

**NEOGAMES S.A. (until November 10, 2020: S.à r.l.)**

**Financial Statements and Report of the réviseur d'entreprises agréé**

**AS OF DECEMBER 31, 2019**

63-65, rue de Merl  
L-2146 Luxembourg  
RCS: B186309

**Financial Statements and Report of the réviseur d'entreprises agréé**

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**NEOGAMES S.A.**

*Société anonyme*

**Registered office: 63-65, rue de Merl,**

**L-2146 Luxembourg**

**R.C.S. Luxembourg: B 186.309**

**Report of the Board of Directors  
for the financial year ended 31 December 2019**

The Board of Directors of the Company, NEOGAMES S.A. (the “Company”) takes pleasure in presenting their annual report together with the financial statements of the Company for the year ended 31 December 2019.

**1. Situation and activities of the Company during the financial year**

We are a technology-driven business that is an innovator in the lottery industry. As a global B2G and B2B technology and service provider to state lotteries and other lottery operators, we offer our customers a full-service solution that includes all of the elements required for the offering of lottery games, including Instant and DBGs (both as defined below), via personal computers, smartphones and handheld devices (“iLottery”). These elements include technology platforms, a range of value-added services and a game studio with a large portfolio of games. The value-added services that we offer facilitate various aspects of the iLottery offering including regulation and compliance, payment processing, risk management, player relationship management and player value optimization. Our complete solution allows our customers to enjoy the benefits of marketing their brands and generating traffic to their iLottery sales channels. We believe that we are the only full-service company exclusively focused on the iLottery industry.

NeoGames was established as an independent company in 2014, following a spin-off from Aspire Global Plc (formerly known as NeoPoint Technologies Limited) (“Aspire” and, together with its subsidiaries, the “Aspire Group”), a B2C and B2B service provider in the iGaming industry. In 2014, we began to focus on the U.S. iLottery market, which opened in 2012 with the introduction of online lottery ticket sales in Illinois. In order to access this significant market opportunity, we partnered with Pollard Banknote Limited (“Pollard”), one of the leading vendors to the global lottery industry. In 2014, we signed our first turnkey solution contract in the United States with the MSL, as a sub-contractor to Pollard.

In July 2014 we formed NPI, a joint venture with Pollard, for the purpose of identifying, pursuing, winning and executing iLottery contracts in the North American lottery market. NPI combines the Company’s technology and iLottery business and operational experience with Pollard’s infrastructure, administrative capabilities and relationships with lotteries in North America. NPI is managed by an executive board of four members, consisting of two members appointed by NeoGames and two members appointed by Pollard. NPI has its own general manager and dedicated workforce and operates as a separate entity. However, it relies on NeoGames and Pollard for certain services, such as technology development, business operations and support services from NeoGames and corporate services, including legal, banking and certain human resources services, from Pollard.

Our primary full-service contract in Europe, with Sazka a.s. (“Sazka”) in the Czech Republic, was entered into in 2015 and the term was extended to 2025.

**2. Principal risks and uncertainties**

***Market and Currency Risk***

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.



We have exposure to foreign currency risk. Sales invoicing to customers is denominated primarily in U.S. dollars and euros and the Company's most material expenses, such as labor, are denominated in New Israeli Shekels.

Our board of directors carefully monitors exchange rate fluctuations and reviews their impact on our net assets and position. Exchange rates are negotiated with our main provider of banking services as and when needed. We do not enter into any derivative financial instruments to manage our exposure to foreign currency risk.

Since December 31, 2019, we have seen significant macro-economic uncertainty as a result of the COVID-19 outbreak. The scale and duration of this development remains uncertain and could impact our earnings and cash flow. As part of our risk management process, we are closely monitoring the situation, including factors as outlined elsewhere in this Annual Report as it relates to the Company's ability to continue as a going concern.

### ***Interest Rate Risk***

Due to our minimal exposure to interest rate risk, we have not prepared any sensitivity analysis.

### ***Contractual Risk***

In the ordinary course of business, we contract with various parties. These contracts may include performance obligations, indemnities and contractual commitments and termination for convenience clauses. Also, in certain contracts we are committed to follow strict service-level agreement delivery commitments associated with heavy liquidated damages for events of failures. Our management monitors our performance under contracts with any relevant counterparties against such contractual conditions to mitigate the risk of material, adverse non-compliance.

### ***Credit Risk***

Credit risk is the financial loss if a customer or counterparty to financial instruments fails to meet its contractual obligation. Credit risk arises from our cash and cash equivalents and trade and other balances. The concentration of our credit risk is considered by counterparty, geography and currency. We give careful consideration to which organizations we use for our banking services in order to minimize credit risk.

An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows, although there have been no such impairments over the review year. We use forward looking information in their analysis of expected credit losses for all instruments, which is limited to the carry value of cash and cash equivalents and trade and other balances. Our management considers the above measures to be sufficient to control the credit risk exposure.

### ***Liquidity Risk***

Liquidity risk is the risk that we will not be able to meet our financial obligations when due. This risk relates to our prudent liquidity risk management and implies maintaining sufficient cash. Ultimate responsibility for liquidity risk management rests with our board of directors. Our board of directors manages liquidity risk by regularly reviewing our cash requirements by reference to short-term cash flow forecasts and medium-term working capital projections prepared by management.

## **3. Important events arising after the end of the financial year**

On November 23, 2020, we completed the IPO of our Ordinary Shares. We sold 2,987,625 Ordinary Shares and six of our shareholders sold 2,541,025 Ordinary Shares (including 721,128 Ordinary Shares sold pursuant to the exercise of the underwriters' option to purchase additional Ordinary Shares). The Ordinary Shares were sold at an initial public offering price of \$17.00 per share. The Ordinary Shares offered and sold in the IPO were registered under the Securities Act pursuant to our Registration Statement on Form F-1 (File No. 333-249683), which was declared effective by the SEC on November 18, 2020. The IPO generated proceeds to us of approximately \$47.2 million, net of underwriting discounts and commissions of approximately \$3.6 million.

On January 17, 2022, we announced the Aspire Tender Offer, which is currently pending.



In order to fund the Proposed Acquisition of Aspire, we have entered into the Interim Facilities with Blackstone Credit, and we are seeking to negotiate and execute a long-form financing agreement prior to the Closing Date to replace the Interim Facilities. Under these financing agreements we are required to meet certain financial covenants and obligations starting September 2022.

**4. Foreseeable development of the Company in the future**

Please refer to our investor presentation on our website.

**5. Activities of the Company in the field of research and development**

Our research and development expenses are primarily comprised of costs of our research and development personnel, contractor services in Ukraine and other development-related expenses. Research and development costs are expensed when incurred, except to the extent that such costs qualify for capitalization. We believe continued investments in research and development are important to maintain our competitive strengths and expect research and development costs to increase in absolute dollars, but to decrease as a percentage of total revenues.

**6. Branches**

The Company has a branch in Malta, Neogames S.A.R.L. (Malta branch) which was registered in Malta on March 30, 2015.

**7. Acquisition of own shares**

The Company did not acquire own shares during the year.

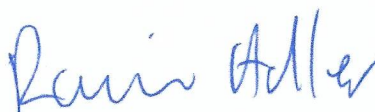
**8. The Board of Directors recommends the Shareholders to:**

- i. Approve the annual accounts as at 31 December 2019;
- ii. Grant discharge to the Directors and the delegate of the daily management in respect of their duties and functions for the year;
- iii. Renew the Directors' mandate.

Luxembourg, 13 April 2022



CEO, Moti Malul



CFO, Raviv Adler



The Shareholders of  
**NEOGAMES S.A.**  
63-65, Rue de Merl  
L-2146 Luxembourg

## REPORT OF THE RÉVISEUR D'ENTREPRISES AGRÉÉ

### Opinion

We have audited the financial statements of NEOGAMES S.A. (hereafter "the Company"), which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

### Basis for opinion

We conducted our audit in accordance with the law of July 23, 2016 on the audit profession ("the Law of July 23, 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier* ("CSSF"). Our responsibilities under the Law of July 23, 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the *réviseur d'entreprises agréé* for the audit of the Financial Statements" section of our report. We are also independent of the Company in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board of Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the management report but does not include the financial statements and our report of the "*réviseur d'entreprises agréé*" thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.





In connection, with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

### **Responsibilities of the Board of Directors and Those Charged with Governance for the Financial Statements**

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors 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 the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### **Responsibilities of the "réviseur d'entreprises agréé" for the audit of the Financial Statements**

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF 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 financial statements.

As part of an audit in accordance with the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform 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, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.





- Conclude on the appropriateness of Board of Directors' 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 report of the "*réviseur d'entreprises agréé*" to the related disclosures in the 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 report of the "*réviseur d'entreprises agréé*". However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 in internal control that we identify during our audit.

#### **Report on other legal and regulatory requirements**

The management report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

Hesperange, April 13, 2022

**ATWELL**  
Cabinet de révision agréé



Marie Noelle Finez

### STATEMENT OF FINANCIAL POSITION

		December 31,		
		2019	2018	2017
			(unaudited)	(unaudited)
<u>Note</u>		<u>U.S. dollars (in thousands)</u>		
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
	4	778	1,213	1,306
		288	141	148
		300	106	122
	8	181	39	10
		6,980	-	-
	5	1,736	1,476	1,239
		10,263	2,975	2,825
<b>NON-CURRENT ASSETS</b>				
		70	52	85
	6	14,413	10,731	10,126
	7	202	202	-
		14,685	10,985	10,211
<b>TOTAL ASSETS</b>				
		24,948	13,960	13,036

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

**STATEMENT OF FINANCIAL POSITION**

		December 31,		
		2019	2018	2017
			(unaudited)	(unaudited)
		U.S. dollars (in thousands)		
LIABILITIES AND EQUITY (DEFICIT)				
CURRENT LIABILITIES				
		560	521	545
Trade and other payables		6,207	1,548	1,140
Payables due to subsidiaries		6,767	2,069	1,685
NON-CURRENT LIABILITIES				
Capital notes, loans and accrued interest due to Aspire Group	8	14,987	12,724	10,802
Loans and other from William Hill, net	8	14,245	6,164	-
		29,232	18,888	10,802
EQUITY (DEFICIT)				
Share capital	10	21	21	21
Reserve with respect to transaction under common control		(8,467)	(8,467)	(8,467)
Reserve with respect to funding transaction with related parties		16,940	16,940	16,940
Legal Reserve	10	-	-	-
Share premium		22,788	22,788	22,788
Share based payments reserve	9	2,967	2,352	2,352
Accumulated losses		(45,300)	(40,631)	(33,085)
		(11,051)	(6,997)	549
TOTAL LIABILITIES AND EQUITY (DEFICIT)		24,948	13,960	13,036

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



**STATEMENT OF COMPREHENSIVE LOSS**

	<u>Note</u>	<b>For the years ended December 31,</b>	
		<b>2019</b>	<b>2018</b>
		<b>(unaudited)</b>	
		<b>U.S. dollars (in thousands)</b>	
Revenues	11	23,866	16,046
Development expenses		14,826	11,595
Selling and marketing expenses		315	533
General and administrative expenses	12	1,536	1,441
Depreciation and amortization		7,828	7,466
		24,505	21,035
<b>Loss from operations</b>		(639)	(4,989)
Interest expenses with respect to funding from related parties		3,792	2,309
Finance expenses, net	15	131	157
<b>Loss before income taxes expenses</b>		(4,562)	(7,455)
Income taxes expenses		107	91
<b>Comprehensive and net loss</b>		<u>(4,669)</u>	<u>(7,546)</u>

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

## STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

	Share capital*	Share premium	Accumulated gains (losses)	Share based payments reserve U.S. dollars (in thousands)	Reserve with respect to transactions with related parties	Reserve with respect to transaction under common control	Total equity (deficit)
Balance as of January 1, 2017 (unaudited)	21	22,788	(25,759)	2,352	16,940	(8,467)	7,875
Changes in the year:							
Total comprehensive loss for the year	-	-	(7,326)	-	-	-	(7,326)
Balance as of December 31, 2017 (unaudited)	21	22,788	(33,085)	2,352	16,940	(8,467)	549
Changes in the year:							
Total comprehensive loss for the year	-	-	(7,546)	-	-	-	(7,546)
Balance as of December 31, 2018 (unaudited)	21	22,788	(40,631)	2,352	16,940	(8,467)	(6,997)
Changes in the year:							
Equity settled Share based compensation	-	-	-	615	-	-	615
Total comprehensive loss for the year	-	-	(4,669)	-	-	-	(4,669)
Balance as of December 31, 2019	21	22,788	(45,300)	2,967	16,940	(8,467)	(11,051)

\* 181,003,584 shares, no par value, authorized, issued and fully paid

\*\* On November 10, 2020, the Company completed a 1: 8.234 (approximated) reverse split of its share capital by way of conversion of its then existing 181,003,584 shares into 21,983,757 shares, which were applied retrospectively.

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

## STATEMENTS OF CASH FLOWS

For the years ended  
December 31,

2019                      2018

(unaudited)

U.S. dollars (in thousands)

<b>Cash flows from operating activities:</b>		
Net loss for the period	(4,669)	(7,546)
Adjustments for:		
Amortization and depreciation	7,828	7,466
Income taxes expenses	107	91
Interest expenses with respect to funding from related parties	3,792	2,309
Interest paid	(279)	(223)
Other finance expenses, net	131	157
Payments with respect to IP Option	825	-
Share based compensation	615	-
Increase in trade receivables	(755)	(237)
Decrease (increase) in other receivables	(194)	16
Increase in Aspire Group	(142)	(29)
Decrease in trade and other payables	(199)	(272)
Increase (decrease) in Receivables from subsidiaries	(2,321)	380
	<u>9,408</u>	<u>9,658</u>
<b>Net cash generated from operating activities</b>	<u>4,739</u>	<u>2,112</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment, net	(74)	(5)
Capitalized development costs	(11,453)	(8,033)
Shares in affiliated undertakings	-	(174)
Net change in deposits	(147)	7
	<u>(11,674)</u>	<u>(8,205)</u>
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities:</b>		
Loans from William Hill	6,500	6,000
	<u>6,500</u>	<u>6,000</u>
<b>Net cash generated from financing activities</b>		
Net decrease in cash and cash equivalents	(435)	(93)
Cash and cash equivalents at the beginning of the year	<u>1,213</u>	<u>1,306</u>
	<u>778</u>	<u>1,213</u>
<b>Cash and cash equivalents at the end of the year</b>		

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



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1 – GENERAL

Neogames S.A. (the “Company”, together with its subsidiaries, a joint operation and a joint venture - the “Group”) was incorporated in Luxemburg on April 10, 2014 for an unlimited period of time. On November 10, 2020 the Company changed its corporate form from a private limited liability company to public limited liability company and changed its name from Neogames S.à.r.l. to NeoGames S.A. The Company’s registered office is L-2146 Luxembourg, 63-65, Rue de Merl and the Company is registered in the Trade Register under number B 186.309 in Luxembourg.

The accounting year of the Company begins on January 1 and ends on December 31 of each year.

The Company has a branch in Malta, Neogames S.A.R.L (Malta branch) which was registered in Malta on March 30, 2015, in order to undertake management and administrative services in Malta for its head office.

The corporate purpose of the Company is to develop activities in relation with iLottery and iGaming solutions and services as well as any related areas. This includes the (i) the acquisition, holding and disposal, in any form, by any means, whether directly or indirectly, of participations, rights and interests in, and obligations of, Luxembourg and foreign companies, (ii) the acquisition by purchase, subscription, or in any other manner, as well as the transfer by sale, exchange or in any other manner of stock, partnership interests, bonds, debentures, notes and other securities or financial instruments of any kind (including notes or parts or units issued by Luxembourg or foreign mutual funds or similar undertakings) and receivables, claims or loans or other credit facilities and agreements or contracts relating thereto, and (iii) the ownership, administration, development and management of a portfolio of assets (including, among other things, the assets referred to in (i) and (ii) above).

The Group is a leading global technology provider engaged in the development and operation of online lotteries and games, allowing lottery operators to distribute lottery products via online sales channels while using the Group’s technology.

The Company serves content and platform contracts across Europe and the United States of America through its wholly owned operating subsidiaries: NeoGames Systems Ltd. (“NGS”), incorporated in 2014, and NeoGames Ukraine, incorporated in 2018. In 2014, the Company incorporated NeoGames US LLP (“NeoGames US”) serving as the active arm for the North American market and in 2018 incorporated NeoGames S.R.O, in the Czech Republic to operate the Company’s Czech project.

The Company’s principal shareholders are William Hill Organization Limited (“William Hill”), Barak Matalon, Pinhas Zehavi, Elyahu Azur and Aharon Aran, that collectively own a majority of Aspire Global Plc (“Aspire”), a publicly traded company which conducts iGaming operations through its subsidiaries (together with Aspire, the “Aspire Group”).

William Hill funded the Group’s growth in a form of a credit facility. William Hill also had options to acquire the remaining share capital of the Company in consideration for performance-based amounts, of which one was expired in 2019 and the second was waived on September 9, 2020, as a result of the Board of Directors’ resolution that the Company will take the necessary steps to prepare for an initial public offering.

The Group, together with a publicly traded Canadian Company, Pollard Banknote Limited (“Pollard”), developed, established and operate a licensed iLottery platform on behalf of the State of Michigan in the United States (the “Michigan Joint Operation”), whereby the relating contract was extended in December 2020 through July 2026.

On July 31, 2014, Pollard and NeoGames US jointly established an equal ownership share, NeoPollard Interactive LLC (“NPI” or the “Joint Venture”) in order to participate in iLottery tenders in the North American market.

NPI has operated the Virginia State Lottery online e-Subscription program, since 2015, whereby the relating contract was extended in May 2020 and expanded to include a digital instant games portfolio, through October 2026, the iLottery platform on behalf of New Hampshire Lottery since September 2018 (initial terms of seven years) and the North Carolina Education Lottery iLottery platform since October 2019 (initial terms of five years with an option to extend for additional five years).

In April 2017, the Group developed, established and launched the Digital Entertainment Hub solution together with the leading lottery operator in the Czech Republic, SAZKA a.s., whereby the relating contract was extended on March 31, 2020 through the end of December 2025.



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1 – GENERAL (Cont.)

On March 19, 2020, NPI signed an agreement with Alberta Gaming, Liquor and Cannabis Commission (“AGLC”) to develop, deploy and maintain its digital solutions and power its proposed interactive offering. This contract has an initial term of seven years, with an option to extend for five years. The solution was launched on September 30, 2020.

The Company is carefully monitoring the outbreak and spread of the coronavirus (“COVID-19”) across the world and specifically in the United States. Proactive measures have been taken to reduce the risk to the Group’s staff and to ensure business continuity. The Group is an online organization where working remotely and meeting virtually are established ways of working. The Group’s operations, which are limited to iLottery, have not been negatively impacted and the Group does not expect its operations to be negatively impacted by the outbreak of COVID-19. However, depending on the duration of the pandemic, there could be a negative impact on the Group’s operations.

In preparing these financial statements, the Board of Directors has assessed the ability of the Company to continue to operate. Following this assessment, the Board of Directors believes it appropriate to prepare these financial statements on a going concern basis.

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of the financial statements, on a consistent basis, unless otherwise stated, are:

#### A. Accounting principles

For all periods up to and including the year ended December 31, 2018, the Company prepared its financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements of the Company as of December 31, 2019 have been prepared in accordance IFRS as adopted by EU.

The principal accounting policies adopted for dealing with items which are considered material or critical in determining the results for the year and in stating the financial position, are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### Changes in accounting policies

##### New accounting standards effective in the 2019 financial year

The following standards, changes to standards and interpretations must be applied from January 1, 2019: Amendments to References to the Conceptual Framework in IFRS Standards: The revised Conceptual Framework for Financial Reporting is used to develop new standards and interpretations. The definitions of assets and liabilities as well as the guidance on measurement and derecognition, presentation and disclosures were amended. This did not result in any technical amendments to current standards. The amendments merely updated the references to the conceptual framework in existing standards. The conceptual framework itself was not the subject of the endorsement procedure. The financial statements of the Company were not affected.

Amendments to IAS 1 and IAS 8 – Definition of Material: The amendments to IAS 1 and IAS 8 clarify the definition of “material”. Besides additional explanations, the definition of “material” in the conceptual framework as well as all standards was aligned with the central definition anchored in IAS 1. The financial statements of the Company were not materially affected.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### Changes in accounting policies

*New accounting standards effective in the 2020 financial year*

The following standards, changes to standards and interpretations must be applied from January 1, 2020:

**Amendments to References to the Conceptual Framework in IFRS Standards:** The revised Conceptual Framework for Financial Reporting is used to develop new standards and interpretations. The definitions of assets and liabilities as well as the guidance on measurement and derecognition, presentation and disclosures were amended. This did not result in any technical amendments to current standards. The amendments merely updated the references to the conceptual framework in existing standards. The conceptual framework itself was not the subject of the endorsement procedure. The financial statements of the Company were not affected.

**Amendments to IAS 1 and IAS 8 – Definition of Material:** The amendments to IAS 1 and IAS 8 clarify the definition of “material”. Besides additional explanations, the definition of “material” in the conceptual framework as well as all standards was aligned with the central definition anchored in IAS 1. The financial statements of the Company were not materially affected.

**Interest Rate Benchmark Reform – Phase 1:** Amendments to IFRS 9, IAS 39 and IFRS 7: Entities can continue to use hedge accounting and designate new hedging relationships despite the expected replacement of various interest rate benchmarks. The financial statements of the Company were not affected.

**Amendments to IFRS 3, Business Combinations – Definition of a Business:** The amendments relate to the definition of a business and include clearer guidance for distinguishing between a business and a group of assets when applying IFRS 3. According to the amendments, the definition of a business includes having both inputs and at least one substantive process that together are able to create outputs. Output is deemed to be only the sale of goods and provision of services as well as the generation of capital and other income. Alternatively, there is an option to apply a concentration test to assess whether an acquired set of activities and assets is not a business. The financial statements of the Company were not affected.

*New accounting standards adopted by the EU but only effective in future periods*

The following standards, amendments to standards and interpretations have already been endorsed by the EU. However, they will only be effective in future periods:

**Amendments to IFRS 4, Insurance Contracts – Deferral of effective date of IFRS 9** (issue date: June 25, 2020, effective for financial years beginning on or after January 1, 2023): The effective date of IFRS 17, which will replace IFRS 4, was deferred to January 1, 2023. The expiry date of the temporary exemption from IFRS 9 in IFRS 4 was therefore also deferred to January 1, 2023.

**Amendment to IFRS 16 – COVID-19-Related Rent Concessions** (issue date: May 28, 2020, effective for financial years beginning on or after June 1, 2020): Under certain conditions, the amendment permits lessees not to assess whether rent concessions granted as a direct consequence of the COVID-19 pandemic are lease modifications. If the conditions are met, lessees may instead account for those rent concessions as if they are not lease modifications. The amendment must be applied for annual periods beginning on or after June 1, 2020 and only applies to relevant lease payments before June 30, 2021. The application will not have any effect on the financial statements of the Group.

**Interest Rate Benchmark Reform – Phase 2:** Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issue date August 27, 2020, effective for financial years beginning on or after January 1, 2021): The amendments simplify the reporting of changes to contractual cash flows and hedge accounting required as a result of IBOR reform. They relate to the actual change in interest rate benchmarks. Application will not have a material impact on the financial statements.

In addition, the IASB and the IFRIC have issued a number of other pronouncements in the year 2020 and in previous years whose application was not mandatory for the 2020 financial year. The application of these IFRSs is dependent on their adoption by the EU. The effects on the financial statements are being assessed by Company.



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### B. Foreign currency

The Company maintains its books and records in US dollar ("USD"). The financial statements of the Company are prepared in US dollars (the functional currency), which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Company's transactions. Balances in foreign currencies are translated into US dollars in accordance with the principles set forth by International Accounting standard IAS 21 "The Effects of Changes in Foreign Exchange Rates". Accordingly, transactions and balances in currencies other than the functional currency have been translated into US dollars as follows:

Monetary assets and liabilities — at the rate of exchange applicable at the end of the reporting year; Income and expense items — at exchange rates applicable as of the date of recognition of those items; Non-monetary items — at the rate of exchange at the time of the transaction.

All foreign exchange gains or losses resulting from the above translation were credited or debited to the statement of profit or loss and other comprehensive income in accordance with IAS 21.

#### C. Transaction under common control

Acquisition of intangible assets under common control is accounted for based on their book value as was accounted for by the seller, and the difference between the fair value of the consideration and the book value of the intangible assets was recorded as a capital reserve with respect to transaction under common control in the statement of changes in equity (deficit).

#### D. Property and equipment

Property and equipment comprise of data center (servers) and software and are stated at cost less accumulated depreciation. Carrying amounts are reviewed at the end of each reporting year. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is calculated to write off the cost of fixed assets to their residual amounts on a straight-line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose, are:

	%
Computers and computers equipment	25-33
Office furniture and equipment	7
Leasehold improvements	Over the shorter of the term of the lease or useful lives

Subsequent expenditures are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in profit and loss.

The depreciation method and the estimated useful life of an asset are reviewed at least each year-end and the changes are accounted for as a change in accounting estimate on a prospective basis.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### E. Shares in affiliated undertakings

Investments in subsidiaries in the financial statements of the company are stated at cost, less any impairment in recoverable value. Provision is only made where, in the opinion of the Managers, there has been a permanent diminution in value and is recognized in the statement of profit or loss and other comprehensive income.

#### F. Trade receivables and other receivables

Trade receivables are initially recognized at transaction price and subsequently measured at amortized cost and principally comprise amounts due from related parties and iLottery companies. The Company has applied the standard simplified approach and has calculated the Expected credit losses based on lifetime of expected credit losses, with de-minimis results. Bad debts (if any) are written off when there is objective evidence that the full amount may not be collected.

#### G. Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less.

#### H. Restricted deposits

Restricted deposit includes mainly funds being held in the bank securing guarantee issued in favor of a certain customer.

#### I. Financial instruments

Financial assets and financial liabilities are recognized in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value and subsequently measured at amortized cost based on the effective interest rate, as applicable.

Company's financial assets are including trade receivables, other receivables, receivables from subsidiaries and Aspire Group.

Company's financial liabilities are including trade and other payables, Aspire Group, Capital notes, loans and accrued interest due to Aspire Group (see Note 4B) and Loans and other from William Hill, net (see Note 4A).

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-tier fair value hierarchy prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one more significant inputs or significant value drivers are unobservable.

#### J. Provisions

Provisions, which are liabilities of uncertain timing or amounts, are recognized when the Company has a legal or constructive obligation as a result of past events, if it is probable that an outflow of funds will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are included in the line item "Trade and other payables".



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### K. Revenue recognition

Revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring services to a customer; the transaction price. The Company includes in the transaction price an amount of variable consideration as a result of revenue adjustments only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Estimations for these adjustments are based on the Company's experience with similar contracts and forecast sales to the customer.

The Company recognizes revenue when the parties have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations, the Company can identify each party's rights and the fixed payment terms for the goods to be transferred, the contract has commercial substance (i.e. the risk, timing or amount of the Company's future cash flows is expected to change as a result of the contract), it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods that will be transferred to the customer and when specific criteria have been met for each of the Company's contracts with customers.

The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. In evaluating whether collectability of an amount of consideration is probable, the Company considers only the customer's ability and intention to pay that amount of consideration when it is due.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimates are reflected in the statement of comprehensive income in the period in which the circumstances that give rise to the revision become known to the Company.

- *Identification of performance obligations.* The Company assesses whether contracts that involve the provision of a range of goods and/or services contain one or more performance obligations (that is, distinct promises to provide a service) and allocates the transaction price to each performance obligation identified on the basis of its stand-alone selling price. A good or service that is promised to a customer is distinct if the customer can benefit from the good or service, either on its own or together with other resources that are readily available to the customer (that is the good or service is capable of being distinct) and the Company's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (that is, the good or service is distinct within the context of the contract).
- *Sale of products.* Sales of products are recognized at the point in time when the Company satisfies its performance obligation.

The Company generates its revenues through three streams:

- Royalties from provision of proprietary games content (which are recognized in the accounting periods in which the gaming transactions occur).
- Fees from access to intellectual property rights (which are recognized over the useful periods of the intellectual property rights).
- Fees from development services (which are recognized in the accounting periods in which services are provided).

#### L. Development expenses

Costs for development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, are capitalized if criteria of IAS 38.57 are met: (1) development costs can be measured reliably, the product or process is (2) technically and (3) commercially feasible, (4) future economic benefits are probable and (5) the Company intends, and (6) has sufficient resources, to complete development and to use or sell the asset. The costs capitalized include the cost of materials, direct labor and other directly attributable expenditure that serves to prepare the asset for use. Such capitalized costs are included in line-item other intangible assets as internally generated intangible assets.

Other development costs are expensed as incurred. Capitalized development costs are stated at cost less accumulated amortization and impairment losses with an amortization period of 3 years (after completion).



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### M. Selling and marketing expenses

Selling and marketing expenses include the cost of materials, direct labor and other directly attributable expenditure, as well as costs for advertising and depreciation and amortization allocated to sales and marketing cost center.

#### N. General and administrative expenses

General and administrative expenses primarily represent the costs required to support administrative and include direct labor and other directly attributable expenditure, as well as depreciation allocated to the administration cost center.

#### O. Finance income and expenses

Finance income comprises of net currencies with exchange rates differences, while finance expenses are comprised of interest on related parties funding, net currencies exchange rates differences, interest on leases liabilities and banks charges.

#### P. Income taxes

The Company applies IAS 12, Income taxes. Current taxes are calculated based on the profit (loss) of the fiscal year and in accordance with local tax rules of the tax jurisdiction respectively. Expected and executed additional tax payments respectively tax refunds for prior years are also taken into account. Under the liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of profit or loss, unless related to items directly recognized in equity, in the period the new laws are enacted or substantively enacted. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized.

#### Q. Reserve with respect to funding transactions with related parties

Transactions with related parties are accounted for based on fair value. Any difference between the nominal value and the fair value that arises in transactions with related parties are recorded directly into equity to a "Reserve with respect to funding transactions with related parties".

#### R. Share-based payment

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive income (loss) over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive income (loss) over the remaining vesting period. Where the terms and conditions of options are modified after they vest, the increase in the fair value of the options measured and recorded in the statement of comprehensive income (loss) immediately after the modification.

#### S. Fair value measurement hierarchy

The Company measures certain financial instruments, including derivatives, at fair value at the end of each reporting period. Fair value is the price that would be received or paid in an orderly transaction between market participants at a particular date, either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for that asset or liability accessible to the Company.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements, in conformity with Generally Accepted Accounting Principles (GAAP) under IFRS, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognized during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The Company evaluates its estimates on an on-going basis using historical experience and other factors, including expectations of future events that are considered reasonable under the circumstances. The following paragraphs detail the estimates and judgements the Company believes to have potentially the most significant impact on the annual results under IFRS.

#### Impairment of non-financial assets

The Company evaluates the need to record an impairment of the carrying amount of fixed assets and intangible assets whenever events or changes in the circumstances indicate that the carrying amount is not recoverable. If the carrying amount of the above assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of the net sale price and value in use. In measuring value in use, the expected cash flows are discounted using a pre-tax discount rate that reflects the specific risks of the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of comprehensive income (loss).

#### Funding transactions with related parties:

The fair values of the funding transactions with related parties, the reserve relating to the funding transactions with related parties and the related interest expenses are recorded based on discounted cash flow of the anticipated repayments, calculated using a market interest rate determined by a reputable appraiser.

#### Expected credit losses for trade and loan receivables:

At each statement of financial position date, the Company evaluates the collectability of trade receivables and other receivables using the simplified approach allowed under IFRS 9. For trade receivables, a pre-determined matrix for uninsured overdue balances is made which increases to 100% when a balance is more than three (3) months overdue or the customer is the subject of insolvency proceedings. For loans an assessment of credit risk is made as per requirements of IFRS 9 and the appropriate loss provision made. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operational results positively or negatively.

#### Share based payments/compensation:

The compensation expenses of stock options are vested over service periods, but exercisable only upon consummation of certain events as provided in the letter of grants. Stock based compensation expenses were recorded based on the fair values of the options, using the Black-Scholes model assumptions as well as the likelihood of the fulfillment of such events at the respective grant dates.

**Depreciation of property and equipment:** The estimated useful economic lives of property, plant and equipment (PPE) are based on management's judgements and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation that charge is adjusted prospectively.

### NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the statement of cash flows comprises:

	December 31,		
	2019	2018	2017
		(unaudited)	(unaudited)
	U.S. dollars (in thousands)		
Cash at bank available on demand	771	1,205	1,305
Cash on hand	7	8	1
	778	1,213	1,306

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5 – TRADE RECEIVABLES

	31.12.2019	31.12.2018	31.12.2017
	U.S. dollars (in thousands)		
Trade receivables from third parties (due < 1 year)	1,736	1,476	1,239
<b>Total</b>	<b>1,736</b>	<b>1,476</b>	<b>1,239</b>

## NOTE 6 - INTANGIBLE ASSETS

	December 31,		
	2019	2018	2017
		(unaudited)	(unaudited)
	U.S. dollars (in thousands)		
Cost:			
Balance at beginning of the period	33,616	25,584	19,654
Additions	11,454	8,032	5,930
As of December 31,	45,070	33,616	25,584
Accumulated amortization:			
Balance at beginning of the period	22,885	15,458	8,096
Amortization	7,772	7,427	7,362
As of December 31,	30,657	22,885	15,458
Net Book Value:			
As of December 31,	14,413	10,731	10,126

## NOTE 7 – SHARES IN AFFILIATED UNDERTAKINGS

The interest held in subsidiaries as of December 31 2019 is as follows:

Amounts in U.S. dollars (in thousands)

Entity Name	Country of incorporation	31/12/2019 Net Book Value	31/12/2019 Net Equity	31/12/2019 Profit / (Loss)	31/12/2019 Interest held (%)
NeoGames Systems Ltd	Israel	*	5,353	897	100
NeoGames Ukraine	Ukraine	202	107	107	100
NeoGames US LLP	USA	*	456	857	100
NeoGames S.R.O	Czech Republic	*	92	50	100
<b>Totals</b>		<b>202</b>	<b>6,008</b>	<b>1,911</b>	

\*Amounts are below \$1 thousand  
Figures above are under IFRS (not audited).



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 8 - RELATED PARTIES

#### A. WILLIAM HILL:

On June 18, 2018, the Company entered into a license agreement with WHG (International) Ltd. ("WHG"), an affiliate of William Hill. Pursuant to the license agreement, the Company has granted WHG a sub-license to use the NeoSphere Platform (the "Licensed IP") for a period of four (4) years (the "Initial Period") to operate in the US iGaming market and additional jurisdictions agreed to by the parties. It was also agreed that William Hill will compensate the Company for the right to use the Licensed IP as well as costs associated with adjustments ("Developed IP") required to be made to the Licensed IP so that the Licensed IP would be deemed compliant with specific market requirements and other market practices. Upon a change in control of the Company, WHG has the option (the "IP Option") to convert the license into a perpetual license for a payment of £15.0 million. The Company has also agreed to provide WHG with the IP Option following the completion of a four (4) years period from the date of the term sheet. The fair value of the IP Option liability was valued with the assistance of a third-party appraiser to be approximately \$3.45 million.

The Company's total revenues from this license agreement in the year ended December 31, 2019 and 2018 amounted approximately \$6.3 million and \$1.8 million, respectively. The outstanding amounts due under this license agreement as of December 31, 2019, 2018 amounted to approximately \$1.5 million and \$1.3 million, respectively, and are included in trade receivables.

During 2018, the Company borrowed \$4.0 million with a stated annual interest rate of 5.0% (the "First Loan") and \$2.0 million with a stated annual interest rate of 1.0% from the credit facility being made available by William Hill pursuant to the Investment and Framework Shareholders' Agreement dated August 6, 2015. During 2019, the Company borrowed a total of \$6.5 million with a stated annual interest rate of 1.0% from this credit facility. All three loans were due in August 2020; however, all the loans were extended in 2020 as described below.

In February 2020, the parties agreed to extend the original repayment schedule such that, all principal loan amounts are due for a full repayment (interest plus principal) on June 15, 2023 and the First Loan is due for repayment on June 30, 2021.

On September 18, 2020, the Company borrowed \$2.5 million from the credit facility to partially early repay the principal of the First Loan. The loan bears an annual interest rate of 1.0%, which is below market interest rate, and is due in full on June 15, 2023.

#### Loans and other due to William Hill, net:

	December 31,		
	2019	2018	2017
		(unaudited)	(unaudited)
	U.S. dollars (in thousands)		
Loan principals	12,500	6,000	-
Discounts	(465)	-	-
Accrued interest	421	164	-
Liability with respect to IP Option	3,450	-	-
Receivables on IP Option	(1,661)	-	-
	14,245	6,164	-

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 8 - RELATED PARTIES (Cont.)****B. ASPIRE GROUP:**

On August 6, 2015, the Company entered into a services agreement with Aspire and William Hill pursuant to which the Company has provided Aspire with certain dedicated development, maintenance and support services necessary for the operation of Aspire's business (the "Transition Service Agreement"). On July 8, 2015, the Company entered into a cost allocation agreement with Aspire (mainly with respect to the office lease in the reported periods) pursuant to which each party has agreed to bear certain costs that are then recovered on a pass-through basis from the other party, including a sublease to the Company's Israeli offices, provided to the Company by Aspire until 2021 (the "Cost Allocation Agreement"). The sublease and related charges totaled \$1.0 million.

In the reported periods, the Company provided and received certain services from the Aspire Group, such as research and development services and administrative services as follows:

	For the years ended December 31,	
	2019	2018
	(unaudited)	
	U.S. dollars (in thousands)	
Revenues	4,099	3,421
Expenses – Labor:	68	289

**Capital notes, loans and accrued interest due to Aspire Group:**

As of December 31,	Principal amount	Balance*	Contractual interest rate	Effective interest rate
	U.S. dollars (in thousands)			%
2019	21,838	14,987	1	20
2018	21,838	12,724	1	20
2017	21,838	10,802	1	20

\* Including accrued interest of \$582 thousand, \$638 thousand and \$638 thousand as of December 31, 2019, 2018 and 2017, respectively.



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 9 - SHARE BASED PAYMENTS

During the first quarter of 2019, the Company reached an agreement with Company's former Chief Executive Officer following his termination of employment, to extend the expiration date of the options granted to him on May 20, 2015 by four (4) years.

The fair value of the extended options was estimated as of the June 30, 2019, using the Black-Scholes model. The following table summarizes the underlying assumptions used in the model:

Dividend Yield	0%
Expected volatility	31%
Risk free interest rate	2.48%
Expected life	2 years
Weighted average exercise price	\$0.17
Price per share	\$0.52
Grant date fair value of each option	\$0.36

As a result of the above-mentioned modification during 2019, the Company recorded \$250 thousand of share based compensation expenses.

On May 13, 2019, the Company granted to certain employees 4,321,500 options to purchase its shares that will be vested over a service period of four (4) years.

The fair value of the options granted was estimated as of the Grant Date using the Black-Scholes model. The following table summarizes the underlying assumptions used in the model:

Dividend Yield	0%
Expected volatility	29.67%-30.2%
Risk free interest rate	2.21%- 2.28%
Expected life	5.5-7 years
Weighted average exercise price	\$0.17
Price per share	\$0.52
Grant date weighted average fair value per option	\$0.38

On July 1, 2019, the Company has amended to certain employees, who agreed to it, certain terms of options granted as part of 2015 and 2017 plans. According to the amendment, the exercise of the options shall no longer be conditioned upon M&A transaction or IPO. The options, which are no longer conditioned, are considered as being granted on July 1, 2019 and are vested over a period of two (2) years from the new grant date.

The fair value of the options granted was estimated as of the new Grant Date using the Black-Scholes model. The following table summarizes the underlying assumptions used in the model:

Dividend Yield	0%
Expected volatility	29.3%-29.86%
Risk free interest rate	1.8%-1.85%
Expected life	5.12-6 years
Weighted average exercise price	\$0.21
Price per share	\$0.52
Grant date weighted average fair value of an option	\$0.34

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 9 - SHARE BASED PAYMENTS (Cont.)

The following table summarizes option activities for the years ended December 31, 2019, 2018 and 2017:

	2019		2018		2017	
	Weighted average exercise price (\$)	Number	Weighted average exercise price (\$)	Number	Weighted average exercise price (\$)	Number
Outstanding at January 1,	0.19	9,165,698	0.19	9,205,698	0.17	8,510,698
Granted during the year	0.17	4,321,500	-	-	0.36	840,000
Forfeited during the year	0.22	(48,295)	0.36	(40,000)	0.26	(145,000)
Outstanding at December 31,	0.18	13,438,903	0.19	9,165,698	0.19	9,205,698
Vested and exercisable at December 31,	0.18	8,631,314	0.18	8,692,126	0.17	8,430,000

### NOTE 10 – EQUITY

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Share based payments reserve	Fair value of the vested employees' options to purchase Company shares.
Reserve with respect to transaction under common control	The reserve represents the difference between the fair value of the consideration and the book value of the intangible assets as was accounted for by the seller, with respect to acquisition under common control.
Reserve with respect to funding transactions from related parties	See Note 8

### Share capital

As of December 31, 2019 the Company's fully paid in share capital totaled EUR 18,100.3584 represented by 181,003,584 shares, without nominal value.

### NOTE 11 – REVENUES

	For the years ended December 31,	
	2019	2018
	(unaudited)	
	U.S. dollars (in thousands)	
Games royalties	2,190	1,075
Development and other services from Aspire	4,099	3,421
Development and other services from inter group to NPI and Michigan Joint Operation	-	-
<b>Total Development and other services</b>	<b>5,947</b>	<b>3,178</b>
Use of IP rights	<b>10,046</b>	<b>6,599</b>
Software services provided to subsidiaries	6,285	2,437
<b>Total Revenues</b>	<b>5,345</b>	<b>5,935</b>
	<b>23,866</b>	<b>16,046</b>

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 12 - GENERAL AND ADMINISTRATIVE EXPENSES

	For the years ended December 31,	
	2019	2018
		(unaudited)
	U.S. dollars (in thousands)	
Labor and related	857	452
Labor and related from a Related Company	46	266
Professional fees	349	246
Travelling	221	177
Other	63	300
<b>Total General and Administrative Expenses</b>	<b>1,536</b>	<b>1,441</b>

## NOTE 13 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to a variety of financial risks, which result from its financing, operating and investing activities. The objective of financial risk management is to minimize exposures in these financial risks and to mitigate a negative impact on the Company's financial performance and position. The Company's financial instruments are its cash and cash equivalents, trade and other receivables, capital notes and loans from related parties, lease liabilities and trade and other payables. The Company actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties and principals. The risks arising from the Company's financial instruments are mainly credit risks and currency risk. The risk management policies employed by the Company to manage these risks are discussed below.

**A. Credit risk**

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the end of the reporting year.

The Company closely monitors the activities of its counterparties enabling it to ensure the prompt collection of customer balances. Furthermore, the Company engages only with reputable customers.

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 acceptable ratings are authorized. The Company does not enter into derivatives to manage credit risk of this type.

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. These also include certain other liquid non-financial assets with potential credit risk.

As of December 31, 2019, the Company had trade receivables outstanding, exceeding 10% of the Company's consolidated trade receivables, from two customers. William Hill accounted for 84% and JSC accounted for 14% of trade receivables outstanding.

**B. Market risk***(i) Currency risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Foreign exchange risk also arises when Company operations are entered into in currencies denominated in a currency other than the functional currency.

Currency exposures are monitored by the Company monthly.

**Sensitivity analysis to the currency risk:** The Company has not presented a sensitivity analysis for the impact on its statement of comprehensive loss of potential movements in currencies rates, as the change in the fair value of its financial instruments would be negligible.



## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 13 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont.)

(ii) *Interest rate risk*

As a result of the relevant portion of floating rate borrowings the Company is exposed to interest rate risk, in particular the risk of Euro interest rates. Whilst the Company takes steps to minimize its exposure to cash flow interest rate risk, changes in interest rates will have an impact on profit. Management continually monitors interest rate movements to assess the impact that this will have upon interest costs. The annualized effect of a 1% increase in the interest rate at the statement of financial position date on variable rate debt carried at that date would, all other variables being held constant, have resulted in a decrease of the Company's pre-tax profit for the year of Euro 782 thousand (2019: Euro 347 thousand). A 1% decrease in the interest rate would, on the same basis, have increased pre-tax profits by the same amount.

**C. Liquidity risk**

Company's liquidity risk management aims to ensure that the Company is able to timely obtain the financing required to properly carry on its business activities, implement its strategy, and meet its payment obligations when due, while avoiding the need of having to obtain funding under unfavorable terms.

The Company monitors its liquidity in order to ensure that sufficient liquid resources are available to allow it to meet its obligations.

For this purpose, liquidity management at the Company comprises:

- consistent financial planning and cash flow forecasting at company levels with different time horizons (monthly, annual and three-year business plans);
- diversification of financing sources;
- diversification of the maturities of the debt issued in order to avoid excessive concentration of debt repayments in short periods of time;
- arrangement of committed credit facilities with relationship banks, ensuring the right balance between satisfactory liquidity and adequate commitment fees.

The following table details the contractual maturity analysis of the Company's financial liabilities (representing undiscounted contractual cash-flows):

	As of December 31, 2019			
	In 3 months	Between 3 months and 1 year	More than 1 year	More than 5 years
	U.S. dollars (in thousands)			
				Total
Capital notes and accrued interest due to Aspire Group	-	-	22,420	-
Loans due to William Hill	-	12,921	-	-
Trade and other payables	560	-	-	-
Total	560	12,921	22,420	-
				35,901



## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 13 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont.)

	As of December 31, 2018			
	In 3 months	Between 3 months and 1 year	More than 1 year	More than 5 years
	U.S. dollars (in thousands)			
Total				
Capital notes and accrued interest due to Aspire Group	-	-	22,476	-
Loans due to William Hill		6,164	-	-
Trade and other payables	521	-	-	-
Total	521	6,164	22,476	-

	As of December 31, 2017			
	In 3 months	Between 3 months and 1 year	More than 1 year	More than 5 years
	U.S. dollars (in thousands)			
Total				
Capital notes and accrued interest due to Aspire Group	-	-	22,476	-
Loans due to William Hill		-	-	-
Trade and other payables	545	-	-	-
Total	545	-	22,476	-

Capital notes and other loans include interest calculated at the rate applicable at December 31.

**Capital disclosures**

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of debt and equity used to finance the assets of the Company.

**NOTE 14 - EMPLOYEES**

The Company does not employ any employees.

**Directors' and key management personnel remuneration**

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. They are not employed by the Company.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 15 - FINANCE INCOME (EXPENSES)

Finance income represents interest income from related parties at amortized costs.  
Finance costs represent bank borrowing and interest costs from related parties at amortized costs.

	2019	2018
		(unaudited)
	U.S. dollars (in thousands)	
<b>Finance income</b>		
Currency exchange rate differences	40	55
Interest income	-	-
	<u>40</u>	<u>55</u>
<b>Finance expenses</b>		
Currency exchange rate differences	143	196
Bank charges	28	16
Interest expenses with respect to lease liabilities	-	-
	<u>171</u>	<u>212</u>

### NOTE 16 – CONTINGENT LIABILITIES

The Company has no contingent liabilities.

In January 2019, the U.S. Department of Justice (“DoJ”) issued a new interpretation of its previous 2011 interpretation relating to the applicability of the Wire Act to internet gaming conducted by state lotteries. The 2011 interpretation had determined that the Wire Act only applied to sports betting. The new January 2019 interpretation reverses this view and, in effect, indicates the Wire Act covers all forms of gambling. On January 15, 2019, the Deputy Attorney General issued a memorandum stating that Department of Justice attorneys should adhere to the 2018 Opinion, but that as an exercise of discretion, the Department would refrain from applying the new interpretation to persons who engaged in conduct in reliance on the interpretation set forth in the 2011 Opinion prior to the date of the new 2018 Opinion and for 90 days thereafter.

On February 15, 2019, NPI filed a motion with the U.S. District Court for the District of New Hampshire (“District Court”) requesting a formal declaratory judgement clarifying that the Wire Act only applies to sports betting.

In June 2019, the District Court ruled in favor of NPI and determined (without qualification) that the Wire Act does not apply to State lotteries. The DoJ has appealed that decision in October 2019 and a hearing on the appeal took place in June 2020.

A decision of the First Circuit was received on January 20, 2021. The First Circuit of the U.S. Court ruled in favor of the Company and unequivocally reconfirmed that the federal Wire Act is limited to sports betting and, therefore, does not pertain to state-run lotteries. If the government wishes to seek further review in the U.S. Supreme Court, it must file its petition to do so by June 21, 2021. If review is sought, the U.S. Supreme Court will have discretion to hear the case or decline to do so.

In June 2021, the DoJ declined to appeal the decision of the United States Court of Appeals for the First Circuit, permitting state-run lotteries and their suppliers to continue to sell lottery products online without the immediate threat of federal prosecution for such activities.

At this stage, it is not clear whether our U.S. state lottery customers will be impacted if the Wire Act is held to extend to state lotteries. Furthermore, the DoJ stated in its appeal that it has not formed a view on the application of the Wire Act to state lotteries and, if the DoJ were ever to form the view that the Wire Act does apply, any enforcement would need to take into consideration the consequences of doing so given the nature of the public purposes for which the state lotteries raise money. In addition, we employ processes to limit any risk of implicating the Wire Act, such as geo-gating and maintaining servers within the states in which we operate, although it is possible that the DoJ may take the position that such servers are used in interstate commerce.

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 17 - DIVIDENDS

No dividend has been distributed by the Company for the years 2019, 2018 and 2017, the total loss of the Company has been allocated to the reserves or to the profit brought forward.

### NOTE 18 - SUBSEQUENT EVENTS

- A. On July 13, 2020, the Company granted to certain employee's options to purchase an aggregate of 415,000 of its ordinary shares that will vest over a service period of four (4) years.
- B. On November 10, 2020, the Company changed its corporate from a private limited liability company to a public limited liability company, changed its name from Neogames S.à r.l. to NeoGames S.A., converted the share capital from EUR 18,100.3584 to USD 21,485.1254, increased the share capital by USD 17,459.85 and completed a 1: 8.234 (approximated) reverse split of its share capital which were applied retrospectively in these financial statements.
- C. On November 18, 2020, the Company granted to the Chairman of the Board options to purchase an aggregate of 48,581 of its ordinary shares that will vest over a service period of two years. On the same date the Company granted to certain consultant options to purchase an aggregate of 12,145 of its ordinary shares that will vest over a service period of four (4) years.
- D. On November 24, 2020, the Company completed an initial public offering of 5,528,650 ordinary shares, no par value, including 721,128 ordinary shares sold pursuant to the full exercise of the underwriters' overallotment option. The offering consisted of 2,987,625 ordinary shares offered by the Company and 2,541,025 ordinary shares offered by certain selling shareholders. The ordinary shares were sold at an offering price of \$17.00 per ordinary share for an aggregate offering value of \$94.0 million.
- E. As significant portion of our development team resides and works from Ukraine. The continuation of the local war may impact our ability to meet our long-term development delivery commitments although so far, the Company managed to mitigate the risk and no material impact has been observed on the delivery and stability of the development projects. That being stated, it is difficult to predict whether our ability to continue and develop our products in the same pace and launch new contracts in short delivery timelines may be affected by the situation in Ukraine