



**CONTAGIOUS GAMING INC.**  
(formerly Kingsman Resources Inc.)

**Condensed Consolidated Interim Financial Statements**  
**December 31, 2014**

*Unaudited*

*Expressed in Canadian Dollars*

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

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

**CONTAGIOUS GAMING INC.**  
**(formerly Kingsman Resources Inc.)**  
**Condensed Consolidated Interim Statements of Financial Position**

<i>Unaudited</i> <i>(Expressed in Canadian Dollars)</i>	Notes	December 31, 2014	March 31, 2014
<b>ASSETS</b>			
<b>Current</b>			
Cash		\$ 3,052,615	\$ 16,806
Accounts receivable	5	489,551	422,973
Prepaid expenses		256,101	-
Accrued revenue		18,736	-
Due from related parties	8	1,499	-
		<hr/> 3,818,502	439,779
<b>Property and equipment</b>	6	13,719	2,271
<b>Intangible assets</b>	7	9,203,735	606,410
<b>Due from related parties</b>	8	75,845	68,217
<b>Goodwill</b>	4	1,045,836	-
		<hr/>	
<b>Total Assets</b>		\$ 14,157,637	\$ 1,116,677
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		\$ 458,947	\$ 370,196
Deferred revenue		228,127	250,839
Loans payable	9	51,632	800,968
Due to related parties	8	115,526	44
Convertible note payable	10	-	295,322
		<hr/> 854,232	1,717,369
<b>Loans payable</b>	9	-	11,250
<b>Convertible note payable</b>	10	242,143	-
<b>Deferred income taxes</b>	13	660,661	-
		<hr/> 1,757,036	1,728,619
<b>EQUITY</b>			
Share capital	12	18,975,727	1,475,100
Reserves	12	1,838,640	202,877
Accumulated other comprehensive income		43,095	-
Deficit		(8,456,861)	(2,289,919)
		<hr/> 12,400,601	(611,942)
<b>Total Equity</b>		<hr/>	
<b>Total Liabilities and Equity</b>		\$ 14,157,637	\$ 1,116,677
<b>Commitments and contingencies</b>	11		
<b>Proposed acquisition of Chelbis Companies</b>	20		

Approved on behalf of the Board of Directors:

\_\_\_\_\_  
*"Sean Yeomans"*, Director

\_\_\_\_\_  
*"Peter Glancy"*, Director

The accompanying notes form an integral part of these financial statements

**CONTAGIOUS GAMING INC.**  
**(formerly Kingsman Resources Inc.)**  
**Condensed Consolidated Interim Statement of Comprehensive Loss**

<i>Unaudited</i> <i>Expressed in Canadian Dollars</i>	Notes	Three Months Ended December 31		Nine Months Ended December 31	
		2014	2013	2014	2013
<b>Software development revenue</b>		\$ 357,099	\$ 131,708	\$ 975,009	\$ 268,543
<b>Direct development costs</b>		151,130	44,746	397,393	111,015
<b>Gross margin</b>		205,969	86,962	577,616	157,528
<b>Expenses</b>					
Operating		44,664	37,140	153,873	96,047
General and administrative		606,225	299,439	905,836	580,679
Amortization of intangible assets		571,854	-	639,467	-
Depreciation of equipment		4,854	591	6,182	1,436
Financing costs		12,606	69,017	254,043	257,764
Foreign exchange gain		(1,199)	-	(1,199)	-
RTO public listing	4a	-	-	2,776,724	-
Stock based compensation	12c	289,605	-	584,259	-
Stock based marketing compensation	12b, d	680,006	-	680,006	-
Transaction costs	4b	-	-	900,000	1,025,000
Gain on settlement of debt		(13,851)	-	(57,613)	-
		2,194,764	406,187	6,841,578	1,960,926
<b>Loss before income taxes</b>		(1,988,795)	(319,225)	(6,263,962)	(1,803,398)
Future income tax recovery		97,020	-	97,020	-
<b>Net loss for the period</b>		(1,891,775)	(319,225)	(6,166,942)	(1,803,398)
Cumulative translation differences		(33,109)	-	43,095	-
<b>Comprehensive loss for the period</b>		\$ (1,924,884)	\$ (319,225)	\$ (6,123,847)	\$ (1,803,398)
<b>Loss per share – basic and diluted</b>	17	\$ (0.05)	\$ (0.02)	\$ (0.08)	\$ (0.13)
<b>Weighted average number of shares outstanding – basic and diluted</b>		35,619,493	13,812,500	72,693,642	13,812,500

The accompanying notes form an integral part of these financial statements

**CONTAGIOUS GAMING INC.**  
**(formerly Kingsman Resources Inc.)**

**Condensed Consolidated Interim Statement of Changes in Equity**

<i>Unaudited</i> <i>Expressed in Canadian Dollars</i>	Class A Common Shares		Class B Common Shares		Contribution		Total \$
	Number of Shares	Amount \$	Number of Shares	Amount \$	Reserve \$	Deficit \$	
<b>Balance at March 31, 2013</b>	100	100	-	-	202,877	(330,664)	(127,687)
Dividends paid	-	-	-	-	-	(120,102)	(120,102)
Net loss for the period	-	-	-	-	-	(1,803,398)	(1,803,398)
<b>Balance at December 31, 2013</b>	100	100	-	-	202,877	(2,254,164)	(2,051,187)

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**CONTAGIOUS GAMING INC.**  
**(formerly Kingsman Resources Inc.)**

**Condensed Consolidated Interim Statement of Changes in Equity**

<i>Unaudited</i> <i>Expressed in Canadian Dollars</i>	<b>Share Capital (Note 12)</b>		<b>Reserves (Note 12)</b> \$	<b>Accumulated Other Comprehensive Income</b> \$	<b>Deficit</b> \$	<b>Total</b> \$
	Number of <b>Shares</b>	<b>Amount</b> \$				
<b>Balance at March 31 , 2014</b>	35,000,000	1,475,100	202,877	-	(2,289,919)	(611,942)
Reverse takeover recapitalization (Note 4a)	(35,000,000)	-	-	-	-	-
Contagious Gaming shares on RTO (Note 4a)	13,541,487	1,908,560	-	-	-	1,908,560
RTO acquisition of Contagious Gaming (Note 4a)	17,500,000	-	-	-	-	-
RTO finder's fee shares (Note 4a)	875,000	350,000	-	-	-	350,000
Acquisition of Contagious Sports (Note 4b)	20,000,001	8,000,000	-	-	-	8,000,000
Finder's fee - Contagious Sports acquisition (Note 4b)	1,000,000	400,000	-	-	-	400,000
Assignment fee - Contagious Sports acquisition (Note 4b)	1,250,000	500,000	-	-	-	500,000
Shares for debt (Note 12b)	1,483,770	593,508	-	-	-	593,508
Equity financing (Note 12b)	15,302,000	6,120,800	-	-	-	6,120,800
Equity financing costs (Note 12b)	-	(900,088)	238,000	-	-	(662,088)
RTO assumption of Contagious Gaming options (Note 4a)	-	-	87,000	-	-	87,000
RTO assumption of Contagious Gaming warrants (Note 4a)	-	-	472,000	-	-	472,000
Equity portion of convertible note (Note 10)	-	-	62,530	-	-	62,530
Issuance of shares to Trinity Mirror (Note 12b)	2,804,628	473,109	-	-	-	473,109
Exercise of options (Note 12c)	92,593	54,738	(14,923)	-	-	39,815
Fair value of vested Trinity Mirror warrants (Note 12d)	-	-	206,897	-	-	206,897
Stock based compensation (Note 12c)	-	-	584,259	-	-	584,259
Foreign currency translation	-	-	-	43,095	-	43,095
Net loss for the period	-	-	-	-	(6,166,942)	(6,166,942)
<b>Balance at December 31, 2014</b>	<b>73,849,479</b>	<b>18,975,727</b>	<b>1,838,640</b>	<b>43,095</b>	<b>(8,456,861)</b>	<b>12,400,601</b>

The accompanying notes form an integral part of these financial statements

**CONTAGIOUS GAMING INC.**  
**(formerly Kingsman Resources Inc.)**  
**Condensed Consolidated Interim Statements of Cash Flows**  
**For the Nine Months Ended December 31, 2014 and 2013**

<i>Unaudited</i>		
<i>Expressed in Canadian Dollars</i>	2014	2013
<b>Cash provided by (used in) operations</b>		
(Loss) for the period	\$ (6,166,942)	\$ (1,803,398)
Items not affecting cash:		
Amortization of intangible assets	639,467	-
Depreciation of equipment	6,182	1,436
Accretion of convertible loan	11,445	-
Interest expense	-	149,764
RTO public listing costs	2,776,724	-
Stock based compensation	584,259	-
Stock based marketing compensation	680,006	-
Transactions costs	900,000	-
Gain on settlement of debt	(57,613)	-
Future income taxes recovery	(97,020)	-
	<u>(723,492)</u>	<u>(1,652,198)</u>
<b>Changes in non-cash working capital:</b>		
Accounts receivable	(36,851)	(87,035)
Accounts payable and accrued liabilities	(963,285)	1,196,410
Prepaid expenses	(244,962)	-
Accrued revenue	(18,736)	-
Deferred revenue	(22,712)	222,853
	<u>(2,010,038)</u>	<u>(319,970)</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	-	(3,391)
Development of intangible assets	-	(246,172)
Cash from acquisition of Contagious Gaming	112,017	-
Cash from acquisition of Contagious Sports	213	-
	<u>112,230</u>	<u>(249,563)</u>
<b>Cash flows from financing activities</b>		
Due from/to related parties	106,355	(535,414)
Interest paid	(6,772)	(149,766)
Loans payable	(760,586)	1,409,073
Issuance of shares for cash	6,120,800	-
Share issuance costs	(557,088)	-
Proceeds from exercise of options	39,815	-
Dividends paid	-	(120,102)
	<u>4,942,524</u>	<u>603,791</u>
<b>Effect of foreign exchange rate changes</b>	(8,907)	-
<b>Increase in cash for the period</b>	3,035,809	34,258
<b>Cash at beginning of period</b>	16,806	1,020
<b>Cash at end of period</b>	<u>\$ 3,052,615</u>	<u>\$ 35,278</u>

**Non-Cash Investing and Financing Transactions (Note 18)**

The accompanying notes form an integral part of these financial statements

**CONTAGIOUS GAMING INC.**  
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**Notes to Condensed Interim Consolidated Financial Statements**

**For the Three and Nine Months Ended December 31, 2014 and 2013**

*Unaudited*

*Expressed in Canadian Dollars*

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**1. CORPORATE INFORMATION**

Contagious Gaming Inc. (on consolidated basis "**the Company**" or "**Contagious**") is in the business of developing of software solutions for regulated gaming and lottery markets. The Company is currently focused on deploying its first-to-market lottery-style sports betting platform in the United Kingdom and its proprietary digital instant lottery content in United States and other international jurisdictions. The Company's head office address is at 281 Wedgewood Drive, Oakville, Ontario, L6J 4R6. The registered and records office address is at Suite 1500-1055 West Georgia Street, P.O. Box 11117, Vancouver, British Columbia, V6E 4N7. The Company is listed on the TSX Venture Exchange ("TSX.V") under the symbol "CNS"

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

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

On September 19, 2014, Contagious Gaming acquired a 100% ownership in Telos Entertainment Inc. ("**Telos**") via a reverse takeover transaction ("**RTO**") and Contagious Sports Inc. ("**Contagious Sports**") (Note 4).

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

**2. BASIS OF PRESENTATION**

**a) Acquisition of Contagious Gaming Inc. – Recapitalization (Reverse Takeover)**

On September 19, 2014, Contagious Gaming acquired a 100% ownership in Telos by issuing 17,500,000 common shares to the shareholders of Telos (Note 4). For accounting purposes, this acquisition is accounted for as a reverse takeover transaction and recapitalization because the acquisition resulted in the former shareholders of Telos having control of the combined entity. This was accounted for as an acquisition of assets of Contagious Gaming and is not a business combination. Accounting for the acquisition as a reverse takeover result in the following:

(i) The consolidated financial statements of the combined entities are issued as the consolidated financial statements of the legal parent, Contagious Gaming, but are considered a continuation of the financial statements of the legal subsidiary, Telos.

(ii) Since Telos is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values.

(iii) The deficit of Contagious Gaming up to the date of acquisition was eliminated.

(iv) The number of shares issued in the consolidated entity is that of Contagious Gaming up to the RTO date on September 19, 2014, plus all shares issued on and after the RTO date. The dollar amount of the issued share capital in the consolidated statement of financial position immediately prior to acquisition is the dollar value of Telos' issued capital up to the RTO date on September 19, 2014 plus the value of all



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shares issued by Company on and after the RTO date, including the value of shares issued to acquire Telos.

(v) Change of fiscal year end from December 31 to March 31 to coincide with the fiscal year end of Telos.

**b) Statement of Compliance**

These condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”) applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting.

These unaudited condensed interim financial statements do not include all the information and notes required by IFRS for annual financial statements and; therefore should be read in conjunction with the Company’s audited annual financial statements and notes as at and for the year ended March 31, 2014.

**c) Basis of Measurement**

These financial statements have been prepared on the historical cost basis, as explained in the accounting policies set out in Note 3.

All figures presented in these financial statements are in Canadian dollars unless otherwise indicated.

The preparation of the condensed interim financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. In preparing these condensed interim financial statements, the significant estimations and judgments made by management in applying the Company’s accounting policies and key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended March 31, 2014 and are disclosed in Note 2 of the March 31, 2014 financial statements.

**d) Basis of Consolidation**

These interim condensed consolidated financial statements include the accounts of Contagious Gaming from the date of the RTO on September 19, 2014 and the following wholly-owned subsidiaries: (i) Canadian subsidiary Telos from its date of incorporation on August 11, 2006 and (ii) U.K. subsidiary Contagious Sports from the date of its acquisition on September 19, 2014.

**e) Functional and Presentation Currency**

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

These financial statements are presented in Canadian dollars. The functional currency of the Canadian legal parent company Contagious Gaming and its legal Canadian subsidiary Telos is the Canadian dollar. The functional currency of the UK subsidiary Contagious Sports is the the British Pound Sterling (“GBP” or “£”). Contagious Sports’ financial statement amounts are translated into Canadian dollars as follows: assets and liabilities at the closing rate as at the balance sheet date, and income and expenses at the average rate of the period. All resulting changes are recognized in other comprehensive income (loss) as cumulative translation differences.

Transactions in foreign currencies are translated into the functional currency at exchange rates at the

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**Notes to Condensed Interim Consolidated Financial Statements**

**For the Three and Nine Months Ended December 31, 2014 and 2013**

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dates of the transactions. Foreign currency differences arising on translation are recognized in profit or loss.

**3. SIGNIFICANT ACCOUNTING POLICIES**

All significant accounting policies have been applied on a basis consistent with those applied in the most recent audited annual financial statements. The policies applied in these condensed interim financial statements are based on IFRS issued and outstanding as at February 27, 2015, the date the Board of Directors approved and authorized to issue these condensed interim financial statements.

**Accounting Standards Issued But Not Yet Applied**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards.

**IFRS 9 – Financial Instruments** – IFRS 9 (2014) addresses classification and measurement of financial assets and liabilities, including impairment of financial assets, and hedge accounting. Under this standard, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The accounting model for financial liabilities is largely unchanged from IAS 39 except for the presentation of the impact of own credit risk on financial liabilities designated at fair value through profit or loss. The new general hedge accounting principles under IFRS 9 are aimed to align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it is expected to provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

IFRS 9 is mandatorily effective for annual periods beginning on or after January 1, 2018. The Company is in process of evaluating the impact of IFRS 9 on the Company's financial statements.

**IFRS 15 – Revenue from Contracts with Customers** – On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for fiscal years ending on or after December 31, 2017 and is available for early adoption.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on April 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

**4. ACQUISITIONS**

**a) Reverse Takeover of Contagious Gaming by Telos**

On September 19, 2014, Contagious Gaming acquired a 100% ownership in Telos by issuing 17,500,000 common shares to the shareholders of Telos (*Note 1 and 2*). For accounting purposes, this acquisition is accounted for as a reverse takeover transaction and recapitalization because the acquisition resulted in the former shareholders of Telos having control of the combined entity. This was accounted for as an acquisition of assets of Contagious Gaming and is not a business combination. In connection with the RTO, the Company issued 875,000 common shares as a finder's fee.

**CONTAGIOUS GAMING INC.**  
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**Notes to Condensed Interim Consolidated Financial Statements**

**For the Three and Nine Months Ended December 31, 2014 and 2013**

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The fair value of the consideration paid by Telos for the acquisition of Contagious Gaming is based on the fair value of equity instruments in the combined entities allocated to the existing shareholders in Contagious Gaming. The consideration paid by Telos consists of the fair value of Contagious Gaming's common shares, share purchase options and share purchase warrants outstanding immediately before the date of the reverse takeover acquisition. The identifiable assets acquired and liabilities of Contagious Gaming assumed by Telos are measured at their fair values at the acquisition date. Excess of the aggregate of the consideration transferred by Telos over the fair value of the identifiable net assets acquired and liabilities of Contagious Gaming assumed by Telos is attributable to the cost of obtaining a listing status. This amount is expensed as it does not meet the criteria for recognition as an asset.

The following are the fair values of Contagious Gaming's assets acquired and liabilities assumed by Telos on September 19, 2014 and consideration paid by Telos:

**Net assets (liabilities) acquired**

Cash and cash equivalents	\$	112,017
Accounts receivable		8,437
Prepaid expenses		1,000
Deferred financing costs		105,000
Loan and advances receivable from Contagious Sports		355,936
Advances receivable from Telos		25,000
Accounts payable and accrued liabilities		(566,554)
	<u>\$</u>	<u>40,836</u>

**Consideration paid**

Fair value of Contagious Gaming's existing 13,541,487 common shares deemed issued by Telos *	\$	1,908,560
Fair value of Contagious Gaming's existing 262,500 stock options deemed granted by Telos **		87,000
Fair value of Contagious Gaming's existing 1,537,500 post consolidation share purchase warrants deemed granted by Telos **		472,000
Fair value of Contagious Gaming's 875,000 common shares issued as finder's fee *		350,000
	<u>\$</u>	<u>2,817,560</u>

**Costs attributable to obtaining a listing status**

\$ 2,776,724

\* The fair value of shares issued is based on the average of:

- (i) fair value of the public listing based on the market capitalization of Contagious Gaming using the average historical trading stock price of Contagious Gaming prior to the announcement of the RTO transaction, and
- (ii) fair value of Telos allocated to the existing shareholders in Contagious Gaming.

\*\* The fair value of Contagious Gaming's stock options and share purchase warrants assumed by Telos were valued using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>Options</b>	<b>Warrants</b>
Stock price volatility	133.63%	133.63%
Risk free interest rate	1.17%	1.17%
Expected life	2 years	2 years
Expected dividend yield	0.00%	0.00%

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**Notes to Condensed Interim Consolidated Financial Statements**

**For the Three and Nine Months Ended December 31, 2014 and 2013**

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**b) Acquisition of Contagious Sports**

Concurrently with the RTO on September 19, 2014, the Company acquired a 100% of issued and outstanding common shares of Contagious Sports in consideration for the issuance to former shareholders of Contagious Sports an aggregate of 20,000,001 common shares valued at \$8,000,000.

Contagious Sports is based in London, UK, and is engaged in the development, distribution, and operation of gaming solutions for regulated gaming markets.

The identifiable assets acquired and liabilities of Contagious Sports assumed by the Company are measured at their fair values at the acquisition date. Excess of the aggregate of the consideration transferred over the fair value of the identifiable tangible and intangible net assets acquired and liabilities assumed, is attributable to goodwill.

The following are the fair values of Contagious Sports assets acquired and liabilities assumed and consideration paid by the Company:

**Net assets acquired**

Cash and cash equivalents	\$	213
Accounts receivable		21,290
Prepaid expenses		10,139
Computer equipment		17,479
Intangible assets *		9,177,947
Accounts payable and accrued liabilities		(1,166,281)
Deferred income tax liability		(750,687)
Loans and advances payable to Contagious Gaming		(410,100)
	\$	<u>6,900,000</u>

**Consideration paid**

Fair value of 20,000,001 common shares	\$	8,000,000
Assignment to the Company of a loan receivable **		(54,164)
	\$	<u>7,945,836</u>
	\$	<u>1,045,836</u>

**Goodwill \***

\* Intangible assets consist of Contagious Sports' online betting platform powered by its proprietary back office management application ("BOMA") and eWallet which can be deployed among a variety of gaming scenarios including: sports betting, slots, bingo, and online lottery. Excess of consideration transferred (\$7,945,836) over the fair value of the identifiable tangible net assets acquired and liabilities assumed (negative \$2,277,947), being \$10,223,783, is allocated between the intangible assets and goodwill. \$9,177,947 was allocated to intangible assets and \$1,045,836 was allocated to goodwill. The amount allocated to intangible assets was determined first by increasing the total fair value of identified tangible and intangible net assets and liabilities from a negative \$2,277,947 to an estimated fair value of \$6,900,000. The residual amount was recorded as goodwill.

\*\* The purchase price was reduced by a \$54,164 loan receivable from Contagious Sports that was assigned to the Company by Gulfstream Capital Corp upon closing of the acquisition. In connection with the acquisition of Contagious Sports, the Company issued (i) 1,000,000 common shares to Grand Rock Capital Inc. as finder's fee valued at \$400,000 and (ii) 1,250,000 common shares to Gulfstream Capital Corp. as an assignment fee valued at \$500,000. The finder's fee and the assignment fee totaling \$900,000 were expensed as transaction costs. Charles Shin is the founder and managing partner for Gulfstream Capital Corp, and he became a director of the Company on August 1, 2014.

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**Notes to Condensed Interim Consolidated Financial Statements**

**For the Three and Nine Months Ended December 31, 2014 and 2013**

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*Expressed in Canadian Dollars*

**5. ACCOUNTS RECEIVABLE**

	December 31, 2014	March 31, 2014
Trade receivable	\$ 94,525	\$ 233,945
Government tax credits receivable	277,124	175,309
GST/HST/VAT receivable	106,998	13,719
Other receivable	10,904	-
	<b>\$ 489,551</b>	<b>\$ 422,973</b>

**6. PROPERTY AND EQUIPMENT**

	Cost	Accumulated Amortization	Net Book Value
Computer hardware			
Balance as at March 31, 2013	\$ 4,395	\$ (659)	\$ 3,736
Additions	-	(1,465)	(1,465)
Balance as at March 31, 2014	4,395	(2,124)	2,271
Additions	17,479	(6,182)	11,297
Foreign exchange	138	13	115
Balance as at December 31, 2014	<b>\$ 22,012</b>	<b>\$ (8,293)</b>	<b>\$ 13,719</b>

**7. INTANGIBLE ASSETS**

	Cost	Accumulated Amortization	Net Book Value
Online gaming platform			
Balance as at March 31, 2013	\$ 271,657	\$ -	\$ 271,657
Additions	344,496	(9,743)	334,753
Balance as at March 31, 2014	616,153	(9,743)	606,410
Additions (Note 4)	9,177,947	(639,467)	8,538,480
Foreign exchange	57,963	882	58,845
Balance as at December 31, 2014	<b>\$ 9,852,063</b>	<b>\$ (648,328)</b>	<b>\$ 9,203,735</b>

**8. RELATED PARTIES TRANSACTIONS AND BALANCES**

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

	December 31, 2014	March 31, 2014
<b>Due from related parties:</b>		
Due from Telos Productions Inc. (i)	\$ -	\$ 250
Due from Telos International (i)	75,845	44,985
Due from Director (ii)	-	22,982
Advances receivable from a director and officer (iii)	1,499	-
	<b>\$ 77,344</b>	<b>\$ 68,217</b>
<b>Due to related party:</b>		
Due to Telos Media Inc. (i)	\$ 44	\$ 44
Due to directors, officers and their companies (iv)	115,482	-
	<b>\$ 115,526</b>	<b>\$ 44</b>

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- (i) Telos Entertainment Inc. is related to Telos Productions Inc., Telos Media Inc. and Telos International Inc. As these companies are controlled by a common director and shareholder. The amounts receivable and payable are non-interest bearing, unsecured and are due on demand. All parties have indicated that they do not intend to request repayment of these loans within the next 12 months, as a result they have been classified as a non-current assets and liabilities in these financial statements.
- (ii) The amount due from director was receivable from Sean Yeomans, the Company's Director and President. This amount was unsecured and non-interest bearing.
- (iii) Advances receivable from a director and officer represent travel advances.
- (iv) Amounts due to directors, officers and their companies are for accrued salaries, fees and travel costs. These amounts are unsecured, non-interest bearing and are due on demand.

**b) Intercompany Charges for Shared Costs**

Costs for shared labour and office common expenses were incurred by Telos International Inc., a related party under common control, and charged to Telos as follows:

	Nine Months Ended	
	December 31, 2014	December 31, 2013
Operating expenses	\$ -	\$ 11,654
General and administrative expenses	\$ -	\$ 200,051

**c) Compensation of Key Management Personnel**

Key management personnel are those persons that have authority and responsibility for planning, directing and controlling the activities of the Company, directly and indirectly. As of December 31, 2014, the Company's key management personnel consist of the Company's directors and senior management (Chief Executive Officer, President, Corporate Secretary and Chief Financial Officer). The Company incurred fees and expenses in the normal course of operations in connection with the key management and directors. Details are as follows:

Nature of Transactions	Nine Months Ended December 31, 2014	Nine Months Ended December 31, 2013
	Management fees and salaries	\$ 120,854
Directors fees	18,417	-
Advisory fees	20,400	-
Stock based compensation	408,754	-
Dividend	-	120,102
	\$ 568,425	\$ 152,358

During the current period, the Company recorded \$449,670 of legal fees to McMillan LLP, a law firm in which Desmond Balakrishnan, the Company's director, is a partner. \$360,000 of these legal costs were incurred by Contagious Gaming prior to completion of the RTO, and as such these costs were eliminated from the consolidated results of operations.

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**9. LOANS PAYABLE**

	December 31, 2014	March 31 2014
	\$	\$
On July 2, 2013, the Company entered into 5 loan agreements with 5 investment funds for \$220,000 each (\$1,100,000 in aggregate); Each loan was bearing an annual interest rate of 16% compounded annually. The loans had a maturity of January 2, 2016. The loans were secured by promissory notes, personal guarantee signed by Sean Yeomans for the outstanding principal and interest and a general security agreement over all present and future assets of the Company. The Company agreed to pay to the lenders a \$70,000 bonus if the loans were not repaid by July 2, 2014. On September 24, 2014, all loans, accrued interest and bonus payable were repaid in full and the loans were discharged.	-	755,968
Bank of Montreal line of credit facility bearing a base interest rate of 6% plus 1.5% (currently at 7.5%), secured by the personal guarantee of Sean Yeomans, due on demand, with a maximum limit of \$30,000.	29,132	-
On January 31, 2014, the Company assumed from Telos International Inc., a related company under common control, a loan from Atlantic Canada Opportunities Agency. The loan is unsecured, non-interest bearing; repayable in monthly principal installments of \$3,750 and matures on June 1, 2015.	22,500	56,250
	51,632	812,218
Current portion	(51,632)	(800,968)
Long-term portion	-	11,250

**10. CONVERTIBLE NOTE PAYABLE**

On November 18, 2013, the Company entered into a private loan agreement with Weston and Constance MacAleer, shareholders of the Company, for a total of \$480,000 plus interest. The loan is unsecured and bears a simple interest rate of 24%. On January 31, 2014, the lenders, the Company and Contagious Gaming entered into an agreement pursuant to which \$300,000 of the loan principal and interest was converted into 2,000,000 Class B Common shares at \$0.15 per share, and the remaining \$300,000 of loan principal and interest will be assumed by Contagious Gaming upon completion of the reverse takeover acquisition of the Company. The reverse takeover was completed on September 19, 2014, and the remaining loan principal and interest was assumed by Contagious Gaming.

On September 19, 2014, Contagious Gaming issued to the lenders a Convertible Note payable with a face value of \$300,000, accruing interest at a rate of 8% per annum compounded quarterly, with interest payable on quarterly basis, unsecured and with a maturity date of September 19, 2017. At any time before the maturity date, at the option of the lenders the Convertible Note can be converted into common shares of Contagious Gaming at the rate of \$1.00 per share.

The Convertible Notes were classified as a liability, with the exception of the portion relating to the conversion features, resulting in the carrying value of the loans being less than their face value. The fair value of the liability portion of the convertible note payable of \$237,470 was determined using a 17% discount rate. The value of the conversion feature was a residual amount of \$62,530. The value of the

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conversion feature was included in the equity reserves account. The discount is being accreted over the term of the loans, utilizing the effective interest rate method.

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

	December 31, 2014
Face value of the convertible note	\$ 300,000
Less value of the conversion feature recorded in equity	(62,530)
Carrying value on September 19, 2014	237,470
Accretion expense	11,445
Interest paid	(6,772)
	\$ 242,143

**11. COMMITMENTS AND CONTINGENCIES**

- a) On September 23, 2013, Telos entered into an advisory agreement with Gulfstream Capital Corp. ("Gulfstream"), for Gulfstream to act as financial advisors for Telos in connection with Telos intention to complete an RTO with a publicly trading company. Following the completion of the RTO, Telos agreed to retain Gulfstream as its financial and capital markets advisor for a period of 18 months. Commencing on September 19, 2014, Gulfstream is receiving advisory fees of \$6,000 per month.
- b) The Company is disputing requests for payments from certain service providers. Except for a \$70,000 provision recorded by the Company in these financial statements, the Company believes any additional claims are without merit and is not anticipating any additional material liability associated with these claims.

**12. SHARE CAPITAL**

**a) Authorized and Issued Share Capital**

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

On September 19, 2014, Telos completed a reverse takeover acquisition of Contagious Gaming (*Note 4a*). As a result, the Company assumed the share structure of Contagious Gaming and the 13,541,487 post-consolidation common shares of Contagious Gaming outstanding immediately prior to the RTO. On September 17, 2014, Contagious Gaming completed a 2 for 1 share consolidation. All references made in these financial statements to common shares, stock options and share purchase warrants of Contagious Gaming are referring to post-consolidated structure.

**b) Share Capital Transactions**

- (i) On September 19, 2014, Telos completed a reverse takeover with Contagious Gaming (*Note 4a*). As a result, the Company assumed the share structure of Contagious Gaming and the 13,541,487 common shares of Contagious Gaming outstanding immediately prior to the RTO. These shares were valued at \$1,908,560.
- (ii) On September 19, 2014, the Company issued 875,000 common shares as finder's fees in connection with the RTO. These shares were valued at \$350,000 (*Note 4a*).
- (iii) On September 19, 2014, the Company issued 20,000,001 common shares to acquire 100% of issued



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and outstanding common shares of Contagious Sports. These shares were valued at \$8,000,000 (*Note 4b*).

(iv) On September 19, 2014, the Company issued 1,000,000 common shares as finder's fees in connection with the acquisition of Contagious Sports. These shares were valued at \$400,000 (*Note 4b*).

(v) On September 19, 2014, the Company issued 1,250,000 common shares as an assignment fee in connection with the acquisition of Contagious Sports. These shares were valued at \$500,000 (*Note 4b*).

(vi) On September 19, 2014, the Company issued 1,483,770 common shares in settlement of certain liabilities of Contagious Sports. These shares were valued at \$593,508.

As part of this shares for debt settlement, 457,537 common shares valued at \$183,015 were issued to settle \$171,635 of amounts payable to Peter Glancy, a Director and CEO of the Company and a director and officer of Contagious Sports. This resulted in a loss on settlement of debt of \$11,380.

(vii) On September 19, 2014, the Company completed a brokered equity offering of 12,882,000 common shares at \$0.40 per share for gross proceeds of \$5,152,800. As compensation for the agents, the Company paid (i) \$360,696 in cash commission equal to 7% of gross proceeds of the offerings and (ii) \$30,000 work fee. The Company also issued 901,740 warrants to the agents equal to 7% of the number of shares issued pursuant to the brokered equity offering. The fair value of the warrants was estimated to be \$238,000 using the Black-Scholes option pricing model

In addition to Agents' compensation, the Company also incurred \$223,442 in legal, accounting and filing fees. Total share issuance costs for the brokered and non-brokered equity financings were \$900,088, including \$238,000 fair value of agent's warrants, These costs been recorded in the share capital of the statement of financial position.

(viii) On September 19, 2014, the Company completed tranche 1 of a non-brokered private placement of 2,125,000 common shares at \$0.40 per share for gross proceeds of \$850,000. In connection with this financing, the Company paid cash finder's fees of \$42,000.

(ix) On September 26, 2014, the Company completed tranche 2 of a non-brokered private placement of 295,000 common shares at \$0.40 per share for gross proceeds of \$118,000. In connection with this financing, the Company paid cash finder's fees of \$5,950.

(x) On November 5, 2014, pursuant to an amending marketing service agreement dated September 25, 2014, as approved by TSX-V on November 5, 2014, the Company issued to Trinity Mirror 965,528 common shares and 1,839,100 escrowed common shares, with 25% of such shares being released for each £150,000 of advertising to be performed under the £600,000 Trinity Mirror marketing credit

The 965,528 common shares were valued on November 5, 2014 at \$0.49 per share for a total value of \$473,109, which was expensed as stock based marketing compensation. The release of escrowed shares is contingent upon Trinity Mirror performing up to £600,000 worth of marketing services, therefore these shares will be valued and recorded as marketing expense when the contingency is resolved and they are released from escrow. The first 25% tranche of escrowed shares will be released upon Trinity Mirror incurring £150,000 of marketing costs (*Note 19*).

(xi) On November 27, 2014, 92,593 stock options were exercised at \$0.43 per share for gross proceeds of \$39,815. The fair value of the underlying stock options was \$14,923.

**c) Stock Options**

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

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Directors. Stock options granted to investor relations consultants vest according to TSX Venture Exchange policy.

The following is a summary of stock options activity:

March 31, 2014	Granted	Forfeited	Exercised	December 31, 2014	Weighted Average Exercise Price	Expiry Date
12,500	-	(12,500)	-	-	\$0.12	Aug 10, 2015 (i)
250,000	-	(50,000)	-	200,000	\$0.12	Sep 17, 2018 (i)
-	3,900,000	-	-	3,900,000	\$0.40	Sep 19, 2019 (ii)
-	92,593	-	(92,593)	-	\$0.43	Feb 5, 2015 (iii)
262,500	3,992,593	(62,500)	(92,593)	4,100,000	\$0.38	

(i) These are stock options of Contagious Gaming assumed by Telos on completion of the RTO on September 19, 2014. Their fair value was determined to be \$87,000 using the Black-Scholes option pricing model (*Note 4a*). The fair value of these options was expensed as RTO listing costs.

(ii) Upon completion of the RTO on September 19, 2014, the Company granted 3,900,000 stock options to its directors, officers, employees and consultants. These options are exercisable at \$0.40 per share for a period of 5 years from the date of grant. The stock options vest over a period of 2 years as follows: 10% on the date of grant and 20% every 6 months thereafter. Total fair value of the stock based compensation on the date of grant was estimated to be \$1,302,566 using the Black-Scholes option pricing model with the following assumptions:

Stock price volatility	122.09%
Risk-free interest rate	1.71%
Expected life	5 years
Expected dividend yield	0.00%

(iii) On November 18, 2014, the Company granted 92,593 stock options for consulting services. These stock options were exercisable at \$0.43 per share on or before February 18, 2015. They were exercised in full on November 27, 2014. Total fair value of the stock based compensation on the date of grant was estimated to be \$14,923 using the Black-Scholes option pricing model with the following assumptions:

Stock price volatility	100.32%
Risk-free interest rate	1.02%
Expected life	0.25 years
Expected dividend yield	0.00%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

During the period ended December 31, 2014, the Company recorded share-based compensation expense of \$584,259 (December 31, 2013 - \$Nil).

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**d) Share Purchase Warrants**

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

March 31, 2014	Granted	Forfeited	Exercised	December 31 2014	Weighted Average Exercise Price	Expiry Date
1,537,500	-	-	-	1,537,500	\$0.20	Aug 20, 2018 (i)
-	901,740	-	-	901,740	\$0.40	Sep 19, 2016 (ii)
-	2,716,667	-	-	2,716,667	\$1.10	Feb 29, 2016 to Feb 28, 2018 (iii)
1,537,500	3,618,407	-	-	5,155,907	\$0.71	

(i) These are share purchase warrants of Contagious Gaming assumed by Telos on the completion of the RTO on September 19, 2014. Their fair value was determined to be \$472,000 using the Black-Scholes option pricing model (*Note 4a*). The fair value of these warrants was expensed as RTO listing costs.

(ii) On September 19, 2014, the Company completed a brokered equity offering. As part of compensation for the agents, the Company issued 901,740. These warrants can be exercised at \$0.40 per share on or before September 19, 2016. The fair value of the warrants was estimated to be \$238,000 using the Black-Scholes option pricing model with the following assumptions:

Stock price volatility	133.63%
Risk-free interest rate	1.17%
Expected life	2 years
Expected dividend yield	0.00%

(iii) Pursuant to an amending marketing service agreement dated September 25, 2014, as approved by TSX-V on November 5, 2014, the Company issued to Trinity Mirror share purchase warrants to acquire an aggregate of up to 2,716,667 common shares of the Company as follows:

Number of Warrants	Exercise Price	Exercisable From	Expiry Date
1,250,000	\$0.80	05-Nov-14	29-Feb-16
800,000	\$1.25	01-Mar-16	31-Aug-17
666,667	\$1.50	01-Sep-17	28-Feb-18
2,716,667			

Pursuant to the warrant instrument, Contagious Gaming is entitled to accelerate the expiry of the Trinity Mirror Warrants to the date that is ten business days following the date a notice is provided by the Company to Trinity Mirror in the event that the volume weighted average trading price of Contagious Gaming common shares on the TSX Venture Exchange is equal to or greater than:

- \$1.00 for any period of twenty trading days after September 25, 2014 for 1,250,000 warrants exercisable at \$0.80
- \$1.5625 for any period of twenty trading days after March 31, 2016 for 800,000 warrants exercisable at \$0.125
- \$1.875 for any period of twenty trading days after September 1, 2017 for 666,667 warrants exercisable at \$1.50

The fair value of 1,250,000 Trinity Mirror warrants, the first tranche of warrants that vested on November 5,

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2014, was estimated to be \$206,897 using the Black-Scholes option pricing model with the following assumptions, and was expensed as stock based marketing compensation:

Stock price volatility	107.59%
Risk-free interest rate	1.03%
Expected life	1.32 years
Expected dividend yield	0.00%

The remaining 800,000 and 666,667 Trinity Mirror warrants will be valued using the Black-Scholes option pricing model and expensed as marketing costs on their respective vesting dates on March 1, 2016 and September 1, 2017

**e) Escrow Shares**

As of December 31, 2014, 38,049,494 common shares of the Company were held in escrow. Details are as follows:

(i) In accordance with the requirement of the TSX.V and pursuant to escrow agreements dated September 17, 2014, 40,233,771 common shares of the Company were placed in escrow, of which 10% (4,023,377) were released following TSX.V acceptance of the RTO on September 19, 2014 and 15% (6,035,066) of the escrowed shares will be released every six months thereafter, with the final release on September 19, 2017. As of December 31, 2014, there were 36,210,394 common shares remaining in escrow.

(ii) In connection with the September 25, 2014 amending agreement with Trinity Mirror and pursuant to an escrow agreement dated September 25, 2014, 1,839,100 common shares of the Company were placed in escrow upon TSX-V approval on Nov 5, 2014. 25% of the escrowed shares are to be released for each £150,000 of advertising to be performed by Trinity Mirror under a £600,000 advertising credit. No shares were released from escrow yet.

**f) Reserves**

	Reserves (\$)				Total
	Contribution	Options	Warrants	Convertible Note	
<b>Balance – March 31, 2014</b>	202,877	-	-	-	202,877
Fair value of Contagious Gaming 262,500 options assumed by Telos on the RTO date <i>(Note 4a)</i>	-	87,000	-	-	87,000
Fair value of Contagious Gaming 1,537,500 warrants assumed by Telos on the RTO date <i>(Note 4a)</i>	-	-	472,000	-	472,000
Fair value of 901,740 Agents' warrants issued as compensation for equity financing <i>(Note 12b)</i>	-	-	238,000	-	238,000
Fair value of vested Trinity Mirror warrants <i>(Note 12d)</i>	-	-	206,897	-	206,897
Exercise of options <i>(Note 12c)</i>	-	(14,923)	-	-	(14,923)
Equity portion of the convertible note payable <i>(Note 10)</i>	-	-	-	62,530	62,530
Stock based compensation <i>(Note 12c)</i>	-	584,259	-	-	584,259
<b>Balance – December 31, 2014</b>	202,877	656,336	916,897	62,530	1,838,640

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**13. INCOME TAX**

The Company's effective tax rate increased relative to the comparative period as a result of the change in the Company's tax status upon completion of the reverse takeover transaction and differs from the amount obtained by applying the Canadian statutory tax rate due to the following:

	Nine Months Ended	
	December 31, 2014	December 31, 2013
Loss for the period	\$ (6,263,962)	\$ (1,803,398)
Canadian statutory tax rate	26.00%	15.5%
Income tax recovery	\$ (1,628,630)	\$ (279,527)
Foreign and provincial tax rate differences	117,648	-
Items non-deductible for tax purposes	1,043,595	12,194
Operating losses not set-up as deferred tax assets	370,367	267,333
Income tax (expense) income - future	\$ (97,020)	\$ -

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

	December 31 2014	March 31 2014
<b>Deferred income tax assets related to:</b>		
Non-capital losses	\$ 1,868,571	\$ 219,924
Share issuance costs	152,443	-
	<u>2,021,014</u>	<u>219,924</u>
Less: Valuation allowance	(1,656,555)	(186,901)
Deferred income tax assets recognized	364,459	33,023
<b>Deferred income tax liabilities related to:</b>		
Intangible assets	(1,025,120)	(33,023)
<b>Net deferred income tax liability</b>	<u>\$ (660,661)</u>	<u>\$ -</u>

As at December 31, 2014, the Company had taxable non-capital losses in Canada of approximately \$5,422,000 that may be applied against future income for income tax purposes. These losses expire at various dates between 2027 and 2035. As at December 31, 2014, the Company's UK subsidiary had taxable non-capital losses of approximately \$1,502,000 that may be applied against future income for income tax purposes. These losses can be carried forward indefinitely. The potential future tax benefits of some of these tax losses have been recognized to reduce the deferred income tax liability related to intangible assets.

**14. FINANCIAL INSTRUMENTS**

**a) Categories of Financial Assets and Liabilities**

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

	December 31, 2014	March 31, 2014
Loans and receivables	\$ 3,619,510	\$ 507,996
Other financial liabilities	\$ 868,248	\$ 1,466,530

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**b) Fair Value of Financial Instruments**

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

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

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

Level 3: Valuation based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

There were no transfers between levels during the year.

The fair values of accounts receivable, accounts payable and accrued liabilities, loans payable and balances with related parties approximate their carrying value due to their short term maturities.

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

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

*Credit risk*

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

As of December 31, 2014, there were receivables from two customers (March 31, 2014 - three) representing 90% (March 31, 2014 - 70%) of total accounts receivable. During the nine months ended December 31, 2014, sales to two customers (2013 - two) accounted for 93% (2013 - 99%) of total revenue. The failure of a large customer would have a significant effect on the Company.

*Liquidity risk*

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

The following table outlines the remaining contractual maturities for the Company's financial liabilities:

	2015	2016	2017	2017	Total
	\$	\$	\$	\$	\$
Accounts payable	458,947	-	-	-	458,947
Due to related parties	115,526	-	-	-	115,526
Loans payable	51,632	-	-	-	51,632
Convertible note payable	6,000	24,000	24,000	312,000	366,000
Office lease	7,005	4,670	-	-	11,675
	639,110	28,670	24,000	312,000	1,003,780

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*Currency risk*

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency fluctuation due to the nature of transactions and different function and reporting currencies. The Company's main operations are conducted in Canada using Canadian dollars and in the UK using British Pound Sterling. The Company is generating some revenue in United States Dollars. Due to the short-term nature of these transactions, the exposure to currency risk is insignificant.

Contagious Sports' functional currency is British Pound Sterling, but the Company's reporting currency is Canadian dollar and the resulting exchange differences are reported as accumulated other comprehensive income (loss), which is presented as a separate component of equity.

**15. CAPITAL MANAGEMENT**

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

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

**16. SEGMENTED INFORMATION**

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

**17. EARNINGS (LOSS) PER SHARE**

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

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

On September 19, 2014, Contagious Gaming completed a reverse takeover transaction with Telos. For the period in which a reverse acquisition occurs, the weighted-average number of common shares outstanding is calculated as the weighted average of:

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- (i) for the period from the beginning of the reporting period to the RTO date: the weighted average number of common shares of Telos (accounting acquirer) outstanding during that period multiplied by the exchange ratio established in the acquisition agreement (1:2), and
- (ii) for the period from the RTO date to the end of the reporting period: the actual number of common shares of Contagious Gaming (legal acquirer) outstanding during that period.

**18. NON-CASH INVESTING AND FINANCING TRANSACTIONS**

	Nine months ended December 31 2014 \$	Nine months ended December 31 2013 \$
Shares issued on the RTO acquisition of Contagious Gaming	1,908,560	-
Shares issued as finder's fee on the RTO acquisition	350,000	-
Shares issued for acquisition of Contagious Sports	8,000,000	-
Shares issued as finder's fee on the acquisition of Contagious Sports	400,000	-
Shares issued as assignment fee on the acquisition of Contagious Sports	500,000	-
Shares for debt	593,508	-
Fair value of agents' warrants	238,000	-
Fair value of assumed stock options on the RTO	87,000	-
Fair value of assumed warrants on the RTO	472,000	-
Equity portion of convertible note payable	62,530	-
Acquisition of non-cash assets (liabilities) of Contagious Gaming	(71,181)	-
Acquisition of non-cash assets (liabilities) of Contagious Sports	7,945,623	-
Deferred financing costs included in share issuance costs	105,000	-
Fair value of exercised options	14,923	-
Fair value of Trinity Mirror warrants expensed as marketing	206,897	-
Fair value of shares issued to Trinity Mirror for marketing	473,109	-

**19. TRINITY MIRROR MARKETING AGREEMENT**

On November 14, 2013, Contagious Sports entered into a Partnership Service Agreement (the "**Service Agreement**") with Trinity Mirror Shared Services Limited, a subsidiary of Trinity Mirror PLC ("Trinity Mirror") for providing an adapted version of the Contagious Sports Betting Platform as a branded version for Trinity Mirror. Pursuant to this agreement, Contagious Sports and Trinity Mirror are sharing revenues generated from the Goaltime website. On September 25, 2014, the Company and its subsidiary Contagious Sports have entered into an amending agreement (the "**Amending Agreement**") to the Service Agreement to restructure the warrants and option granted by Contagious Sports to Trinity Mirror in connection with the Service Agreement. In addition, as part of the previously announced \$6,002,800 equity financing completed on September 19, 2014, Trinity Mirror subscribed for 625,000 common shares of Contagious Gaming at a price of \$0.40 per share for gross proceeds of \$250,000. This transaction was approved by TSX-V on November 5, 2014 which resulted in the following:

1. Cancellation of share purchase warrants that Trinity Mirror previously held in Contagious Sports;



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2. Issuance by Trinity Mirror to Contagious Gaming a credit of £600,000 which is Trinity Mirror's contribution to the Goaltime revenue sharing agreement. This credit may be allocated by Contagious Gaming at any time within 24 months from November 5, 2014 towards marketing from Trinity Mirror for Contagious Sports' web and mobile pools betting application;
3. Trinity Mirror released Contagious Sports from indebtedness (if any) for past advertising services performed by Trinity Mirror for Contagious Sports under the previous Service Agreement;
4. Contagious Gaming has entered into a supplemental agreement with Trinity Mirror pursuant to which Contagious Gaming guaranteed the obligations of Contagious Sports under the September 25, 2014 Partner Services Agreement between Trinity Mirror and Contagious Sports; and
5. Contagious Gaming issued the following shares and share purchase warrants to Trinity Mirror:
  - (i) 965,528 common shares,
  - (ii) 1,839,100 escrowed common shares, with 25% of such shares being released for each £150,000 of advertising performed under the £600,000 credit described above, and
  - (iii) share purchase warrants to acquire an aggregate of up to 2,716,667 common shares of the Company as follows:

Number of Warrants	Exercise Price	Exercisable From	Expiry Date
1,250,000*	\$0.80	05-Nov-14	29-Feb-16
800,000*	\$1.25	01-Mar-16	31-Aug-17
666,667*	\$1.50	01-Sep-17	28-Feb-18
2,716,667			

\* Pursuant to the warrant instrument, Contagious Gaming is entitled to accelerate the expiry of the Trinity Mirror Warrants to the date that is ten business days following the date a notice is provided by the Company to Trinity Mirror in the event that the volume weighted average trading price of Contagious Gaming common shares on the TSX Venture Exchange is equal to or greater than:

- \$1.00 for any period of twenty trading days after September 25, 2014 for 1,250,000 warrants exercisable at \$0.80
- \$1.5625 for any period of twenty trading days after March 31, 2016 for 800,000 warrants exercisable at \$0.125
- \$1.875 for any period of twenty trading days after September 1, 2017 for 666,667 warrants exercisable at \$1.50

For accounting purposes, the Amending Agreement is treated as a modification of the Service Agreement.

**20. PROPOSED ACQUISITION OF CHELBIS COMPANIES**

On December 5, 2014, the Company has entered into an initial share purchase agreement, which was followed by signing a definitive share purchase agreement on January 18, 2015, to acquire all of the issued and outstanding securities of Chelbis Company Ltd. (Malta) ("**Chelbis Malta**") and Chelbis Company Ltd. (Isle of Man) ("**Chelbis IOM**") (together "**Chelbis**") (the "**Acquisition**").

Chelbis owns and operates well established and successful websites House of Bingo, Gone Bingo, and Harrys Bingo as well as bingo networks Best Bingo Network, Super Bingo Network and Fun Bingo Network. It also manages a number of white label bingo partner websites within its networks.

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As consideration for the Acquisition, the Company will be required to make the following payments to the shareholders of Chelbis:

- (i) Issue 3,825,000 common shares of the Company at a deemed price of \$0.80 per share on closing of the Acquisition. These shares will be held in escrow and will be released 36 months after the closing date of the Acquisition; \*
- (ii) Pay cash consideration of £400,000 on closing of the Acquisition (the “**Initial Payment**”); \*\*
- (iii) Pay cash consideration equal to 21.43% of Chelbis’ 2014 net profit subject to certain adjustments, not to exceed £150,000, on December 31, 2015 (the “**Second Cash Payment**”); \*\*
- (iv) Pay cash consideration equal to 21.43% of Chelbis’ 2014 net profit subject to certain adjustments, not to exceed £150,000, by the date that is six months from the deadline for the Second Cash Payment (the “**Third Cash Payment**”); \*\*
- (v) Earn-out payment equal to one times Chelbis’ 2015 net profit payable within 60 days of the completion of the audit of Chelbis operations for the year ending December 31, 2015. At the option of the Company, the payment can be made in either (i) cash, or (ii) common shares of the Company at the 10-day volume weighted average price for the last ten trading days of January 2016; \*\*\*
- (vi) Earn-out payment equal to one times Chelbis’ 2016 net profit payable within 60 days of the completion of the audit of Chelbis operations for the year ending December 31, 2016. At the option of the Company, the payment can be made in either (i) cash, or (ii) common shares of the Company at the 10-day volume weighted average price for the last ten trading days of January 2017. \*\*\*

\* On the closing date of the Acquisition, Chelbis is required to have unrestricted cash equal to or exceeding £300,000.

\*\* Cash payments may be reduced or deferred until certain tax liabilities of Chelbis are discharged by the current shareholders of Chelbis

\*\*\* In the event that the Company completes a brokered sale of common shares greater or equal to gross proceeds of \$5,000,000 (the “**Equity Financing**”), the payment deadline for the Second Cash Payment and the Third Cash Payment shall accelerate to the date of the closing of the Equity Financing. Profits generated by Chelbis from any business that is acquired by Chelbis after closing of the Acquisition will be excluded from the calculation of net profits subject to the earn-out payments.

The Acquisition is subject to certain closing conditions including regulatory approvals.