# Intralot, Inc. and Subsidiaries

Consolidated Financial Statements
Years Ended December 31, 2017 and 2016

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## Contents

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# Independent Auditor's Report

To the Board of Directors and Stockholders of
Intralot, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Intralot, Inc. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as of December 31, 2017 and the related consolidated statements of comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United States of America, together with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements, respectively.

## *Responsibilities of Management and Those Charged With Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, as adopted by the European Union, this includes the design, implementation, and maintenance of internal control relevant, to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance but is not a guarantee that an audit will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. We design audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error because fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation, structure, and content of the consolidated financial statements, including disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

As part of an audit, we exercise professional judgment and maintain professional skepticism throughout the audit. We also

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies or material weaknesses in internal control that we identify during our audit.

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

***Opinion***

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intralot, Inc. and its subsidiaries as of December 31, 2017 and the consolidated financial performance and their consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

BDO USA, LLP

Atlanta, Georgia
April 27, 2018

# Consolidated Financial Statements

# Intralot, Inc. and Subsidiaries

## Consolidated Statements of Comprehensive Income (Loss)

| *Year ended December 31,* | Note | 2017 | 2016 |
|---|---|---|---|
| **Revenue** | **14** | **$125,197,595** | $127,427,947 |
| **Cost of Sales** | **17** | **102,867,506** | 104,097,747 |
| **Gross Profit** | | **22,330,089** | 23,330,200 |
| **Administrative Expenses** | **15, 17** | **(19,552,074)** | (16,433,425) |
| **Operating Income** | | **2,778,015** | 6,896,775 |
| **Other Income (Expense)** | | | |
| Finance expenses, net | **16** | **(2,573,424)** | (2,467,305) |
| Provision for impairment of accounts receivables | | **(27,470)** | (17,013) |
| Foreign currency exchange (loss) gain, net | | **(3,027,736)** | 397,272 |
| Gain (loss) on disposal of tangible fixed assets | | **54,345** | (4,204) |
| **Total Other Expenses** | | **(5,574,285)** | (2,091,250) |
| **(Loss) Income Before Income Taxes** | | **(2,796,270)** | 4,805,525 |
| **Income Taxes Benefit (Expense)** | **22** | **145,646** | (235,791) |
| **(Loss) Profit for the Year and Total Comprehensive (Loss) Income** | | **$ (2,650,624)** | $ 4,569,734 |
| **Total Comprehensive (Loss) Income for the Year Attributable to:** | | | |
| Equity holders of Intralot, Inc. | | **$ (2,573,117)** | $ 4,740,488 |
| Non-controlling interest | **24** | **$ (77,507)** | $ (170,754) |

*See accompanying independent auditor's report and notes to consolidated financial statements.*

# Intralot, Inc. and Subsidiaries

## Consolidated Statements of Financial Position

| *December 31,* | Note | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| **Non-Current Assets** | | | |
| Tangible fixed assets, net | 5 | $ 59,836,617 | $ 58,218,910 |
| Intangible assets, net | 6 | 6,343,755 | 7,866,435 |
| Other long-term assets | 7 | 1,928,706 | 1,050,050 |
| Deferred tax asset | | 159,999 | - |
| **Total Non-Current Assets** | | 68,269,077 | 67,135,395 |
| **Current Assets** | | | |
| Inventory, net | 8 | 10,193,198 | 7,542,034 |
| Accounts receivable, net | 3,9 | 20,205,126 | 11,021,530 |
| Prepaid expenses and other current assets | 10 | 4,209,860 | 2,742,518 |
| Cash | 3 | 832,186 | 907,628 |
| **Total Current Assets** | | 35,440,370 | 22,213,710 |
| **Total Assets** | | $103,709,447 | $ 89,349,105 |
| **Liabilities and Equity** | | | |
| **Non-Current Liabilities** | | | |
| Loans payable, less current installments | 13 | $ 15,366,004 | $ 13,560,423 |
| Finance lease obligations, less current installments | 20 | 1,541,730 | 580,544 |
| Other non-current liabilities | 20 | 762,493 | 1,112,496 |
| **Total Non-Current Liabilities** | | 17,670,227 | 15,253,463 |
| **Current Liabilities** | | | |
| Borrowings under lines of credit | 3,11 | 3,920,458 | 3,377,261 |
| Accounts payable and other payables | 3,12 | 36,937,506 | 24,844,149 |
| Current portion of loans payable | 3,13 | 778,852 | 44,830 |
| Current portion of finance lease obligations | 20 | 1,546,677 | 323,051 |
| **Total Current Liabilities** | | 43,183,493 | 28,589,291 |
| **Equity** | | | |
| Share capital: | | | |
| Non-voting Class A | 18 | 123,924,870 | 123,924,870 |
| Ordinary shares | 18 | 5,001,666 | 5,001,666 |
| Accumulated deficit | | (82,621,252) | (80,048,135) |
| Equity attributable to shareholders' of Intralot, Inc. | | 46,305,284 | 48,878,401 |
| Non-controlling interest | 24 | (3,449,557) | (3,372,050) |
| **Total Equity** | | 42,855,727 | 45,506,351 |
| **Total Liabilities and Equity** | | $103,709,447 | $ 89,349,105 |

*See accompanying independent auditor's report and notes to consolidated financial statements.*

# Intralot, Inc. and Subsidiaries

## Consolidated Statements of Changes in Equity

*Years Ended December 31, 2017 and 2016*

| | Share Capital Non-Voting Class A | | Share Capital Ordinary Voting | | | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Accumulated Deficit | Non-Controlling Interest | Total Equity (Deficit) |
| **Balance,** December 31, 2015 | 2,478,497 | $123,924,870 | 100,000 | $5,001,666 | $(84,788,623) | $(3,201,296) | $40,936,617 |
| Comprehensive income (loss) | - | - | - | - | 4,740,488 | (170,754) | 4,569,734 |
| **Balance,** December 31, 2016 | 2,478,497 | 123,924,870 | 100,000 | 5,001,666 | (80,048,135) | (3,372,050) | 45,506,351 |
| Comprehensive loss | - | - | - | - | (2,573,117) | (77,507) | (2,650,624) |
| **Balance,** December 31, 2017 | 2,478,497 | $123,924,870 | 100,000 | $5,001,666 | $(82,621,252) | $(3,449,557) | $42,855,727 |

*See accompanying independent auditor's report and notes to consolidated financial statements.*

# Intralot, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

| *Year ended December 31,* | **Note** | **2017** | 2016 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| (Loss) Profit for the year | | **$ (2,650,624)** | $ 4,569,734 |
| Adjustments to reconcile (loss) profit to net provided by operating activities: | | | |
| Provisions for impairment and bad debt | **9** | **27,470** | 17,013 |
| Impairment of inventory | **8** | **29,887** | 15,000 |
| Depreciation and amortization | **5,6** | **21,094,854** | 22,271,626 |
| Finance expenses, net | **16** | **2,573,424** | 2,467,305 |
| (Gain) Loss on disposal of tangible fixed assets | | **(54,345)** | 4,204 |
| Deferred taxes | **22** | **(159,999)** | - |
| Changes in operating assets and liabilities: | | | |
| Inventory | **8** | **(2,681,051)** | 3,977,312 |
| Accounts receivable | **9** | **(9,211,066)** | 1,178,091 |
| Prepaid expenses and other current assets | **10** | **(1,467,342)** | (8,228) |
| Other long-term assets | **7** | **(878,656)** | 181,712 |
| Accounts payable and other payables | **12** | **12,093,357** | (6,748,744) |
| Other non-current liabilities | **20** | **(350,002)** | (350,004) |
| Net cash provided by operating activities | | **18,365,906** | 27,575,021 |
| **Cash Flows from Investing Activities** | | | |
| Purchases of tangible fixed assets | | **(19,594,495)** | (12,280,306) |
| Proceeds from disposal of tangible fixed assets | | **211,549** | 138,204 |
| Purchases of intangible assets | **6** | **(1,752,590)** | (900,783) |
| Net cash used in investing activities | | **(21,135,536)** | (13,042,885) |
| **Cash Flows from Financing Activities** | | | |
| Finance expenses paid, net | | **(902,881)** | (1,464,732) |
| Borrowings (Repayments) on lines of credit, net | | **543,197** | (10,101,592) |
| Principal payments on loans payable | | **(777,541)** | (9,840,487) |
| Borrowing under loans payable | | **4,628,277** | 6,365,978 |
| Principal payments on finance lease obligations | | **(796,864)** | (838,877) |
| Net cash provided by (used in) financing activities | | **2,694,188** | (15,879,710) |
| **Net Decrease in Cash** | | **(75,442)** | (1,347,574) |
| **Cash**, beginning of year | | **907,628** | 2,259,158 |
| Foreign currency exchange gain (loss), net | | **-** | (3,956) |
| **Cash**, end of year | | **$ 832,186** | $ 907,628 |

*See accompanying independent auditor's report and notes to consolidated financial statements.*

## 1. Standards and Interpretations Compulsory for the Fiscal Year

There were no new standards or interpretations effective for the first time for periods beginning on or after January 1, 2017 that had a significant effect on the Company's consolidated financial statements.

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective in future accounting periods that the Company has decided not to adopt early. The most significant of these are:

***IFRS 9 "Financial Instruments"***

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments, which reflects all phases of the financial instruments project and replaces IAS 39, Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

New Standard is not expected to have any impact on the accounting treatment of the Company's financial liabilities since the Company does not have any financial liabilities at fair value through profit or loss, but only financial liabilities at amortized cost.

***IFRS 15 "Revenue from Contracts with Customers"***

This applies to annual accounting periods starting on or after 1st January 2018. Earlier application is permitted.

In May 2014, the International Accounting Standards Board (IASB), responsible for International Financial Reporting Standards (IFRS), and the Financial Accounting Standards Board (FASB), responsible for U.S. Generally Accepted Accounting Principles (US GAAP), jointly issued a converged Standard on the recognition of revenue from contracts with customers. The Standard will improve the financial reporting of revenue and improve comparability of the financial statements globally.

Revenue is a vital metric for users of financial statements and is used to assess a company's financial performance and prospects. However, the previous requirements of both IFRS and US GAAP were different and often resulted in different accounting for transactions that were economically similar. Furthermore, while revenue recognition requirements of IFRS lacked sufficient detail, the accounting requirements of US GAAP were considered to be overly prescriptive and conflicting in certain areas.

Responding to these challenges, the boards have developed new, fully converged requirements for the recognition of revenue in both IFRS and US GAAP—providing substantial enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using IFRS and US GAAP.

This new Standard replaces IAS 18, IAS 11 and the Interpretations IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 that are related to revenue recognition. The core principle of the new Standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The Company will apply the new Standard since 1 January 2018 with the cumulative effect of the initial application recognized in the opening balance of equity at the date of initial application. The Company has contracts with customer that are for ongoing operations of the lottery in several states. The Company has traditionally allocated the revenue from components that may contain leases, equipment, software and service based upon the rates used in the markets they operate. Revenue is generally deferred as ongoing outsourced operation of the lottery and related components is required as part of these contracts and compensation is specifically tied to lottery sales in a majority of these contracts. The impact of initial adoption is not expected to have a material impact for the 2018 financial statements based upon management's assessment of IFRS 15 relative to the standards they previously applied under IAS 18 and IAS 11 based upon their interpretations of the current and prior standard.

***IFRS 16 "Leases"***

This applies to annual accounting periods starting on or after 1 January 2019. Earlier application is permitted.

In January 2016, the IASB issued IFRS 16, Leases, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from IAS 17.

The Company is currently evaluating the impact of the application of IFRS 16.

## 2. Description of Business and Summary of Significant Accounting Polices

***Principles of Consolidation***

The consolidated financial statements of Intralot, Inc. and Subsidiaries (collectively, the Company) as of and for the years ended December 31, 2017 and 2016 include the accounts of Intralot, Inc. and its subsidiary, DC09, LLC (DC09). All significant intercompany balances and transactions have been eliminated in consolidation.

***Description of Business***

Intralot, Inc. was incorporated in December 2001 under the laws of the state of Georgia, United States of America and is a majority-owned subsidiary of Intralot, S.A. (ISA), a Greek company. The principal office of the Company is located in Duluth, Georgia. The Company installs online lottery terminals and provides gaming systems to the lottery industry in the United States of America (US). The Company maintains locations in Georgia, Montana, Idaho, New Mexico, South Carolina, Ohio, Arkansas, Louisiana, New Hampshire, Vermont, Wyoming and the District of Columbia.

Intralot, Inc. owns 49% of DC09. DC09, a limited liability company, was incorporated in January 2010 under the laws of the state of Delaware, United States of America, for the purpose of managing the District of Columbia's lottery. DC09 is controlled by Intralot, Inc. and, therefore, is fully consolidated.

***Basis of Preparation***

The principal accounting policies adopted in the preparation of the consolidated financial statements are as described below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements are presented in US Dollars, which is also the Company's functional currency.

Amounts are rounded to the nearest dollar, unless otherwise stated.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS"), as adopted by the European Union.

***Use of Estimates in Consolidated Financial Statements***

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Basis of Measurement***

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets classified as "fair value through profit or loss", which are measured at fair value.

***Financial Assets***

The Company classifies its financial assets into the categories discussed below, depending on the purpose for which the asset was acquired. The Company has not classified any of its financial assets as held to maturity. The Company does not have any fair value through profit and loss assets.

The Company's accounting policy for each category is as follows:

***Loans and Receivables***

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. accounts receivables), but also incorporate other types of contractual monetary asset. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment. Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For accounts receivables, which are reported net; such provisions are recorded in a separate allowance account with the loss being recognized within other income (expense) in the consolidated statements of comprehensive income (loss). On confirmation that the accounts receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Company's receivables comprise of trade and other receivables in the consolidated statements of financial position.

***Financial Liabilities***

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company does not have any liabilities held at fair value through profit or loss.

The Company's accounting policy for each category is as follows:

***Financial Liabilities at Amortized Cost***

This category includes accounts payable and other payables, lines of credit, finance lease obligations, and loans payable. These items are initially recognized at fair value net of any transaction costs directly attributable to the issuance or generation of the payable. Interest bearing liabilities are subsequently measured at amortized costs using the effective interest method which ensures interest expense over the period of repayment is at a constant rate on the balance of the liability carried on the statements of financial position. Interest expense for interest bearing liabilities includes the amortization of the transaction costs along with the stated coupon on the note or line of credit while the liability is outstanding.

***Tangible Fixed Assets***

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing the tangible assets and borrowing costs for long-term construction assets if the recognition criteria are met.

Depreciation is provided over the estimated useful lives of tangible fixed assets using the straight-line method. Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

| | |
|---|---|
| Machinery | 3 to 10 years |
| Buildings and fixtures | 15 to 40 years |
| Furniture and fixtures | 3 to 7 years |
| Transportation and equipment | 3 to 7 years |

Depreciation of equipment under finance leases is provided over the shorter of the estimated useful life of the equipment or the term of the lease.

An item of tangible fixed assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statements of comprehensive income (loss) in the year the item is derecognized. The assets' residual values and useful lives are reviewed at each financial year end, and adjusted prospectively, if appropriate.

### *Research and Development*

Research expenses are expensed as incurred. Development expenditure incurred by individual project is capitalized if, and only if, the Company can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete the intangible asset and use or sell it
- Its ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following the initial recognition of development expenditures, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization over the period of expected future sales from the related project. The amortization expense is included within the administrative expenses line in the consolidated statement of comprehensive income (loss).

The carrying value of development expenditures is reviewed for impairment annually when the asset is not yet in use or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

### *Intangible Assets*

Intangible assets consist of purchased software that is acquired individually and capitalized at cost, internally developed software, and development costs internally generated.

After initial recognition, intangibles are valued at cost less accumulated amortization. Amortization of intangibles is provided under the shorter of the estimated useful life of the asset or the term of the associated contract, typically three to ten years, and amortized on the straight-line method.

### *Impairment of Long-Lived Assets*

Impairment tests on other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. In the opinion of management, no long-lived assets were impaired as of December 31, 2017 or 2016.

***Inventory***

Inventory is initially recognized at cost, and subsequently valued at the lower of cost or net realizable value. Costs incurred in bringing each product to its present location and condition is accounted for using the first-in first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

***Revenue Recognition***

Lottery revenue from the sale of numerical and instant tickets that are sold on a per unit basis is recognized when the Company has transferred the significant risks and it is probable that the company will receive the previously agreed upon payment. These criteria are considered to be met when ownership to the buyer customer accepts the product pursuant to the terms of the contract. Revenue from online lottery services is recognized as a percentage of the amount of retail sales of lottery tickets pursuant to the terms of the contract. The Company also leases equipment to customers for the duration of the contract. Equipment lease revenue is recognized on a straight-line basis over the lease term.

***Fair Value Measurement***

A number of assets and liabilities included in the Company's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Company's financial and non-financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

- Level 1 Quoted prices in active markets for identical items (unadjusted)
- Level 2 Observable direct or indirect inputs other than Level 1 inputs
- Level 3 Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest Level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

The Company measures financial instruments at fair value. See Note 3 for more detailed information in relation to the fair value measurement.

***Leases***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Company at the lesser of fair market value or the present value of the minimum lease payments at the inception of the lease. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to finance expenses, net in the accompanying consolidated statements of comprehensive income (loss) over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to cost of sales on a straight-line basis over the term of the relevant lease.

***Foreign Currencies***

Transactions in currencies other than United States dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing at the end of the reporting period. Profits and losses arising from changes in exchange rates are included in the net profit or loss for the period.

***Income Taxes***

Deferred income tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable differences and deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized.

***Borrowing Costs***

The Company began capitalizing finance expenses on certain qualifying assets that take a substantial period of time to get ready for its intended use or sale. The Company did not capitalize finance expenses in 2017 or 2016.

***Major Customer***

During 2017 and 2016, the Company had three customers that accounted for 55% and 56% of lottery revenues, respectively. As of December 31, 2017 and 2016, two customers accounted for 66% and 42% of trade accounts receivable, respectively.

***Advertising Cost***

Advertising costs are expensed as incurred. Advertising costs totaled $1,173,519 and $966,470 for 2017 and 2016, respectively, and are included in administrative expenses in the accompanying consolidated statements of comprehensive (loss) income.

***Non-Controlling Interest***

The Company applies a policy of treating transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. For purchases of non-controlling interest, the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity and attributed to the equity holders of Intralot, Inc. Gains or losses on disposals of non-controlling interests are recorded in equity.

***Employee Benefit Scheme***

The costs, assets and liabilities of the employee benefit scheme operating by the Company are determined using methods allowed under Section 401(k) of the Internal revenue Code. Details of the scheme are set out in Note 21.

***Reclassifications***

Certain reclassifications were made to prior period amounts to conform to current year presentations.

The Company will apply the new Standard since 1 January 2018 with the cumulative effect of the initial application recognized in the opening balance of Equity at the date of initial application. The impact of applying IFRS 15 is not expected to have a material impact on the Company's financial statements.

***Consolidation of subsidiaries in which the Company holds less than a majority of voting right (de facto control)***

The Company controls the subsidiary DC09, LLC, even though it holds less than 50% of the voting rights, since the conditions of IFRS 10 are met. Specifically, the control is based on the fact that the Company has signed agreements with other shareholders under which the Company has the ability to direct the business decisions of the subsidiary.

## 3. Financial Instruments – Risk Management

The Company is exposed through its operations to the following financial risks:

- Credit risk
- Fair value or cash flow interest rate risk
- Liquidity

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This Note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

***Principal Financial Instruments***

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- Accounts receivable
- Cash
- Accounts payable and other payables
- Borrowings under lines of credit
- Loans payable
- Finance lease obligations

Financial Instruments by Category:

| *Financial Assets* | *Loans and Receivables* 2017 | 2016 |
|---|---|---|
| Accounts receivables | **$20,205,126** | $ 11,021,530 |
| Cash | **832,186** | 907,628 |
| Total financial assets | **$21,037,312** | $ 11,929,158 |

| *Financial Liabilities* | *Financial Liabilities at Amortized Cost* 2017 | 2016 |
|---|---|---|
| Accounts payable and other payables | **$ 36,937,506** | $ 24,844,149 |
| Borrowings under lines of credit | **3,920,458** | 3,377,261 |
| Loans payable | **16,144,856** | 13,605,253 |
| Finance lease obligations | **3,088,407** | 903,595 |
| Total financial liabilities | **$ 60,091,227** | $ 42,730,258 |

Financial instruments not measured at fair value include cash, accounts receivable, accounts payable and other payables, loan payables, and finance lease obligations.

Due to their short-term nature, the carrying values of cash, accounts receivables, accounts payable and other payables approximate their fair value. Due to market based floating interest rates, the carrying value of borrowings under lines of credit and loans payable approximates their fair value.

***Credit Risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is mainly exposed to credit risk from credit sales. It is Company's policy to assess the credit risk of new customers before entering contracts. Each new customer is analyzed individually for creditworthiness before payment and delivery terms and conditions are offered. Further disclosures regarding accounts receivables are provided in Note 9.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating “A” are accepted. A significant amount of cash is held with Bank of America. The Company has cash at Bank of America of $832,186 and $782,628 as of December 31, 2017 and 2016 respectively. The Company monitors the credit ratings of counter parties regularly and at the reporting date does not expect any losses from non-performance by the counterparties.

### *Interest Rate Risk*

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to cash flow interest rate risk from long-term borrowings at a variable rate.

The Company manages interest rate risk through refinancing of long-term borrowings when considered appropriate. The Company has to obtain approval from its Parent to enter into a variable rate debt to manage risk. Further disclosures regarding financial liabilities exposed to interest rate risks are provided in Notes 11 and 13. The impact of interest rate fluctuations in operating results and cash flows of the Company’s operating activities is small, as shown in the following sensitivity analysis.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates. With all other variables held constant, the Company’s profit before tax is affected by the impact on floating rate, as follows:

| | *Change in Interest Rate* | *Effect on profit before Tax* |
|---|---|---|
| **2017** | | |
| euribor 1M | **+/- 1%** | **$157,000** |
| 2016 | | |
| euribor 1M | +/- 1% | $ 161,000 |

### *Liquidity Risk*

Liquidity risk arises from the Company’s management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The following provides the carrying values of non-derivative financial liabilities by contractual maturity (representing undiscounted cash-flows) at December 31, 2017 and 2016:

| *December 31, 2017* | *Less than 1 year* | *1 to 2 years* | *2 years and thereafter* | *December 31, 2016* |
|---|---|---|---|---|
| Accounts payable and other payables | $ 36,937,506 | $ - | $ - | $ 36,937,506 |
| Borrowings under lines of credit | 3,920,458 | - | - | 3,920,458 |
| Loans Payable | 778,852 | - | 15,366,004 | 16,144,856 |
| Financial lease obligation | 1,546,677 | 935,266 | 606,464 | 3,088,407 |
| Total | $ 43,183,493 | $ 935,266 | $ 15,972,468 | $ 60,091,227 |

| *December 31, 2016* | *Less than 1 year* | *1 to 2 years* | *2 years and thereafter* | *December 31, 2016* |
|---|---|---|---|---|
| Accounts payable and other payables | $ 24,844,149 | $ - | $ - | $ 24,844,149 |
| Borrowings under lines of credit | 3,377,261 | - | - | 3,377,261 |
| Loans Payable | 44,830 | - | 13,560,423 | 13,605,253 |
| Financial lease obligation | 323,051 | 325,968 | 254,576 | 903,595 |
| Total | $ 28,589,291 | $ 325,968 | $ 13,814,999 | $ 42,730,258 |

The Company had a working capital deficit of $7,743,123 at December 31, 2017, has various outstanding commitments (see Note 20), and had comprehensive loss of $2,650,624 for the year then ended. The continuation of the Company's business is contingent upon, among other things, the ability to maintain satisfactory levels of future profitable operations; continuing contributions from the parent and other affiliated companies; and generating sufficient cash from operations to meet current and future obligations. Although there are no assurances, management believes the Company will be able to achieve these objectives.

***Capital Disclosures***

The Company monitors capital which comprises all components of equity (i.e. share capital, non-controlling interest, and retained earnings).

The Company's objectives when maintaining capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of return capital to shareholders, issue new shares, or sell assets to reduce debt.

## 4. Significant Accounting Judgments, Estimates And Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts expenses, assets liabilities and disclosures of contingent liabilities that included in the consolidated financial statements. On an ongoing basis, management evaluates its judgments, estimates and assumptions that mainly refer to provision form impairment of receivables, provision for impairment of inventories value, impairment of tangible and intangible assets as well as estimation of their useful lives, recognition of revenue and expenses, pending legal cases, provision for income tax and recoverability of deferred tax assets. These judgments, estimates and assumptions are based on historical experience and other factors including expectations of future events that are considered reasonable under the circumstances.

The key judgments, estimates and assumptions concerning the future and other key sources of uncertainty at the reporting date and have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the below:

### *Tangible and Intangible Assets Impairment*

The carrying values of tangible and intangible assets are reassessed for possible need for impairment whenever events or circumstances indicate that the value reported on may not be recovered as described in Note 1.

### *Income Taxes*

The Company is subject to income taxes in numerous jurisdictions. The provision for income taxes in accordance with IAS 12 "Income Taxes" refers to the amounts expected to be paid to the tax authorities and includes provision for current income taxes and the provision for any additional taxes that may arise as a result of the audit of the tax authorities. The provision for income tax of the Company for numerous transactions require significant subjective judgment, making tax exact calculation uncertain during the ordinary course of business of the Company. The estimate may differ from the final tax due to future changes in tax legislation or to unforeseen effects of the final determination of the tax liability for each year from the tax authorities. Where the final tax resulting from tax audits differ from the amounts that were initially assessed and recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination of tax differences occurred. Further details are provided in Note 22.

### *Deferred Tax Assets*

Deferred tax assets and liabilities are recognized on temporary differences between the accounting basis and the tax basis of assets and liabilities using the tax rates that have been enacted and are expected to apply in the periods when the differences are expected to be eliminated. Deferred tax assets are recognized for the deductible temporary differences and tax losses carried forward to the extent that it is probable that there will be taxable income available to be used against which the deductible temporary differences and the carry forward of unused tax losses. The accounting estimates related to deferred tax assets requires management to make assumptions about the timing of future events, the probability of expected future taxable income and available tax planning possibilities. Further details are provided in Note 22.

### *Provision for Impairment of Receivables*

The Company impairs the value of receivables when there is evidence or indications which show that the recovery of the receivables in whole or in part is unlikely. The Company periodically reassesses the adequacy of the allowance for doubtful accounts based on factors such as the credit policy, reports from the legal department for recent developments in cases handled by this, and its estimation of the influence of other factors related to the collectability requirements. Further details are provided in Note 2.

### *Estimation of Assets Useful Life*

The Company reassesses at each year end and, when appropriate, prospectively adjusts useful lives of tangible and intangible assets that were recognized either through acquisition or business combination. These estimates take into account new data and current market conditions. Further details are provided in Notes 2, 5 and 6.

***Contingent Liabilities***

The Company reviews the status of each significant legal case on a periodic basis and assesses the potential risk, based partly on the view of legal department. If the potential loss from any litigation and legal matters is considered probable and the amount can be reliably estimated, the Company recognizes a liability for the estimated loss. In order to determine the probability and whether the risk can be estimated reliably, a considerable degree of judgment of management is required. When additional information becomes available, the Company reassesses the potential liability related to pending litigation and legal proceedings, and estimates for the probability of an unfavorable outcome and an assessment of potential loss may be revised. Such revisions in the estimates of the potential liability could have a material effect on the financial position and income statement of the Company. Further details are provided in Note 20.

***Provision for Impairment of Inventory Value***

The Company recognizes inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses. Provisions for impairment of inventories are formed when necessary and recognized in the consolidated statement of comprehensive income (loss).

## 5. Tangible Fixed Assets

The activity in tangible fixed assets is as follows:

| | *Machinery* | *Buildings and Fixtures* | *Furniture and Fixtures* | *Transportation Equipment* | *Total* |
|---|---|---|---|---|---|
| **Costs** | | | | | |
| **Balance,** December 31, 2015 | $169,611,115 | $ 9,721,496 | $1,181,067 | $ 915,818 | $181,429,496 |
| Additions | 11,824,158 | 426,617 | 28,347 | 10,845 | 12,289,967 |
| Disposals | (152,069) | - | - | - | (152,069) |
| **Balance,** December 31, 2016 | 181,283,204 | 10,148,113 | 1,209,414 | 926,663 | 193,567,394 |
| Additions | 19,216,974 | 234,995 | 45,415 | 97,111 | 19,594,495 |
| Disposals | (708,108) | - | - | (127,471) | (835,579) |
| **Balance,** December 31, 2017 | $199,792,069 | $ 10,383,108 | $1,254,829 | $ 896,303 | $212,326,310 |

### Accumulated Depreciation

| | *Machinery* | *Buildings and Fixtures* | *Furniture and Fixtures* | *Transportation Equipment* | *Total* |
|---|---|---|---|---|---|
| **Costs** | | | | | |
| **Balance,** December 31, 2015 | $109,522,095 | $ 5,378,787 | $1,035,541 | $ 686,683 | $116,623,106 |
| Additions | 17,778,347 | 818,721 | 71,037 | 66,935 | 18,735,040 |
| Disposals | (9,662) | - | - | - | (9,662) |
| **Balance,** December 31, 2016 | 127,290,780 | 6,197,508 | 1,106,578 | 753,618 | 135,348,484 |
| Additions | 17,037,466 | 678,535 | 40,320 | 63,264 | 17,819,584 |
| Disposals | (550,904) | - | - | (127,471) | (678,375) |
| **Balance,** December 31, 2017 | 143,777,341 | 6,876,043 | 1,146,898 | 689,411 | 152,489,693 |
| **Tangible Fixed Assets,** net | $ 56,014,728 | $ 3,507,065 | $ 107,932 | $ 206,892 | $ 59,836,617 |

Depreciation expense associated with tangible fixed assets in the amount of $405,939 and $17,413,645 and is included in administrative expenses and cost of sales, respectively, in the accompanying consolidated statements of comprehensive income (loss).

## 6. Intangible Assets

The activity in intangible assets is as follows:

| | *Intangible Software Assets* | *Accumulated Amortization* | *Net Book Value* |
|---|---|---|---|
| **Balance,** December 31, 2015 | $32,107,852 | $21,595,952 | $ 10,511,900 |
| Additions | 900,783 | 3,546,248 | |
| Disposals | - | - | |
| **Balance,** December 31, 2016 | 33,008,635 | 25,142,200 | 7,866,435 |
| Additions | 1,752,590 | 3,275,270 | |
| Disposals | - | - | |
| **Balance,** December 31, 2017 | $34,761,225 | $28,417,470 | $ 6,343,755 |

Amortization expense associated with intangible assets in the amount of $808,370 and $2,466,900 is included in administrative expenses and cost of sales, respectively, in the accompanying consolidated statements of comprehensive income (loss).

## 7. Other Long-Term Assets

Other long-term assets at December 31, 2017 and 2016 comprised of the following:

| | **2017** | 2016 |
|---|---|---|
| Deposits | **$ 405,805** | $ 243,118 |
| Maintenance contracts | **1,072,900** | 356,932 |
| Long-term receivables | **450,000** | 450,000 |
| Total other long-term assets | **$ 1,928,706** | $ 1,050,050 |

## 8. Inventory

A summary of inventory is as follows:

| | **2017** | **2016** |
|---|---|---|
| Raw materials | **$ 7,387,315** | $ 7,002,338 |
| Work-in-progress | **41,052** | 165,603 |
| Finished goods | **504,912** | 166,392 |
| Other lottery inventory | **2,259,919** | 207,701 |
| Total inventory | **$10,193,198** | $ 7,542,034 |

The Company recorded an inventory reserve of $29,887 and $15,000 in the years ended December 31, 2017 and 2016, respectively.

## 9. Accounts Receivable

Accounts receivable at December 31, 2017 and 2016 comprised of the following:

| | **2017** | 2016 |
|---|---|---|
| Accounts receivable - trade | **$18,454,824** | $ 8,976,059 |
| Accounts receivable - affiliates | **628,817** | 749,628 |
| Unbilled revenue - other | **1,121,485** | 1,295,843 |
| Total accounts receivable | **$20,205,126** | $11,021,530 |

The aging analysis of these receivables is as follows:

| | **2017** | 2016 |
|---|---|---|
| Up to 3 months | **$18,995,238** | $10,002,715 |
| 3 to 6 months | **70,729** | 165,700 |
| 6 to 12 months | **1,139,159** | 54,574 |
| Over 12 months | **-** | 798,541 |
| | **$20,205,126** | $11,021,530 |

The provision for impairment of receivables relates entirely to accounts receivable - trade.

## 10. Prepaid Expenses and Other Current Assets

Prepaid and other current assets at December 31, 2017 and 2016 comprise of the following:

| | **2017** | 2016 |
|---|---|---|
| Short-term portion of maintenance contracts | **$ 1,935,200** | $ 1,074,011 |
| Prepaid insurance | **1,002,740** | 837,059 |
| Other | **1,271,920** | 831,448 |
| Total prepaid expenses and other current assets | **$ 4,209,860** | $ 2,742,518 |

## 11. Lines of Credit

On February 9, 2010, the Company entered into a loan agreement with a financial institution. The agreement allowed for total borrowings under a line of credit and letters of credit of $21,500,000 on a revolving basis. The revolving line of credit is amended on an annual basis. In January 2018, the loan agreement was amended to extend the maturity to May 2018. Outstanding borrowings under the amended loan agreement accrue interest, at 4.605% as of December 31, 2017. The Company must comply with certain covenant ratios which include a senior leverage ratio, fixed charge coverage ratio and an asset coverage ratio. As of December 31, 2017, the Company is in compliance with all financial covenants. As of December 31, 2017 and 2016, the Company had outstanding borrowings of $3,920,458 and $3,377,261, respectively, under the agreement. The line of credit and letters of credit are guaranteed by the Company's parent, Intralot, S.A.

## 12. Accounts Payable and Other Payables

Accounts payable and other payables at December 31, 2017 and 2016 were comprised of the following:

| | **2017** | 2016 |
|---|---|---|
| Accounts payable - trade | **$ 7,748,304** | $ 3,872,813 |
| Accounts payable - affiliates | **23,303,180** | 16,228,991 |
| Accrued liabilities - trade | **5,886,022** | 4,742,345 |
| Total accounts payable and other payables | **$ 36,937,506** | $24,844,149 |

## 13. Loans Payable

The Company has entered into multiple loans with a financial institution to finance the cost of certain assets. The loans are unsecured, bear interest between 6.15% and 13.03%, are payable monthly and mature at various times through 2018. The current balance of loans payable is $778,852 which matures in 2018.

On June 2, 2015, the Company entered into a revolving credit facility agreement with Intralot Finance UK PLC. The loan agreement allowed for total borrowings of up to 12 million euros on a revolving basis. The Company later amended the agreement to allow for borrowings of up to 20 million euros at an interest rate of 11.15%.

Effective October 1, 2016, the Company modified the revolving credit facility agreement with Intralot Finance UK PLC. The loan agreement allows for borrowings of up to 30 million euros at an interest rate of 8.22%, which matures on September 15, 2024. Total borrowings as of December 31, 2017 and 2016 were $15,366,004 and $13,560,423, respectively, and are included as a non-current liability on the consolidated statements of financial position.

## 14. Revenues

Revenues for the years ended December 31, 2017 and 2016 comprise of the following:

| | **2017** | 2016 |
|---|---|---|
| Lottery revenue | **$ 110,432,947** | $112,213,117 |
| Equipment lease revenue | **14,764,648** | 15,214,830 |
| Total Revenues | **$ 125,197,595** | $127,427,947 |

## 15. Administrative Expenses

The following provides additional information on the nature of expense included in Administrative Expenses on the consolidated statement of comprehensive income (loss):

| | **2017** | 2016 |
|---|---|---|
| Personnel and payroll | **$ 7,332,878** | $ 5,039,449 |
| Sales and marketing | **2,536,481** | 1,247,243 |
| Systems | **2,740,741** | 2,960,017 |
| Professional fees | **2,205,743** | 2,580,220 |
| Depreciation and amortization | **1,213,861** | 454,501 |
| Other | **2,722,436** | 2,523,050 |
| Travel and entertainment | **799,934** | 1,628,945 |
| Total administrative expenses | **$ 19,552,074** | $16,433,425 |

Compensation provided to executive officers of the Company included in personnel and payroll expenses was approximately $2,732,598 and $2,778,491 for 2017 and 2016, respectively.

## 16. Finance Expenses

Finance expenses consisted of the following:

| | **2017** | 2016 |
|---|---|---|
| Interest on loans payable | **$ 2,448,140** | $ 2,211,037 |
| Interest on obligations under finance leases | **34,940** | 59,695 |
| Interest on lines of credit and bank fees | **90,344** | 196,747 |
| Interest income | **-** | (174) |
| Total finance expenses | **$ 2,573,424** | $ 2,467,305 |

## 17. Cost of Sales and Employee Benefit Expenses

Cost of sales comprise of the following:

| *Years ended December 31,* | **2017** | 2016 |
|---|---|---|
| Merchandise and paper | **$ 7,935,669** | $ 15,805,114 |
| Personnel and payroll | **26,937,561** | 28,136,460 |
| Systems equipment and technology | **67,994,276** | 60,156,173 |
| Total Cost of Sales | **$102,867,506** | $104,097,747 |

Employee benefit expenses comprise:

| *Years ended December 31,* | **2017** | 2016 |
|---|---|---|
| Wages and salaries | **$ 27,335,925** | $ 27,274,752 |
| Defined contribution pension cost | **814,977** | 696,442 |
| Other long-term employee benefits | **5,780,766** | 5,418,766 |
| Social Security contribution and similar taxes | **2,065,364** | 2,070,243 |
| Total Employee Benefit Expenses | **$ 35,997,032** | $ 35,460,203 |

***Key Management Personnel Compensation***

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including the directors of the Company.

| *Years ended December 31,* | **2017** | 2016 |
|---|---|---|
| Salary | **$ 2,504,442** | $ 2,552,359 |
| Other long-term benefits | **228,156** | 226,132 |
| | **$ 2,732,598** | $ 2,778,491 |

## 18. Share Capital

The outstanding ordinary shares of the Company held by the non-controlling shareholders have been issued pursuant to a shareholder's agreement, which contains restrictions on the sale or transfer of such shares except under certain circumstances. The agreement contains a provision pursuant to which the minority shareholders can only transfer all or any part of the shares to the majority shareholder.

The holders of Class A Shares shall be entitled to receive dividends if and when approved by the Board of Directors. Any such dividend authorized shall be on a non-cumulative basis. No dividends were approved in 2017 and 2016.

In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the holders of Class A Shares shall be entitled to receive, prior and in preference to any distribution of any assets or surplus funds of the Company to the holders of the ordinary shares by any reason of their ownership thereof, the amount of $50 per share of Class A Shares (as adjusted for any dividends, combinations or splits with respect to such share) plus all declared but unpaid dividends on such share for each share of Class A Shares then held by such holder. If upon the occurrence of such event, the assets and funds thus distributed among the holders of Class A Shares shall be insufficient to permit the payment to such holders of the full aforesaid preferential amount, then the entire assets and funds of the Company legally available for distribution shall be distributed among the holders of the Class A Shares on a pro-rata basis.

## 19. Related Party Transactions

During the years ended December 31, 2017 and 2016, the Company leased equipment from Intralot Operations Limited. Rental expense for these leases totaled $11,249,646 and $8,906,799 in 2017 and 2016, respectively, and is included in cost of sales in the accompanying consolidated statements of comprehensive (loss) income. As of December 31, 2017 and 2016, accounts payable to Intralot Operations Limited was $3,720,442 and $4,029,031, respectively, on the accompanying consolidated statements of financial position.

As of December 31, 2017 and 2016, the Company owed $19,564,762 and $11,665,630, respectively, to ISA for equipment and lottery operational items. This amount is recorded in accounts payable and other payables on the accompanying consolidated statements of financial position.

As of December 31, 2017 and 2016, the Company owed $0 and $395,288, respectively, to Intralot International for lottery software licensing. This amount is recorded in accounts payable and other payables on the accompanying consolidated statements of financial position.

During 2017 and 2016, there were various reimbursable expenses that the Company incurred on behalf of ISA. As of December 31, 2017 and 2016, ISA owed $236,400 and $50,000, respectively, which is recorded in accounts receivable on the accompanying consolidated statements of financial position.

During the years ended December 31, 2017 and 2016, the Company provided a minority owner and the chief executive officer of DC09 remuneration totaling $606,786 and $592,232, respectively, which is recorded in administrative expenses on the accompanying consolidated statements of comprehensive (loss) income.

## 20. Commitments and Contingencies

### *Operating Leases*

The Company has operating leases with non-affiliates expiring through 2020, excluding renewal options. The leases generally require that the Company pay taxes, maintenance and insurance. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases.

The following is a schedule by year of minimum lease payments under noncancelable operating leases in excess of one year, excluding payments for taxes, maintenance, insurance and other operating costs, at December 31, 2017:

| *Year ending December 31,2017* | Amount |
|---|---|
| Not later than one year | $1,991,054 |
| Between one year and five years | 2,692,723 |
| Thereafter | 23,447 |
| Total minimum lease payments | $4,707,224 |

Rent expense under all operating leases totaled $15,109,830 and $12,678,718 in 2017 and 2016, respectively, which includes equipment leases with Intralot Operations Limited (see Note 19). Rent expense is included in costs of sales and administrative expenses in the accompanying consolidated statements of comprehensive (loss) income.

The Company leases lottery and gaming machines to a majority of the state lotteries under contract. As the lease income is based on a percentage of ticket sales, the Company cannot disclose the noncancelable minimum lease payments, because the lease payments are variable based upon underlying ticket sales volume.

### *Finance Leases*

The Company leases certain tangible fixed assets under finance leases. The majority of finance leases expired during 2017. As of December 31, 2017 and 2016, the Company had finance leases with an initial cost and obligation of $5,424,757 and $3,388,390 and accumulated amortization of $2,533,026 and $1,889,920 at December 31, 2017 and 2016, respectively. The tangible fixed assets are capitalized at the lesser of fair market value or the present value of the minimum lease payments at the inception of the lease using the Company's incremental borrowing rate.

The following is a schedule by year of future minimum payments under finance at December 31, 2017:

| *Year ending December 31, 2017* | Amount |
|---|---|
| Not later than one year | $1,597,554 |
| Between one year and five years | 1,550,954 |
| | 3,148,508 |
| Less amount representing interest | (60,101) |
| | 3,088,407 |
| Less current portion | (1,546,677) |
| | $1,541,730 |

### *Commitments*

During December 2007, the Company entered into a contract with an independent third party to purchase various equipment, services and training through 2020. The contract is guaranteed by ISA. At a minimum, the Company is required to make the following payments over the remaining life of the contract:

| **Future Commitments as of December 31, 2017** | |
|---|---|
| 2018 | $ 3,448,136 |
| 2019 | 1,998,163 |
| 2020 | 920,310 |
| 2021 | 420,150 |
| 2022 | 374,760 |
| Thereafter | - |
| **Total** | $ 7,161,519 |

In connection with the dissolution of the W2 Tech venture agreement in 2009, the Company entered into an agreement requiring minimum payments totaling $1,400,000 through 2015, payable monthly beginning October 1, 2010. The outstanding liability balance at December 31, 2017 and 2016 was $762,492 and $1,112,496, respectively. The capitalized intangible asset associated with the settlement was $816,676 and $1,166,680 as of December 31, 2017 and 2016, respectively. Amortization expense associated with the intangible asset was $350,004 and $350,004 for the years ended December 31, 2017 and 2016, respectively, and is included in costs of sales in the accompanying consolidated statements of comprehensive (loss) income.

### *Service Contract Arrangements*

Service contracts and lottery systems generally provide for substantial related services such as software, maintenance, training, marketing, computer operators and certain operating supplies. The service contracts generally cover the life of the gaming contract. These contracts create future liability for the Company to provide those future services and incur certain costs, which are considered as part of the pricing of revenue contracts upon inception.

### *Legal Actions*

The Company from time to time may be a defendant in legal actions generally incidental to its business. Although it is difficult to predict the ultimate outcome of any potential or threatened litigation, management believes that any ultimate liability will not materially affect the financial position and results of operations of the Company.

## 21. Employee Benefit Scheme

The Company has a salary deferral profit sharing plan (the Scheme) under Section 401(k) of the Internal Revenue Code covering substantially all full-time employees. The Scheme calls for a matching contribution of up to 6% of employee compensation and an additional discretionary contribution as approved by the Board of Directors. The Company incurred expenses of $814,977 and $696,442 related to the Scheme in 2017 and 2016, respectively.

## 22. Income Taxes

| *Years ended December 31,* | **2017** | 2016 |
|---|---|---|
| **Current Tax Expense (Benefit)** | | |
| Current tax on profits for the year | **$ 90,495** | $ 340,171 |
| Adjustment for under provision in prior year | **(76,142)** | (104,380) |
| **Total Current Tax** | **14,353** | 235,791 |
| **Deferred Tax Expense (Benefit)** | | |
| Recognition of previoudly unrecognized tas assets | **(159,999)** | |
| **Total Tax Expense (Benefit)** | **$ (145,646)** | $ 235,791 |

The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate to the loss before income taxes as follows:

| *Years ended December 31,* | **2017** | 2016 |
|---|---|---|
| (Loss) Income before income taxes | **$ (2,796,270)** | $ 4,805,525 |
| Statutory United States corporate income tax rate | **35%** | 35% |
| Anticipated tax (recovery) payment | **(978,695)** | 1,681,934 |
| Provision to tax return differences | **283,535** | 335,461 |
| U.S. federal tax rate change | **3,128,374** | - |
| Other permanent differences | **490,842** | 1,634,276 |
| Change in deferred tax benefits deemed not probable to be recovered | **(3,069,702)** | (3,415,880) |
| Net total income tax (benefit) expense | **$ (145,646)** | $ 235,791 |

Deferred tax assets are recognized, to the extent that it is probable that taxable income will be available, against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized. The components of the Company's unrecognized deferred tax asset are as follows:

| *Years ended December 31,* | **2017** | 2016 |
|---|---|---|
| Accruals and reserves | **$ 2,772,331** | $ 3,262,507 |
| Net operating losses carried forward | **8,767,996** | 15,392,237 |
| Other credits | **-** | 189,904 |
| Deferred tax liabilities | **(6,955,942)** | (11,190,561) |
| Unrecognized deferred tax assets | **$ 4,584,385** | $ 7,654,087 |

The Tax Cut & Jobs Act ("The Act") was enacted into law on December 22, 2017. The Tax Act introduced significant changes to corporate income taxation including the reduction of the Company's corporate tax rate from 34% to 21% and the allowance for immediate capital expensing of certain qualified property. Additionally, the historical Alternative Minimum Tax regime was modified which allowed for previously paid AMT to become refundable over a period of four years. The Company recognized the tax effects of the reduction in the corporate tax rate, and the related changes to the AMT system, during the year ended December 31, 2017. The tax rate change caused the reduction in the amount of total deferred tax assets. Subsequently, the offsetting amount of unrecognizable deferred tax assets also reduced as a result of the tax rate changes. This specific change had a net tax expense of $58,672 impact to the Company's income statement as the tax expense and benefit amounts offset.

The Company recorded a net tax benefit impact as a result of the prior AMT credits becoming refundable. The AMT credit, previously an amount only available to offset regular income tax expense, is now a refundable credit under the new tax law. The Company has now recorded $159,999 as a recognizable deferred tax asset which increased the deferred tax benefit by $159,999 during the current period. The Company also estimated current period income tax expense of $14,353 as a result of the alternative minimum tax during 2017 which generated the Company's total tax benefit of $145,646 for the year-ending December 31, 2017.

As of December 31, 2017, the Company's unrecognized net operating loss carryforwards expire as follows:

| Year ending December 31, 2017 | NOL Amount |
|---|---|
| 2026 | $ 280,827 |
| 2027 | 4,119,134 |
| 2028 | 13,436,800 |
| 2029 | 4,342,180 |
| 2030 | 4,141,157 |
| 2031 | 9,224,756 |
| 2034 | 1,633,915 |
| 2035 | 2,383,817 |
| | $ 39,562,586 |

Net operating loss carryforwards and tax credits are subjected to review, and potential adjustment, by tax authorities. The alternative minimum tax credits carry forward will now be a refundable credit for which the Company will receive the full benefit beginning in tax years 2018 and forward, with the full benefit received by 2022. The Company's other deferred tax assets have no expiry period.

The Company may have experienced significant changes in ownership during the current and prior years. If the Company has experienced a 50% or greater change in ownership, the Company's NOL carryforwards might be subject to testing and possible limitations under IRC Section 382 of the Internal Revenue Code. As the Company has no recognized deferred tax assets associated with NOL carryforwards, there would be no impact to the Company's net deferred tax position upon completion of the required analysis to determine any current or prospective utilization of these losses.

## 23. Notes Supporting Statement of Cash Flows

Cash and cash equivalents for purposes of the statement of cash flows is comprised of the following:

| | **2017** | 2016 |
|---|---|---|
| Cash at bank | **$ 832,186** | $ 782,628 |
| Cash on hand | **-** | 125,000 |
| Cash and cash equivalents | **$ 832,186** | $ 907,628 |

There is $231,506 of restricted cash that is not available for use by the Company.

There were no non-cash transactions from investing activities.

Non-cash transactions from financing activities are shown below:

| | 2017 | 2016 |
|---|---|---|
| Loans payable, line of credit, financial lease obligation and beginning balance | **$17,886,109** | $32,702,315 |
| Cash flows | **4,999,890** | (16,062,464) |
| Effects of foreign exchange | **(1,013,263)** | 861,194 |
| Accrued interest | **1,280,985** | 385,064 |
| Loans payable, line of credit, and financial lease obligation ending balance | **$23,153,721** | $17,886,109 |

## 24. Non-Controlling Interest

DC09 is a 49% owned subsidiary of the Company that has non-controlling interest (NCI). Summarized financial information in relation to DC09, before intra-group eliminations, is presented below together with amounts attributable to NCI.

| *Year ended December 31,2017* | 2017 | 2016 |
|---|---|---|
| **Revenues** | **$ 6,975,927** | $ 7,247,504 |
| **Cost of Sales** | **6,446,297** | 7,020,366 |
| **Gross Profit** | **529,630** | 227,138 |
| **Administrative Expenses** | **(253,857)** | (165,192) |
| **Operating Income** | **275,773** | 61,946 |
| **Other Expense** | | |
| Finance expenses, net | **(427,748)** | (397,737) |
| **Total Other Expenses** | **(427,748)** | (397,737) |
| **Loss from Continuing Operations** | **(151,975)** | (335,791) |
| **Income Taxes** | **-** | 979 |
| **Net Loss** | **(151,975)** | (334,812) |
| **Net Loss Attributable to NCI** | **$ (77,507)** | $ (170,754) |

| *December 31,2017* | | **2017** | | 2016 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-Current Assets** | | | | |
| Tangible fixed assets, net | **$** | **1,060,101** | $ | 2,161,546 |
| Intangible assets, net | | **560,343** | | 883,529 |
| Other long-term assets | | **481,564** | | 481,712 |
| **Total Non-Current Assets** | | **2,102,008** | | 3,526,787 |
| **Current Assets** | | | | |
| Inventory | | **393,156** | | 339,324 |
| Accounts receivable | | **1,710,126** | | 2,199,487 |
| Cash | | **600,680** | | 762,422 |
| **Total Current Assets** | | **2,703,963** | | 3,301,233 |
| **Total Assets** | **$** | **4,805,971** | $ | 6,828,020 |
| **Equity and Liabilities** | | | | |
| **Equity** | | | | |
| Share Capital | **$** | **1,000** | $ | 1,000 |
| Accumulated deficit | | **(6,764,841)** | | (6,612,864) |
| **Total Equity** | | **(6,763,841)** | | (6,611,864) |
| **Non-Current Liabilities** | | | | |
| Loans payable, less current installments | | **10,990,723** | | 12,612,548 |
| **Total Non-Current Liabilities** | | **10,990,723** | | 12,612,548 |
| **Current Liabilities** | | | | |
| Accounts payable and other payables | | **579,089** | | 827,336 |
| Short-term borrowings and current portion of loans payable | | **-** | | - |
| **Total Current Liabilities** | | **579,089** | | 827,336 |
| **Total Equity and Liabilities** | **$** | **4,805,971** | $ | 6,828,020 |
| **Accumulated Non-Controlling Interests** | **$** | **(3,449,559)** | $ | (3,372,050) |