Consolidated Financial Statements and Report of Independent Certified Public Accountants

Intralot, Inc. and Subsidiaries

December 31, 2023 and 2022

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Intralot, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Years ended December 31,

	Note	2023	2022
Revenue	14	$ 204,406,545	$ 197,101,579
Cost of sales	17	126,040,175	119,658,498
Gross profit		78,366,370	77,443,081
Selling and distribution expenses	15	(4,115,869)	(1,545,441)
Administrative expenses	15	(41,798,900)	(40,762,523)
Operating income		32,451,601	35,135,117
Other expense			
Finance expenses, net	16	(20,247,108)	(17,658,093)
Foreign currency loss		(320,110)	(396,477)
Total other expenses		(20,567,218)	(18,054,570)
	15		(18,054,570)

Total other expenses

Intralot, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended December 31,

Share Capital	Foreign	Non-

Intralot, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

	Note	2023	2022
Cash flows from operating activities			
Total profit after tax for the year		$ 9,121,576	$ 11,143,714
Adjustments to reconcile profit after tax to net cash flows:			
Bad debt expense recovery	9	(122,039)	(201,569)
Depreciation and amortization	5,6,13	40,613,721	38,031,770
Interest expenses, net	16	20,247,108	17,658,093
Income tax expense	22	2,762,807	5,936,833
(Gain) loss on disposal of tangible fixed assets	5	-	(347)
Changes in operating assets and liabilities:			
Inventory	8	(2,653,120)	(4,487,359)
Accounts receivable	9	5,366,080	971,058
Prepaid expenses and other current assets	10	(1,667,007)	(136,083)
Other long-term assets	7	386,362	(589,248)
Accounts payable and other payables	11	5,284,080	1,324,097
Income tax paid		(1,166,523)	(4,255,335)
Net cash provided by operating activities		78,173,045	65,395,624
Cash flows from investing activities			
Purchases of tangible fixed assets	5	(6,166,454)	(12,029,108)
Purchases of intangible assets	6	(10,272,667)	(8,379,304)
Proceeds from disposal of fixed assets		-	12,000
Interest received		648,003	64,956
Net cash used in investing activities		(15,791,118)	(20,331,456)
Cash flows from financing activities			
Interest expenses paid		(19,375,307)	(24,290,143)
Payments of borrowing costs		-	(4,301,746)
Proceeds from issuance of debt		-	235,091,261
Distributions to parent		(10,000,000)	(10,000,000)
Payment of lease liabilities		(4,400,752)	(3,326,719)
Principal payments on loans payable		(17,441,434)	(265,810,348)
Net cash used in financing activities		(51,217,493)	(72,637,695)
NET INCREASE (DECREASE) IN CASH		11,164,434	(27,573,527)
Cash, beginning of year		26,973,655	54,547,182
Cash, end of year		$ 38,138,089	$ 26,973,655
Supplemental disclosures of non-cash investing and financing activity			
Deferred tax on the distribution to parent		$ -	-
Non-cash additions to operating lease ROU assets		$ 5,774,485	6,856,124

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 - NEW STANDARDS AND INTERPRETATIONS

New Standards, Interpretations and Amendments

Certain new accounting standards and interpretations have been published during the year ended December 31, 2023 that were mandatory for accounting periods beginning on January 1, 2023. The Company's assessment of the impact of these new and amended standards and interpretations is set out

Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except where otherwise stated.

Reclassifications

During the year ended December 31, 2023 a reclassification was made to present foreign currency loss separately from administrative expenses and present it as a separate line on the consolidated statements of profit or loss and other comprehensive income.

Cash and Cash Equivalents

Cash and cash equivalents comprise of cash at the bank and investments with high liquidity with original maturities less than 90 days, including a money market account which is not restricted from the standpoint of withdrawal or use.

For cash flow statement purposes, cash and cash equivalents include what is defined above, without the netting of outstanding bank overdrafts.

Financial Assets

The Company classifies its financial assets as financial assets at amortized cost, and there are no financial assets measured at fair value through profit and loss.

The Company's financial assets are comprised of accounts receivable and cash in the consolidated statements of financial position. These assets are typically 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 receivable). They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue.

The Company recognizes an allowance for expected credit losses ("ECL") in accordance with IFRS 9, which is based on lifetime expected credit losses. For accounts receivable, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized within administrative expenses in the accompanying consolidated statements of profit or loss and other comprehensive income. On confirmation that the accounts receivable will not be collectible, the gross carrying value of the asset is written off against the associated provision.

A key factor in recognizing expected credit losses over the life of a financial asset or over the next twelve months, is the credit risk significant deterioration after initial recognition or not, compared to the corresponding credit risk at the initial recognition of the financial asset. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment, including forward-looking information. IFRS 9 makes a presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. However, this presumption can be rebut if there are reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days due.

Overall, as a result of the Company's customer-base, historical experience, and other reasonable and supportable information, the risk related to credit losses is immaterial to the Company's consolidated financial statements.

Financial Liabilities

The Company classifies its financial liabilities as financial liabilities at amortized cost, and there are no financial liabilities measured at fair value through profit or loss.

Financial liabilities include accounts payable and other payables, lines of credit, 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, as well as any cost that can be directly attributed to bringing the item to the location and condition that is necessary for the item to operate in the manner intended by management. Expenditures for improvements and enhancements are capitalized while expenditures for maintenance and repairs are charged to expense when incurred.

Depreciation is provided on a straight-line basis over the estimated useful lives of tangible fixed assets as follows:

Tangible Fixed Assets:

Machinery	3 to 10 years
Buildings and fixtures	15 to 40 years
Furniture and fixtures	3 to 7 years

Research and development expenses of $7,287,006 and $5,433,398 were incurred during the years ended December 31, 2023 and 2022, respectively, and are included within cost of sales and administrative expenses in the accompanying consolidated statements of profit or loss and other comprehensive income.

The carrying value of capitalized 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 intellectual property that is acquired individually or with groups of other assets and measured based on its fair value. Purchased software that is acquired individually and capitalized at cost, as well as internally developed software and related costs.

Subsequent to initial recognition, intangible assets are valued at cost less accumulated amortization and any impairment. Amortization of intangible assets is provided on a straight-line basis over the shorter of the estimated useful life of the asset or the term of the associated contract, which is typically 3 to 10 years. Residual values and useful lives are reviewed annually and adjusted prospectively.

Impairment of Non-Financial Assets

Non-financial assets (i.e., tangible fixed assets, intangible assets, and capitalized leased assets) are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable (i.e., the higher of value in use and fair value less costs to sell).

If the recoverable amount of an asset (or cash-generating unit, which is the lowest level for which separate identifiable cash inflows exist) 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.

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. As of December 31, 2023 or 2022, no long-lived assets were impaired.

Inventory

Inventory is initially recognized at cost, and subsequently valued at the lower of cost or net realizable value. Costs of inventory include the purchase amount and other costs incurred in bringing each product to its present location and condition and is determined 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. In each reporting period, management examines the condition and age of inventory for slow-moving inventory or obsolescence, and provisions are made to reduce such items to estimated net realizable value, which are recognized in the accompanying consolidated statements of profit or loss and other comprehensive income.

Revenue Recognition

The Company accounts for a contract when both parties to the contract have approved the contract, the rights of the parties and payment terms are identified, the contract has commercial substance, and collectability of consideration is probable. Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied, in an amount representing the consideration to which the Company expects to receive.

Management services - The primary performance obligation for each of the Company's lottery contracts within this category is the provision and management of the lottery terminals and all related services, and is satisfied as the services are performed over the term of the contract. The Company accounts for this as a single performance obligation, as the individual services are not separately identifiable in the context of the contract and are a combined output; therefore all contractual revenue is allocated to this single performance obligation. The Company applies the series guidance under IFRS 15 and utilizes the output method and the right-to-invoice practical expedient, in which the amount recognized corresponds directly with its performance to date. The transaction price for the lottery services is a percentage of the amount of total sales of lottery tickets pursuant to the terms of the contract. While the amounts are variable in nature as the amount of retail sales volumes in a period are not pre-defined, there is no estimation or uncertainty included in the amount recognized.

Technology and support services - Certain contracts also contain provisions for customers to use lottery equipment for the duration of the contract. This revenue is generally recognized on a straight-line basis over the contract term at a fixed transaction price explicitly stated in the contract. Additionally, stand-alone equipment sales of hardware and software within this category are recognized at the point in time of delivery when the customer obtains control of the asset. Associated implementation services and support are recognized over a period of time as the performance obligation is satisfied. Revenue is recorded net of any variable consideration in the period incurred.

Fair Value Measurement

If required, 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; and

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.

Leases

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease recognized as expense on a straight-line basis over the lease term and are included within the cost of sales and administrative expenses line in the consolidated statements of profit or loss and other comprehensive income.

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 translated at the rates prevailing at the end of the reporting period. For the years ended December 31, 2023 and 2022, the Company recognized foreign exchange losses of $320,110 and $396,477, respectively, that are included in finance expenses, net in the consolidated statements of profit or loss and other comprehensive income.

Income Taxes

Deferred income tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized for future tax benefits and credit carryforwards to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on the tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are offset if the Company has a legally enforceable right to offset such amounts in the same taxable entity and with the same taxing authority.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are incurred in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. There were no borrowing costs capitalized as part of the cost of the asset during the years presented.

Major Customer

During 2023 and 2022, the Company had three customers that accounted for 59.6% and 56.6% of total revenue, respectively. As of December 31, 2023 and 2022, two customers accounted for 46.2% and 53.4% of trade accounts receivable, respectively.

Advertising Cost

Advertising costs are expensed as incurred. Advertising costs totaled $2,425,225 and $1,247,977 for the years ended December 31, 2023 and 2022, respectively, and are included in administrative expenses in the consolidated statements of profit or loss and other comprehensive income.

Non-Controlling Interest

Liquidity

The Company is exposed to risks that arise from its use of financial instruments. The following information 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 consolidated 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.

Principal Financial Instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are cash, accounts receivable, accounts and other payables, borrowings under lines of credit and loans payable, and lease liabilities.

Financial Instruments by Category:

		Financial Assets at Amortized Cost	
Financial Assets		2023	2022
Accounts receivables		$ 28,437,061	$ 33,681,102
Cash		38,138,089	26,973,655
	Total financial assets	$ 66,575,150	$ 60,654,757

		Financial Liabilities at Amortized Cost	
Financial Liabilities		2023	2022
Accounts payables and other payables		$ 18,643,469	$ 14,374,324
Loans payable		216,803,566	232,694,921
Lease liabilities		14,832,748	13,459,015
	Total financial liabilities	$ 250,279,783	$ 260,528,260

Due to their short-term nature, the carrying values of cash, accounts receivables and accounts payable and other payables approximate their fair value. For lease liabilities, the value is calculated as the present value of the sum of all future lease payments to be made over the lease term, which approximates the 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 the Company's policy to assess the credit risk of new customers before entering into 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. The Company has cash at various US banks of $38,138,089 and $26,973,655 at December 31, 2023 and 2022, 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 of future cash flows related to financial instruments will fluctuate due to 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 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
2023	1%	2,169,000
2022	1%	2,324,000

Interest rates on certain of the Company's borrowings are based on a floating rate, which resets on a periodic basis. The Company is in the process of evaluating the effects of interest rate benchmark reform on its consolidated financial statements but does not believe such reform will have a material impact or significantly change the Company's risk management strategy.

Liquidity Risk

Accumulated Depreciation

	Machinery	Buildings and Fixtures	Furniture and Fixtures	Transportation Equipment	Total

respectively, included in administrative expenses in the accompanying consolidated statements of profit or loss and other comprehensive income (Note 15).

The aging analysis of these receivables at December 31, 2023 and 2022 is as follows:

	2023	2022
Up to 3 months	$ 22,390,699	$ 27,060,265
3 to 6 months	39,456	853,086
6 to 12 months	159,399	586,988
Over 12 months	5,847,507	5,180,763
	$ 28,437,061	$ 33,681,102

NOTE 10 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid and other current assets at December 31, 2023 and 2022 comprise of the following:

	2023	2022

Short-term portion of maintel h W999981 11.9989996 l 0 11.998

$5,985,621, debt amortization expense of $1,412,820 and $602,878, and facility fees of $138,407 and $58,474, during the years ending December 31, 2023 and 2022, respectively which are included in finance expenses, net in the accompanying consolidated statements of profit or loss and other comprehensive income.

The interest rate at December 31, 2023 on the Term Loan was 8.445%, representing the sum of a base rate of 5.345% and a margin spread adjustment of 3.1%. The interest rate at December 31, 2022 on the Term Loan was 7.317%, representing the sum of of a base rate of 4.217% and a margin spread adjustment of 3.10%.

As part of the KeyBank Loan, the Company incurred $4,301,746 of debt issuance and transaction costs that were capitalized on the balance sheet and reflected as a reduction to debt. The issuance costs are amortized over the life of the loan using the effective interest method. and are included in finance expenses, net in the accompanying consolidated statements of profit or loss and other comprehensive income. As of December 31, 2023 and 2022 unamortized issuance costs were $2,286,049 and $3,698,869, respectively.

Related to the KeyBank Loan, for the year ended December 31, 2022, the Company incurred $1,258,288 in restructuring expenses, included in administrative expenses on the consolidated statements of profit or loss. These expenses were not directly attributable to issue the Term Loan or Revolver; therefore, these costs were expensed as incurred.

As part of the KeyBank Loan terms, the Company has pledged as collateral all of its existing and future personal property, investment property, instruments, contract rights, goods, chattel paper, documents,

Fiscal year ended December 31,		
2024	$	4,119,182
2025		3,313,939
2026		4,651,462
2027		1,200,704
2028 and thereafter		2,696,537

NOTE 14 - REVENUES

Contract Balances

Contract assets (unbil REVENUES

		2023		2022
Personnel expenses	$	16,897,785	$	17,342,739
Debt restructuring expense		-		1,258,288
Depreciation and amortization expenses		5,902,917		6,053,134
Systems expenses		1,360,295		1,247,853
Insurance expenses		1,381,096		302,159
Travel & entertainment		1,241,881		937,138
Audit & other third-party fees		5,848,625		5,897,436
Other expenses		9,288,340		7,925,042
Bad debt expense recovery		(122,039)		(201,266)
Total administrative expenses	$	41,798,900	$	40,762,523
Selling and distribution expenses	$	4,115,869	$	1,545,441
Total operating expenses	$	45,914,769	$	42,307,964

NOTE 16 - FINANCE EXPENSES, NET

Finance expenses, net consisted of the following:

	2023	2022
Finance expenses on KeyBank Loan		

NOTE 20 - COMMITMENTS AND CONTINGENCIES

Commitments

During December 2007, the Company entered into a contract with an independent third party to purchase various equipment, services and training. 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	2023

	2023	2022
Current tax expense (benefit)		
Current tax on profits for the year	$ 211,281	$ 2,080,129
Deferred tax expense		
Deferred tax expense	$ 2,551,526	$ 3,856,704
Total tax expense	$ 2,762,807	$ 5,936,833

	2023	2022
Income before income taxes	$ 11,884,383	$ 17,080,547
Statutory United States corporate income tax rate	21%	21%
Anticipated tax payment	2,495,720	3,586,915
State tax liability	432,193	2,379,627
Provision to tax return differences	(260,383)	(401,110)
Permanent differences	1,179,188	1,681,309
Prior period deferred tax true-up	524,925	(1,215,538)
Tax refund receivable	(1,334,274)	-
Research and development credit generated	(300,000)	(365,000)
Foreign income tax expense	120,860	82,474
Other, net	(95,422)	188,156
Net total income tax expense	$ 2,762,807	$ 5,936,833

The components of the Company's deferred tax assets related to deductible temporary differences, unused tax losses and unused tax credits are as follows:

		2022
Accruals and reserves	$ 6,453,462	$ 6,942,397
Net operating losses carried forward	6,449,784	12,978,762
Deferred tax liabilities	(23,027,549)	(25,822,709)
R&D and other tax credits	4,442,165	2,767,805

In 2022, the Company recognized additional deferred tax liabilities as a result of an increase to the tax basis related to certain software. Prior to 2022, no deferred taxes had been recognized with respect to book and tax basis differences for this software in accordance with applicable accounting standards. The increase to the tax basis resulted in the recognition of deferred taxes on the basis difference, which is a net deferred tax liability due to the shorter depreciation period for tax purposes. The effect of this change impacted the deferred tax liability line item on the consolidated statements of financial position and income tax expense on the consolidated statements of profit or loss and other comprehensive income. As of December 31, 2022, the Company had a deferred tax liability of $3,133,745 included in the accompanying consolidated statements of financial position within accounts payable and other payables.

As of December 31, 2023, the Company had a deferred tax liability of $5,682,138 included in the accompanying consolidated statements of financial position within accounts payable and other payables.

NOTE 23 - NON-CONTROLLING INTEREST

DC09 is a 49% owned subsidiary of the Company that has non-controlling interest (“NCI”). There are no significant statutory, contractual, or regulatory restrictions held by the NCI holders that limit the ability of the Company to access or use assets or settle liabilities. During May 2020, the Company entered into a Collateral Agreement with the minority owner of DC09. This agreement transferred $3,600,000 of the loan between Intralot, Inc. and DC09 to the minority owner. The assumption of the loan payable was treated as a contribution of capital by the minority owner and is reflected in the accumulated deficit within summarized