

JACKPOT DIGITAL INC.

Condensed Consolidated Interim Financial Statements Nine Months Ended September 30, 2020 and 2019 (Expressed in Canadian Dollars) (Unaudited)

| <u>Index</u> | <u>Page</u> |
|--|--------------------|
| Notice of No Auditor Report | 2 |
| Condensed Consolidated Interim Financial Statements | |
| Condensed Consolidated Balance Sheets | 3 |
| Condensed Consolidated Statements of Comprehensive Loss | 4 |
| Condensed Consolidated Statements of Changes in Shareholders' Deficiency | 5 |
| Condensed Consolidated Statements of Cash Flows | 6 |
| Notes to Condensed Consolidated Financial Statements | 7 – 39 |

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed consolidated interim financial statements as at September 30, 2020 and for the nine months ended September 30, 2020 and 2019.

JACKPOT DIGITAL INC.
Condensed Consolidated Balance Sheets
(Expressed in Canadian Dollars)

| | September 30, 2020 | December 31, 2019 |
|--|-------------------------------|------------------------------|
| | | (audited) |
| Assets (note 10) | | |
| Current | | |
| Cash and cash equivalents (note 5) | \$ - | \$ 37,545 |
| Accounts receivable (note 5) | 71,929 | 337,058 |
| Due from related parties (note 8) | 149,344 | 130,445 |
| Prepaid expenses and deposits (note 13) | 60,938 | 53,688 |
| | 282,211 | 558,736 |
| Deposits | 24,948 | 29,107 |
| Gaming Systems | 2,460,873 | 2,827,910 |
| Investment in 37 Capital Inc. (note 9) | 4,064 | 4,673 |
| Equipment | 51,895 | 62,452 |
| Intangible Assets | 673,149 | 948,528 |
| Right-of Use Assets (note 11) | - | 178,876 |
| Total Assets | \$ 3,497,140 | \$ 4,610,282 |
| Liabilities | | |
| Current | | |
| Checks issued in excess of funds on deposit (note 5) | \$ 10,553 | \$ - |
| Accounts payable and accrued liabilities (note 10) | 1,558,487 | 1,309,393 |
| Lease liability (note 11) | - | 191,685 |
| Interest payable | 2,569,835 | 1,982,537 |
| Deferred revenue (note 12) | 46,624 | 46,624 |
| Loans payable (note 10) | 811,189 | 719,576 |
| Due to related parties (note 8) | 80,572 | 8,336 |
| Convertible debentures (note 10) | 2,707,400 | 2,169,614 |
| Non-convertible secured debentures (note 10) | 2,657,292 | 2,392,799 |
| Refundable subscription | - | 75,000 |
| | 10,441,952 | 8,895,564 |
| Deferred Revenue (note 12) | 495,034 | 482,659 |
| Total Liabilities | 10,936,986 | 9,378,223 |
| Shareholders' Deficiency | | |
| Capital Stock (note 7) | 52,224,590 | 52,224,590 |
| Reserves (note 7) | 1,307,061 | 2,337,109 |
| Convertible Debentures - Equity Portion (note 10) | 219,966 | 120,603 |
| Deficit | (61,191,463) | (59,450,243) |
| Total Shareholders' Deficiency | (7,439,846) | (4,767,941) |
| Total Liabilities and Shareholders' Deficiency | \$ 3,497,140 | \$ 4,610,282 |

On behalf of the Board:

"Jake H. Kalpakian" (signed)

.....
 Jake H. Kalpakian, Director

"Neil Spellman" (signed)

.....
 Neil Spellman, Director

JACKPOT DIGITAL INC.
Condensed Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|------------------------------------|-------------|-----------------------------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues | | | | |
| Electronic gaming tables | \$ 76,117 | \$ 478,945 | \$ 528,424 | \$ 1,715,587 |
| Royalty expense | 105 | 9,612 | 8,233 | 29,075 |
| Licensing fee | - | 4,205 | - | 74,341 |
| Cost of sales | 63,290 | 131,280 | 220,249 | 510,588 |
| | 63,395 | 145,097 | 228,482 | 614,004 |
| Gross Profit | 12,722 | 333,848 | 299,942 | 1,101,583 |
| Expenses | | | | |
| Advertising and promotion | - | 30,030 | 5,891 | 103,626 |
| Amortization | 228,558 | 270,382 | 828,119 | 798,247 |
| Consulting fees | 36,277 | 22,769 | 93,108 | 72,746 |
| Donation | - | - | 1,000 | - |
| Foreign exchange loss/(gain) | (112,283) | 84,781 | 97,871 | (184,222) |
| Interest expense and finance expense | 336,781 | 223,155 | 1,015,761 | 697,762 |
| Legal, accounting and audit | 9,774 | 49,950 | 62,927 | 92,108 |
| Management fees | 99,000 | 99,000 | 297,000 | 297,000 |
| Regulatory and transfer agent fees | 7,875 | 19,915 | 60,979 | 100,166 |
| Rent, office and miscellaneous | 41,281 | 100,405 | 51,488 | 304,509 |
| Salaries and benefits | (51,633) | 232,832 | 556,219 | 1,132,107 |
| Share net of loss of 37 Capital | 180 | - | 609 | - |
| Shareholder communications | - | 33 | 43 | 2,223 |
| Travel, meals and entertainment | 6,943 | 90,543 | 74,772 | 262,404 |
| | 602,754 | 1,223,795 | 3,145,787 | 3,678,676 |
| Gain on debt settlement with Everi (note 6) | - | (1,475,169) | - | (1,475,169) |
| Impairment loss on gaming systems | 3,380 | 657 | 21,634 | 216,871 |
| Interest and other income | 872 | (1,505) | 817 | (4,375) |
| | 4,252 | (1,476,017) | 22,451 | (1,262,673) |
| Net Income (Loss) and Comprehensive Income (Loss) for the Period | \$ (594,283) | \$ 586,070 | \$ (2,868,296) | \$ (1,314,420) |
| Attributed to: | | | | |
| Equity holders of the Company | - | 631,753 | - | (1,214,767) |
| Non-controlling interest (note 9) | - | (45,683) | - | (99,653) |
| Basic and Diluted Loss per common share | \$ (0.05) | \$ 0.01 | \$ (0.22) | \$ (0.09) |
| Weighted average number of common shares outstanding (Note 13) | 12,919,304 | 6,789,637 | 12,919,304 | 6,404,337 |

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

| | Capital Stock | | Reserves | | Equity Portion of Convertible Debentures | Obligation to Issue Shares | Deficit | Non-Controlling Interest | Shareholders' Deficiency |
|--|-------------------|----------------------|-------------------|-------------------|--|----------------------------|---------------------|--------------------------|--------------------------|
| | Common Shares | Amount | Warrants | Options | | | | | |
| Balance, December 31, 2018 | 5,681,860 | \$ 49,543,650 | \$ 1,488,000 | \$ 500,435 | \$ 115,620 | - | \$ (58,480,831) | \$ (575,031) | \$ (7,408,157) |
| Net income (loss) for the period | - | - | - | - | - | - | (1,214,767) | (99,653) | (1,314,420) |
| Private placement, net of issuance costs | 757,796 | 941,195 | - | - | - | - | - | - | 941,195 |
| Private placement, net of issuance costs | 6,439,656 | 1,757,788 | 90,294 | - | - | - | - | - | 1,848,082 |
| Expiry of options | - | - | - | (73,479) | - | - | 73,479 | - | - |
| Expiry of warrants | - | - | (20,732) | - | - | - | 20,732 | - | - |
| Share based payment | - | - | - | 309,720 | - | - | - | - | 309,720 |
| Convertible debenture | - | - | - | - | 13,344 | - | - | - | 13,344 |
| Dilution of interest | - | - | - | - | - | - | 496,729 | (326,149) | 170,580 |
| Balance, September 30, 2019 | 12,879,312 | 52,242,633 | 1,557,562 | 736,676 | 128,964 | - | (59,104,658) | (1,000,833) | (5,439,656) |
| Net income (loss) for the period | - | - | - | - | - | - | - | - | (356,168) |
| Private placement, net of issuance costs | - | (26,780) | 15,264 | - | - | - | (356,168) | - | (11,516) |
| Rights offering, net of issuance costs | - | 376 | - | - | - | - | - | - | 376 |
| Issuance of bonus shares | 40,000 | 8,361 | - | - | (8,361) | - | - | - | - |
| Convertible debenture | - | - | - | - | - | - | - | - | - |
| Expiry of warrants | - | - | (4,764) | - | - | - | 4,764 | - | - |
| Expiry of options | - | - | - | (5,818) | - | - | 5,818 | - | - |
| Share-based payment | - | - | - | 38,189 | - | - | - | - | 38,189 |
| Fractional share adjustment | (8) | - | - | - | - | - | - | - | - |
| Dilution of interest | - | - | - | - | - | - | 1 | (1) | - |
| Deconsolidation | - | - | - | - | - | - | - | 1,000,834 | 1,000,834 |
| Balance, December 31, 2019 | 12,919,304 | 52,224,590 | 1,568,062 | 769,047 | 120,603 | - | (59,450,243) | - | (4,767,941) |
| Net income (loss) for the period | - | - | - | - | - | - | (2,868,296) | - | (2,868,296) |
| Share-based payment | - | - | - | 33,061 | - | - | - | - | 33,061 |
| Convertible debenture issued | - | - | - | - | 99,363 | - | - | - | 99,363 |
| Bonus warrant issued | - | - | 23,516 | - | - | - | - | - | 23,516 |
| Compensation warrants issued | - | - | 40,451 | - | - | - | - | - | 40,451 |
| Expiry of warrants | - | - | (1,068,129) | - | - | - | 1,068,129 | - | - |
| Expiry of options | - | - | - | (58,947) | - | - | 58,947 | - | - |
| Balance, September 30, 2020 | 12,919,304 | \$ 52,224,590 | \$ 563,900 | \$ 743,161 | 219,966 | \$ - | (61,191,463) | - | \$ (7,439,846) |

See notes to condensed consolidated interim financial statements.

JACKPOT DIGITAL INC.
Condensed Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

| | September 30, 2020 | September 30, 2019 |
|---|-----------------------|-----------------------|
| Operating Activities | | |
| Net loss | \$ (2,868,296) | \$ (1,314,420) |
| Items not affecting cash | | |
| Amortization | 828,119 | 798,247 |
| Interest expense and finance expense | 981,372 | 620,999 |
| Unrealized foreign exchange loss (gain) | 88,122 | (127,896) |
| Share-based payment | 33,061 | 309,720 |
| Bonus warrants issued | 23,516 | - |
| Share of net loss of 37 Capital Inc. | 609 | - |
| Repairs and maintenance | 2,813 | (32,440) |
| Gain on sale of gaming systems | (28,334) | (153,488) |
| Gain on debt settlement with Everi (note 6) | - | (1,475,169) |
| Impairment loss on gaming systems | 21,634 | 216,871 |
| | (917,384) | (1,157,576) |
| Changes in non-cash working capital | | |
| Accounts receivable | 265,129 | 186,676 |
| Due from related parties | 53,337 | (10,155) |
| Prepaid expenses and deposits | (7,250) | 6,757 |
| Accounts payable and accrued liabilities | 140,408 | (306,691) |
| Deferred revenue (note 12) | 12,375 | (13,253) |
| Payable to Everi | - | (41,504) |
| | 463,999 | (178,170) |
| Cash Provided by/(used in) Operating activities | (453,385) | (1,335,746) |
| Financing Activities | | |
| Refundable subscription | (75,000) | - |
| Funds from rights offering | - | 1,848,082 |
| Funds from loan payable | 340,000 | 1,322,548 |
| Repayment of loans payable | (340,000) | (672,548) |
| Funds from related parties | - | 43,844 |
| Funds from convertible debenture | 581,000 | 100,000 |
| Interest payment of non-convertible debentures | (1,066) | - |
| Issuance of common shares and warrants, net of share issuance costs | - | 941,195 |
| Payment of lease liability (note 11) | (89,536) | (171,490) |
| Repayment of loans from related party | - | (12,944) |
| Repayment of non-convertible debenture | (21,914) | (201,668) |
| Cash Provided by Financing Activities | 393,484 | 3,197,019 |
| Investing Activities | | |
| Purchase of gaming systems | (59,088) | (514,491) |
| Proceeds from sale of gaming tables | 70,863 | 247,667 |
| Proceeds from sale of shares | - | 170,580 |
| Repayment to Everi (note 6) | - | (365,530) |
| Cash Used in Investing Activities | 11,775 | (461,774) |
| Effect of Foreign Currency Translation on Cash | 28 | (115) |
| Net Change in Cash and Cash Equivalents | (48,098) | 1,399,384 |
| Cash and Cash Equivalents, Beginning of Period | 37,545 | 25,391 |
| Cash and Cash Equivalents, End of Period | \$ (10,553) | \$ 1,424,775 |

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

1. NATURE OF OPERATIONS

The principal business of Jackpot Digital Inc. (the "Company" or "Jackpot") is the developing, marketing, and leasing of electronic table games to casino operators. The Company's common shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "JJ" and on the OTCQB under the trading symbol "JPOTF". A certain number of the Company's warrants trade on the TSX-V under the symbols "JJ.WT.A" and "JJ.WT.B". The Company's common shares are also listed for trading on the Frankfurt and Berlin Exchanges under the symbol "LVH3".

The Company's office is located at Suite 400 – 570 Granville Street, Vancouver, British Columbia, Canada, V6C 3P1, and the Company's warehouse is located at 4664 Lougheed Highway, Unit W030, Burnaby, British Columbia, Canada, V5C 5T5. The Company's registered office is located at Suite 3200-650 West Georgia Street, Vancouver, British Columbia, Canada, V6B 4P7.

Effective May 1, 2020, the Company consolidated its common shares on the basis of 10 pre-consolidation common shares to 1 post-consolidation common share. All the figures as to the number of common shares, stock options, warrants, prices of issued shares, exercise prices of stock options and warrants, as well as loss per share, in the consolidated financial statements are post-consolidation amounts and the prior year comparatives have been retroactively restated to present the post-consolidation amounts.

2. GOING CONCERN

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Several adverse conditions cast significant doubt on the validity of this assumption. The Company has incurred a net loss and comprehensive loss of \$2,868,296 during the nine months ended September 30, 2020 (September 30, 2019: \$1,314,420), has incurred significant operating losses over the past two fiscal years (2019 - \$1,670,588; 2018 - \$3,574,325), has a working capital deficiency of \$10,159,741 (December 31, 2019: working capital deficiency of \$8,306,828). There are no assurances that sufficient funding will be available to the Company to continue operations for an extended period of time.

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

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

JACKPOT DIGITAL INC.
Notes to Condensed Consolidated Interim Financial Statements
Nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars, unless otherwise stated)

3. BASIS OF PRESENTATION

(a) Statement of compliance

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34 Interim Financial Reporting using the accounting policies consistent with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). They do not include all of the information required for full annual financial statements.

Effective January 1, 2019, the Company adopted IFRS 16 *Leases* (“IFRS 16”). IFRS 16 was adopted retrospectively with no restatement of comparative periods, as permitted by the transition provisions of the standard.

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

(b) Basis of measurement

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

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

(c) Approval of the condensed consolidated interim financial statements

The condensed consolidated interim financial statements of Jackpot for the nine months ended September 30, 2020 were approved and authorized for issue by the Board of Directors on November 30, 2020.

(d) Functional and presentation currency

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

(e) Significant accounting judgments, estimates and assumptions

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

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

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

3. BASIS OF PRESENTATION (Continued)

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

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

Critical accounting estimates

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

- Recoverability of accounts receivable and allowance for doubtful accounts

The Company monitors its exposure for credit losses on its customers and related parties receivable balances and the credit-worthiness of the customers and related parties on an ongoing basis and records related allowances for doubtful accounts. Allowances are estimated based upon specific customer and related parties balances, where a risk of default has been identified, and also include a provision for non-customer specific defaults based upon historical experience and aging of accounts. As of September 30, 2020, the Company recorded an allowance for doubtful accounts of \$nil (September 30, 2019 - \$nil). If circumstances related to specific customers and related parties change, estimates of the recoverability of receivables could also change.

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

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

- Fair value of equity instruments

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

- Recoverability of asset carrying values

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

3. BASIS OF PRESENTATION (Continued)

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

- Right-of-use assets and lease liability

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

- Discount rates for convertible debentures

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

Critical accounting judgments

- Recovery of deferred tax assets

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

- Debentures

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

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

- Modification verses extinguishment of financial liability

Judgment is required in applying IFRS 9 *Financial Instruments* to determine whether the amended terms of the loan agreements are a substantial modification of an existing financial liability and whether it should be accounted for as an extinguishment of the original financial liability.

3. BASIS OF PRESENTATION (Continued)

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

- Development expenditures

The application of the Company's accounting policy for development expenditures requires judgment in determining whether it is likely that the future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If new information suggests future economic benefits are unlikely, the amount capitalized in excess over the recoverable value is written off to profit or loss in the period the new information becomes available. As at September 30, 2020, no development expenditures have been capitalized.

- Functional currency

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

- Assessment of control

In determining whether the Company controls 37 Capital Inc. ("37 Capital"), management is required to consider and assess the definition of control in accordance with IFRS 10 *Consolidated Financial Statements*. There is judgment required to determine when and whether the rights of the Company result in control of 37 Capital.

- Determination of cash-generating units ("CGU")

CGUs are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash flows of other assets or groups of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users and the way in which management monitors the Company's operations.

- Going concern assumption

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

- Right-of-use assets and lease liability

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

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

3. BASIS OF PRESENTATION (Continued)

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

- Impairment of long-lived assets

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

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Company include the following:

(a) Principles of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The financial statements of the Company's wholly owned subsidiaries, Jackpot Digital (NV), Inc. (incorporated in the USA), Touche Capital Inc. (incorporated in British Columbia) and partially owned subsidiary, 37 Capital, are included in the consolidated financial statements from the date that control commenced to the date of disposal, dissolution or loss of control.

These condensed consolidated interim financial statements include the activities of 37 Capital up until September 30, 2019, which is the effective date that control ceased (Note 9).

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

(b) Cash and cash equivalents

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

JACKPOT DIGITAL INC.
Notes to Condensed Consolidated Interim Financial Statements
Nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments

The Company's financial instruments are classified as follows:

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

Financial assets

(i) Recognition and measurement of financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

(ii) Classification of financial assets

The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss. The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

Financial assets measured at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for the such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (continued)

(ii) Classification of financial assets (continued)

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

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

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

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

(iii) Derecognition of financial assets

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

Financial liabilities

(i) Recognition and measurement of financial liabilities

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

(ii) Classification of financial liabilities

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

Financial liabilities measured at amortized cost

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (continued)

(ii) Classification of financial liabilities (continued)

Financial liabilities measured at fair value through profit or loss

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

(iii) Derecognition of financial liabilities

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of comprehensive loss.

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

(d) Research and development

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

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Gaming systems and equipment

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

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

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

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

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

| | |
|---------------------|-------------|
| Gaming tables | - 20% - 50% |
| Computer equipment | - 30% - 55% |
| Office furniture | - 20% |
| Warehouse equipment | - 20% |

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

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

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets

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

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

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

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

(g) Impairment of non-financial assets

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

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

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Revenue recognition

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

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

(i) Licensing revenue

The Company recognizes revenues from licensees upon completion of each game according to the terms and conditions of the license agreement. Revenue is recognized to the extent that the performance obligations identified in the license agreement are satisfied.

(ii) Electronic gaming tables

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

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

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

JACKPOT DIGITAL INC.
Notes to Condensed Consolidated Interim Financial Statements
Nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Income taxes

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

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

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

(j) Share-based payments

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

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

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

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Earnings (loss) per share

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

(l) Capital stock

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

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

(m) Foreign currency translation

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Leases

Change in accounting policy

IFRS 16 *Leases*

The Company adopted IFRS 16 effective January 1, 2019. The following is the new accounting policy for leases under IFRS 16.

At inception, the Company assesses whether a contract contains an embedded lease. A contract contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company, as lessee, is required to recognize a right-of-use asset ("ROU asset"), representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments.

The Company may elect to not apply IFRS 16 to leases with a term of less than 12 months or to low value assets, which is made on an asset by asset basis.

The Company recognizes a ROU asset and a lease liability at the commencement of the lease. The ROU asset is initially measured based on the present value of lease payments, plus initial direct cost, less any incentives received. It is subsequently measured at cost less accumulated amortization, impairment losses and adjusted for certain remeasurements of the lease liability. The ROU asset is amortized from the commencement date over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator of impairment.

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

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

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

JACKPOT DIGITAL INC.
Notes to Condensed Consolidated Interim Financial Statements
Nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Leases (continued)

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Variable lease payments that do not depend on an index or a rate not included in the initial measurement of the ROU asset and lease liability are recognized as an expense in profit or loss in the period in which they are incurred.

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

The Company applied the exemption not to recognize ROU asset and lease liabilities for leases with less than 12 months of lease term and leases for low-value assets when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

The Company has an office lease for its headquarters in Vancouver, British Columbia and a warehouse lease that is classified as operating leases under IAS 17. Upon transition to IFRS 16, these lease liabilities were measured at the present value of the remaining lease payments and discounted using an incremental borrowing rate of 10% as of January 1, 2019. As a result, the Company, as a lessee, has recognized \$528,871 as a lease liability, representing its obligation to make lease payments. A ROU asset of the same amount was recognized as a Right-of-use Asset, representing its right to use the underlying asset.

The following table summarizes the difference between the operating lease commitments disclosed immediately preceding the date of initial application and lease liability recognized on the consolidated balance sheet at the date of initial application:

| | | |
|---|-----------|----------------|
| Operating lease liability as at December 31, 2018 | \$ | 572,701 |
| Effect of discounting at incremental borrowing rate | | (43,830) |
| Lease liability recognized as of January 1, 2019 | \$ | 528,871 |

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Investment in 37 Capital Inc.

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

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

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

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

(p) Substantial modification of debentures

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

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

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

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

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Risk management overview

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

(b) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts receivable, due from related parties, accounts payable and accrued liabilities, lease liability, loans payable, due to related parties, interest payable, and refundable subscription approximate their carrying values due to the short-term maturity of these instruments. The non-convertible secured debentures and convertible debentures are classified as Level 3 financial instruments.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. The levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: Inputs for assets or liabilities that are not based on observable market data.

(c) Credit risk

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

The financial instruments that potentially subject the Company to a significant concentration of credit risk consist of cash and cash equivalents, and accounts receivable. The Company mitigates its exposure to credit loss associated with cash by placing its cash and cash equivalents in a major financial institution. The Company's cash and cash equivalents as at September 30, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|--|-------------|--------------|
| Cash and Cash Equivalents consists of: | | |
| Cash (Checks issued in excess of funds on deposit) | \$ (27,803) | \$ 1,407,525 |
| Term deposit | 17,250 | 17,250 |
| | \$ (10,553) | \$ 1,424,775 |

As at September 30, 2020, the Company had cashable term deposits of \$17,250 (September 30, 2019 - \$17,250) readily convertible into cash, maturing July 31, 2021 with an annual interest rate of 0.60%.

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Credit risk (continued)

To mitigate credit risk on the Company's trade receivables, the Company regularly reviews the collectability of the accounts receivable to ensure there is no indication that these amounts will not be fully recoverable. In addition, as at September 30, 2020, allowance for doubtful accounts is \$nil (December 31, 2019 - \$nil) and the Company's accounts receivable are due within 60 days.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due.

At September 30, 2020, the Company has cash and cash equivalents of \$nil (December 31, 2019 - \$37,545) available to apply against short-term business requirements and current liabilities of \$10,441,952 (December 31, 2019 - \$8,895,564). All of the liabilities presented as accounts payable and accrued liabilities and due to related parties are due within 90 days of September 30, 2020. As at September 30, 2020, a certain number of the Company's debentures and loans have reached maturity. The Company will be required to raise additional capital in order to fund operations for the next twelve months.

(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing return on capital.

JACKPOT DIGITAL INC.**Notes to Condensed Consolidated Interim Financial Statements****Nine months ended September 30, 2020 and 2019****(Expressed in Canadian Dollars, unless otherwise stated)****5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

(f) Market risk (Continued)

(i) Currency risk

The Company is exposed to foreign currency risk and has significant financial assets and liabilities denominated in US dollars. The Company has not entered into any foreign currency contracts to mitigate this risk. As at September 30, 2020 the Company is exposed to currency risk for its US dollar equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars as follows:

| | Held in US dollars (stated in Canadian dollars) | |
|--|--|----------------------|
| | September 30, 2020 | December 31, 2019 |
| Cash (checks issued in excess of funds on deposit) | \$ (961) | \$ 85 |
| Accounts receivable | 7,046 | 305,786 |
| Accounts payable and accrued liabilities | (339,020) | (303,512) |
| Interest payable | (1,652,524) | (1,286,746) |
| Non-convertible secured debentures | (2,657,293) | (2,392,799) |
| Net financial liability | \$ (4,642,752) | \$ (3,677,186) |

Based upon the above net exposure as at September 30, 2020 and assuming all other variables remain constant, a 4% depreciation or appreciation of the US dollar relative to the Canadian dollar would result in a change of approximately \$186,274 (December 31, 2019 - \$147,087) in the Company's consolidated net loss and comprehensive loss.

(ii) Interest rate risk

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

As at September 30, 2020, the interest rate on the non-convertible secured debentures, loans payable, and convertible debenture balances have fixed interest rates. As such, the Company is exposed to interest rate price risk to the extent of these financial liabilities.

(iii) Other price risk

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not exposed to significant other price risk.

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

6. LOAN PAYABLE WITH EVERI HOLDINGS INC.

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

The Company paid \$2,669,000, or US\$2,000,000, cash consideration and issued 750,000 warrants on the Closing Date. In 2016, the Company increased the payable to Everi by \$437,085 with a charge against profit or loss to recognize the change in total cash consideration payable to US\$7,500,000. In addition, during 2016, the Company paid Everi \$738,485, or US\$550,000, and during 2017, the Company paid Everi \$325,300, or US\$250,000.

On December 22, 2017, the Company entered into a debt settlement agreement with Everi whereby the Company and Everi agreed to settle the Company's outstanding debt of US\$3,862,105 by making a payment to Everi of US\$1,762,105 on or before March 15, 2018, and by reducing the exercise price of the 75,000 warrants from \$20.00 per share purchase warrant to \$5.00 per share purchase warrant on or before January 22, 2018. The Company obtained the approval of the TSX-V for the reduction of the price of the share purchase warrants to \$5.00 per share purchase warrant on January 19, 2018, however, the Company did not make the required payment to settle the outstanding debt by March 15, 2018.

On October 18, 2018, the Company entered into an amendment to the previously executed debt settlement agreement (the "New Debt Settlement Agreement") with Everi. The New Debt Settlement Agreement was accepted by the TSX-V. Pursuant to the New Debt Settlement Agreement, the Company's outstanding debt to Everi in the amount of US\$3,805,355 was reduced to US\$1,355,355 which bore simple interest at the rate of 8% per annum and which was payable eighteen months after the effective date of the New Debt Settlement Agreement. In consideration for the elimination and reduction of the debt by a total amount of US\$2,450,000 (\$3,229,590) the Company granted to Everi 100,000 common share purchase warrants in the capital of the Company which are exercisable at the price of \$3.50 per common share for a period of two years, and the Company issued to Everi as fully paid and non-assessable 227,622 common shares in the capital of the Company at a deemed price of \$2.00 per share. The Company recorded the settlement using the fair value of the equity instruments issued of \$551,258, and accordingly recognized a gain on debt settlement of \$2,678,332 during the year ended December 31, 2018.

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

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

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

7. CAPITAL STOCK

(a) Authorized

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

(b) Issued and outstanding

Preferred shares

No preferred shares have been issued.

Common shares

Effective May 1, 2020, the Company consolidated its common shares on the basis of 10 pre-consolidation common shares to 1 post-consolidation common share. All the figures as to the number of common shares, stock options, warrants, prices of issued shares, exercise prices of stock options and warrants, are post-consolidation amounts.

As of September 30, 2020, there are 12,919,304 common shares issued and outstanding.

There were no share issuances during the nine months ended September 30, 2020.

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

- (i) On September 26, 2019, the Company completed its rights offering and issued 6,439,656 units of the Company's securities at a price of \$0.30 per unit for gross proceeds of \$1,931,897. Each unit consists of one common share and one Rights Offering Warrant. Each Rights Offering Warrant entitles the holder to purchase one additional common share of the Company at a price of \$1.00 until September 26, 2024. In respect to the rights offering, the Company incurred share issuance costs of \$83,439 and the stand-by guarantors received bonus warrants entitling them to purchase a total of 333,333 common shares of the Company exercisable at a price of \$1.00 per share until September 26, 2024. The bonus warrants were fair valued at \$90,294.
- (ii) The Company closed the non-brokered private placement financing which was announced on January 24, 2019 and February 25, 2019, whereby the Company issued a total of 714,960 units of the Company at a price of \$1.35 per unit for gross proceeds of \$965,195. Each unit consists of one common share of the Company and one share purchase warrant to acquire an additional common share of the Company at the price of \$1.80 per share for a period of two years. The Company incurred share issuance costs of \$35,516, issued in aggregate 42,837 common shares fair valued at \$57,830 and 17,778 warrants with a fair value of \$15,264 as finder's fees to arm's length parties. Each warrant entitles the holder to purchase one common share at a price of \$1.80 for two years.

JACKPOT DIGITAL INC.
Notes to Condensed Consolidated Interim Financial Statements
Nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars, unless otherwise stated)

7. CAPITAL STOCK (Continued)

(c) Warrants

Warrants activity for the nine months ended September, 2020 and 2019 are as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|-----------------------------|-----------------------|------------------------------------|
| Balance, December 31, 2018 | 4,801,655 | \$5.50 |
| Issued | 7,505,725 | \$1.10 |
| Expired | (275,189) | \$9.90 |
| Balance, December 31, 2019 | 12,032,191 | \$2.60 |
| Issued | 600,000 | \$2.57 |
| Expired | (159,017) | \$10.63 |
| Balance, September 30, 2020 | 12,473,174 | \$2.36 |

Compound warrants activity for the nine months ended September 30, 2020 and 2019 are as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|-------------------------------------|-----------------------|------------------------------------|
| Balance, December 31, 2018 and 2019 | 5,520 | \$ 5.00 |
| Expired | (5,520) | \$ 5.00 |
| Issued | 500,000 | \$ 0.06 |
| | 500,000 | \$ 0.06 |

JACKPOT DIGITAL INC.**Notes to Condensed Consolidated Interim Financial Statements****Nine months ended September 30, 2020 and 2019****(Expressed in Canadian Dollars, unless otherwise stated)****7. CAPITAL STOCK (Continued)****(c) Warrants (continued)**

At September 30, 2020 and 2019, the following warrants and compound warrants were outstanding and exercisable:

| Expiry Date | Exercise Price | Number of Warrants | |
|--------------------|----------------|--------------------|------------|
| | | 2020 | 2019 |
| November 28, 2019 | \$ 6.00 | - | 1,450 |
| December 1, 2019 | \$ 6.00 | - | 750 |
| January 3, 2020 | \$ 6.00 | - | 9,017 |
| January 3, 2020 | \$ 5.00* | - | 3,120 |
| January 24, 2020 | \$ 5.00* | - | 2,400 |
| August 4, 2020 | \$ 20.00 | - | 75,000 |
| August 10, 2020 | \$ 5.00** | - | 75,000 |
| November 19, 2020 | \$ 3.50 | 100,000 | 100,000 |
| February 15, 2021 | \$ 1.80 | 155,037 | 155,037 |
| February 25, 2021 | \$ 1.80 | 247,700 | 247,700 |
| February 28, 2021 | \$ 1.80 | 330,000 | 330,000 |
| October 29, 2021 | \$ 2.50 | 318,580 | 318,580 |
| November 8, 2021 | \$ 2.50 | 171,250 | 171,250 |
| January 20, 2022 | \$ 5.00 | 1,715,543 | 1,715,543 |
| January 20, 2022 | \$ 5.00 | 1,550,360 | 1,550,360 |
| August 21, 2022 | \$ 6.00 | 70,000 | 70,000 |
| September 13, 2022 | \$ 6.00 | 34,600 | 34,600 |
| November 28, 2022 | \$ 6.00 | 85,000 | 85,000 |
| December 1, 2022 | \$ 6.00 | 30,000 | 30,000 |
| January 3, 2023 | \$ 6.00 | 105,355 | 105,355 |
| January 24, 2023 | \$ 6.00 | 38,900 | 38,900 |
| June 10, 2023 | \$ 0.06*** | 500,000 | - |
| June 22, 2023 | \$ 5.00 | 147,860 | 147,860 |
| September 26, 2024 | \$ 1.00 | 6,772,989 | 6,772,989 |
| February 19, 2025 | \$ 0.50 | 100,000 | - |
| | \$ 2.36 | 12,473,174 | 12,039,911 |

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

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

*** Entitle the holder to purchase one unit at \$0.06 per unit. Each unit shall consist of one common share and one share purchase warrant. Each warrant is exercisable at \$0.10 per share for three years.

JACKPOT DIGITAL INC.**Notes to Condensed Consolidated Interim Financial Statements****Nine months ended September 30, 2020 and 2019****(Expressed in Canadian Dollars, unless otherwise stated)**

7. CAPITAL STOCK (Continued)**(c) Warrants (continued)**

The weighted average remaining contractual life for warrants outstanding at September 30, 2020 is 2.81 (September 30, 2019 – 3.77) years.

(d) Stock options

Pursuant to the Company's Amended 2004 Stock Option Plan, which has received TSX-V approval, the Company grants stock options to employees, directors, officers and consultants. On April 14, 2015, the TSX-V accepted the Company's new rolling stock option plan whereby a maximum of 10% of the issued shares of the Company will be reserved for issuance under the plan. As at September 30, 2020, there are 764,430 (September 30, 2019 – 843,431) stock options available for granting. The terms of the options are determined at the date of grant.

The following summarizes the officer, director, employee and consultant stock options that were granted, cancelled and expired during the nine months ended September 30, 2020 and 2019. The options vest 25% on grant and thereafter at 25% every six months.

| | Number of Options | Weighted Average Exercise Price |
|-----------------------------|----------------------|---------------------------------------|
| Balance, December 31, 2018 | 490,000 | \$1.90 |
| Issued | 120,000 | \$0.50 |
| Expired | (49,000) | \$2.50 |
| Balance, December 31, 2019 | 561,000 | \$1.50 |
| Expired | (33,500) | \$1.80 |
| Balance, September 30, 2020 | 527,500 | \$1.51 |

The weighted average remaining contractual life for options outstanding at September 30, 2020 is 2.21 (September 30, 2019 – 1.91) years.

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its stock options granted. Accordingly, share-based payments of \$680 (September 30, 2019 - \$310,453) were recognized as salaries expense and \$6,394 (September 30, 2019 - \$733) was recognized as consulting fees for options granted to consultants.

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

8. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the condensed consolidated interim financial statements, related party transactions for the nine months ended September 30, 2020 and 2019 are as follows.

During the nine months ended September 30, 2020 and 2019, the Company incurred the following related party transactions:

| | 2020 | | 2019 |
|--|---------|----|---------|
| Interest charged on amounts due to related parties | \$ - | \$ | 3,885 |
| Rent and shared office expenditures charged | 149,344 | | 123,613 |

During the nine months ended September 30, 2020, Jackpot has paid management fees totaling \$297,000 to a company owned by a director and officer of Jackpot (September 30, 2019: \$297,000).

As at September 30, 2020, due from related parties consists of \$149,344 receivable from 37 Capital for rent and shared office expenditures.

9. INVESTMENT IN 37 CAPITAL INC.

On October 23, 2017, the Company and 37 Capital entered into a debt settlement agreement whereby on November 2, 2017, 37 Capital issued 4,249,985 units of 37 Capital to the Company as full settlement of the \$382,498 balance owed (the "Transaction"). Each 37 Capital unit consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable at \$0.12 per share until November 2, 2022.

As a result of the Transaction, the Company acquired a controlling interest of 65% of 37 Capital's then issued and outstanding shares and began to consolidate the results of 37 Capital from November 2, 2017. The Company recorded the Transaction using the fair value of the receivable, as well as the units received and the net liabilities acquired, and accordingly recognized loss of debt settlement \$702,724 during the year ended December 31, 2017.

During the year ended December 31, 2018, the Company entered into a Purchase & Sale Agreement with an arm's length party whereby the Company sold to the arm's length party 800,000 units in the capital of 37 Capital for a cash payment of \$72,000. As at December 31, 2018, the Company had a controlling interest of approximately 49% of 37 Capital's issued and outstanding shares and recorded \$185,077 in non-controlling interest as a result of the decrease in its interest of 37 Capital.

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

JACKPOT DIGITAL INC.
Notes to Condensed Consolidated Interim Financial Statements
Nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars, unless otherwise stated)

9. INVESTMENT IN 37 CAPITAL INC. (Continued)

The carrying value of the non-controlling interest is determined as follows:

| | |
|--|--------------|
| Proportionate share of identifiable net liabilities of 37 Capital on acquisition | \$ (317,765) |
| Share of post-acquisition loss for the period | (6,530) |
| Balance at December 31, 2018 | (575,031) |
| Share of post-acquisition loss for the year | (99,653) |
| Increase in interest | (326,150) |
| Deconsolidation | 1,000,834 |
| Balance at December 31, 2019 | \$ - |

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

| | |
|---|----------|
| Balance at December 31, 2019 | - |
| Fair value of investment on deconsolidation | 4,673 |
| Share of net loss | (609) |
| Balance at September 30, 2020 | \$ 4,064 |

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

| | September 30, 2020 |
|-------------------------|-------------------------------|
| Current assets | \$ 607 |
| Non-current assets | \$ 33,109 |
| Current liabilities | \$ 1,292,241 |
| Non-current liabilities | \$ - |
| Net loss | \$ 88,349 |

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

10. LOANS PAYABLE AND DEBENTURES

Loans payable

During the nine months ended September 30, 2020, the Company:

- (a) Entered into a promissory note with an arm's length party for the amount of \$200,000, plus interest of \$40,000. During the six months ended June 30, 2020, the Company repaid the principal and the interest totaling \$240,000.
- (b) Entered into a promissory note with an arm's length party for the amount of \$40,000, bearing interest at the rate of 10% per annum which is due on demand. As at September 30, 2020, the \$40,000 loan and the accrued interest of \$306.85 are outstanding.

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

- (a) Entered into two promissory notes with an arm's length party for the amount of \$300,000, bearing interest at the rate of 10% per annum which is due on demand. As at September 30, 2020, the \$300,000 loan and the accrued interest of \$85,220 are outstanding.
- (b) Entered into a promissory note with an arm's length party for the amount of \$50,000; the Company repaid the principal and interest totaling \$50,247 during the year ended December 31, 2019 and recorded an accrued interest of \$356 as at September 30, 2020.
- (c) Entered into a short-term loan agreement with an arm's length party for the amount of \$379,140, bearing interest at the rate of 5% per annum; the Company repaid the principal amount of \$379,140 during the year ended December 31, 2019 and recorded an accrued interest of \$2,597 as at September 30, 2020.
- (d) Entered into a promissory note with an arm's length party for the amount of \$50,000; the Company repaid the principal amount of \$50,000 during the six months ended June 30, 2020 and recorded an accrued interest of \$3,904.

During the year ended December 31, 2018:

- (a) An arm's length party has advanced to the Company the amount of \$150,000, which bears interest at the rate of 10% per annum and which is due on demand. As at September 30, 2020, the \$150,00 loan and the accrued interest of \$180,781 are outstanding.
- (b) During the year ended December 31, 2017, the Company entered into a loan agreement with an arm's length party totaling \$150,000, with a term of 12 months, bears interest at the rate of 10% per annum payable on a quarterly basis. Pursuant to the agreement, the Company issued 60,000 bonus shares and the amount of \$12,500 has been recorded for the shares issued. The amount of \$137,500 was recorded as the liability portion of the compound instrument. As at September 30, 2020, \$180,781 (September 30, 2019 - \$176,671) has been recorded as the liability portion of the compound instrument including accrued interest.

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

10. LOANS PAYABLE AND DEBENTURES (Continued)

Non-convertible secured debentures

During the year ended December 31, 2015, the Company entered into two non-convertible secured debenture agreements for an aggregate US\$2,500,000 with one arm's length party and one related party. The non-convertible secured debentures are secured against the Company's assets. The non-convertible debenture agreements provide for a term of three years, maturing on August 4, 2018, and bear interest at 10% per annum, with interest compounding and payable quarterly. As additional consideration of the risk associated with the debenture, the Company issued 75,000 warrants to the lenders. Each warrant has a five-year expiry term and is exercisable into one common share at \$20.00. On August 9, 2019, the maturity date of the convertible debenture with the arm's length party was extended to July 1, 2021. The modification of maturity date was considered an extinguishment of the existing non-convertible debenture and a new non-convertible debenture was recognized as the modified terms were substantially different from the original terms. The difference between the fair value and carrying value on the extinguishment date was determined to be \$656,727.

In addition, the Company is required to pay the lenders certain royalty percentages of net revenues during the three-year period. The terms of the royalty percentages were amended on April 28, 2016.

The liability component of the non-convertible secured debentures was recognized initially at the fair value of a similar liability that does not have attached warrants, which was calculated based on the application of a market interest rate of 25%. The difference between the face value of US\$2,500,000 and the fair value of the non-convertible debentures of \$2,386,286 represent the value of the warrants, which has been recognized as a component of equity.

As at September 30, 2020, the amount of \$2,657,292 (December 31, 2019 - \$2,392,799) has been recorded as the non-convertible secured debentures.

Convertible secured debentures

During the year ended December 31, 2016, the Company issued convertible secured debentures for gross proceeds of \$2,000,000 (net proceeds of \$1,753,111). The convertible secured debentures have a term of 12 months, bear simple interest at the rate of 12% per annum and payable on a quarterly basis. The principal amount of the convertible secured debentures may be convertible into common shares of the Company at a price of \$5.00 per share. In connection with the convertible secured debentures, the Company has paid a cash commission of \$200,000 and a corporate finance fee of \$30,000 plus HST and other expenses of \$11,495 plus HST and has issued 60,000 broker warrants to Kingsdale Capital Markets Inc. (fair valued at \$31,128). The broker warrants were exercisable into common shares of the Company at the price of \$5.00 per share during the first year and at the price of \$10.00 per share during the second year and have expired unexercised. The convertible secured debentures are secured against the Company's assets. On initial recognition, the amount of \$101,601 was recorded as the equity portion of convertible secured debentures reserve and remains outstanding at September 30, 2020. The effective interest rate was 20%. On August 9, 2019, the maturity date of the convertible secured debentures was extended to July 1, 2021. The modification of maturity date was considered an extinguishment of the existing convertible debentures and a new convertible debenture balance was recognized as the modified terms were substantially different from the original terms. The difference between the fair value and carrying value on the extinguishment date was determined to be \$260,229.

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

10. LOANS PAYABLE AND DEBENTURES (Continued)

As at September 30, 2020, the Company paid \$nil (September 30, 2019 - \$nil) of accrued interest and repaid principal amounts totaling \$nil (September 30, 2019 - \$nil).

The Company has entered into an Amendment Agreement with certain Debenture holders whereby the Debenture holders have agreed to extend the maturity date of the Debentures from July 1, 2021 to July 1, 2023 ("New Maturity Date") and have agreed to the reduction of the interest rate from 12% to an interest rate of 7.5% per annum ("New Interest Rate"). In consideration of the Debenture holders agreeing to the New Maturity Date and the New Interest Rate, the Company will, subject to the approval of the TSX Venture Exchange, issue to the Debenture holders an aggregate of 2,000,000 share purchase warrants at the price of \$0.10 per share exercisable until July 1, 2023.

During August 2018, the Company entered into a convertible debenture with an arm's length party for the principal amount of \$328,000 which bears interest at the rate of 8% per annum and which was due and payable on October 30, 2018 (the "Term"). Subsequent to December 31, 2018, the Term has been extended to July 15, 2019. As at September 30, 2020 the convertible debenture is owing and is due on demand. As at September 30, 2020, the amount of \$328,000 has been recorded as the liability portion of convertible secured debentures and the amount of \$5,658 has been recorded as the equity portion of convertible secured debentures reserve. The effective interest rate was 20%.

During June 2019, the Company entered into a convertible debenture with an arm's length party for the principal amount of \$100,000 which bears interest at the rate of 10% per annum and which is due and payable on June 21, 2021 (the "Term"). At any time prior to the expiry of the Term, all or part of the principal amount may be converted into units of the Company at the price of \$1.00 per unit. Each Unit consists of one common share and one share purchase warrant. Each share purchase warrant shall be exercisable at the price of \$2.50 per share for a period of two years. The securities that may be issued pursuant to the convertible debenture shall be subject to four months and a day hold period in accordance with applicable Canadian securities laws. On initial recognition, the amount of \$13,344 was recorded as the equity portion of convertible debenture reserve and remains outstanding at December 31, 2019. The effective interest rate was 20%. As at December 31, 2019, the amount of \$89,734 has been recorded as the liability portion of convertible debentures including accrued interest.

During February 2020, the Company entered into a debenture agreement with an arm's length party for the amount of \$100,000. The debenture bears interest at 10% per annum for a term of five years. A total of 100,000 share purchase warrants exercisable at \$0.50 per share for five years were issued as bonus warrants in respect to this debenture. The Company paid \$10,000 in cash commission. It has incurred interest of \$6,137 as of September 30, 2020.

During June 2020, the Company entered into unsecured convertible debenture agreements for gross proceeds of \$446,000. The debentures bear interest at 10% per annum and have a maturity date of 36 months from closing. The debentures are convertible into the Company's units at a conversion price of \$0.06 per unit in Year 1 and at a conversion price of \$0.10 per unit in Year 2 and Year 3. Each unit will consist of one common share and one share purchase warrant. Each share purchase warrant will be exercisable into one common share at a price of \$0.10 per share for a period of three years from the closing of the debenture financing. A total of 500,000 compensation warrants which are exercisable into units at \$0.06 per unit were issued in connection with this closing.

During August 2020, the Company entered into unsecured convertible debenture agreements for gross proceeds of \$135,000. The debentures bear interest at the rate of 10% per annum, and have a maturity date of 36 months from closing. The debentures are convertible at a conversion price of \$0.10 per unit for three years. Each unit will consist of one common share and one share purchase warrant exercisable at the price of \$0.10 per share for a period of three years from closing.

JACKPOT DIGITAL INC.
Notes to Condensed Consolidated Interim Financial Statements
Nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars, unless otherwise stated)

11. LEASE LIABILITY

Office and Warehouse Leases

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

The continuity of the ROU asset and Lease liability for the period ended September 30, 2020 is as follows:

| Right-of-use asset | |
|---|---------------|
| Value of right-of-use asset as at January 1, 2019 | \$ 528,871 |
| Depreciation 2019 | (349,995) |
| Depreciation 2020 | (178,876) |
| Value of right-of-use asset as at September 30, 2020 | \$ Nil |

| Lease liability | |
|--|---------------|
| Lease liability recognized as of January 1, 2019 | \$ 528,871 |
| Lease payments 2019 | (374,478) |
| Lease payments 2020 | (198,058) |
| Lease interest 2019 | 37,292 |
| Lease interest 2020 | 6,373 |
| Lease liability recognized as of September 30, 2020 | \$ Nil |

Forklift Lease

On April 1, 2018, the Company entered into an agreement with an arm's length party to lease a forklift (the "Forklift Lease Agreement") for a term ending September 30, 2019, which was personally guaranteed by Jake Kalpakian, the President & CEO of the Company. The Company initially recorded the Forklift Lease Agreement as equipment and a lease liability in the consolidated balance sheet as at December 31, 2018. At the commencement of the date of the lease, the lease liability was measured at the present value of the lease payments. At the end of the term, the Company exercised its option to purchase the forklift for \$10. During the year ended December 31, 2019, the Company recorded a finance expense of \$1,294 (2018 - \$3,192) on the lease. The effective interest rate was 11%.

12. DEFERRED REVENUE

The Company recorded \$495,034 (September 30, 2019 - \$492,136) in deferred revenue with respect to electronic gaming table regulated licenses. Everi receives funds from regulated licenses from customers and accordingly, the amount has been classified as deferred revenue until earned. The deferred revenue will be recognized as revenue upon the Company receiving the necessary gaming licenses.

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

13. COMMITMENTS

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

- (a) On July 1, 2020, the Company entered into a New Management Services Agreement with Kalpakian Bros. of B.C. Ltd. with a term of five years at a monthly rate of \$33,000 plus applicable taxes.
- (b) In order to carry out the production and shipping of the Company's Jackpot Blitz™ ETGs, the Company has leased a warehouse in Burnaby, BC which has an area of 9,792 square feet for a term ending May 31, 2019. The Company entered into an Extension of Lease Agreement on January 24, 2019 extending the term to May 31, 2020 whereby the Company pays gross rent of \$5,000 plus applicable taxes per month for April, May and June 2020. The Company also entered into a Lease Amendment and Extension Agreement on June 24, 2020 extending the Company's lease until July 31, 2020. Effective July 1, 2020, the Company will pay an all-inclusive rent of \$8,000 and the applicable tax per month. Under the terms of the Lease Amendment and Extension Agreement, the Company may renew the lease on a month-to-month basis.
- (c) During April 2017, the Company together with 37 Capital entered into an office lease agreement with an arm's length party (the "Office Lease Agreement"). The Office Lease Agreement has a three-year term with a commencement date of August 1, 2017. During June 2020 and September 2020, the Company entered into a Lease Amendment and Extension Agreement and Rent Reduction Agreement with the arm's length party (collectively the "New Lease Agreements"). Under the Canada Emergency Commercial Rent Assistance program ("CECRA") and pursuant to the New Lease Agreements, effective April 2020 through September 2020, the Company pays approximately \$4,600 of rent per month. In respect to the Office Lease Agreement effective as of May 1, 2018, the Company and 37 Capital have agreed that 37 Capital shall pay a monthly rent of \$1,000 plus applicable taxes to the Company, and either the Company or 37 Capital may terminate this agreement by giving each other a three months' notice in writing.

14. CAPITAL MANAGEMENT

The Company considers its capital to be comprised of shareholders' deficiency and loans (note 10). The agreement to extend the maturity date on its convertible debentures and non-convertible secured debentures included a covenant requiring the Company to transfer certain operating assets to a wholly-owned subsidiary and to pledge the shares of that subsidiary to the debenture holders prior to December 31, 2019. As at December 31, 2019, the Company had not complied with this covenant and, as such, the convertible debentures and non-convertible secured debentures are classified as current liabilities.

14. CAPITAL MANAGEMENT (Continued)

The Company's objective when managing capital is to maintain adequate levels of funding support for the development and marketing of the Company's online multi-player interactive games and of the Company's electronic gaming tables while maintaining the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds on acceptable terms in the future. There were no changes to the Company's approach to capital management during the nine months ended September 30, 2020. The Company is not subject to externally imposed capital requirements.

JACKPOT DIGITAL INC.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars, unless otherwise stated)

15. CORONAVIRUS (COVID-19) PANDEMIC

The pandemic outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has caused, and is continuing to cause, significant disruptions globally in the financial markets and also disruptions to the international economies. Such disruptions will continue to impact the Company’s business, financial condition and results of operations. As of late March 2020, the Company is no longer generating revenue from its largest customer as the customer’s casino operations were halted due to the restrictions imposed by governments on the travel industry. Although it is anticipated that the travel industry may eventually reopen, however several governmental travel restrictions still remain in effect which shall have an impact on the Company’s ability to generate meaningful revenues. The Company cannot predict the degree, or duration, to which its operations will be affected by the COVID-19 pandemic.

16. EVENTS AFTER THE REPORTING DATE

The following events occurred after September 30, 2020:

- (a) Due to the impacts of COVID-19 on the Company’s business, the Company applied for the Canada Emergency Wage Subsidy and received \$38,260.64 for the period June 7 to July 4, 2020, \$37,489.69 for the period July 5 to August 1, 2020, \$37,489.69 for the period August 2 to August 29, 2020 and \$33,079.14 for the period August 30 to September 26, 2020.
- (b) On November 20, 2020, the Company completed its rights offering and issued 12,919,304 units of the Company’s securities at a price of \$0.05 per unit for gross proceeds of \$645,965.20. Each unit consists of one common share and one Rights Offering Warrant. Each Rights Offering Warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.10 until November 20, 2025. In respect to the rights offering, the stand-by guarantors received bonus warrants entitling them to purchase a total of 2,250,000 common shares of the Company exercisable at a price of \$0.10 per share until November 20, 2025.
- (c) The Company entered into a promissory note with an arm’s length party for the amount of \$40,000, bearing interest at the rate of 10% per annum which is due on demand.
- (d) The Company entered into a promissory note with an arm’s length party for the amount of \$80,000, bearing interest at the rate of 10% per annum which is due on demand.
- (e) A total of 100,000 warrants exercisable at \$3.50 per share expired unexercised.