$ -	$ 164,574
Current income tax payable	-	41,146	-	-	-	-	41,146
Accounts payable and accrued liabilities	-	850,688	70,364	342,223	-	-	1,263,275
Demand term loans	825,538	-	-	-	-	-	825,538
Shareholder loans	-	105,525	395,238	-	-	-	500,763
Other related loans	-	1,626,640	1,051,731	274,271	-	-	2,952,642
Obligations under finance lease	-	14,071	14,071	21,498	7,892	2,724	60,256
Preferred shares	-	1,956,907	250,671	-	-	-	2,207,578
Total	$ 990,112	$ 4,594,977	$ 1,782,075	$ 637,992	$ 7,892	$ 2,724	$ 8,015,772

The Company's contractual obligations at February 28, 2015 summarized by fiscal year were 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
Shareholder 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.

7. Financial instruments and risk exposures (continued)

At February 29, 2016 the Company was in violation of a lending covenant related to the Company's operating line of credit (Note 11) and demand term loans (Note 13).

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 $3,000 for the year ended February 29, 2016 (February 28, 2015 - $4,600). A 1% appreciation (depreciation) in the Canadian dollar price of Euros would result in gain (loss) of approximately $3,000 (February 28, 2015 - $900).

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 $12,000 for the year ended February 29, 2016 (February 28, 2015 - $22,000).

(Expressed in Canadian dollars)

8. 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 February 29, 2016	$	2,170,000
Included in accounts receivable		-
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:

		February 29, 2016		February 28, 2015
Accrued receivables	**$**	**1,001,760**	$	1,348,670
Less: current portion		**(559,166)**		(460,000)
	$	**442,594**	$	888,670

(Expressed in Canadian dollars)

9. 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	1,713,475	17,701	27,161	37,647	36,007	2,235	1,834,226
Acquisitions through business combinations (Note 5)	72,723	5,702	2,913	-	-	-	81,338
Disposals	(4,741)	-	-	-	-	-	(4,741)
Balance at February 29, 2016	**$ 10,634,586**	**$ 290,514**	**$ 143,517**	**$ 459,317**	**$ 61,306**	**$ 53,234**	**$ 11,642,474**
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	1,591,395	10,459	7,657	13,824	4,486	11,007	1,638,828
Balance at February 29, 2016	**$ 7,639,378**	**$ 265,452**	**$ 106,658**	**$ 391,732**	**$ 29,360**	**$ 43,107**	**$ 8,475,687**
Carrying amounts							
At February 28, 2015	$ 2,805,146	$ 12,118	$ 14,442	$ 43,762	$ 425	$ 18,899	$ 2,894,792
At February 29, 2016	**$ 2,995,208**	**$ 25,062**	**$ 36,859**	**$ 67,585**	**$ 31,946**	**$ 10,127**	**$ 3,166,787**

As at February 29, 2016 the net carrying amount for gaming systems and automotive equipment under finance lease was $56,397 (February 28, 2015: $nil).

As at February 29, 2016, gaming systems which were not yet available for use had a carrying value of $434,859 (February 28, 2015: $nil).

(Expressed in Canadian dollars)

10. 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	-	177,382	68,593	245,975
Acquisitions through business combinations (Note 5)	-	-	68,878	68,878
Derecognition of fully amortized intangible assets	(62,580)	-	-	(62,580)
Balance at February 29, 2016	**$ 30,961**	**$ 764,488**	**$ 137,471**	**$ 932,920**
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	8,989	137,217	29,276	175,482
Derecognition of fully amortized intangible assets	(62,504)	-	-	(62,504)
Balance at February 29, 2016	**$ 21,663**	**$ 419,208**	**$ 29,276**	**$ 470,147**
Carrying amounts				
At February 28, 2015	$ 18,363	$ 305,115	$ -	$ 323,478
At February 29, 2016	**$ 9,298**	**$ 345,280**	**$ 108,195**	**$ 462,773**

During the year ended February 29, 2016, the Company recorded impairments of intangible assets of $nil (February 28, 2015 - $5,490). In the prior year, management determined that certain games under development were not likely to be commercially feasible and stopped development of those games. The full amount of the previously capitalized cost of the games were written off.

During the year ended February 29, 2016, the Company incurred $nil (February 28, 2015 - $nil) in research costs.

11. Bank indebtedness

The Company has a credit facility arrangement that provides an operating line of credit of $250,000 at February 29, 2016 (February 28, 2015 - $250,000). The operating line bears interest at the bank's prime rate plus 4.00% which totalled 6.70% at February 29, 2016 (February 28, 2015 – 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 $164,574 drawn on the operating line at February 29, 2016 (February 28, 2015 - $117,440).

(Expressed in Canadian dollars)

11. Bank indebtedness (continued)

Under the Company's credit facilities for the operating line of credit and demand term loans (Note 13), the annual debt service coverage ratio must not be less than 1.25 to 1. At February 29, 2016 the Company was in violation of this covenant.

12. Accounts payable and accrued liabilities

	February 29, 2016	February 28, 2015
Trade payables	**$ 468,945**	$ 199,237
Accrued liabilities	**710,143**	293,609
	$ 1,179,088	$ 492,846
Less current portion:		
Trade payables	**$ 468,945**	$ 199,237
Accrued liabilities	**323,287**	293,609
	$ 792,232	$ 492,846
Long-term portion:		
Trade payables	**$ -**	$ -
Accrued liabilities	**386,856**	-
	$ 386,856	$ -

On June 1, 2015 the Company entered into a financial arrangement with a supplier of gaming systems. The liability is classified under accrued liabilities. The arrangement has no term or fixed repayment amount and bears an annual interest rate of 8%. The monthly repayments are based on the higher of 1% of the outstanding balance or a percentage of revenue collected from the operation of the gaming systems. The amount included in accrued liabilities as at February 29, 2016 is $436,442 (February 28, 205 - $nil).

13. Demand term loans

The Company has the following demand term loans:

a) Demand term loan in the amount of $450,000 (February 28, 2015 - $900,000). At February 29, 2016, $450,000 was drawn on the loan (February 28, 2015 - $900,000). The demand term loan bears interest at the bank's prime rate plus 5.0% which totalled 7.70% at February 29, 2016 (February 28, 2015 – prime plus 4.0% which totalled 6.85%). Interest is payable monthly and principal is repayable in a final annual payment of $450,000 on July 1, 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.

(Expressed in Canadian dollars)

13. Demand term loans (continued)

b) Demand term loan in the amount of $900,000 (February 28, 2015 - $900,000). The amount drawn on the loan at February 29, 2016 was $375,538 (February 28, 2015 - $675,538). The demand term loan bears interest at the bank's prime rate plus 5.0% which totalled 7.70% at February 29, 2016 (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.

	February 29, 2016	February 28, 2015
Demand term loans	**$ 825,538**	$ 1,575,538
Less debt issuance costs, net of accumulated amortization of $16,714 (February 28, 2015 - $11,571)	**(1,286)**	(6,429)
	$ 824,252	$ 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 year ended February 29, 2016 interest expense of $88,207 (February 28, 2015 - $124,684) was recorded and is included in finance costs (Note 23).

Under the Company's credit facilities for the operating line of credit (Note 11) and demand term loans, the annual debt service coverage ratio must not be less than 1.25 to 1. At February 29, 2016 the Company was in violation of this covenant.

(Expressed in Canadian dollars)

14. Related party transactions

a) Shareholder loans and other related loans

	February 29, 2016	February 28, 2015
Shareholder loans		
Loan, bearing interest at 18% to April 30, 2013 then 10% thereafter, monthly interest only payments of $1,318 until March 1, 2017 (February 28, 2015 – monthly payments of $12,011 beginning November 28, 2014, maturing May 28, 2016).	**$ 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 November 28, 2014, maturing on November 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 November 28, 2014, maturing on November 28, 2015).	**67,767**	75,927
Loan, bearing interest at 10%, monthly interest only payments of $500 and the borrower has the option to settle principal amount at any time.	**60,000**	-
Other related loans		
Loan, bearing interest at 9.5%, monthly payments of $64,066 beginning November 1, 2014, maturing on October 28, 2017.	**1,235,010**	1,804,766
Loan, bearing interest at 9.5%, monthly payments of $29,866 beginning June 21, 2014, maturing on May 21, 2017.	**447,171**	723,460
Loan, bearing interest at 10%, monthly payments of $16,134 beginning October 17, 2015, maturing on September 17, 2018.	**451,531**	-
Loan, bearing interest at 10%, monthly payments of $16,134 beginning December 31, 2015, maturing on January 1, 2019.	**488,035**	-
Loan, bearing interest at 12%, monthly interest only payments of $600 beginning December 7, 2015, maturing on June 6, 2017.	**60,000**	-
	$ 3,136,986	$ 2,949,982
Less current portion:		
Shareholder loans	**$ 60,000**	$ 304,704
Other related loans	**$ 1,433,312**	$ 926,660
Long-term portion:		
Shareholder loans	**$ 395,239**	$ 117,052
Other related loans	**$ 1,248,435**	$ 1,601,566

14. 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 13).

The shareholder and other related loans contain demand features. The lenders have waived the demand provisions for not less than 365 days after February 29, 2016.

On November 27, 2015, the Company entered into a financing arrangement for a demand term loan in the amount of $60,000 from an entity controlled by a shareholder of the Company. The loan bears interest at 10% per annum with the principal amount due at the option of the borrower.

On March 31, 2014, the Company entered into a 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 February 29, 2016 was $1,682,181 (February 28, 2015 - $2,528,226) and is 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.

On September 17, 2015, the Company entered into a financing arrangement for a demand term loan in the amount of $500,000 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 February 29, 2016 was $451,531 (February 28, 2015 - $nil) and is included in “other related loans”. The proceeds of this loan were used to purchase equipment for customer deployment. The loan is secured by a first charge over the purchased equipment.

On December 7, 2015, the Company entered into a financing arrangement for a demand term loan in the amount of $60,000 from an entity controlled by a shareholder of the Company. The loan has an eighteen-month term. The loan bears interest at 12% per annum with the principal amount due upon demand at the end of the loan term.

On December 10, 2015, the Company entered into a financing arrangement for a demand term loan in the amount of $500,000 from an entity controlled by a director of the Company. Each draw under the agreement has a three year term. The loan bears interest at 10% per annum with monthly payments of $16,134. The amount drawn on the loan at February 29, 2016 was $488,035 (February 28, 2015 - $nil) and is included in “other related loans”. The proceeds of this loan were used to purchase equipment for customer deployment. The loan is secured by a first charge over the purchased equipment.

During the year ended February 29, 2016, interest expense on shareholder and other related loans of $283,131 (February 28, 2015 - $210,796) was recorded as expense and is included in finance costs (Note 23).

Subsequent to year end, the Company entered into financing arrangements with entities related to the Company for loan proceeds of $100,000 (Note 28).

(Expressed in Canadian dollars)

14. Related party transactions (continued)

b) Key management compensation

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

		2016		2015
Short-term employee benefits	$	**464,619**	$	350,909
Share-based payments		**5,665**		243,127
	$	**470,284**	$	594,036

Stock options granted to board advisors during the year ended February 28, 2015 vested when they received regulatory approval to become directors. During the year ended February 29, 2016 all board advisors received regulatory approval and were appointed to the Board of 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 employee benefits consist of wages and salaries paid or payable to employees, accrued vacation, and other benefits paid or payable within 12 months.

c) Other related party transactions

As at February 29, 2016 accrued receivables includes $49,772 (February 28, 2015 - $nil) due from an entity controlled by an officer of the Company.

15. Finance lease obligations

The Company has finance leasing arrangements related to gaming systems and automotive equipment. As at February 29, 2016 the net carrying amount for the gaming systems and automotive equipment under a finance lease was $56,397 (February 28, 2015: $nil). The finance lease repayments are due as follows:

		Future minimum lease payments		Future finance costs		Present value of minimum lease payments
February 29, 2016						
Less than one year	$	**14,071**	$	**2,796**	$	**11,275**
Between one and five years		**46,185**		**3,695**		**42,490**
	$	**60,256**	$	**6,491**	$	**53,765**

(Expressed in Canadian dollars)

16. Income taxes

a) Income tax expense

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rates to income before tax. These differences result from the following:

	February 29, 2016	February 28, 2015
Net loss before tax	**$ (2,470,572)**	$ (5,580,780)
Statutory income tax rates	**26.33%**	25.00%
Expected income tax recovery	**(650,502)**	(1,395,195)
Adjusted for the effects of:		
Change in tax rates and rate differences	**8,816**	(96,471)
Non-deductible amounts	**66,425**	645,302
Change in unrecognized deferred tax assets	**527,986**	1,052,865
Effect of tax rate in foreign jurisdictions	**24,517**	-
Income taxed in the hands of non-controlling interest	**81,446**	-
Prior period tax adjustments	**(16,808)**	(15,542)
Actual income tax expense (recovery)	**$ 41,880**	$ 190,959
Represented by:		
Current tax expense	**$ 41,880**	$ -
Deferred tax expense (recovery)	**-**	190,959
Total income tax expense (recovery)	**$ 41,880**	$ 190,959

(Expressed in Canadian dollars)

16. Income taxes (continued)

b) Deferred tax assets and liabilities

The Company's deferred tax assets and deferred tax liabilities are attributable to the following:

	February 29, 2016	February 28, 2015
Non-capital losses	**$ 486,794**	$ 610,617
Deferred tax assets	**486,794**	610,617
Offset of tax	**(486,794)**	(610,617)
Net deferred tax assets	**$ -**	$ -
Property, plant and equipment	**$ (127,667)**	$ (187,347)
Intangible assets	**(110,727)**	(78,270)
Accrued receivables	**(248,400)**	(345,000)
Deferred tax liabilities	**(486,794)**	(610,617)
Offset of tax	**486,794**	610,617
Net deferred tax liabilities	**$ -**	$ -

Deferred tax assets have not been recognized in respect of the following item:

	February 29, 2015	February 28, 2015
Tax losses	**$ 2,415,033**	$ 2,140,982
Deductible temporary differences	**164,504**	202,512
Total	**$ 2,579,537**	$ 2,343,494

In order to recognize deferred tax assets, an entity must be able to demonstrate that it is probable that future taxable income will be available against which the entity can utilize the benefits of the deferred tax assets. For tax losses, an entity must demonstrate through both current year and forecasted profitability that it will definitively be able to utilize the losses in a future period. The Company's subsidiaries which have tax losses did not meet this requirement as at February 29, 2016.

(Expressed in Canadian dollars)

16. Income taxes (continued)

c) Loss carryforwards

The Canadian non-capital losses expire between the tax years ending February 28, 2031 and 2036. The United States and Hong Kong business losses can be carried forward indefinitely.

17. 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	-
Exchange of shares pursuant to the Amalgamation	(2,060,000)	2,060,000
Balance at February 29, 2016 and February 28, 2015	**$ -**	**$ 2,060,000**

	February 29, 2016	February 28, 2015
Current portion	**$ 1,810,000**	$ -
Long-term portion	**250,000**	2,060,000
	$ 2,060,000	$ 2,060,000

During the year ended February 29, 2016 no Amalco Preferred shares were issued (February 28, 2015 - 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 $206,564 for the year ended February 29, 2016 (February 28, 2015 - $205,329), which are included in finance costs (Note 23).

Pursuant to the Amalgamation, the holders of the eQube Class F Shares received one preferred share of Amalco ("Amalco Preferred Shares") for each eQube Class F Share held. The Amalco Preferred Shares are redeemable by Amalco at any time and are retractable by the holder no sooner than the third anniversary after the original issuance which occurred between October 1, 2013 and April 2, 2014. The Amalco Preferred Shares have a cumulative dividend rate of 10% which is paid on a quarterly basis.

As at February 29, 2016 $1,810,000 (February 28, 2015 - $nil) were retractable within the next twelve months. Subsequent to year end, holders of $800,000 of the current portion of preferred shares have agreed to not redeem their preferred shares until April 30, 2017, $910,000 of the current portion and $100,000 of the long-term portion of preferred shares have agreed to not redeem their preferred shares until April 30, 2018.

(Expressed in Canadian dollars)

18. 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 February 28, 2014	18,234,402	$	2,958,800
eQube private placement	285,000		142,500
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	558,000		52,341
Balance at February 29, 2016	**30,220,727**	**$**	**8,135,041**

As at February 29, 2016, 7,748,718 (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 May 4, 2016 and every six months thereafter.

19. Warrants

	Number		**Warrants**
Balance at 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
Estimation of Consideration Warrants to vest*	(5,932,545)		(148,313)
Balance at February 29, 2016	**440,400**	**$**	**63,866**

* 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.

19. Warrants (continued)

Broker Warrants

On May 20, 2014, eQube entered into a non-brokered private placement finder's fee agreement. Under the terms of the agreement, the agent received a finder's fee of 8% of gross proceeds raised for the sale of class "A" shares of eQube and share purchase warrants (the "eQube Broker Warrants") equal to 8% of the number of securities purchased by investors under the offering.

During the year ended February 28, 2015, 95,000 class "A" shares (285,000 Ordinary Shares post-Amalgamation) were issued for gross proceeds of $142,500. In the year ended February 28, 2015, cash commissions of $11,400 were paid and 7,600 eQube Broker Warrants were issued to the broker. The eQube Broker Warrants have an exercise price of $1.50 and expire June 13, 2016. The fair value of $0.436 per eQube Broker Warrant granted was estimated using the Black-Scholes Option Pricing Model using the following grant date assumptions: grant date stock price $1.50; risk-free rate 1.11%; expected volatility 51.23%; annual dividend yield 0%; expected remaining life of the options of 2 years. The expected volatility is based on historic volatility of similar companies in the public market. The total transaction costs of the non-brokered private placement, including the eQube Broker Warrants, amounted to $14,714 which were recorded as a reduction of share capital.

Pursuant to the Amalgamation, 7,600 eQube Broker Warrants were replaced with 22,800 broker warrants to purchase Ordinary Shares of the Company (the "Broker Warrants") at an exercise price of $0.50 and expiring June 13, 2016.

Agent Warrants

As a condition to and prior to the closing of the Amalgamation, Subco completed a brokered private placement for class "A" common shares of Subco ("Subco Shares") at a price of $0.50 per Subco Share (the "Brokered Offering").

Pursuant to the Brokered Offering, the broker received a commission equal to 8% of the aggregate gross proceeds placed under the Brokered Offering, payable in cash, and was paid a corporate finance fee. The broker was also granted warrants by Subco (the "Subco Agent Warrants") to acquire that number of Subco Shares equal to 8% of the total number of Subco Shares sold under the Brokered Offering.

During the year ended February 28, 2015, 5,220,000 Subco shares were issued for gross proceeds of $2,610,000. In the year ended February 28, 2015, cash commissions and other fees of $343,116 were paid and 417,600 Subco Agent Warrants were issued to the broker. The Subco Agent Warrants have an exercise price of $0.50 and expire October 30, 2016. The fair value of $0.145 per Subco Agent Warrant granted was estimated using the Black-Scholes Option Pricing Model using the following grant date assumptions: grant date stock price $0.50; risk-free rate 1.00%; expected volatility 51.23%; annual dividend yield 0%; expected remaining life of the options of 2 years. The expected volatility is based on historic volatility of similar companies in the public market. The total transaction costs of the Brokered Offering, including the Subco Agent Warrants, amounted to $403,668 which were recorded as a reduction of share capital.

19. Warrants (continued)

Under the Amalgamation, each Subco Share issued pursuant to the Offerings was exchanged for one Ordinary Share and the Subco Agent Warrants were replaced with agent warrants ("Agent Warrants") to purchase one Ordinary Share of the Company for each Subco Share issuable on exercise of the Subco Agent Warrants.

Consideration Warrants

Pursuant to the Catalyst Agreement, at the closing of the Amalgamation, the Company delivered warrants ("Consideration Warrants") to purchase Ordinary Shares to Catalyst. Under the terms of the agreement Catalyst will identify strategic growth opportunities for the Company. The exercise of the Consideration Warrants is conditional, among other things, on if such opportunities are approved by the Company's Board of Directors and the opportunity results in certain benchmark achievements ("Benchmark Success", as that term is defined in the Catalyst Agreement). If Benchmark Success has been achieved, then Catalyst will be deemed to have exercised the Consideration Warrants and the Company shall issue and deliver Ordinary Shares that on payout equal to 20% of the then-enlarged capital of the Company, up to a maximum of 54,000,000 Ordinary Shares.

The fair value of $0.250 per Consideration Warrant granted was estimated using the Black-Scholes Option Pricing Model using the following grant date assumptions: grant date stock price $0.50; risk-free rate 1.11%; expected volatility 48.69%; annual dividend yield 0%; expected remaining life of the options of 3.33 years. The expected volatility is based on historic volatility of similar companies in the public market.

As at February 29, 2016 management concluded that Benchmark Success will not occur before the agreement expiry on April 30, 2016. Therefore, the warrants will expire and be cancelled effective February 29, 2016. This resulted in a reversal of $148,313 compensation expense recognized over the life of the Catalyst Agreement.

The total recovery of the Consideration Warrants recognized during the year ended February 29, 2016 of $148,313 (February 28, 2015 – cost of $148,313) was recorded as general and administrative expense and a decrease (February 28, 2015 – increase) to warrants (a component of equity). The amount recognized reflects management's estimate of the number of Consideration Warrants expected to ultimately vest, which as at February 29, 2016 is estimated to be nil (February 28, 2015 – 5,932,545) based on the issued and outstanding ordinary shares of the Company. No warrants vested and 5,932,545 warrants expired under this agreement on April 30, 2016.

20. Share-based compensation

The Company's Stock Option Plan (the "Plan"), as approved by the Board of Directors, allows for the issuance of options to purchase ordinary shares of the Company up to a maximum of 10% (February 28, 2015 – 10%) of the issued and outstanding ordinary shares of the Company. Pursuant to the Plan, options may be granted by the Board of Directors to directors, officers, board advisors, employees, management company employees and consultants of the Company. The terms of the option vesting period, exercise price and life are affixed by the Board of Directors at the time of grant.

(Expressed in Canadian dollars)

20. Share-based compensation (continued)

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
Granted	75,000		0.50		0.030
Exercised	(558,000)		0.09		0.007
Expired	(123,291)		0.17		0.071
Forfeited	(250,000)		0.50		0.169
Balance at February 29, 2016	2,000,000	$	0.50	$	0.135
Options exercisable at February 29, 2016	**1,950,000**	**$**	**0.50**	**$**	**0.137**
Options exercisable at February 28, 2015	1,981,291	$	0.36	$	0.095

The Options outstanding as at February 29, 2016 have an exercise price of $0.50 and a weighted average remaining contractual life of 5.74 years (February 28, 2015 – exercise prices ranging from $0.09 - $0.50 and weighted average remaining contractual life of 5.45 years).

Pursuant to the Amalgamation, all of the options to purchase eQube Class A Shares (“eQube Options”) were replaced with options (“Options”) to purchase three Ordinary Shares for each eQube Class A Share issuable on exercise of the eQube Options and 372,949 Options (after giving effect to the Consolidation, Note 4) were acquired.

The total share-based compensation recognized during the year ended February 29, 2016, including options previously granted that vested during the period, of $7,165 (February 28, 2015 - $251,278) was recorded as an expense and an increase to contributed surplus.

On July 1, 2015, the Company granted options to purchase 75,000 Ordinary Shares to an employee of the Company. A third of the options vested immediately, a third vesting on July 1, 2016 and the final third vesting on July 1, 2017. The options have an exercise price of $0.50 and expire on June 30, 2025. The fair value of $0.03 per option granted was estimated using the Black-Scholes Option Pricing Model using the following assumptions: grant date stock price $0.24; risk free rate 0.45%; expected volatility 48.69%; annual dividend yield 0%; expected remaining life of the options of 3 years. The expected volatility is based on historic volatility of similar companies in the public market.

20. Share-based compensation (continued)

During the year ended February 28, 2015, the Company granted Options to purchase 1,350,000 Ordinary Shares to certain directors, officers, board advisors, employees, management company employees and consultants of the Company immediately after the closing of the Amalgamation. Of these options, 700,000 vested immediately and 650,000 will vest when the board advisors become directors, which is pending regulatory approval. These options have an exercise price of $0.50 and expire 10 years from the date of issue. The fair value of $0.169 per option granted was estimated using the Black-Scholes option pricing model using the following grant date assumptions: grant date stock price $0.50; risk-free rate 1.11%; expected volatility 48.69%; annual dividend yield 0%; expected remaining life of the options of 3 years. The expected volatility is based on historic volatility of similar companies in the public market.

For the year ended February 29, 2016, 558,000 Options were exercised for proceeds of $50,220. The weighted average share price at the date of exercise was $0.21.

During the year ended February 28, 2015, the weighted average share price at the date of exercise was $0.47. The exercise of 324,658 of the Options was considered a non-cash transaction as payment for the Options in the amount of $97,415 was received by the Company prior to the Amalgamation and included in the acquired net assets described in Note 4.

21. Segment information

For the year ended February 29, 2016, the Company has identified three operating segments: eBingo, Linked Games and Hall Operations. In identifying these operating segments, management generally assesses results of these three service lines. Each of these operating segments are managed separately as each requires different resource allocations and performance assessment. For comparative purposes, the 2015 segmented information was adjusted to conform to the new basis of presentation.

All inter – segment transactions are carried out at arm’s length prices based on prices charged to unrelated customers in standalone sales of identical goods or services. For management purposes, the Company uses the same measurement policies as those used in its consolidated financial statements.

(Expressed in Canadian dollars)

21. Segment information (continued)

Segmented results for the year ended February 29, 2016 were as follows:

	eBingo	Linked Games	Hall Operations	Total
Sales, service and other revenue	$ 4,687,811	$ 567,890	$ 126,241	$ 5,381,942
Expenses				
Direct costs	1,323,677	381,127	32,005	1,736,809
General and administrative expenses	3,308,919	301,925	26,635	3,637,479
Impairment of supplies and components	76,458	-	-	76,458
(Loss) Gain before other expenses (income)	(21,243)	(115,162)	67,601	(68,804)
Finance income	(18,545)	-	-	(18,545)
Finance costs	616,584	(188)	-	616,396
Depreciation and amortization	1,764,208	47,579	-	1,811,787
Gain on disposal of property and equipment	(9,087)	(1,000)	-	(10,087)
Foreign exchange (gain) loss	(6,640)	(2,832)	11,689	2,217
(Loss) gain before income taxes	(2,367,763)	(158,721)	55,912	(2,470,572)
Income tax expense	41,880	-	-	41,880
Net (loss) earnings and comprehensive (loss) earnings	$ (2,409,643)	$ (158,721)	$ 55,912	$ (2,512,452)
Non-current assets	$ 3,458,330	$ 171,230	$ -	$ 3,629,560

(Expressed in Canadian dollars)

21. Segment information (continued)

Segmented results for the year ended February 28, 2015 were as follows:

	eBingo	Linked Games	Hall Operations	Total
Sales, service and other revenue	**$ 4,634,821**	**$ -**	**$ -**	**$ 4,634,821**
Expenses				
Direct costs	2,164,334	-	-	2,164,334
General and administrative expenses	3,735,748	-	-	3,735,748
Impairment of supplies and components	43,671	-	-	43,671
Impairment of intangible assets	5,490	-	-	5,490
Loss before other expenses (income)	**(1,314,422)**	-	-	**(1,314,422)**
Finance income	(13,924)	-	-	(13,924)
Finance costs	577,159	-	-	577,159
Depreciation and amortization	1,622,737	-	-	1,622,737
Loss on disposal of property and equipment	56,022	-	-	56,022
Foreign exchange gain	(63,128)	-	-	(63,128)
Transaction cost	2,087,492	-	-	2,087,492
Loss before income taxes	**(5,580,780)**	-	-	**(5,580,780)**
Income tax expense	190,959	-	-	190,959
Net loss and comprehensive loss	**$ (5,771,739)**	**$ -**	**$ -**	**$ (5,771,739)**
Non-current assets	**$ 3,218,270**	**$ -**	**$ -**	**$ 3,218,270**

(Expressed in Canadian dollars)

21. Segment information (continued)

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 entered into the bingo hall operations in Ireland during the year ended February 29, 2016. 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	
	2016	2015	**2016**	2015
Canada	**$ 2,605,695**	$ 2,186,161	**$ 1,401,369**	$ 2,112,952
United States	**1,853,726**	2,123,465	**802,313**	730,263
Ireland and other	**922,521**	325,195	**1,425,878**	375,055
	$ 5,381,942	$ 4,634,821	**$ 3,629,560**	$ 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 year ended February 29, 2016, $1,793,025 or 33.32% (February 28, 2015 - $2,850,567 or 61.50%) of the Company's revenues depended on one customer (February 28, 2015 - 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:

	2016	2015
Hardware and software rentals	**$ 2,963,620**	$ 2,191,240
Customer support and other services	**1,659,341**	1,618,581
Game revenue	**694,132**	-
Hardware and software sales	**64,849**	825,000
	$ 5,381,942	$ 4,634,821

(Expressed in Canadian dollars)

22. General and administrative expenses

		2016		2015
Compensation and benefits	$	**1,988,518**	$	2,007,933
Professional fees		**469,351**		867,399
Advertising and promotion		**464,182**		184,601
Office and other		**407,359**		224,499
Rent		**240,523**		154,269
Business taxes, insurance and licenses		**215,859**		148,734
Consideration Warrants (Note 19)		**(148,313)**		148,313
	$	**3,637,479**	$	3,735,748

23. Finance income and costs

		2016		2015
Finance income				
Interest income	$	**(18,545)**	$	(13,924)
Finance costs				
Interest on short-term debt and accounts payable		**19,071**		29,758
Interest on finance leases		**14,280**		1,450
Interest on demand term loans		**88,207**		124,684
Interest on shareholders and other related loans		**283,131**		210,796
Dividends on preferred shares		**206,564**		205,329
Amortization of finance fees		**5,143**		5,142
	$	**616,396**	$	577,159

24. 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 it is possible, but not probable that the claim will be successful 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 it is possible, but not probable that the claim will be successful and no provision relating to the claim has been recorded in these financial statements.

(Expressed in Canadian dollars)

25. Commitments

	Edmonton	Las Vegas	Ireland	Total
Less than one year	$ 103,163	$ 67,447	$ 29,058	$ 199,668
Between one and five years	34,388	2,932	-	37,320
Over five years	-	-	-	-
	$ 137,551	$ 70,379	$ 29,058	$ 236,988

26. Supplemental cash flow information

	February 29, 2016	February 28, 2015
Change in non-cash operating working capital:		
Accounts receivable	**$ (92,237)**	$ (140,164)
Accrued receivables	**(99,166)**	23,978
Supplies and components	**(48,952)**	18,785
Current income taxes	**41,146**	-
Prepaid expenses and deposits	**218,918**	111,267
Accounts payable and accrued liabilities	**655,702**	(236,099)
Deferred revenue	-	(785,735)
	$ 675,411	$ (1,007,968)
Supplementary information:		
Increase in finance lease obligations	**$ 61,261**	$ -
Current income taxes paid	**$ 734**	$ -

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

	February 29, 2016	February 28, 2015
Cash	**$ 183,009**	$ 2,132,829
Bank indebtedness	**(164,574)**	(117,440)
	$ 18,435	$ 2,015,389

(Expressed in Canadian dollars)

27. Loss per share

		2016		2015
Net loss attributable to owners of the Company	**$**	**(2,275,453)**	$	(5,771,739)
Basic weighted average number of ordinary shares		**30,174,227**		22,123,844
Diluted weighted average number of ordinary shares		**30,174,227**		22,123,844
Basic loss per share	**$**	**(0.08)**	$	(0.26)
Diluted loss per share	**$**	**(0.08)**	$	(0.26)

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 year ended February 29, 2016 and February 28, 2015, 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.

28. Post reporting events

The following events occurred subsequent to February 29, 2016:

Preferred shares

Subsequent to year end, holders of $800,000 of the current portion of preferred shares have agreed to not redeem their preferred shares until April 30, 2017, $910,000 of the current portion and $100,000 of the long-term portion of preferred shares have agreed to not redeem their preferred shares until April 30, 2018.

Related party transactions

On March 1, 2016, the Company entered into a financing arrangement for a demand term loan in the amount of $100,000 from a shareholder of the Company. The loan bears interest at 10% per annum with the principal amount due upon demand by the lender.

Other transactions

On March 21, 2016, the Company entered into a financing arrangement for a demand term loan in the amount of $300,000. The loan has a fifteen month term. The loan bears interest at 12% per annum from the effective date until June 30, 2016 and 7% for the remainder of the term, with the principal amount due in full at the end of the loan term.

28. Post reporting events (continued)

On May 2, 2016, the Company entered into a financing agreement for a secured loan in the amount of $4,000,000. The loan has a thirty-two month term and bears interest at 10% per annum with monthly payments of $142,924. $1,947,000 of these funds were used to payout demand loans due to a company controlled by a director of the Company.