

Consolidated Financial Statements of

PACIFIC LOTTERY CORPORATION

Years ended December 31, 2008 and 2007

Management's Report

To the Shareholders of Pacific Lottery Corporation:

The accompanying consolidated financial statements of Pacific Lottery Corporation are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and within the framework of the Company's significant accounting policies as described in the notes to the financial statements. The consolidated financial statements reflect management's best estimates and judgments based on currently available information within reasonable limits of materiality.

Management is responsible for the integrity and fairness of the consolidated financial statements. Management designs and maintains appropriate systems of internal control to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable financial information for the preparation of the consolidated financial statements.

Meyers Norris Penny LLP, the independent auditors, are appointed by the shareholders of the Company to perform an examination of the corporate and accounting records so as to express an opinion on the consolidated financial statements. Their examination included such tests and other procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements in accordance with generally accepted accounting principles. The Board carries out this responsibility through its Audit Committee. The Audit Committee meets with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend the consolidated financial statements be presented to the Board of Directors for approval.

The consolidated financial statements, including the notes to the consolidated financial statements, have been approved by the Board of Directors on the recommendation of the Audit Committee.

"signed" David W. Jones

David W. Jones

Chief Executive Officer & Chief Financial Officer

Calgary, Canada

March 11, 2009

Auditors' Report

To the Shareholders of Pacific Lottery Corporation:

We have audited the consolidated balance sheets of Pacific Lottery Corporation as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

March 11, 2009
Calgary, Alberta

Meyer Norris Penny LLP

Chartered Accountants

PACIFIC LOTTERY CORPORATION

Consolidated Balance Sheets
As at December 31

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 716,082	\$3,817,958
Interest and other receivables	33,935	160,536
	750,017	3,978,494
Deposits (note 5)	435,060	1,279,791
Capital assets (note 4)	1,245,721	427,737
	\$ 2,430,798	\$ 5,686,022

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 260,429	\$ 211,864
Shareholders' equity:		
Share capital (note 6)	33,694,381	33,694,381
Warrants (note 6)	-	709,336
Contributed surplus (note 6)	3,626,424	2,638,899
Deficit	(35,150,436)	(31,568,458)
	2,170,369	5,474,158
	\$ 2,430,798	\$ 5,686,022

Going concern (note 1)
Commitments and contingencies (note 11)

See accompanying notes to consolidated financial statements.

Approved by the Board:

“signed” Richard W. DeVries, Director

“signed” Lisa Deutscher, Director

PACIFIC LOTTERY CORPORATION

Consolidated Statements of Operations and Deficit
For the years ended December 31,

	2008	2007
Revenue:		
Lottery	(84,899)	(38,958)
Terminals	-	(38,594)
	(84,899)	(77,552)
Expenses:		
General and administrative	\$ 3,239,994	\$ 2,428,889
Stock based compensation	278,188	142,120
Amortization	182,999	97,893
Bank service fees	6,166	2,712
Net loss from continuing operations	3,622,448	2,671,614
Other Income:		
Interest income	(40,470)	(107,430)
Net loss	3,581,978	2,486,632
Deficit, beginning of year	31,568,458	29,081,826
Deficit, end of year	\$ 35,150,436	\$ 31,568,458
Net loss per share – basic and diluted	\$ 0.04	\$ 0.03
Weighted average shares outstanding	83,871,856	80,383,714

See accompanying notes to consolidated financial statements.

PACIFIC LOTTERY CORPORATION

Consolidated Statements of Cash Flows
For the years ended December 31,

	2008	2007
Cash provided by (used in):		
Operations:		
Net loss	\$ (3,581,978)	\$ (2,486,632)
Items not involving cash:		
Stock based compensation	278,188	142,120
Amortization	182,999	97,893
Cash flow used in operations	(3,120,791)	(2,246,619)
Change in non-cash working capital balances	1,019,899	(98,338)
	(2,100,892)	(2,344,957)
Financing:		
Issue of units, net of issue costs	-	4,948,374
Deferred financing costs	-	101,600
	-	5,049,974
Investing:		
Acquisition of capital assets	(1,000,984)	(180,686)
Increase (decrease) in cash and cash equivalents	(3,101,876)	2,524,331
Cash and cash equivalents, beginning of year	3,817,958	1,293,627
Cash and cash equivalents, end of year	\$ 716,082	\$ 3,817,958

Cash and cash equivalents are comprised of the following:

Short-term investments	\$ 365,167	\$ 3,782,602
Cash balances with banks	350,915	33,356
	\$ 716,082	\$ 3,817,958

Supplemental cash flow information (note 8)

See accompanying notes to consolidated financial statements.

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

1. Nature of business and going concern:

Pacific Lottery Corporation (the "Company") is incorporated under the laws of the Province of Alberta. The Company's principal business activities include research, development, manufacturing, operating and managing modern online lottery systems. To date the Company has received incidental revenues from its business activities and is currently focusing its efforts on the development and implementation of a lottery system in Vietnam. During the year, the Company ceased to be in the development stage upon the launch of the lottery in October, 2008 utilizing the proprietary technology developed by the Company.

On July 11, 2005 the Company commenced production of proprietary lottery terminals (the "Terminals"), pursuant to a lottery terminal Manufacturing Agreement between the Company and the Hanoi Electronics Corporation ("HANEL") (see Note 11 c)).

Pursuant to an agreement dated September 12, 2007 between the Company and CLC., a Government agency of the Socialist Republic of Vietnam, the Company agreed to provide system software, central equipment and lottery terminals, installation and development plans, training, marketing and maintenance programs in order to provide the government of the Socialist Republic of Vietnam with the technology and a lottery system capable of establishing a National on-line lottery program throughout Vietnam (See Note 11 b)).

On October 2, 2008, the Company announced the commercial launch in Vietnam of a new Government owned and operated lottery program exclusively using the Company's next generation on-line lottery technology. These launch activities included the sale of several newly designed on-line lottery games in association with marketing programs including nationally televised TV commercials. Lottery sale transactions occurred throughout the newly installed State authorised retailer network using the Company's proprietary National On-line Lottery Central System ("the Lottery System").

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements,
Years ended December 31, 2008 and 2007

1. Nature of business and going concern (continued):

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

There is significant risk surrounding the Company's ability to continue as a going concern. The Company incurred a loss of \$3,581,978 (2007 – \$2,486,632) for the year ended December 31, 2008 and has a deficit of \$35,150,436 (2007 – \$31,568,458) as at December 31, 2008. The losses have been funded primarily by the issuance of equity. The continuation of the Company's development activities and the commercialization of its modern online lottery system is dependent upon the Company's ability to successfully finance its cash requirements through equity financings until operational cash contribution becomes sufficient for the Company to be self sustaining. However, no assurance can be given at this time as to whether the Company will achieve any of these objectives.

These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities which might be necessary should the Company be unable to continue in business. These adjustments may be material.

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

2. Significant accounting policies:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the following significant accounting policies:

(a) Use of estimates:

The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. The fair value of stock options and warrants is determined using the Black-Scholes Option Pricing Model which requires the use of management estimates. Amortization is based on the estimated useful lives of capital assets. Actual results could differ from these estimates and such differences could be material.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

(b) Principles of consolidation:

The financial statements include the accounts of the Company and its wholly-owned subsidiaries: Applied Gaming Solutions International Inc. and Emerging Market Solutions International Inc. All intercompany transactions and balances have been eliminated upon consolidation.

(c) Research and development costs:

Research costs are expensed in the year incurred. Development costs are expensed in the year incurred unless the Company believes a development project meets Canadian Generally Accepted Accounting Principles for deferral and amortization.

(d) Capital assets and amortization:

Capital assets are stated at cost less accumulated amortization. Amortization is provided using the declining balance basis at the following annual rates which are designed to apportion the costs of the assets over their estimated useful lives:

Assets	Rate
Lottery equipment	30%
Leasehold improvements	5 to 10 years
Computer equipment	30%
Computer software	30%
Office furniture and equipment	20%

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

2. Significant accounting policies (continued):

(e) Impairment:

The Company evaluates the carrying value of its capital assets for impairment when circumstances indicate that the carrying value may not be recoverable. The carrying value of an asset is considered impaired when the anticipated undiscounted cash flow from its use and disposal is less than its carrying value. In that event, a write-down is recognized based on the amount by which the carrying value exceeds the fair market value. Fair market value is determined using the anticipated cash flows discounted at a rate commensurate with the risk involved. Any impairment is included in earnings for the year.

(f) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with original maturities of 90 days or less when purchased.

(g) Income taxes:

The asset and liability method is used for determining income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis. Future income tax assets and liabilities are measured using the substantially enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

No recognition of future income assets has been reflected in these financial statements as the Company has yet to achieve profitable operations.

(h) Stock-based compensation:

The Company recognizes the value of equity instruments awarded to employees and non-employees in the financial statements as if the fair value method had been used at the date of grant. The Company calculates the value of stock options issued using the Black-Scholes option pricing model with consideration of factors specific to the Company. For options granted to employees and directors, the value is recognized at the date of grant and is deferred and expensed over the period the options vest, with a corresponding increase to contributed surplus. For options granted to consultants, an expense is recognized as services are provided.

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

2. Significant accounting policies (continued):

(i) Earnings and loss per share:

Basic earnings or loss per share is calculated by dividing net income or loss by the weighted average number of shares outstanding during the year. Diluted earnings or loss per share is calculated by dividing net earnings or loss by the weighted average number of common shares outstanding during the year after giving effect to dilutive potential common shares. The dilutive effects of stock options and warrants are determined using the treasury stock method. The dilutive effects of convertible securities are determined using the if-converted method.

(j) Deferred financing:

Transaction costs attributable to financial instruments classified as other than held-for-trading are included in the recognized amount of the related financial instrument and recognized over the life of the resulting financial instrument.

(k) Foreign currency:

Monetary items denominated in foreign currency are converted to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are converted at rates of exchange in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

The accounts of its foreign subsidiaries are maintained in US dollars. The Company has determined that its subsidiaries, Applied Gaming Solutions International Inc. and Emerging Market Solutions International Inc are integrated foreign operations and as a result, the Company has used the temporal method to translate the financial statements into Canadian dollars. Accordingly, monetary assets and liabilities are translated using the exchange rates in effect at the consolidated balance sheet date and non monetary assets and liabilities at the historical exchange rate prevailing during the year. Foreign currency gains and losses are reported on the income statement.

(l) Revenue recognition:

Revenue consists of the Company's share of wagers placed and is recognized upon receipt of cash proceeds.

(m) Comprehensive income:

Comprehensive income consists of net earnings on the consolidated statements of earnings and other comprehensive income (loss) ("OCI"). OCI represents changes in shareholders' equity in a period arising from the portion of the change in the fair values of the Company's derivatives designated as cash flow hedges that are determined to be effective, gains and losses on derivatives designated as cash flow hedges that are transferred to net earnings in the current period, and the unrealized effect of foreign currency translation of foreign operations. The Company does not have any items giving rise to OCI, nor is there any accumulated balance of OCI.

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements,
Years ended December 31, 2008 and 2007

2. Significant accounting policies (continued):

(n) Financial instruments:

Financial instruments are initially recognized at fair value. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values of financial instruments are based on independent prices quoted in active markets. In the absence of an active market, fair values are determined based on valuation models such as discounted cash flows, which require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. Subsequent measurement depends on management's classification of the financial assets as held-for-trading, available-for-sale, held-to-maturity or loans and receivables, and financial liabilities as held-for-trading or other liabilities. The classification of financial instruments depends on the nature of and the purpose of the financial instruments, management's choice and in some circumstances, management's intentions.

Held-for-Trading

Financial instruments classified as held-for-trading are measured at fair value with the realized and unrealized changes in fair value recognized each reporting period through interest and financing costs, net on the consolidated statement of earnings. The Company has designated cash and cash equivalents as held-for-trading.

Available-for-Sale

Financial assets classified as available-for-sale are measured at fair value with the unrealized changes in fair value recorded each reporting period in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted price in an active market are recorded at cost. Each reporting period, available-for-sale assets are written down to fair value through interest and financing costs, net on the consolidated statement of earnings to reflect impairments that are considered to be other than temporary.

Held-to-Maturity, Loans and Receivables and Other Liabilities

Financial instruments classified as held-to-maturity, loans and receivables and other liabilities are measured at amortized cost using the effective interest method. The Company has designated accounts receivable as "loans and receivables" and accounts payable and bank loans as "other liabilities".

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements,
Years ended December 31, 2008 and 2007

3. Changes in Accounting Policies (continued):

On January 1, 2008, the Company adopted prospectively the following new accounting standards of the Canadian Institute of Chartered Accountants (“CICA”):

(a) Capital Disclosures:

CICA section 1535 “Capital Disclosures” establishes standards for disclosure of information about the Company’s capital and capital management, including the Company’s objectives and processes of managing capital, quantitative data about what the Company regards as capital, whether the Company has complied with any externally imposed capital requirements, and if it has not complied, the consequences of such non-compliance. The adoption of this standard had no effect on the Company’s financial position, operations or cash flows and these disclosures have been included in Note 9.

(b) Financial Instruments - Disclosures

CICA section 3862 “Financial Instruments- Disclosures” established standards for disclosures that will assist in evaluating the effect of financial instruments on the Company’s financial position and performance, the types of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how those risks are managed.

(c) Financial Instruments - Presentation

CICA section 3863 “Financial Instruments- Presentation” establishes standards for the presentation of financial instruments and non-financial derivatives by considering the classification of financial instruments between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

The applicable disclosures under these financial instruments standards are included in Note 10.

The adoption of these standards has not affected the classification and valuation of the Company’s financial instruments.

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements,
Years ended December 31, 2008 and 2007

3. Changes in Accounting Policies (continued):

(d) Inventories:

This new standard gives guidance on measurement and disclosure of inventories and has been applied retroactively without prior period adjustment. The change in accounting policy had no material impact on the Company's consolidated financial statements at January 1, 2008.

(e) General Standards of Financial Statement Presentation:

CICA section 1400 "General Standards of Financial Statement Presentation" provides additional guidance related to management's assessment of the Company's ability to continue as a going concern.

Recent Accounting Pronouncements

(a) Goodwill and Intangible Assets:

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research Development Costs". This section provides more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. The section increases harmonization of Canadian standards with international financial reporting standards and applies to annual interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently reviewing the potential impact, if any, on its consolidated statements.

(b) International Financial Reporting Standards:

In January 2006, the CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the fiscal period ending December 31, 2011. The Company is currently implementing its transition plan to IFRS and is assessing the impact of IFRS on the Company's consolidated financial statements.

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

4. Capital assets:

December 31, 2008	Cost	Accumulated Depreciation	Net Book Value
Lottery equipment ¹	\$ 1,151,152	\$ 201,064	\$ 950,088
Computer equipment	76,127	42,105	34,022
Computer software	495,558	369,357	126,201
Office furniture and equipment	97,817	46,332	51,485
Leasehold Improvements	88,178	4,253	83,925
	\$ 1,908,832	\$ 663,111	\$ 1,245,721

December 31, 2007	Cost	Accumulated Depreciation	Net Book Value
Lottery equipment	\$ 2,858,490	\$ 2,662,930	\$ 195,560
Computer equipment	62,104	31,327	30,777
Computer software	474,616	326,212	148,404
Office furniture and equipment	80,220	35,874	44,346
Leasehold Improvements	9,105	455	8,650
	\$ 3,484,535	\$ 3,056,798	\$ 427,737

¹ Lottery equipment cost and accumulated depreciation were equally reduced by \$2,576,687 in 2008, which resulted in no change to net book value. The adjustment represented equipment purchased for the previous Hanoi lottery program which had been fully amortized by 2003 and is no longer in operation.

5. Deposits:

	2008	2007
Rent (multi-year lease)	\$ 59,878	\$ 15,242
HANEL (terminal manufacturing) (see note 11)	316,127	1,185,476
Marketing deposit	59,055	79,073
	\$ 435,060	\$ 1,279,791

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements,
Years ended December 31, 2008 and 2007

6. Share capital:

(a) Authorized:

Unlimited number of common shares

Unlimited number of preferred shares issuable in series with terms and conditions to be determined by the Board of Directors

(b) Issued:

	Number of Shares	Amount
Common shares:		
Balance, December 31, 2006	74,819,636	\$29,317,390
Issued July 25, 2007 private placement (i)	3,760,000	3,760,000
Issue costs		(477,813)
Warrants value included in private placement (i)		(571,383)
Issued through exercise of warrants	4,920,500	1,573,257
Issued through exercise of agents options	371,720	92,930
Balance, December 31, 2007	83,871,856	\$33,694,381
Nil activity	-	-
Balance, December 31, 2008	83,871,856	\$33,694,381

- i) On July 30, 2007 the Company completed a non-brokered private placement of 3.76 million units of the Company at \$1.00 per unit or an aggregate of \$3,760,000 (the "Private Placement").

The Private Placement (the terms of which were previously announced on May 9, 2007) consisted of the placement of 3.76 million units at \$1.00 each, each unit consisting of one common share and one common share purchase warrant exercisable at \$1.50 per common share until July 25, 2008, for total gross proceeds of \$ 3.76 million. In addition, the subject share purchase warrants include a provision whereby the Company can advance the exercise date on 30 days notice if the trading price of the shares of the Company exceeds \$2.25 for a period of 25 consecutive trading days after November 26, 2007.

A total commission of \$338,400 was paid to a broker for its services.

The securities issued pursuant to the Private Placement were subject to a four month hold period until November 26, 2007.

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements,
Years ended December 31, 2008 and 2007

6. Share capital (continued):

(c) Stock options:

Under the Company's stock option plan, the Company may grant options to employees, consultants, officers and directors totaling up to 10% of the issued and outstanding common shares. In addition, the aggregate number of shares so reserved for issuance, in any twelve month period, to any one person shall not exceed 5% of the issued and outstanding common shares, unless that person is a consultant or provider of investor relations and as such issuance shall not exceed 2%.

The options issued in 2006 were valued at \$371,122 using the Black-Scholes pricing model, assuming a life of 2.5 years, 50% volatility and an average risk free rate of 4.2%. The value of these options is expensed over the vesting period, therefore, expensing of \$ 142,120 in 2007. The options issued in 2008 were valued at \$278,188 using the Black-Scholes pricing model assuming a life of 5 years, 50% volatility and an average risk free rate of 3.9%. As these options became fully exercisable in the year, the full value of \$278,188 has been expensed as stock based compensation.

The following table summarizes the status of the stock option plan as of December 31, 2008 and December 31, 2007 and the changes during the years then ended:

	2008		2007	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	5,580,000	\$ 0.30	5,610,000	\$ 0.30
Granted	1,350,000	0.40	-	-
Granted	2,810,000	0.40	-	-
Cancelled	(1,350,000)	(0.32)	(30,000)	0.58
Outstanding, end of year	8,390,000	\$ 0.34	5,580,000	\$ 0.30
Exercisable				

Of the options outstanding, 2,810,000 are currently exercisable at \$0.40, with the balance of 5,580,000 exercisable upon the Company earning its first revenues from the Ho Chi Minh City region.

The weighted average remaining term of the options at December 31, 2008 is 3.17 years (2007 - 2.93).

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

6. Share capital (continued):

(d) Warrants:

The following table summarizes warrants issued by the Company as of December 31, 2008 and December 31, 2007 and the changes during the years then ended:

	2008		2007	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	3,760,000	\$ 1.50	9,781,860	\$ 0.38
Granted	-	-	3,760,000	1.50
Granted	-	-	371,720	0.45
Exercised	-	-	(4,294,666)	0.30
Exercised	-	-	(323,334)	0.46
Exercised	-	-	(302,500)	0.45
Cancelled	-	-	(5,233,080)	0.45
Expired	(3,760,000)	(1.50)	-	-
Outstanding and exercisable, end of year	-	\$ -	3,760,000	\$ 1.50

There are no warrants remaining as of December 31, 2008

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

6. Share capital (continued):

(e) Agent's options:

The following table summarizes Agent's Options issued by the Company as of December 31, 2008 and December 31, 2007 and the changes during the years then ended:

	2008		2007	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	-	\$ -	371,720	\$ 0.25
Granted	-	-	-	-
Exercised	-	-	(371,720)	0.25
Outstanding and exercisable, end of year	-	\$ -	-	\$ -

(f) Contributed surplus:

The following table summarizes changes in contributed surplus.

	2008	2007
Beginning of year	\$ 2,638,899	\$ 2,496,779
Warrants expired	709,337	-
Stock based compensation (<i>note 6(c)</i>)	278,188	142,120
End of year	\$ 3,626,424	\$ 2,638,899

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

7. Income taxes:

The provision for income taxes in the statement of operations differs from that which would be expected by applying the applicable statutory tax rates. Differences for the years ended December 31, are as follows:

	2008	2007
Loss before income taxes	(3,581,978)	(2,486,632)
Statutory income tax rate	32.62%	32.12%
Expected income tax recovery	(1,168,441)	(798,706)
Effect on income taxes of:		
Tax rate difference between Canadian and foreign jurisdictions	92,267	-
Stock based compensation	83,790	45,649
Change in enacted rates	471,773	72,668
Non-deductible items	5,916	4,954
Non-capital losses expired	1,313,197	3,255,663
Change in valuation allowance	(631,497)	(2,441,662)
Opening pool balances	(167,005)	-
Income tax provision	-	-

The components of the Company's future income tax asset are as follows:

	2008	2007
Future income tax assets		
Property and equipment	286,674	259,742
Cumulative eligible capital	108,080	116,952
Non-capital losses (Canadian)	3,203,618	3,945,076
Non-capital losses (Foreign)	42,590	-
Capital losses	292,120	316,100
Scientific research and experimental development	126,823	-
Share issue costs	94,105	147,637
Net future tax assets	4,154,010	4,785,507
Valuation allowance	(4,154,010)	(4,785,507)
Net future income tax asset	-	-

The Company has Canadian non-capital losses that may be deducted against taxable income in future years that will expire as follows:

<u>Amount</u>	<u>Expiration</u>
1,943,070	2010
1,346,127	2014
1,507,582	2015
1,747,683	2026
2,159,258	2027
3,261,874	2028

The Company also has foreign non-capital losses that may be deducted against taxable income in future years of approximately \$1,700,000.

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements,
Years ended December 31, 2008 and 2007

8. Supplemental disclosure of cash flow information:

(a) Change in non-cash working capital balances:

	2008	2007
Interest and other receivables	\$ 126,601	\$ (83,587)
Deposits	844,731	(92,319)
Accounts payable and accrued liabilities	48,567	77,568
	\$ 1,019,899	\$ (98,338)

(b) Other cash transactions:

	2008	2007
Interest paid	\$ 6,166	\$ 2,712

9. Capital Disclosures:

The Company's capital structure comprises:

- Cash and cash equivalents;
- Shareholders' equity

The Company's objectives are to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk levels and to manage capital in a manner that balances the interests of equity holders. The Company manages its capital structure in light of changes in economic conditions and the risk characteristics of the Company's operations. The Company's major capital allocation decisions include a comparison of whether the expected financial returns from those investments exceed its estimated weighted average cost of capital. The Company currently plans to use its cash and cash equivalents and cash flows from operations to finance expansion of its gaming operations in Vietnam.

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements,
Years ended December 31, 2008 and 2007

10. Financial instruments:

(a) Fair value:

The fair values of the Company's financial assets and liabilities at December 31, 2008 approximate their carrying values due to the short-term maturity of the instruments.

(b) Credit risk:

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligation. The Company's credit risk is primarily attributable to accounts receivable. Management believes that the credit risk with respect to accounts receivable is acceptably low.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. As at December 31, 2008 the Company had a cash and cash equivalents balance of \$716,082. To the extent that the Company does not believe it has sufficient liquidity to meet current obligations, consideration will be given to obtaining additional funds through equity financing, assuming these could be obtained.

The Company does not have sufficient operating cash flows to fund its projects in Vietnam. There is no assurance that additional funding will be available to allow the Company to fulfil its obligations on existing or future exploration projects.

(d) Market Risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and equity prices will affect the Company's net income or loss or the value of its financial instruments.

(e) Interest rate risk

The Company's cash balances are invested in short-term deposit certificates or bankers' acceptances issued by Canadian Chartered banks. The Company has no debt. The Company believes its interest rate risk is not significant.

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements,
Years ended December 31, 2008 and 2007

10. Financial instruments (continued):

(f) Foreign exchange risk:

The Company enters into transactions denominated in U.S. dollars and Euros for which the related revenues, expenses, accounts receivable and accounts payable balances are subject to exchange rate fluctuations.

As at December 31, 2008, the following items are denominated in U.S. dollars converted into their Canadian dollar equivalent:

	2008	2007
Cash	\$ 341,129	\$ 1,791,359
Interest and other receivable	\$ 423,491	\$ 1,264,549

As at December 31, 2008, the following items are denominated in Euros converted into their Canadian dollar equivalent:

	2008	2007
Accounts payable and accrued liabilities	\$ 27,823	\$ 23,306

Foreign exchange risk is the risk that variations in exchange rates between the Canadian dollar and foreign currencies will affect the Company's operating and financial results. The Company earns a significant portion of its operating revenue in U.S. dollars and does not use derivative instruments to reduce its exposure to this foreign exchange risk.

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements,
Years ended December 31, 2008 and 2007

11. Commitments and contingencies:

- (a) Pursuant to an agreement (“Hanoi Agreement”) dated May 27, 1998 and subsequent amendments between the Company and the Ha Noi Capital Construction Lottery Company Ltd. (“CLC”), a Government agency of the Socialist Republic of Vietnam, the Company agreed to provide system software, central equipment and lottery terminals, installation and development plans, training, marketing and maintenance programs in order to provide the government of the Socialist Republic of Vietnam with technology and a lottery system capable of establishing an on-line lottery program in Hanoi.

The term of the agreement is seven years, commencing August 9, 1999, the date the first on-line sales began. The Company is paid, weekly, 4% of the gross sales of the on-line lottery system during each of the first five years of the agreement and one percent of the gross sales in the sixth and seventh year. All amounts payable to the Company are paid in U.S. dollars to a financial institution outside of the Socialist Republic of Vietnam. During 2006 and 2007, the Company agreed to extend the Hanoi Agreement an additional year. Expiration of this agreement will occur on the date of the first on-line sale in accordance with the agreement outlined in (b).

- (b) Pursuant to an agreement dated September 12, 2007 between the Company and CLC., the Company agreed to provide system software, central equipment and lottery terminals, installation and development plans, training, marketing and maintenance programs in order to provide the government of the Socialist Republic of Vietnam with the technology and a lottery system capable of establishing a National on-line lottery program throughout Vietnam.

The term of the agreement is ten years, commencing on the date that on-line sales begin. The Company is to be paid, weekly, 8% of the gross sales of the on-line lottery system of which 3% of gross sales is to be used by the Company for marketing expenditures. All amounts payable directly to the Company are paid in U.S. dollars to a financial institution outside of the Socialist Republic of Vietnam.

In conjunction with the Agreement, the Company contracted consultants to facilitate implementation of the Company’s responsibilities, for which they are paid 0.5% of gross sales.

- (c) The Company executed an agreement on April 19, 2005 with HANEL (“Manufacturing Agreement”) for the manufacture of the Terminals in the amount of \$1,867,380 USD. The Manufacturing Agreement allows for pricing at various volume levels, with manufacturing commencing with the payment of the required deposit in accordance with terms of the agreement. A bank guarantee reimburses the Company for the entire deposit amount (amounting to 50% of the total contract price or \$978,600 USD), in the event there is any default by HANEL in the manufacture of the Terminals. The agreement requires the Company to make a further 40% payment of the cost of the Terminals at time of delivery and the remaining 10% to be paid one month after delivery and installation of the Terminals. The Company continues to work with the Vietnamese government on the timing of introducing the new lottery system and the specifications of the Terminals.

PACIFIC LOTTERY CORPORATION

Notes to Consolidated Financial Statements,
Years ended December 31, 2008 and 2007

12. Segmented information:

In the opinion of management, the Company, at this time, has only one business segment. This segment is the business of operating and managing modern online lottery systems and has the following geographical segments:

Revenue

	2008	2007
Canada	\$ 35,532	\$ 26,813
Vietnam	49,367	
Chile	-	38,693
	\$ 84,899	\$ 77,552

Deposits and capital assets

	2008	2007
Canada	\$ 223,277	\$ 440,756
Vietnam	1,457,504	1,266,772
	\$ 1,680,781	\$ 1,707,528