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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, 2016**

**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)

**(264) 461-2646**

(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 59,708,318 as of November 14, 2016.

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**SHOAL GAMES LTD.**

**QUARTERLY REPORT ON FORM 10-Q  
FOR THE PERIOD ENDED SEPTEMBER 30, 2016**

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## PART I - FINANCIAL INFORMATION

### ITEM 1. Financial Statements.

#### SHOAL GAMES LTD. and subsidiaries

Consolidated Balance Sheets  
(Unaudited)

As at	September 30, 2016	December 31, 2015
<b>Assets</b>		
Current assets:		
Cash	\$ 82,417	\$ 570,086
Accounts receivable less allowance for doubtful accounts \$nil (December 31, 2015 - \$nil)	29,397	44,948
Prepaid expenses (Note 3)	58,099	17,205
<b>Total Current Assets</b>	<b>169,913</b>	<b>632,239</b>
Equipment, net	9,917	6,314
Other assets (Note 4)	120,503	482,013
Security deposits	9,484	8,960
Deferred tax asset, less valuation allowance of \$15,535 (December 31, 2015 - \$17,898) (Note 8)	-	-
<b>Total Assets</b>	<b>\$ 309,817</b>	<b>\$ 1,129,526</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 43,534	\$ 74,200
Accrued liabilities	79,934	71,026
Accounts payable and accrued liabilities - related party (Note 9)	105,564	32,566
Loans payable (Note 9)	26,631	-
<b>Total Current Liabilities</b>	<b>255,663</b>	<b>177,792</b>
Commitments (Note 7)		
Stockholders' equity (Note 6):		
Common stock, no par value, unlimited shares authorized, 59,535,637 shares issued and outstanding (December 31, 2015 - 56,197,703)	20,847,644	19,334,290
Accumulated deficit	(20,818,070)	(18,407,136)
Accumulated other comprehensive income:		
Foreign currency translation adjustment	24,580	24,580
<b>Total Stockholders' Equity</b>	<b>54,154</b>	<b>951,734</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 309,817</b>	<b>\$ 1,129,526</b>

See accompanying notes to the consolidated financial statements.

## SHOAL GAMES LTD. and subsidiaries

Consolidated Statements of Operations and Comprehensive Loss  
For Periods Ended September 30, 2016 and 2015  
(Unaudited)

	Nine Months ended September 30, 2016		Nine Months ended September 30, 2015		Three Months ended September 30, 2016		Three Months ended September 30, 2015	
Total revenue	\$	241,138	\$	26,075	\$	52,758	\$	11,130
Cost of sales:								
Trophy Bingo amortization (Note 4)		361,510		361,509		120,503		120,503
Total cost of sales		361,510		361,509		120,503		120,503
Gross loss		(120,372)		(335,434)		(67,745)		(109,373)
Operating expenses:								
Depreciation and amortization		1,501		2,289		501		763
Directors fees		6,000		7,500		2,000		3,500
General and administrative		186,205		318,959		65,601		79,398
Salaries, wages, consultants and benefits		316,646		328,453		97,626		107,633
Selling and marketing		394,389		212,404		26,044		137,266
Games development (Note 4)		855,985		934,816		387,068		303,162
Total operating expenses		1,760,726		1,804,421		578,840		631,722
Loss before other income (expense) and income taxes		(1,881,098)		(2,139,855)		(646,585)		(741,095)
Other income (expense):								
Foreign exchange loss		(31,192)		(24,034)		(10,759)		(17,779)
Interest and other income		139		801		38		263
Loss on prepaid development (Note 3)		(498,791)		-		(498,791)		-
Loss from continuing operations before income taxes		(2,410,942)		(2,163,088)		(1,156,097)		(785,611)
Income tax recovery		(8)		-		1		-
Loss from continuing operations		(2,410,934)		(2,163,088)		(1,156,098)		(785,611)
Discontinued operations: (Note 5)								
Gain from the sale of the domain name		-		16,305		-		-
Loss after tax	\$	(2,410,934)	\$	(2,146,783)	\$	(1,156,098)	\$	(785,611)
Other comprehensive income (loss)		-		-		-		-
Comprehensive loss	\$	(2,410,934)	\$	(2,146,783)	\$	(1,156,098)	\$	(785,611)
Basic and diluted profit (loss) per common share								
Continuing operations	\$	(0.04)	\$	(0.04)	\$	(0.02)	\$	(0.01)
Discontinued operations		-		-		-		-
Weighted average common shares outstanding, basic		57,737,834		55,682,703		59,535,637		55,682,703
Weighted average common shares outstanding, diluted		57,737,834		55,682,703		59,535,637		55,682,703

See accompanying notes to the consolidated financial statements.

# SHOAL GAMES LTD. and subsidiaries

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the period ended September 30, 2016

(Unaudited)

	Common stock		Accumulated Deficit	Accumulated Other Comprehensive income	Total Stockholders' Equity
	Shares	Amount		Foreign currency translation adjustment	
Balance, December 31, 2015	56,197,703	\$19,334,290	\$(18,407,136)	\$ 24,580	\$951,734
Private placement, net of issuance expenses	3,337,934	1,513,354	-	-	1,513,354
Net loss	-	-	(2,410,934)	-	(2,410,934)
Balance, September 30, 2016	59,535,637	\$20,847,644	\$ (20,818,070)	\$ 24,580	\$54,154

See accompanying notes to the consolidated financial statements.

## SHOAL GAMES LTD. and subsidiaries

### Consolidated Statements of Cash Flows For the Nine month period ended September 30, (Unaudited)

	2016	2015
Cash flows from operating activities:		
Net loss	\$ (2,410,934)	\$ (2,146,783)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,501	2,289
Trophy Bingo amortization	361,510	361,509
Gain from the sale of the domain name	-	(16,305)
Changes in operating assets and liabilities:		
Accounts receivable	15,551	111,538
Prepaid expenses	(40,894)	(971)
Security deposits	(524)	1,384
Accounts payable and accrued liabilities	51,240	106,982
Net cash used in operating activities	(2,022,550)	(1,580,357)
Cash flows from investing activities:		
Acquisition of equipment	(5,104)	(272)
Software development	-	-
Net cash used in investing activities	(5,104)	(272)
Cash flows from financing activities:		
Exercise of stock options	-	77,250
Proceeds from Private placement, net of issuance costs	1,513,354	-
Proceeds from shareholder loan	26,631	-
Net cash provided by financing activities	1,539,985	77,250
Change in cash	(487,669)	(1,503,379)
Cash, beginning of period	570,086	2,876,386
Cash, end of period	\$ 82,417	\$ 1,373,007
Supplementary information:		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -
Non-cash financing activity	\$ -	\$ -
Non-cash investing activity	\$ -	\$ -

See accompanying notes to the consolidated financial statements.

# SHOAL GAMES LTD. and subsidiaries

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2016 and 2015  
(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, 2015, included in the Company’s Annual Report on Form 10-K, filed March 17, 2016, 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, 2016 and 2015, and has an accumulated deficit of \$20,818,070 as at September 30, 2016. 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

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2016 and 2015  
(Unaudited)

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### 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 wholly-owned subsidiaries, Shoal Media (Canada) Inc. (registered in British Columbia, Canada), Coral Reef Marketing Inc. (registered in Anguilla), Bingo.com (Antigua) Inc., Bingo.com (Wyoming) Inc., Bingo Acquisition Corp, Shoal Media Inc. (registered in Anguilla), and the 99% owned subsidiary, Shoal Games (UK) Plc (registered in the United Kingdom). During the quarter ended March 31, 2016, English Bay Office Management Limited changed its name to Shoal Media (Canada) Inc. Subsequent to the quarter ended September 30, 2016, Rooplay Media Ltd. was registered in British Columbia, Canada. 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 U.S. 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 and the valuation of deferred tax assets. Actual results may differ significantly from these estimates.

(c) Revenue recognition:

Trophy 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, have been recognized when collection of the amounts are reasonably assured.

(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 the 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.



## SHOAL GAMES LTD. and subsidiaries

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2016 and 2015  
(Unaudited)

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

(d) Foreign currency: (Continued)

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) Impairment of long-lived assets and long-lived assets to be disposed of:

The Company accounts for long-lived assets in accordance with the provisions of ASC 360, Property, Plant and Equipment and ASC 350, Intangibles-Goodwill and Others. During the periods presented, the only long-lived assets reported on the Company's consolidated balance sheet are equipment, other assets, and security deposits. These provisions require that long-lived assets and certain identifiable recorded intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset.

If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less costs to sell.

(g) 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.

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 Trophy and Garfield's Bingo were \$4,713,621 as at September 30, 2016 (September 30, 2015 - \$3,562,236).

## SHOAL GAMES LTD. and subsidiaries

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2016 and 2015  
(Unaudited)

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

(h) 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 2015, March 2016, April 2016, and May 2016 within ASU 2015-04, 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 2015, 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.

In June 2014, the FASB issued ASU No. 2014-12, Compensation-Stock Compensation. This guidance requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. The adoption of ASU 2014-12 did not have a material impact on our financial condition, liquidity or results of operations.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 provides guidance about

## SHOAL GAMES LTD. and subsidiaries

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2016 and 2015  
(Unaudited)

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

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

management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and sets rules for how this information should be disclosed in the financial statements. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter. Early adoption is permitted. The Company is evaluating the effect of ASU 2014-15 on our consolidated financial condition and results of operations.

In November 2014, the FASB issued ASU No. 2014-16, Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. This standard requires an entity to “determine the nature of the host contract by considering all stated and implied substantive terms and features of the hybrid financial instrument, weighing each term and feature on the basis of the relevant facts and circumstances which the hybrid financial instrument was issued or acquired and the potential outcome of the hybrid financial instrument. ASU 2014-16 is effective for annual periods ending after December 15, 2015 and interim periods thereafter. Early adoption is permitted. The adoption of ASU 2014-16 did not have a material impact on our financial condition, liquidity or results of operations.

In January 2015, the FASB issued ASU 2015-01, which eliminates from GAAP the concept of extraordinary items. If an event or transaction meets the criteria for extraordinary classification, it is segregated from the results of ordinary operations and is shown as a separate item in the income statement, net of tax. ASU 2015-01 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The adoption of ASU 2015-01 did not have a material impact on our financial condition, liquidity or results of operations.

In February 2015, the FASB issued ASU 2015-02, which provides guidance for reporting entities that are required to evaluate whether they should consolidate certain legal entities. In accordance with ASU 2015-02, all legal entities are subject to reevaluation under the revised consolidation model. ASU 2015-02 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The adoption of ASU 2015-02 did not have a material impact on our financial condition, liquidity or results of operations.

On April 1, 2015, 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 after December 15, 2017. We are currently assessing the impact of the guidance on our consolidated financial statements.

## SHOAL GAMES LTD. and subsidiaries

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2016 and 2015  
(Unaudited)

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

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

On April 17, 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. Currently, debt issuance costs are recorded as an asset and amortization of these deferred financing costs is recorded in interest expense. Under the new standard, debt issuance costs will continue to be amortized over the life of the debt instrument and amortization will continue to be recorded in interest expense. The new standard is effective for the Company on January 1, 2016 and will be applied on a retrospective basis. The adoption of ASU 2015-03 did not have a material impact on our financial condition, liquidity or results of operations.

The FASB has issued ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. The amendments in ASU 2015-05 provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments do not change the accounting for a customer's accounting for service contracts. As a result of the amendments, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. ASU 2015-05 is effective for public entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. The adoption of ASU 2015-05 did not have a material impact on our financial condition, liquidity or results of operations.

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments guidance to simplify the accounting for adjustments in a business combination. An acquirer should recognize adjustments to provisional amounts with a corresponding adjustment of goodwill, as well as the effect on earnings of changes in depreciation, amortization or other income effects, in the reporting period in which the adjustments are identified as if the accounting had been completed at the acquisition date. Disclosure is required, by line item, of the amount recorded in current period earnings that would have been recorded in previous reporting periods. This guidance is effective for fiscal years and interim periods beginning after December 15, 2015, and requires prospective application. Early adoption is permitted. The adoption of ASU 2015-16 did not have a material impact on our financial condition, liquidity or results of operations.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which requires deferred income tax liabilities and assets to be classified as noncurrent on the balance sheet rather than being separated into current and

# SHOAL GAMES LTD. and subsidiaries

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2016 and 2015  
(Unaudited)

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

### (h) New accounting pronouncements and changes in accounting policy: (Continued)

noncurrent. The guidance is effective for public entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods with early adoption being permitted. The Company is still assessing the potential impact of ASU 2015-17 on its 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.

## SHOAL GAMES LTD. and subsidiaries

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2016 and 2015  
(Unaudited)

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

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

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which addresses how companies account for certain aspects of share-based payments to employees. Entities will be required to recognize the income tax effects of awards in the statement of income when the awards vest or are settled, and to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. The ASU also addresses such areas as an accounting policy election for forfeitures and the amount an employer can withhold to cover income taxes and still qualify for equity classification. The amendments in this ASU will be effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

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 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.

# SHOAL GAMES LTD. and subsidiaries

Notes to Consolidated Financial Statements  
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## 2. Summary of significant accounting policies (Continued):

### (h) New accounting pronouncements and changes in accounting policy: (Continued)

There have been no other recent accounting standards, or changes in accounting standards, during the quarter ended September 30, 2016, as compared to the recent accounting standards described in the Annual Report, that are of material significance, or have potential material significance, to us.

### (i) Financial instruments:

#### (i) Fair values:

The fair value of accounts receivable, accounts payable, accrued liabilities 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.

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.

#### (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. 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. There was a loss of \$498,791 on prepaid development. In addition, the Company has \$35,266 of prepaid legal fees for the rights issue. The Company has other prepaid expenses of \$22,833 as at September 30, 2016.

## 4. Other assets:

During the year ended December 31, 2012, the Company commenced development of a social bingo game. During the quarter ended March 31, 2014, the Company launched Trophy Bingo on Android in selected markets. The Company ceased to capitalize the development costs and commenced the amortization of the capitalized development costs over a period of three years.

## SHOAL GAMES LTD. and subsidiaries

Notes to Consolidated Financial Statements  
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### 4. Other assets: (Continued)

September 30, 2016	Capitalized Expenses	Accumulated amortization	Net book Value
Trophy Bingo capitalized development expenses	\$ 1,446,038	\$ 1,325,535	\$ 120,503

  

December 31, 2015	Capitalized Expenses	Accumulated amortization	Net book Value
Trophy Bingo capitalized development expenses	\$ 1,446,038	\$ 964,025	\$ 482,013

During the 2015 fiscal year, the Company expensed \$1,230,216 in development costs. During the quarter ended September 30, 2016, the Company expensed \$387,068 (September 30, 2015 - \$303,162) in development costs on Trophy Bingo and Garfield's Bingo. The Company has incurred \$4,713,621 in total development expenses as at September 30, 2016.

### 5. Discontinued operations

Effective December 31, 2014, the Company sold the www.bingo.com domain name to Unibet Group plc. for cash consideration of \$2,000,000 and redemption of the 15,000,000 common shares of the Company, which were held by Unibet Group plc, at a price of \$0.40 per share. The 15,000,000 common shares held by Unibet have been returned to the Company's treasury and were cancelled.

In addition, the Company disposed its cash bingo business to Unibet Group plc. The company recognized the gain on the sale of the cash bingo business of \$16,305 in the quarter ended March 31, 2015.

### 6. Stockholders' Equity:

#### (a) Common stock issuances:

No shares were issued during the quarter ended September 30, 2016.

During the quarter ended June 30, 2016, the Company closed two private placements for 3,337,934 common shares at \$0.60 per share which raised proceeds of CAD\$ 2,002,760, net of issuance costs of \$49,124.

Subsequent to the quarter ended September 30, 2016, the Company closed its rights issued raising CAD\$107,168 from the issuance of 172,681 common shares at an average price of CAD\$0.626 per share.

#### (b) Stock option plans:

No options were granted or exercised during the period ended September 30, 2016.

#### (c) Escrow shares

In conjunction with the Listing Application for the TSX-V listing, the Company's major shareholders were required to place 33,909,104 common shares of the Company in escrow under the terms of a TSX-V Tier 1 issuer. The escrow shares will be released in thirty three percent (33%) tranches on the dates that



## SHOAL GAMES LTD. and subsidiaries

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### 6. Stockholders' Equity: (Continued)

(c) Escrow shares: (Continued)

are six, twelve and eighteen months after the listing date. 11,303,035 was released during the year end December 31, 2015. The Escrow Shares will be released as follows:

	Number of shares
Balance December 31, 2015	22,606,069
Released in the quarter ending June 30, 2016	(11,303,035)
Balance June 30, 2016	11,303,034
Release in the quarter ending September 30, 2016	-
Balance September 30, 2016	11,303,034
Shares eligible for release in 2016	(11,303,034)
Balance December 31, 2016	-

### 7. 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. During the quarter ended September 30, 2016, the Company entered a new Canadian Operating lease at 1715 Cook Street. The lease is for 3 months and can be extended on a month by month basis with 60 days notice. Subsequent to the quarter ended September 30, 2016, the 1166 Alberni lease was cancelled. The Anguillan operating lease automatically renews every 3 months unless 3 months notice is given.

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

2016	\$	6,834
2017		-

The Company paid rent expense totaling \$7,669 for the quarter ended September 30, 2016 (September 30, 2015 - \$5,449).

The Company has a management consulting agreement with T.M. Williams (Row), Inc., an Anguilla incorporated company, and Mr. Williams, a related party, for a consultancy payment based on the Company's performance with a minimum of \$11,000 and a maximum of \$25,000 per month.

The Company has a management consulting agreement with Jayska Consulting Ltd. and Mr. J. M. Williams, Chief Executive Officer of Shoal Games Ltd. 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 payable in arrears.

# SHOAL GAMES LTD. and subsidiaries

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

The Company has a management consulting 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 Shoal Games Ltd. The Consulting agreement provides for a consultancy payment based on the Company's performance with a minimum of \$7,500 and a maximum of \$25,000 per month.

## 8. 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.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at September 30, 2016, and December 31, 2015, are presented below:

	September 30, 2016	December 31, 2015
Deferred tax assets:		
Net operating loss carry forwards	\$ 15,535	\$ 17,898
Valuation Allowance	(15,535)	(17,898)
	\$ -	\$ -

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.

## 9. Related Party Transactions:

The Company has a liability of \$32,950 (December 31, 2015 - \$2,391) to a company owned by a current director and officer of the Company for payment of services rendered of \$33,000 (September 30, 2015 - \$33,000) by the current director and officer of the Company.

The Company has a liability of \$4,444 (December 31, 2015 - \$6,507) to a current director and officer of the Company for expenses incurred.

The Company has a liability of \$19,455 (December 31, 2015 - \$14,804) to a company owned by a current director and officer of the Company for payment of services rendered of \$19,676 (September 30, 2015 - \$23,257) by the current director and officer of the Company.

The Company has a liability of \$22,500 (December 31, 2015 - \$nil) to a company owned by a current director and officer of the Company for payment of services rendered of \$22,500 (September 30, 2015 - \$22,500) by the current director and officer of the Company.

## SHOAL GAMES LTD. and subsidiaries

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

The Company has a liability of \$4,947 (December 31, 2015 - \$831) to a company owned by a current director of the Company for payment of services rendered of \$4,985 (September 30, 2015 - \$nil) by the current director of the Company.

The Company has a liability of \$7,625 (December 31, 2015 - \$6,500), to independent directors of the Company for payment of services rendered. During the quarter ended September 30, 2016, the Company accrued \$2,000 (September 30, 2015 - \$2,000) to the independent directors in director fees.

The Company has a liability of \$13,643 (December 31, 2015 - \$1,533), to an officer of the Company for payment of services rendered and expenses incurred of \$13,658 (September 30, 2015 - \$13,588) by the officer of the Company.

The Company loaned \$26,631 from a shareholder on an interest free basis. Subsequent to the quarter ended September 30, 2016, this loan was repaid in full.

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.

### 10. Segmented information:

#### Revenue

During the quarter ended September 30, 2016, the Company operated in one reportable business segment from the sale of in-app purchases on Trophy Bingo.

The Company had the following revenue by geographical region.

	Nine Months ended September 30, 2016	Nine Months ended September 30, 2015	Three Months ended September 30, 2016	Three Months ended September 30, 2015
<u>Total revenue from continuing operations</u>				
Western Europe	\$ 29,519	\$ 4,799	\$ 5,421	\$ 3,230
Central, Eastern and Southern Europe	63	50	36	13
Nordics	803	205	161	47
North America	194,025	10,161	40,217	5,276
Other	16,728	10,860	6,923	2,564
<u>Total revenue from continuing operations</u>	<u>\$ 241,138</u>	<u>\$ 26,075</u>	<u>\$ 52,758</u>	<u>\$ 11,130</u>

## SHOAL GAMES LTD. and subsidiaries

Notes to Consolidated Financial Statements  
Nine Months ended September 30, 2016 and 2015  
(Unaudited)

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### 10. Segmented information: (Continued)

#### Equipment

The Company's equipment is located as follows:

Net Book Value	September 30, 2016	December 31, 2015
Anguilla	\$ 1,058	\$ 1,410
Canada	7,008	2,436
United Kingdom	1,375	1,834
United States of America	476	634
	\$ 9,917	\$ 6,314

### 11. Concentrations

#### Major customers

For the quarters ended September 30, 2016 and 2015 the Company sold in-app purchases on its social bingo site, Trophy Bingo. There was no single player who had purchased more than 10% of the Trophy Bingo revenue.

### 12. 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, 2016, the Company had total cash balances of \$82,417 (December 31, 2015 - \$570,086) at financial institutions, where \$28,264 (December 31, 2015 - \$303,983) is in excess of federally insured limits.

As of September 30, 2016, the Company had three customers totaling \$18,018, who accounted for total accounts receivable greater than 10%. As of December 31, 2015, the Company had three customers, totaling \$40,818 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 support 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, 2015.

### **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, 2015, filed with the Securities and Exchange Commission (the "SEC") and should not place undue reliance on any forward-looking statements.**

## OVERVIEW

Shoal Games Ltd. (the "Company") develops, markets, and publishes Trophy Bingo, Garfield's Bingo, and Rooplay. Trophy Bingo is an innovative free-to-play mobile game live in the Apple, Google and Amazon App Stores. Trophy Bingo brings unique gameplay and industry leading monetization techniques to the bingo category which is both high growth and high value. The game is free to download and supports in-app purchases and in-game advertising for players who want to engage with the premium features contained in the game. In-game purchases are transactions made from within a mobile game that are processed by the platform provider (Apple iOS; Google Android; Amazon Android). The worldwide full launch and marketing of Trophy Bingo commenced in the third quarter of 2015 when the latest version of Trophy Bingo was released world-wide in the Apple App Store and Google Play Store on all supported mobile phones and tablet devices.

The Company generates its main source of revenue from players making in-app purchases in Trophy Bingo via the Google Play Store, the Apple App Store and the Amazon Store. An additional source of revenue comes from serving advertising to our user demographic inside the Trophy Bingo game. Through relationships we have with advertising aggregators and providers, companies pay to have their products and services promoted in our App.

Upon obtaining the license to Garfield's Bingo in late April 2016, the Company reviewed its software development and player acquisition strategies. Upon completion of the review and relevant modeling, and in light of the delays occurred in completing its private placement funding, the Company decided to significantly reduce its player acquisition cost of marketing with Trophy Bingo to preserve capital and to increase its development resources dedicated to improving the play mechanics of the Trophy Bingo platform while simultaneously building out Garfield's Bingo utilizing the same platform and game mechanics but with a different story line and digital art focused on maximizing the power of the Garfield brand worldwide, including Asia. Subsequent to the quarter ended September 30, 2016, Garfield's Bingo was soft launched in selected test countries and is projected for world wide launch in early December.

Additionally, upon acquiring in quarter ended September 30, 2016, a world-wide license to Rooplay, an innovative platform streaming technology under development, the Company immediately commenced work in conjunction with the Rooplay developers on completing a commercially available prototype for introduction in the Google Play store in early December. Rooplay provides curated games for children under a subscription based, recurring revenue business model.

Prior to December 31, 2014 the Company provided a variety of Internet games plus other forms of entertainment, including an online community, chat rooms, and more. This portion of the business was sold to Unibet, plc on December 31, 2014 and can be viewed at [www.bingo.com](http://www.bingo.com).

We conducted a beta test launch of Trophy Bingo in May 2013, followed by a global soft launch of the enhanced game on Android in August, 2014 and on iOS in September 2014. Trophy Bingo was released worldwide in the Google Play Store on August 12, 2015, in the Apple App Store on September 3, 2015, and in the Amazon Appstore on November 30, 2015.

On December 31, 2014, we sold the gambling business and the bingo.com domain name to Unibet Group plc, and focused the business on the development and marketing of our innovative social bingo game, Trophy Bingo. During the year ended December 31, 2015, the Company changed its name to Shoal Games Ltd.

We have made a significant investment in the development of Trophy Bingo, and previously in our Internet games plus other forms of entertainment, including an online community, chat rooms, and more. As a result we have incurred significant losses since inception, and as of September 30, 2016, had an accumulated deficit of \$20,818,070.

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 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, have been recognized when collection of the amounts are reasonably assured.

### 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 on a straight-line basis over the estimated economic life of the related product. The Company performs an annual review of the estimated economic life and the recoverability of such capitalized software costs. 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. The Company capitalized 100% of its development costs of Trophy Bingo in 2013. Commencing January 1, 2014, the Company commenced amortizing the capitalized software development costs over a period of 3 years and all further development costs have been expensed. 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.

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. The Company capitalized 100% its development costs of Trophy Bingo in 2013. Commencing January 1, 2014, the Company commenced amortizing the capitalized software

development costs over a period of 3 years and all further development costs have been expensed as incurred.

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 Trophy and Garfield's Bingo were \$4,713,621 as at September 30, 2016 (September 30, 2015 - \$3,562,236).



## **RESULTS OF OPERATIONS**

### **Revenue**

Total revenue from continuing operations for the quarter ended September 30, 2016, increased to \$52,758, an increase of 374% from revenue from continuing operations of \$11,130 for third quarter of 2015 and a decrease of 32% from revenue of \$77,821, in the second quarter of 2016. The increase in total revenue compared to the third quarter of fiscal 2015, is due to the Company launching a full global release of a feature complete Trophy Bingo in the Google Play and Apple App Store in the latter half of the third quarter of fiscal 2015 and an increase in players playing Trophy Bingo. The decrease in total revenue compared to the second quarter of fiscal 2016, is due to lower marketing spend whilst the Company completes the development of additional features for Trophy Bingo and finalizes the development of Garfield's Bingo. In addition, the Company is preparing for the world wide launch of Garfield's Bingo in Q4, 2016.

### **Sales and marketing expenses**

Sales and marketing expenses from continuing operations were \$26,044 for the quarter ended September 30, 2016, a decrease of 81% over expenses of \$137,266 in the third quarter of 2015 and a decrease of 84% from sales and marketing expenses of \$166,758 in the second quarter of 2016. This decrease in sales and marketing expenses from continuing operations in the quarter ended September 30, 2016, compared to the third quarter of fiscal 2015 and the second quarter of fiscal 2016, was due to a lower marketing spend for player acquisitions in Trophy Bingo whilst the Company prepares for the launch of planned new features in Trophy Bingo to meet active player demand and to complete the development of Garfield's Bingo. In addition, the Company is preparing for the launch of Garfield's Bingo in Q4 2016. Selling and marketing expenses from continuing operations 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 Trophy Bingo and Garfield's Bingo game and Rooplay in Q1 2017. 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 decreased to \$65,601 for the quarter ended September 30, 2016, a decrease of 17% from costs of \$79,398 for the third quarter of fiscal 2015 and an increase of 91% from costs of \$34,410 in the second quarter of 2016. Effective July 2, 2015, the Company commenced trading on the TSX Venture Exchange as a tier 2 Technology Issuer under the trading symbol "SGW. This decrease in general and administrative expenses compared to the third quarter of fiscal 2015, is due to the fees incurred in listing the Company in the third quarter of 2015. The increase in general and administrative expenses compared to the second quarter of fiscal 2016, is due to hiring the staff to develop Trophy Bingo and Garfield's Bingo directly from Roadhouse Interactive Limited and establishing the new office for the new employees to work within.

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 decreased to \$97,626 for the quarter ended September 30, 2016, a decrease of 9% compared to salaries, wages, consultants and benefits of \$107,633 in the third quarter of 2015 and a decrease of 8%, over salaries, wages, consultants and benefits of \$105,887 in the second quarter of 2016. This decrease compared to the third quarter of fiscal 2015 and the second quarter of

fiscal 2016, is due to lower consultant charges incurred. The salaries, wages, consultants expenses related to the development of Trophy Bingo, Garfield's Bingo and Rooplay are expensed under development costs.

#### **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 decreased to \$501 during the quarter ended September 30, 2016, a decrease of 34% over costs of \$763 during the same quarter in the prior year and equal to costs of \$500 in the second quarter of 2016. This decrease in depreciation and amortization compared to the third quarter of fiscal 2015 is due to the aging of the Company's equipment and the disposal of obsolete equipment.

#### **Trophy Bingo 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 second 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 Company expensed \$387,068 in development costs during the quarter ended September 30, 2016 and amortized \$120,503 of the capitalized development costs during the quarter ended September 30, 2016. This compares to \$303,162 expensed development costs during the third quarter of 2015 and amortization of \$120,503 of the capitalized development costs during the third quarter of 2015 and \$251,534 expensed development costs during the second quarter of 2016 and amortization of \$120,504 of the capitalized development costs during the second quarter of 2016. This increase of 28% in development costs compared to the third quarter of fiscal 2015 is due the increase of development expenses incurred in the development of Trophy Bingo, Garfield's Bingo and Rooplay. The increase of 54% in development costs compared to the second quarter of fiscal 2016 is due the increase of development expenses incurred in the development of new features for Trophy Bingo and the commencement of development of Garfield's Bingo in the second quarter of 2016 and the commencement of the development of Rooplay in the third quarter of 2016.

In particular, the games contains systems for handling daily rewards, collections, gifting, an advanced spin wheel plus special events. Each of these features affects a particular performance statistic within the game and in combination it's expected that average retention and monetization will rise, while the average player acquisition cost (the average cost to generate one new install of the game) will fall. Daily rewards help to improve retention as players are inspired to come back to collect rewards. Whereas the collection and gifting system is designed to increase virality (reducing acquisition costs) and monetization as players interact more with their friends and spend more in-game currency trying to collect the special items.

#### **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.

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

The net loss after taxation from continuing operations for the quarter ended September 30, 2016, amounted to (\$1,156,098), a loss of (\$0.02) per share, compared to a net loss from continuing operations of (\$758,611) or (\$0.01) per share in the quarter ending June 30, 2015 and net loss from continuing operations of (\$620,968), or (\$0.01) per share in the second quarter of fiscal 2016.

## **LIQUIDITY AND CAPITAL RESOURCES**

We had cash of \$82,417 and working capital deficit of (\$59,119) at September 30, 2016. This compares to cash of \$570,086 and working capital of \$454,447 at December 31, 2015.

During the quarter ended September 30, 2016, we used cash of (\$126,625) in operating activities compared to cash used in operating activities of (\$538,667) in the same period in the prior year and compared to using cash of (\$1,477,535) in the second quarter of 2016.

During the nine months ended September 30, 2016, we used cash of (\$2,022,550) in operating activities compared to using cash in operating activities of (\$1,580,357) 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 Trophy Bingo, Garfield's Bingo and Rooplay, the cost of marketing and player acquisition costs for Trophy Bingo, Garfield's Bingo and Rooplay, the costs of a world wide launch of Garfield's Bingo and Rooplay and the success and acceptance of both Trophy Bingo, Garfield's Bingo and Rooplay, plus the continuing upkeep of our Web portals [www.shoalgames.com](http://www.shoalgames.com) and [www.trophybingo.com](http://www.trophybingo.com) and [www.rooplay.com](http://www.rooplay.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, 2016. 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, 2016, 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, 2016. 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

There were no sales of equity securities during the quarter ended September 30, 2016.

During the quarter ended September 30, 2016, the Company closed two private placements for 3,337,934 common shares at \$0.60 per share which raised proceeds of CAD\$ 2,002,760.

### 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, 2016, 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 2016 fiscal year. The Company issued a schedule 14A proxy statement to the shareholders on September 22, 2016.

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 at 4.

<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Not Voted</b>
49,156,967	100,248	-	-

- 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)

Mr. C. M. Devereux was nominated as a director but was unable to stand for re-election. Mr. W. Moore was nominated at the Annual General Meeting and was elected accordingly by vote of the shareholders.

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	49,242,870	-	14,345	-
J. M. Williams	49,241,870	-	15,345	-
F. Curtis	49,243,770	-	13,445	-
W. Moore	49,257,215	-	-	-

(c) Approved the selection of Davidson & Company LLP, Chartered Professional Accountants as the Company's independent auditors for the fiscal year ending December 31, 2016.

<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Not Voted</b>
49,246,678	-	10,537	-

(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>
49,229,560	27,655	-	-

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**

During the quarter ended September 30, 2016, the Company commenced a rights offering to holders of its common shares of record at the close of business on July 5, 2016 expiring October 11, 2016. The Offering was made to all Company shareholders resident in Canada. The Offering notice and circular was been accepted for filing by the TSX Venture Exchange. Ten Rights plus the sum of \$0.60 will entitle the holder to subscribe for one Common Share. The Subscription Price escalated during the term of the Offering. Holders of Rights who subscribe for Rights Shares on or after August 16, 2016 were required to pay a Subscription Price of \$0.65 per Rights Share. Holders of Rights who subscribe for Rights Shares on or after September 16, 2016 and prior to the Expiry Time were required to pay a Subscription Price of \$0.70 per Rights Share. Shareholders who fully exercise their Rights are entitled to subscribe pro rata for additional Common Shares, if available, that were not subscribed for initially on or before the Expiry Time. The maximum number of common shares issuable pursuant to the Offering will be 5,953,564.

Subsequent to the quarter ended September 30, 2016, the Company closed its rights issued raising CAD\$107,168 from the issuance of 172,681 common shares at an average price of CAD\$0.626 per share.

**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, 2016.
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, 2016.
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, 2016.
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, 2016.

(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, 2016.

Subsequent to the quarter ended September 30, 2016, we filed a Form 8-K announcing the results of our Annual General Meeting on November 9, 2016.

**Reports Subsequent to the quarter ended September 30, 2016.**

Subsequent to the quarter ended September 30, 2016, we filed a Form 8-K announcing the results of our Annual General Meeting on November 9, 2016.



## 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, 2016.

**SHOAL GAMES LTD.**

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

Date: November 14, 2016

*/S/ J.M. Williams*

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

Date: November 14, 2016

*/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, 2016, 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, 2016

**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, 2016, 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, 2016



