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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2017**

**TRANSITION REPORT UNDER SECTION 13 or 15(d) OF THE EXCHANGE  
ACT**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 333-120120-01

**SHOAL GAMES LTD.**

(Exact name of small business issuer as specified in its charter)

**ANGUILLA**

(State or other jurisdiction of incorporation or  
organization)

**98-0206369**

(IRS Employer Identification No.)

**Hansa Bank Building, Ground Floor, Landsome Road  
AI 2640, The Valley, Anguilla, B.W.I**

(Address of principal executive offices)

**(888) 374-2163**

(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Sections 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS** The number of outstanding shares of the Issuer's common stock, no par value per share, was 65,048,592 as of November 14, 2017.

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**SHOAL GAMES LTD.**

**QUARTERLY REPORT ON FORM 10-Q  
FOR THE PERIOD ENDED SEPTEMBER 30, 2017**

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## PART I - FINANCIAL INFORMATION

### ITEM 1. Financial Statements.

#### SHOAL GAMES LTD. and subsidiaries

(Expressed in United States Dollars)

Consolidated Balance Sheets  
(Unaudited)

As at	September 30, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash	\$ 818,085	\$ 60,190
Accounts receivable less allowance for doubtful accounts \$27,666 (December 31, 2016 - \$27,666) (Note 3)	16,466	17,194
Prepaid expenses (Note 4)	34,113	33,494
<b>Total Current Assets</b>	<b>868,664</b>	<b>110,878</b>
Equipment, net	11,173	10,148
Security deposits	-	8,067
Deferred tax asset, less valuation allowance of \$15,959 (December 31, 2016 - \$15,017) (Note 9)	-	-
<b>Total Assets</b>	<b>\$ 879,837</b>	<b>\$ 129,093</b>
<b>Liabilities and Stockholders' Equity (Deficiency)</b>		
Current liabilities:		
Accounts payable	\$ 21,671	\$ 3,667
Accrued liabilities	89,502	87,959
Accounts payable and accrued liabilities - related party (Note 10)	11,276	5,356
Derivative liability – warrants (Note 7)	98,615	-
<b>Total Current Liabilities</b>	<b>221,064</b>	<b>96,982</b>
Promissory notes (Note 6)	480,203	347,698
<b>Total Liabilities</b>	<b>701,267</b>	<b>444,680</b>
Commitments (Note 8)		
Stockholders' Equity (Deficiency) (Note 7):		
Common stock, no par value, unlimited shares authorized, 64,919,992 shares issued and outstanding (December 31, 2016 - 59,708,318)	23,003,127	21,223,271
Accumulated deficit	(22,849,137)	(21,563,438)
Accumulated other comprehensive income:		
Foreign currency translation adjustment	24,580	24,580
<b>Total Stockholders' Equity (Deficiency)</b>	<b>178,570</b>	<b>(315,587)</b>
<b>Total Liabilities and Stockholders' Equity (Deficiency)</b>	<b>\$ 879,837</b>	<b>\$ 129,093</b>

See accompanying notes to the consolidated financial statements.

# SHOAL GAMES LTD. and subsidiaries

(Expressed in United States Dollars)

## Consolidated Statements of Operations and Comprehensive Loss

For Periods Ended September 30, 2017 and 2016

(Unaudited)

	Nine Months ended September 30, 2017	Nine Months ended September 30, 2016	Three Months ended September 30, 2017	Three Months ended September 30, 2016
Total revenue	\$ 74,888	\$ 241,138	\$ 18,853	\$ 52,758
Cost of sales:				
Game development amortization (Note 5)	-	361,510	-	120,503
Total cost of sales	-	361,510	-	120,503
Gross profit (loss)	74,888	(120,372)	18,853	(67,745)
Operating expenses:				
Depreciation and amortization	2,615	1,501	965	501
Directors fees	2,500	6,000	1,000	2,000
General and administrative	218,057	186,205	96,369	65,601
Promissory note accretion and interest (Note 6)	62,021	-	22,110	-
Salaries, wages, consultants and benefits	339,827	316,646	121,697	97,626
Selling and marketing	151,483	394,389	71,351	26,044
Games development (Note 5)	605,905	855,985	194,594	387,068
Total operating expenses	1,382,408	1,760,726	508,086	578,840
Loss before other income (expense) and income taxes	(1,307,520)	(1,881,098)	(489,233)	(646,585)
Other income (expense):				
Gain on derivative liability – warrants (Note 7)	24,669	-	24,669	-
Foreign exchange (loss) income	(2,861)	(31,192)	1,849	(10,759)
Interest and other income	13	139	5	38
Loss on prepaid development (Note 4)	-	(498,791)	-	(498,791)
Loss before income taxes	(1,285,699)	(2,410,942)	(462,710)	(1,156,097)
Income tax (recovery) expense	-	(8)	-	1
Net loss for the period	(1,285,699)	(2,410,934)	(462,710)	(1,156,098)
Other comprehensive income (loss)	-	-	-	-
Comprehensive loss for the period	\$ (1,285,699)	\$ (2,410,934)	\$ (462,710)	\$ (1,156,098)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.04)	\$ (0.01)	\$ (0.02)
Weighted average common shares outstanding, basic	60,621,170	57,737,834	62,063,832	59,535,637
Weighted average common shares outstanding, diluted	60,621,170	57,737,834	62,063,832	59,535,637

See accompanying notes to the consolidated financial statements.

# SHOAL GAMES LTD. and subsidiaries

(Expressed in United States Dollars)

## Consolidated Statements of Stockholders' Equity (Deficiency)

For the period ended September 30, 2017

(Unaudited)

	Common stock		Accumulated Deficit	Accumulated Other Comprehensive income	Total Stockholders' Equity (Deficiency)
	Shares	Amount		Foreign currency translation adjustment	
Balance, December 31, 2016	59,708,318	\$21,223,271	\$(21,563,438)	\$ 24,580	(\$315,587)
Discount on promissory note	-	23,461	-	-	23,461
Gain on extinguishment and reissuance of promissory notes with related parties	-	94,191	-	-	94,191
Private placement, net of issuance expenses	5,211,674	1,785,488	-	-	1,785,488
Derivative liability – warrants	-	(123,284)	-	-	(123,284)
Net loss	-	-	(1,285,699)	-	(1,285,699)
Balance, September 30, 2017	64,919,992	\$23,003,127	\$(22,849,137)	\$ 24,580	\$178,570

See accompanying notes to the consolidated financial statements.

# SHOAL GAMES LTD. and subsidiaries

(Expressed in United States Dollars)

## Consolidated Statements of Cash Flows

For the nine month period ended September 30, 2017 and 2016

(Unaudited)

	2017	2016
Cash flows from operating activities:		
Net loss	\$ (1,285,699)	\$ (2,410,934)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,615	1,501
Game development amortization	-	361,510
Accretion of promissory note	62,021	-
Gain on derivative liability – warrants	(24,669)	-
Changes in operating assets and liabilities:		
Accounts receivable	728	15,551
Prepaid expenses	(619)	(40,894)
Security deposits	8,067	(524)
Accounts payable and accrued liabilities	25,46	51,240
Net cash used in operating activities	(1,212,089)	(2,022,550)
Cash flows from investing activities:		
Acquisition of equipment	(3,640)	(5,104)
Net cash used in investing activities	(3,640)	(5,104)
Cash flows from financing activities:		
Proceeds from Private placement, net of issuance costs	1,785,488	1,513,354
Promissory note	188,136	-
Proceeds from shareholder loan	-	26,631
Net cash provided by financing activities	1,973,624	1,539,985
Change in cash	757,895	(487,669)
Cash, beginning of period	60,190	570,086
Cash, end of period	\$ 818,085	\$ 82,417
Supplementary information:		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -
Non-cash financing activity – Extinguishment of promissory notes	\$ 94,191	\$ -
Non-cash financing activity – Discount on related party loans	\$ 23,461	\$ -
Non-cash investing activity	\$ -	\$ -

See accompanying notes to the consolidated financial statements.

# **SHOAL GAMES LTD. and subsidiaries**

(Expressed in United States Dollars)

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2017 and 2016  
(Unaudited)

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## **1. Basis of Presentation:**

The accompanying unaudited financial statements have been prepared by Shoal Games Ltd. (“the Company”) in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) applicable to interim financial information and with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed, or omitted, pursuant to such rules and regulations. In the opinion of management, the unaudited interim consolidated financial statements include all adjustments necessary for the fair presentation of the results of the interim periods presented. All adjustments are of a normal recurring nature, except as otherwise noted below. These unaudited interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2016, included in the Company’s Annual Report on Form 10-K, filed March 31, 2017, with the Securities and Exchange Commission. The results of operations for the interim periods are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

### **Continuing operations**

These unaudited interim consolidated financial statements have been prepared on the going concern basis, which presumes the realization of assets and the settlement of liabilities in the normal course of operations. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continued operations, or, in the absence of adequate cash flows from operations, obtaining additional financing. The Company has reported losses from operations for the quarters ended September 30, 2017 and 2016, and has an accumulated deficit of \$22,849,137 as at September 30, 2017. This raises substantial doubt about the Company’s ability to continue as a going concern.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts and settlement of the liability amounts shown in the accompanying balance sheets is dependent upon continued operations of the Company, which in turn is dependent upon the Company’s ability to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Management continues to review operations in order to identify additional strategies designed to generate cash flow, improve the Company’s financial position, and enable the timely discharge of the Company’s obligations. If management is unable to identify sources of additional cash flow in the short term, it may be required to further reduce or limit operations.

## SHOAL GAMES LTD. and subsidiaries

(Expressed in United States Dollars)

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2017 and 2016  
(Unaudited)

### 2. Summary of significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) applicable to annual financial information and with the rules and regulations of the United States Securities and Exchange Commission. The financial statements include the accounts of the Company’s subsidiaries,

<b>Company</b>	<b>Registered</b>	<b>% Owned</b>
Shoal Media (Canada) Inc.	British Columbia, Canada	100%
Coral Reef Marketing Inc.	Anguilla	100%
Shoal Media Inc.	Anguilla	100%
Shoal Games (UK) Plc	United Kingdom	99%
Shoal Media (UK) Ltd.	United Kingdom	100%
Rooplay Media Ltd.	British Columbia, Canada	100%
Rooplay Media Kenya Limited	Kenya	100%

In addition, there are the following dormant subsidiaries; Bingo.com (Antigua) Inc., Bingo.com (Wyoming) Inc., and Bingo Acquisition Corp.

During the quarter ended March 31, 2017, Shoal Media UK Ltd. was incorporated under the laws of England and Wales.

During the quarter ended September 30, 2017, Rooplay Media Kenya Limited was incorporated under the laws of Kenya.

All inter-company balances and transactions have been eliminated in the consolidated financial statements.

(b) Use of estimates:

The preparation of consolidated financial statements in conformity with US GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and recognized revenues and expenses for the reporting periods.

Significant areas requiring the use of estimates include the valuation of long-lived assets, the collectibility of accounts receivable, the valuation of promissory notes and the estimated market rate of 15%, the derivative liability – warrants valuation and the valuation of deferred tax assets. Actual results may differ significantly from these estimates.



## **SHOAL GAMES LTD. and subsidiaries**

(Expressed in United States Dollars)

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2017 and 2016  
(Unaudited)

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### **2. Summary of significant accounting policies (Continued):**

(c) Revenue recognition:

Trophy Bingo and Garfield's Bingo revenues have been recognized from the sale of in-game purchases, net of platform fees, at the time of purchase by the player. The revenue from in-game advertising is recognized when advertising is served to the player.

Advertising revenues, not generated in Trophy Bingo or Garfield's Bingo, have been recognized when collection of the amounts are reasonably assured.

Rooplay revenues have been recognized when collection of the subscriptions are reasonably assured and the provision of service has occurred.

(d) Foreign currency:

The consolidated financial statements are presented in United States dollars, the functional currency of the Company and its subsidiaries. The Company accounts for foreign currency transactions and translation of foreign currency financial statements under Statement ASC 830, Foreign Currency Matters. Transaction amounts denominated in foreign currencies are translated at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities are adjusted at each balance sheet date to reflect the exchange rate at that date. Non-monetary assets and liabilities are translated at the exchange rate on the original transaction date.

Gains and losses from restatement of foreign currency monetary and non-monetary assets and liabilities are included in net income. Revenues and expenses are translated at the rates of exchange prevailing on the dates such items are recognized in earnings.

(e) Software Development Costs:

Software development costs incurred in the research and development of new software products and enhancements to existing software products for external use are expensed as incurred until technological feasibility has been established. After technological feasibility is established, any software development costs are capitalized and amortized at the greater of the straight-line basis over the estimated economic life of the related product or the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for the related product. Commencing January 1, 2014, the Company obtained technological feasibility and amortized the capitalized software development costs over a period of 3 years. The Company performs an annual review of the estimated economic life and the recoverability of such capitalized software costs, using a net realizable value test. The Company completed the amortization of the capitalized Trophy Bingo software development expenses on December 31, 2016.

## **SHOAL GAMES LTD. and subsidiaries**

(Expressed in United States Dollars)

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2017 and 2016  
(Unaudited)

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### **2. Summary of significant accounting policies (Continued):**

(e) Software Development Costs: (Continued)

If a determination is made that capitalized amounts are not recoverable based on the estimated cash flows to be generated from the applicable software, any remaining capitalized amounts are written off. Although the Company believes that its approach to estimates and judgments as described herein is reasonable, actual results could differ and the Company may be exposed to increases or decreases in revenue that could be material.

Total software development costs for the development of all three products; Rooplay, Garfield's Bingo and Trophy Bingo, were \$5,541,179 as at September 30, 2017 (September 30, 2016 - \$4,713,621).

(f) New accounting pronouncements and changes in accounting policy:

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers and issued subsequent amendments to the initial guidance in August 2016, March 2016, April 2016, and May 2016 within ASU 2016-04, ASU 2016-08, ASU 2016-10, ASU 2016-11 and ASU 2016-12, respectively. The guidance in this update supersedes the revenue recognition requirements in ASC 605, Revenue Recognition, and most industry-specific guidance throughout the Codification. Additionally, this update supersedes some cost guidance included in ASC 605-35, Revenue Recognition - Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, assets within the scope of ASC 360, Property, Plant, and Equipment, and intangible assets, within the scope of ASC 350, Intangibles - Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement in this update. The standard was to be effective for the Company as of January 1, 2017, but in August 2016, the FASB delayed the effective date of the new revenue accounting standard to January 1, 2019, and would permit early adoption as of the original effective date. Earlier adoption is not otherwise permitted for public entities. An entity can apply the revenue standard retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application in retained earnings (simplified transition method). The Company is currently assessing the impact of this update on its consolidated financial statements. The Company has not yet selected an adoption date, a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

On April 1, 2016, the FASB voted to defer the effective date of ASU No. 2014-09, which outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers and notes that lease contracts with customers are a scope exception. Public business entities may elect to adopt the amendments as of the original effective date; however, if the proposed deferral is approved, adoption is required for annual reporting periods beginning

## **SHOAL GAMES LTD. and subsidiaries**

(Expressed in United States Dollars)

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2017 and 2016  
(Unaudited)

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### **2. Summary of significant accounting policies (Continued):**

(f) New accounting pronouncements and changes in accounting policy: (Continued)

after December 15, 2017. We are currently assessing the impact of the guidance on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which requires that equity investments, except for those accounted for under the equity method or those that result in consolidation of the investee, be measured at fair value, with subsequent changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 also impacts the presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted only for certain provisions. The Company does not expect that the adoption of ASU 2016-01 will have a material effect on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize most leases on the balance sheet. This ASU requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Lessees are permitted to make an accounting policy election to not recognize the asset and liability for leases with a term of twelve months or less. The ASU does not significantly change the lessees’ recognition, measurement and presentation of expenses and cash flows from the previous accounting standard. Lessors’ accounting under the ASC is largely unchanged from the previous accounting standard. In addition, the ASU expands the disclosure requirements of lease arrangements. Lessees and lessors will use a modified retrospective transition approach, which includes a number of practical expedients. The provisions of this guidance are effective for annual periods beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. Management is evaluating the requirements of this guidance and has not yet determined the impact of the adoption on the Company’s financial position or results of operations.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. The accounting standard changes the methodology for measuring credit losses on financial instruments and the timing when such losses are recorded. ASU No. 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently

## **SHOAL GAMES LTD. and subsidiaries**

(Expressed in United States Dollars)

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2017 and 2016  
(Unaudited)

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### **2. Summary of significant accounting policies (Continued):**

(f) New accounting pronouncements and changes in accounting policy: (Continued)

evaluating the impact of ASU No. 2016-13 on its financial position, results of operations and liquidity.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230)”. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. ASU No. 2016-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company is currently evaluating the impact of ASU No. 2016-15 on its financial position, results of operations and liquidity.

In October 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-16, Income Taxes (Topic 740). The standard improves the accounting for income tax consequences of intra-entry transfers of assets other than inventory. This pronouncement is effective for annual reporting periods beginning after December 15, 2017. The amendments in this ASU should be applied using a modified retrospective approach. The Company is currently evaluating the impact of ASU No. 2016-16 on its financial position, results of operations and liquidity.

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting. The new standard provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This pronouncement is effective for annual reporting periods beginning after December 15, 2017 but early adoption is permitted. The Company is currently evaluating the impact of adopting this guidance.

There have been no other recent accounting standards, or changes in accounting standards, during the quarter ended September 30, 2017, as compared to the recent accounting standards described in the Annual Report, that are of material significance, or have potential material significance, to us.

(g) Financial instruments:

(i) Fair values:

The fair value of accounts receivable, accounts payable, accrued liabilities, promissory notes and accounts payable and accrued liabilities - related party approximate their financial statement carrying amounts due to the short-term maturities of these instruments. Cash is carried at fair value using a level 1 fair value measurement.

## SHOAL GAMES LTD. and subsidiaries

(Expressed in United States Dollars)

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2017 and 2016  
(Unaudited)

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### 2. Summary of significant accounting policies (Continued):

(g) Financial instruments: (Continued)

(i) Fair values: (Continued)

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and included situations where there is little, if any, market activity for the asset. The Company's cash was measured using Level 1 inputs. Derivative liability – warrants was measured using Level 2 inputs.

(ii) Foreign currency risk:

The Company operates internationally, which gives rise to the risk that cash flows may be adversely impacted by exchange rate fluctuations. The Company has not entered into any forward exchange contracts or other derivative instrument to hedge against foreign exchange risk.

### 3. Accounts Receivable:

The accounts receivable as at September 30, 2017, is summarized as follows:

	September 30, 2017	December 31, 2016
Accounts receivable	\$ 44,132	\$ 44,860
Provision for doubtful accounts	(27,666)	(27,666)
Net accounts receivable	\$ 16,466	\$ 17,194

The Company had bank accounts with the National Bank of Anguilla. During the year ended December 31, 2016, the National Bank of Anguilla, filed for chapter 11 protection and accordingly the Company expensed the balance on account of \$27,666 as a doubtful debt during fiscal 2016.

### 4. Prepaid expenses

During the quarter ended June 30, 2016, the Company prepaid \$863,660 for future development expenses for Trophy Bingo and Garfield's Bingo. During the quarter ended September 30, 2016, \$332,125 (June 30, 2016, \$32,744) was expensed. As at August 31, 2016, Roadhouse Interactive Limited, the developer of Trophy Bingo and Garfield's Bingo was placed in receivership, resulting in a loss of \$498,791 on prepaid development.

The Company has other prepaid expenses of \$14,888 (December 31, 2016 - \$25,659) as at September 30, 2017. The Company has prepaid for future licenses fees of \$19,225 (December 31, 2016 - \$7,835) as at September 30, 2017.

## SHOAL GAMES LTD. and subsidiaries

(Expressed in United States Dollars)

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2017 and 2016  
(Unaudited)

### 5. Game development assets:

During the year ended December 31, 2012, the Company commenced development of a social bingo game, Trophy Bingo. During the year ended December 31, 2014, the Company soft launched Trophy Bingo. The Company ceased to capitalize the development costs and commenced the amortization of the capitalized development costs over a period of three years. As at December 31, 2016, the capitalized development costs were amortized in full.

During the year ended December 31, 2016, the Company obtained the license to develop Garfield's Bingo. The game was launched in November 2016. In addition, during the year ended December 31, 2016, the Company obtained Roolplay. The Company commenced development of the Roolplay platform. During the period ended September 30, 2017, the Company has expensed the development costs of all three products as incurred and has expensed the following development costs for its three products.

	Nine Months ended September 30, 2017	Nine Months ended September 30, 2016	Three Months ended September 30, 2017	Three Months ended September 30, 2016
Opening total development costs	\$ 4,935,274	\$ 3,857,636	\$ 5,346,585	\$ 4,326,553
Development during the period	605,905	855,985	194,594	387,068
Closing total development costs	\$ 5,541,179	\$ 4,713,621	\$ 5,541,179	\$ 4,713,621

### 6. Promissory notes:

The Company has issued unsecured promissory notes from shareholders of the Company. The notes were repayable on March 31, 2018. The interest on the notes are 2% per annum, calculated and compounded annually and paid annually. Interest in arrears shall accrue interest. The unpaid principal amount due hereunder may be reduced to zero from time to time without affecting the validity of this note.

The promissory notes are accounted for by discounting the notes in a manner that reflects the entity's borrowing rate when interest cost is recognized in subsequent periods. The Company applied an estimated market rate of 15% to the promissory notes. In doing so, the Company used the discounted cash flow approach to value the present value of the notes. The cash flow stream from the coupon interest payments and the final principal payment were discounted at 15% to arrive at the valuations. The Company used a deemed rate of 15% as the appropriate discount rate after examining the interest rates for similar instruments issued in the same time frame for similar companies without the conversion feature. During the year ended December 31, 2016, the Company issued \$400,000 promissory notes and recognized a discount on the promissory notes of \$58,284 and \$5,171 of interest accretion.

During the quarter ended March 31, 2017, the Company issued \$188,136 promissory notes and recognized a discount on the promissory notes of \$23,461. The Company recognized interest accretion of \$53,698 for the nine months ended September 30, 2017 and \$19,145 for the quarter ended September 30, 2017.

## SHOAL GAMES LTD. and subsidiaries

(Expressed in United States Dollars)

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2017 and 2016  
(Unaudited)

### 6. Promissory notes: (Continued)

These notes were issued with the same terms and conditions as the promissory notes issued in the year ended December 31, 2016.

On March 31, 2017, the maturity date on the promissory notes was extended to April 1, 2020. The Company treated the change as an extinguishment and reissuance of the notes. The Company recognized a discount on the promissory notes of \$94,191 from the extinguishment and reissuance of the notes.

	September 30, 2017	December 31, 2016
Opening balance	\$ 347,698	\$ -
Promissory note issued	188,136	400,000
Discount on promissory note	(23,461)	(58,284)
Gain on extinguishment and reissuance of promissory notes with related parties	(94,191)	-
Extinguishment of promissory notes to related parties	(418,181)	-
Reissuance of promissory notes to related parties	418,181	-
Accrued interest	8,323	811
Interest accretion	53,698	5,171
Closing balance	\$ 480,203	\$ 347,698

### 7. Stockholders' Equity (Deficiency):

The holders of common stock are entitled to one vote for each share held. There are no restrictions that limit the Company's ability to pay dividends on its common stock. The Company has not declared any dividends since incorporation. The Company's common stock has no par value per common stock.

(a) Common stock issuances:

#### September 2017

During the quarter ended September 30, 2017, the Company closed a TSX Venture Exchange approved non-brokered private placement financing totaling \$999,760 (\$1,010,763 less issuance costs of \$11,003). The private placement consisted of 2,887,895 units priced at \$0.35 per unit. Each Unit was comprised of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share of the Company for 12 months following closing. The exercise price of the warrants is \$0.44 per share for the first six months following closing and \$0.52 per share for the period which is 7-12 months following closing.

## SHOAL GAMES LTD. and subsidiaries

(Expressed in United States Dollars)

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2017 and 2016  
(Unaudited)

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### 7. Stockholders' Equity (Deficiency): (Continued)

(a) Common stock issuances: (continued)

#### June 2017

During the quarter ended June 30, 2017, the Company closed a TSX Venture Exchange approved non-brokered private placement financing totaling CAD\$1.045 million (\$790,281 less issuance costs of \$4,553). The private placement consisted of 2,323,779 units priced at CAD\$0.45 (\$0.34) per unit. Each Unit was comprised of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share of the Company for 12 months following closing. The exercise price of the warrants is Canadian \$0.55 per share for the first six months following closing and Canadian \$0.65 per share for the period which is 7-12 months following closing.

The warrants have an exercise price in Canadian dollars whilst the Company's functional currency is US Dollars. Therefore, in accordance with ASU 815 – Derivatives and Hedging, the warrants have a derivative liability value. This liability value has no effect on the cashflow of the Company and does not represent a cash payment of any kind.

During the quarter ended June 30, 2017, the fair value of derivative liability of \$123,284 has been estimated on the date of the subscription using the Binomial Lattice pricing model. During the quarter ended September 30, 2017, there was a gain on derivative liability - warrants of \$24,669 and the derivative liability – warrants value reduced to \$98,615 with the following assumptions:

	September 30, 2017	June 30, 2017
Average stock price	CAD\$0.60	CAD\$0.64
Expected dividend yield	-	-
Expected stock price volatility	32.7%	33%
Risk-free interest rate	1.51%	0.71%
Expected life of warrants	1 year	1 year

The average stock price is calculated on the probability weighted average price of the exercise of the warrants.

#### October 2017

Subsequent to the quarter ended September 30, 2017, the Company closed a TSX Venture Exchange approved non-brokered private placement financing totaling \$44,797 (\$45,010 less issuance costs of \$213). The private placement consisted of 128,600 units priced at \$0.35 per unit. Each Unit was comprised of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share of the Company for 12 months following closing. The exercise price of the warrants is \$0.44 per share for the first six months following closing and \$0.52 per share for the period which is 7-12 months following closing.



## SHOAL GAMES LTD. and subsidiaries

(Expressed in United States Dollars)

Notes to Consolidated Financial Statements  
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### 7. Stockholders' Equity (Deficiency): (Continued)

(b) Stock option plans:

No options were granted or exercised during the period ended September 30, 2017. During the quarter ended September 30, 2017, 60,000 options were cancelled and expired unexercised.

	Number of options	Weighted average exercise price
Outstanding and exercisable, December 31, 2015	-	\$ -
Granted	1,010,000	0.42
Exercised	-	-
Outstanding, December 31, 2016	1,010,000	0.42
Granted	-	-
Expired	(130,000)	(0.42)
Exercised	-	-
Outstanding, September 30, 2017	880,000	0.42

The fair value of each option grant has been estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

	September 30, 2017	December 31, 2016
Exercise price	-	CAD\$0.54
Expiry date	-	December 21, 2021
Expected dividend yield	-	-
Expected stock price volatility	-	78%
Weighted average volatility	-	78%
Risk-free interest rate	-	1.9%
Expected life of options	-	5 years
Forfeiture rate	-	0%
Intrinsic value	\$42,357	\$0

### 8. Commitments:

The Company leases office facilities in Vancouver, British Columbia, Canada, and The Valley, Anguilla, British West Indies. These office facilities are leased under operating lease agreements. The Canadian operating lease expired on December 31, 2016, but unless 30 day notice is given this lease automatically renews on a month to month basis until notice is given. The Anguillan operating lease expired on April 1, 2011 but unless 3 month's notice is given it automatically renews for a future 3 months until notice is given.

Minimum lease payments under these operating leases are approximately as follows:

2017	\$	1,486
2018		-

## **SHOAL GAMES LTD. and subsidiaries**

(Expressed in United States Dollars)

Notes to Consolidated Financial Statements  
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### **8. Commitments: (Continued)**

The Company paid rent expense totaling \$4,895 for the quarter ended September 30, 2017 (September 30, 2016 - \$7,669).

The Company has a management consulting agreement with T.M. Williams (Row), Inc., an Anguilla incorporated company, and Mr. T. M. Williams. During the year ended December 31, 2014, the Company amended a previous agreement with Mr. T. M. Williams to provide for a consultancy payment of 2.5% of the monthly social bingo business with a minimum of \$11,000 and a maximum of \$25,000 per month.

During the year ended December 31, 2014, the Company entered into an agreement with Jayska Consulting Ltd. and Mr. J. M. Williams, Chief Executive Officer of the Company for the provision of services of Mr. J. M. Williams as Chief Executive Officer of the Company. The Consulting agreement provides for a consultancy payment of GBP£5,000 per month. In addition, during the year ended December 31, 2014, the Company entered into an agreement with LVA Media Inc. and Mr. J. M. Williams, for the provision of services of Mr. J. M. Williams as Chief Executive Officer of the Company. The Consulting agreement provides for a consultancy payment of 2.5% of the monthly social bingo business with a minimum of \$7,500 and a maximum of \$25,000 per month.

During the year ended December 31, 2016, the Company signed a licensing agreement with Paws, Inc. for the license for Garfield's Bingo expiring on June 30, 2019. During the quarter ended June 30, 2017, the Company signed a licensing agreement with Paws, Inc. for the license of Garfield games in Rooplay expiring on December 31, 2019. During the quarter ended June 30, 2017, the Company signed a licensing agreement with Bulls Presstjänst AB for the license of Moomin games in Rooplay expiring on December 31, 2020. During the quarter ended June 30, 2017, the Company signed a licensing agreement with Mister Men Limited for the license of Mr. Men and Little Miss games in Rooplay expiring on April 15, 2020. During the quarter ended September 30, 2017, the Company signed a licensing agreement with Endemol Shine Group BV for the license of Mr. Bean Animation Series games in Rooplay expiring on September 30, 2020. Subsequent to the quarter ended September 30, 2017, the Company signed a licensing agreement with Rainbow SRL for the license of the Winx club games in Rooplay expiring on August 31, 2020. These agreements have commitments to pay royalties on the revenue of the products subject to minimum payments.

### **9. Income Taxes:**

Shoal Games Ltd. is domiciled in the tax-free jurisdiction of Anguilla, British West Indies. However certain of the Company's subsidiaries incur income taxation.

## SHOAL GAMES LTD. and subsidiaries

(Expressed in United States Dollars)

Notes to Consolidated Financial Statements  
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### 9. Income Taxes: (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at September 30, 2017, and December 31, 2016, are presented below:

	September 30, 2017	December 31, 2016
Deferred tax assets:		
Net operating loss carry forwards	\$ 15,959	\$ 15,017
Valuation Allowance	(15,959)	(15,017)
	\$ -	\$ -

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those differences become deductible.

Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in assessing the realizability of deferred tax assets.

Subsequent to the quarter ended September 30, 2017, Shoal Media (Canada) Inc., a subsidiary of Shoal Games Ltd., received the British Columbia Interactive Digital Media Tax Credit of CAD\$39,919 for the year ended December 31, 2016 from the British Columbia Provincial Government. The Company recognizes the revenue from this tax credit upon receipt of funds.

### 10. Related Party Transactions:

The Company has a liability of \$nil (December 31, 2016 - \$nil) to a company owned by a current director and officer of the Company for payment of services rendered of \$33,000 (September 30, 2016 - \$33,000) by the current director and officer of the Company.

The Company has a liability of \$804 (December 31, 2016 - \$2) to a current director and officer of the Company for expenses incurred.

The Company has a liability of \$nil (December 31, 2016 - \$nil) to a company owned by a current director and officer of the Company for payment of services rendered of \$19,638 (September 30, 2016 - \$19,676) by the current director and officer of the Company.

The Company has a liability of \$nil (December 31, 2016 - \$nil) to a company owned by a current director and officer of the Company for payment of services rendered of \$22,500 (September 30, 2016 - \$22,500) by the current director and officer of the Company.

The Company has a liability of \$3,000 (December 31, 2016 - \$500), to independent directors of the Company for payment of services rendered. During the quarter ended September 30, 2017, the Company accrued \$1,000 (September 30, 2016 - \$2,000) to the independent directors in director fees.

The Company has a liability of \$7,472 (December 31, 2016 - \$4,852), to an officer of the Company for

## SHOAL GAMES LTD. and subsidiaries

(Expressed in United States Dollars)

Notes to Consolidated Financial Statements  
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### 10. Related Party Transactions: (Continued)

payment of services rendered and expenses incurred of \$23,447 (September 30, 2016 - \$13,658) by the officer of the Company.

The Company has a liability of \$nil (December 31, 2016 - \$2), to a Company owned by a previous director of the Company for payment of consulting fees of \$nil (September 30, 2016 - \$4,985) by the previous director of the Company.

The Company has promissory notes totaling \$597,270 (December 31, 2016, \$400,811), including interest, from shareholders holding more than 10% of the Company. The interest on the notes are 2% per annum, calculated and compounded annually and paid annually.

During the quarter ended June 30, 2017, the directors and shareholders holding more than 10% of the Company's shares subscribed for 1,200,000 units totaling CAD\$540,000 (\$408,102) in the private placement.

The related party transactions are in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related party.

### 11. Segmented information:

#### Revenue

The Company operates in one reportable business segment, the net revenue from Trophy Bingo and Garfield's Bingo and Rooplay.

The Company had the following revenue by geographical region.

	Nine Months ended September 30, 2017	Nine Months ended September 30, 2016	Three Months ended September 30, 2017	Three Months ended September 30, 2016
<u>Total revenue</u>				
Western Europe	\$ 8,127	\$ 29,519	\$ 2,216	\$ 5,421
Central, Eastern and Southern Europe	376	63	16	36
Nordics	489	803	134	161
North America	52,536	194,025	12,758	40,217
Other	13,360	16,728	3,729	6,923
<u>Total revenue</u>	<u>\$ 74,888</u>	<u>\$ 241,138</u>	<u>\$ 18,853</u>	<u>\$ 52,758</u>

#### Equipment

The Company's equipment is located as follows:

Net Book Value	September 30, 2017	December 31, 2016
Anguilla	\$ 621	\$ 828
Canada	9,635	8,097
United Kingdom	917	1,223
	<u>\$ 11,173</u>	<u>\$ 10,148</u>

## **SHOAL GAMES LTD. and subsidiaries**

(Expressed in United States Dollars)

Notes to Consolidated Financial Statements  
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### **12. Concentrations**

#### Major customers

During the quarter ended September 30, 2017 and 2016, the Company sold subscriptions on its site Rooplay and sold in-app purchases on its social bingo sites, Trophy Bingo and Garfield's Bingo. There was no single player who had purchased more than 10% of the Rooplay, Trophy Bingo and Garfield's Bingo revenue. The Company is reliant on the Google App, iOS App and Amazon App Stores to provide a platform for Rooplay, Trophy Bingo and Garfield's Bingo to be played thereon.

During the quarter ended September 30, 2017 and 2016, the Company offered limited advertising. The Company is reliant on one sales customer who provides the advertising revenue.

### **13. Concentrations of Credit Risk:**

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable. The Company places its cash with high quality financial institutions and limits the amount of credit exposure with any one institution.

The Company currently maintains a substantial portion of its day-to-day operating cash balances at financial institutions. At September 30, 2017, the Company had total cash balances of \$818,085 (December 31, 2016 - \$60,190) at financial institutions, where \$612,699 (December 31, 2016 - \$nil) is in excess of federally insured limits.

The Company has concentrations of credit risk with respect to accounts receivable, the majority of its accounts receivable are concentrated geographically in the United States amongst a small number of customers.

As of September 30, 2017, the Company had four customers, totaling \$9,691 who accounted for greater than 10% of the total accounts receivable. As of December 31, 2016, the Company had four customers, totaling \$13,300 who accounted for greater than 10% of the total accounts receivable.

The Company controls credit risk through monitoring procedures and receiving prepayments of cash for services rendered. The Company performs credit evaluations of its customers but generally does not require collateral to secure accounts receivable.

## **ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following Management's Discussion and Analysis or Plan of Operation contains forward-looking statements that involve risks and uncertainties, as described below. Shoal Games Ltd.'s (the "Company", "we", or "us") actual results could differ materially from those anticipated in these forward-looking statements. The following discussion should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto included in Part I - Item 1 of this Quarterly Report, and the audited consolidated financial statements and notes thereto and the Management Discussion and Analysis or plan of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

### **FORWARD LOOKING STATEMENTS**

**All statements contained in this Quarterly Report on Form 10-Q and the documents incorporated herein by reference, as well as statements made in press releases and oral statements that may be made by us or by officers, directors or employees acting on our behalf, that are not statements of historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause our actual results to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. Readers should consider statements that include the terms "believe," "belief," "expect," "plan," "anticipate," "intend" or the like to be uncertain and forward-looking. In addition, all statements, trends, analyses and other information contained in this report relative to trends in net sales, gross margin, anticipated expense levels and liquidity and capital resources, constitute forward-looking statements. Particular attention should be paid to the facts of our limited operating history, the unpredictability of our future revenues, our need for and the availability of capital resources, the evolving nature of our business model, and the risks associated with systems development, management of growth and business expansion. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise. All cautionary statements made herein should be read as being applicable to all forward-looking statements wherever they appear. Readers should consider the risks more fully described in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission (the "SEC") and should not place undue reliance on any forward-looking statements.**

## **OVERVIEW**

Shoal Games Ltd. (TSXV : SGW) (OTCQB : SGLDF) ([www.shoalgames.com](http://www.shoalgames.com)) is the parent company of a group of companies, which creates consumer mobile software products and games. The Company is managed by an experienced team of technology entrepreneurs who have a long history in video games, enterprise software, mobile software, and Internet products.

The primary focus of Shoal Games is the development and marketing of the Rooplay EdTech platform for children and families. Rooplay is live exclusively on Google Play in 27 languages and 135 countries. Rooplay has no ads, no in-app purchases, no long downloads, no instant messaging, and no outbound links of any form. These characteristics make the product a unique platform of game content that is entirely safe for children.

The games on the Rooplay platform are designed to both entertain and educate. Children engaging with Rooplay learn technology, solve puzzles, paint pictures, practice language, learn math, and much more. Shoal Games is developing a content system with Rooplay that builds tech literacy and encourages early learning. The Company believes that to be able to teach children, they must first hold their attention. Rooplay mixes entertainment with education so that long player sessions are created in a safe environment so that children have fun and are challenged in new ways with every session. Rooplay has over 500 unique interactive games in every imaginable format.

Shoal Games management believes that through the development of the Rooplay platform, and the production of exclusive EdTech game content that it can create a defensible position in the market as a premium provider of mobile games content for kids. Shoal Games has a long history in games and software development and believes that its experienced team can establish Rooplay as a global provider of mobile entertainment for children. Rooplay will generate revenue for the Company from consumer subscriptions which customers will pay to unlock the Rooplay game catalog. Shoal Games management believes that the development of a platform system such as Rooplay will create a significant and sustainable revenue stream for the Company.

Shoal Games management is pursuing an aggressive growth strategy by approaching local partners in many regions of the world who are interested in distributing Rooplay. Rooplay's games are not restricted to any particular region and the demand for early learning systems such as Rooplay is strong.

With more than 6.8 billion mobile phone subscriptions in place globally the demand for mobile content systems is enormous. Rooplay fills a particular need for families and with every additional piece of content that is added to the system the draw to Rooplay in comparison to other systems becomes stronger. With the competition fierce between network operators for new mobile subscribers, Shoal Games' management believes that owning a content platform system such as Rooplay will create long-term value for the Company's shareholders.

Shoal Games' other mobile products include Garfield's Bingo ([www.garfieldsbingo.com](http://www.garfieldsbingo.com)), the first mobile bingo game to feature a mega-brand; and Trophy Bingo ([www.trophybingo.com](http://www.trophybingo.com)), live across mobile platforms with over 500,000 installs. Trophy Bingo and Garfield's Bingo are innovative free-to-play mobile games live in the Apple, Google and Amazon App Stores. The Company has generated its main source of revenue to-date from players making in-app purchases in Trophy Bingo and Garfield's Bingo.

Effective July 2, 2015, the Company commenced trading on the TSX Venture Exchange as a tier 2 Technology Issuer under the trading symbol "SGW". The Company also trades on the OTCQB under the trading symbol "SGLDF".

## **CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which except for lack of all detailed note disclosures, have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements

requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates these judgments and estimates, including whether there are any uncertainties as to compliance with the revenue recognition criteria described below, and recoverability of long-lived assets, as well as the assessment as to whether there are contingent assets and liabilities that should be recognized or disclosed for the consolidated financial statements to fairly present the information required to be set forth therein. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We consider the following accounting policies to be both those most important to the portrayal of our financial condition and require the most subjective judgment:

- Revenue recognition;
- Software development

Revenue recognition:

Trophy Bingo and Garfield's Bingo revenues have been recognized from the sale of in-game purchases, net of platform fees, at the time of purchase by the player. The revenue from in-game advertising is recognized when advertising is served to the player.

Advertising revenues, not generated in Trophy Bingo and Garfield's Bingo, have been recognized when collection of the amounts are reasonably assured.

Rooplay revenues have been recognized when collection of the subscriptions are reasonably assured and the provision of service has occurred.

Software Development Costs:

Software development costs incurred in the research and development of new software products and enhancements to existing software products for external use are expensed as incurred until technological feasibility has been established. After technological feasibility is established, any software development costs are capitalized and amortized at the greater of the straight-line basis over the estimated economic life of the related product or the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for the related product. Commencing January 1, 2014, the Company obtained technological feasibility and is amortizing the capitalized software development costs over a period of 3 years. The Company performs an annual review of the estimated economic life and the recoverability of such capitalized software costs, using a net realizable value test. The Company completed the amortization of the capitalized Trophy Bingo software development expenses on December 31, 2016.

If a determination is made that capitalized amounts are not recoverable based on the estimated cash flows to be generated from the applicable software, any remaining capitalized amounts are written off. Although the Company believes that its approach to estimates and judgments as described herein is reasonable, actual results could differ and the Company may be exposed to increases or decreases in revenue that could be material.

Total software development costs for the development of all three products; Rooplay, Garfield's Bingo and Trophy Bingo, were \$5,541,179 as at September 30, 2017 (September 30, 2016 - \$4,713,621).



## **RESULTS OF OPERATIONS**

### **Revenue**

Total revenue, net of platform fees to Apple, Google and Amazon, for the quarter ended September 30, 2017, decreased to \$18,853, a decrease of 64% from revenue of \$52,758 for third quarter of 2016 and a decrease of 17% from revenue of \$22,776, in the second quarter of fiscal 2017. This expected decrease in total revenue compared to the third quarter of fiscal 2016 and the second quarter of fiscal 2017, is due to no marketing spend on the Company's legacy products, Trophy Bingo and Garfield's Bingo, whilst the Company continues to complete the development of Rooplay Originals (Branded EdTEch games for children and families) and expand its distribution channels.

### **Sales and marketing expenses**

Sales and marketing expenses were \$71,351 for the quarter ended September 30, 2017, an increase over expenses of \$26,044 in the third quarter of fiscal 2016 and an increase of 41% from sales and marketing expenses of \$50,531 in the second quarter of fiscal 2017. This increase in sales and marketing expenses in the quarter ended September 30, 2017, compared to the third quarter of fiscal 2016 and the second quarter of fiscal 2017 was due to larger marketing campaigns to promote Rooplay and hiring of marketing consultants to increase the exposure of Rooplay in new territories. Selling and marketing expenses principally include publishing services and user acquisition costs to acquire players.

We expect to continue to incur sales and marketing expenses to increase traffic and bring new players to the Rooplay platform in the fourth quarter of fiscal 2017 and fiscal 2018. There can be no assurances that these expenditures will result in increased traffic or significant additional revenue.

### **General and administrative expenses**

General and administrative expenses consist primarily of premises costs for our office, legal and professional fees, and other general corporate and office expenses. General and administrative expenses increased to \$96,369 for the quarter ended September 30, 2017, an increase of 47% from costs of \$65,601 for the third quarter of fiscal 2016 and an increase of 36% from costs of \$71,089 in the second quarter of 2017. The increase in general and administrative expenses compared to the third quarter of fiscal 2016 and the second quarter of fiscal 2017, is due to costs incurred from the financing and the promotion of the Company to potential investors.

We expect to continue to incur general and administrative expenses to support the business, and there can be no assurances that we will be able to generate sufficient revenue to cover these expenses.

### **Salaries, wages, consultants and benefits**

Salaries, wages, consultants and benefits increased to \$121,697 for the quarter ended September 30, 2017, an increase of 25% compared to salaries, wages, consultants and benefits of \$97,626 in the third quarter of fiscal 2016 and an increase of 4%, over salaries, wages, consultants and benefits of \$116,537 in the second quarter of 2017. This increase compared to the third quarter of fiscal 2016 and the second quarter of fiscal 2017, is due to higher consultant charges incurred.

### **Depreciation and amortization**

Equipment is depreciated using the declining balance method over the useful lives of the assets, ranging from three to five years. Depreciation and amortization increased to \$965 during the quarter ended September 30, 2017, an increase of 93% over costs of \$501 during the same quarter in the prior year and an increase of 16% over costs of \$833 in the second quarter of fiscal 2017. This increase in depreciation and amortization compared to the third quarter of fiscal 2016 and the second quarter of fiscal 2017, is due to acquisitions of equipment for new employees.

### **Game development and amortization**

During the quarter ended March 31, 2014, the Company soft-launched Trophy Bingo on Android in selected markets. The Company had a further global release of the Android version in the third quarter of 2014 and the iOS version in the third quarter of 2014. The Company ceased to capitalize the development of Trophy Bingo and commenced amortizing the capitalized development costs over the life of the game. The capitalized development costs were fully amortized in the fourth quarter of fiscal 2016. Development costs during the quarter ended September 30, 2017, decreased to \$194,594, a decrease of 50% compared to \$387,068 during the third quarter of fiscal 2016 and amortization of \$120,503 of the capitalized development costs during the third quarter of fiscal 2016 and a decrease of 1% compared to development costs of \$196,816 during the second quarter of fiscal 2017. The decrease compared to the third quarter of fiscal 2016 and the second quarter of fiscal 2017, is due to lower development expenses incurred in the development of Trophy Bingo, Garfield's Bingo and Rooplay.

### **Loss on prepaid development**

During the second quarter of fiscal 2016, the Company prepaid \$863,660 in development costs. Effective August 31, 2016, Roadhouse Interactive Limited was placed in receivership. There was \$498,791 in development expenses which had not been utilized. The Company immediately expensed this in the third quarter of fiscal 2016.

### **Net loss and loss per share**

The net loss after taxation for the quarter ended September 30, 2017, amounted to (\$462,710), a loss of (\$0.01) per share, compared to a net loss of (\$1,156,098) or (\$0.01) per share in the quarter ending September 30, 2016 and net loss of (\$439,042), or (\$0.01) per share in the second quarter of fiscal 2017.

## **LIQUIDITY AND CAPITAL RESOURCES**

We had cash of \$818,085 and working capital of \$746,215 before the deduction of the derivative liability – warrants and \$647,600 after the deduction of the derivative liability – warrants as at September 30, 2017. This compares to cash of \$60,190 and working capital of \$13,896 at December 31, 2016.

During the quarter ended September 30, 2017, we used cash of (\$432,240) in operating activities compared to cash used in operating activities of (\$126,625) in the same period in the prior year and compared to using cash of (\$563,510) in the second quarter of 2017.

During the nine months ended September 30, 2017, we used cash of (\$1,212,088) in operating activities compared to using cash in operating activities of (\$2,022,500) in the same period in the prior year.

Net cash generated by financing activities was \$999,760 in the quarter ended September 30, 2017, which compares to cash generated by financing activity of \$26,631 in the same period in the prior year and \$785,728 during the second quarter of fiscal 2017. This cash generated by financing activity is due to the cash raised from the private placement Unit offering.

During the nine months ended September 30, 2017, net cash generated by financing activities was \$1,973,623 compared to net cash generated by financing activities of \$1,539,985 in the same period in the prior year.

Our future capital requirements will depend on a number of factors, including costs associated with the further development of the Companies products; the cost of marketing and player acquisition costs for the Companies products; the success and acceptance of the Companies products; plus the continuing upkeep of our Web portals [www.shoalgames.com](http://www.shoalgames.com), [www.rooplay.com](http://www.rooplay.com), [www.garfieldbingo.com](http://www.garfieldbingo.com), and [www.trophybingo.com](http://www.trophybingo.com).

## **ITEM 4      Controls and Procedures**

### **(a)      Evaluation of disclosure controls and procedures.**

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as of September 30, 2017. In designing and evaluating the Company's disclosure controls and procedures, the Company and its management recognize that there are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their desired control objectives. Additionally, in evaluating and implementing possible controls and procedures, the Company's management was required to apply its reasonable judgment. Furthermore, in the course of this evaluation, management considered certain internal control areas, in which we have made and are continuing to make changes to improve and enhance controls. Based upon the required evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that as of September 30, 2017, the Company's disclosure controls and procedures were effective (at the "reasonable assurance" level mentioned above) to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

From time-to-time, the Company and its management have conducted and will continue to conduct further reviews and, from time to time put in place additional documentation, of the Company's disclosure controls and procedures, as well as its internal control over financial reporting. The Company may from time to time make changes aimed at enhancing their effectiveness, as well as changes aimed at ensuring that the Company's systems evolve with, and meet the needs of, the Company's business. These changes may include changes necessary or desirable to address recommendations of the Company's management, its counsel and/or its independent auditors, including any recommendations of its independent auditors arising out of their audits and reviews of the Company's financial statements. These changes may include changes to the Company's own systems, as well as to the systems of businesses that the Company has acquired or that the Company may acquire in the future and will, if made, be intended to enhance the effectiveness of the Company's controls and procedures. The Company is also continually striving to improve its management and operational efficiency and the Company expects that its efforts in that regard will from time to time directly or indirectly affect the Company's disclosure controls and procedures, as well as the Company's internal control over financial reporting.

### **(b)      Changes in internal controls.**

There were no significant changes in the Company's internal controls or other factors that could significantly affect the Company's internal controls subsequent to the date of their evaluation.

## PART II - OTHER INFORMATION

### ITEM 1. Legal Proceedings

We are not currently a party to any legal proceeding, and was not a party to any other legal proceeding during the quarter ended September 30, 2017. We are currently not aware of any other legal proceedings proposed to be initiated against the Company. However, from time to time, we may become subject to claims and litigation generally associated with any business venture.

### ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended September 30, 2017, the Company closed a TSX Venture Exchange approved non-brokered private placement financing totaling \$999,760 (\$1,010,763 less issuance costs of \$11,003). The private placement consisted of 2,887,895 units priced at \$0.35 per unit. Each Unit was comprised of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share of the Company for 12 months following closing. The exercise price of the warrants is \$0.44 per share for the first six months following closing and \$0.52 per share for the period which is 7-12 months following closing.

Subsequent to the quarter ended September 30, 2017, the Company closed a TSX Venture Exchange approved non-brokered private placement financing totaling \$44,797 (\$45,010 less issuance costs of \$213). The private placement consisted of 128,600 units priced at \$0.35 per unit. Each Unit was comprised of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share of the Company for 12 months following closing. The exercise price of the warrants is \$0.44 per share for the first six months following closing and \$0.52 per share for the period which is 7-12 months following closing.

### ITEM 3. Defaults Upon Senior Securities

Not applicable.

### ITEM 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to the shareholders during the period.

Subsequent to the quarter ended September 30, 2017, we held our Annual Meeting of Stockholders for the purposes of electing our directors and to ratify the appointment of Davidson & Company LLP, Chartered Professional Accountants, as our independent auditors for the 2017 fiscal year. The Company issued a schedule 14A proxy statement to the shareholders on September 20, 2017.

All nominees for directors were elected and the appointment of auditors was ratified. The voting on each matter is set forth below:

- a) Elected to set the number of directors to be least 4 and no more than 7.

<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Not Voted</b>
43,011,933	8,470	-	8,286,842

- b) Elected the following persons to serve as directors until the next annual meeting or until their successors are duly qualified:

T. M. Williams  
J. M. Williams  
F. Curtis (Non Executive Director)  
W. Moore (Non Executive Director)

Election of the Directors of the Company.

<b>Nominee</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Not Voted</b>
T. M. Williams	42,995,329	-	25,073	8,286,843
J. M. Williams	42,995,429	-	24,973	8,286,843
F. Curtis	42,996,154	-	24,248	8,286,843
W. Moore	42,996,354	-	24,048	8,286,843

(c) Approved the selection of Davidson & Company LLP, Chartered Professional Accountants as the Company's independent auditors for the fiscal year ending December 31, 2017.

<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Not Voted</b>
51,274,794	-	32,451	-

(d) The ratification of the existing Rolling Stock Option plan was approved.

<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Not Voted</b>
42,984,744	35,658	-	8,286,843

Mr. Jason Williams will continue as President and CEO of the Shoal Games Ltd. organization and Mr. T. M. Williams, will continue to serve as Executive Chairman.

**ITEM 5. Other Information**

None

**ITEM 6. Exhibits and reports on Form 8-K  
Exhibits**

The following instruments are included as exhibits to this Report. Exhibits incorporated by reference are so indicated.

<b>Exhibit Number</b>	<b>Description</b>
4.4	Convertible Debenture between the Company and unrelated parties dated July 2, 2002. (b)
4.5	Common Stock Purchase Warrant between the Company and unrelated parties dated July 2, 2002. (b)
10.2	Asset Purchase Agreement by and between Bingo, Inc. and Progressive Lumber, Corp. dated January 18, 1999. (a)
10.24	Amended Consulting Agreement dated February 28, 2002, between the Company, T.M. Williams (Row), Ltd., and T.M. Williams. (c)
10.29	Amendment of Asset Purchase Agreement dated July 1, 2002. (d)
10.32	Code of Business Conduct and Ethics dated December 22, 2006. (e)
10.33	Amended Consulting Agreement dated June 16, 2010, between the Company, T.M. Williams (Row), Ltd., and T.M. Williams. (f)
10.36	The Marketing Service Agreement between the Bingo.com, Ltd. wholly owned subsidiary, Coral Reef Marketing Inc. and with Unibet International Limited dated March 19, 2010. (g)
10.37	Amended Consulting Agreement dated August 1, 2013, between the Company, T.M. Williams (Row), Ltd., and T.M. Williams. (h)
10.38	Consulting Agreement dated January 1, 2014, between the Company, Jayska Consulting Ltd., and J.M. Williams. (h)
10.39	Consulting Agreement dated January 1, 2014, between the Company, LVA Media Inc., and J.M. Williams. (h)
10.40	Consulting Agreement dated October 1, 2013, between the Company, Devereux Management Ltd., and C. M. Devereux. (h)
10.41	Consulting Agreement dated January 1, 2014, between the Company, Bromley Accounting Services Limited, and H. W. Bromley. (h)
31.1	Certificate of Chief Executive Officer pursuant to the Securities Exchange Act Rules 13a-15(e) and 15d -15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated November 14, 2017.
31.2	Certificate of Chief Financial Officer pursuant to the Securities Exchange Act Rules 13a-15(e) and 15d -15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated November 14, 2017.
32.1	Certification from the Chief Executive Officer of Shoal Games Ltd. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated November 14, 2017.
32.2	Certification from the Chief Financial Officer of Shoal Games Ltd. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated November 14, 2017.

(a) Previously filed with the Registrant's registration statement on Form 10 on June 9, 1999.

(b) Previously filed with the Company's quarterly report on Form 10-Q for the period ended September 30, 2002, on November 14, 2002.

(c) Previously filed with the Company's quarterly report on Form 10-Q for the period ended June 30, 2002, on August 14, 2002.

(d) Previously filed with the Company's year end report on Form 10-K/A for the year ended December 31, 2002, on May 8, 2003.

(e) Previously filed with the Company's report on Form 8-K on December 26, 2006.

- (f) Previously filed with the Company's report on Form 8-K on June 17, 2010.
- (g) Previously filed with the Company's report on Form 8-K/A on June 18, 2012.
- (h) Previously filed with the Company's report on Form 8-K on March 24, 2014.

**Reports on Form 8-K.**

There were no Form 8-K filed by the Company during the quarter ended September 30, 2017.

**Reports Subsequent to the quarter ended September 30, 2017.**

Subsequent to the quarter ended September 30, 2017, we filed a Form 8-K announcing the results of our Annual General Meeting on November 2, 2017.

## SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 14, 2017.

**SHOAL GAMES LTD.**

\_\_\_\_\_  
(Registrant)

Date: November 14, 2017

*/S/ J.M. Williams*

\_\_\_\_\_  
J. M. Williams, Chief Executive Officer, and President  
(Principal Executive Officer)

Date: November 14, 2017

*/S/ H. W. Bromley*

\_\_\_\_\_  
H.W. Bromley, Chief Financial Officer  
(Principal Accounting Officer)



**EXHIBIT 31.1**  
**CERTIFICATIONS**

I, J. M. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Shoal Games Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Shoal Games Ltd. as of, and for, the periods presented in this quarterly report;
4. Shoal Games Ltd.'s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Shoal Games Ltd., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of Shoal Games Ltd.'s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of September 30, 2017, covered by this quarterly report based on such evaluation; and
  - (d) Disclosed in this report any change in Shoal Games Ltd.'s internal control over financial reporting that occurred during Shoal Games Ltd.'s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, Shoal Games Ltd.'s internal control over financial reporting; and
5. Shoal Games Ltd.'s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Shoal Games Ltd.'s auditors and the audit committee of Shoal Games Ltd.'s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Shoal Games Ltd.'s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

**Signed:** /s/ J. M. Williams  
J. M. Williams,  
Chief Executive Officer and President  
(Principal Executive Officer)

**Date:** November 14, 2017

**EXHIBIT 31.2**

**CERTIFICATIONS**

I, H. W. Bromley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Shoal Games Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Shoal Games Ltd. as of, and for, the periods presented in this quarterly report;
4. Shoal Games Ltd.'s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Shoal Games Ltd., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of Shoal Games Ltd.'s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of September 30, 2017, covered by this quarterly report based on such evaluation; and
  - (d) Disclosed in this report any change in Shoal Games Ltd.'s internal control over financial reporting that occurred during Shoal Games Ltd.'s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, Shoal Games Ltd.'s internal control over financial reporting; and
5. Shoal Games Ltd.'s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Shoal Games Ltd.'s auditors and the audit committee of Shoal Games Ltd.'s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Shoal Games Ltd.'s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

**Signed:** /s/ H. W. Bromley  
H.W. Bromley,  
Chief Financial Officer  
(Principal Accounting Officer)

**Date:** November 14, 2017



