

Condensed Consolidated Interim Financial Statements of

**POLLARD BANKNOTE  
LIMITED**

(unaudited)

Three months ended March 31, 2021

These condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent external auditors, KPMG LLP.

**Pollard Banknote Limited**  
**Condensed Consolidated Statements of Financial Position**  
*(In thousands of Canadian dollars)*  
(unaudited)

	March 31, 2021	December 31, 2020
<b>Assets</b>		
Current assets		
Cash	\$ 16,709	\$ 1,888
Restricted cash	21,629	19,058
Accounts receivable	70,004	66,037
Inventories (note 6)	44,736	46,620
Prepaid expenses and deposits	7,383	6,707
Income tax receivable	1,127	338
<b>Total current assets</b>	<b>161,588</b>	<b>140,648</b>
Non-current assets		
Property, plant and equipment	98,350	96,396
Equity investment (note 7)	784	881
Goodwill	106,715	89,276
Intangible assets	96,570	74,146
Deferred income taxes	684	3,220
<b>Total non-current assets</b>	<b>303,103</b>	<b>263,919</b>
<b>Total assets</b>	<b>\$ 464,691</b>	<b>\$ 404,567</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 72,752	\$ 59,433
Dividends payable	1,076	1,028
Income taxes payable	2,013	4,941
Contract liabilities (note 8)	375	379
Current portion lease liabilities	4,952	5,109
<b>Total current liabilities</b>	<b>81,168</b>	<b>70,890</b>
Non-current liabilities		
Long-term debt (note 9)	136,796	131,080
Other non-current liabilities	1,389	1,322
Pension liability (note 10)	20,345	36,370
Lease liabilities	10,766	11,832
Contract liabilities (note 8)	180	-
Deferred income taxes	16,989	10,690
<b>Total non-current liabilities</b>	<b>186,465</b>	<b>191,294</b>
Shareholders' equity		
Share capital (note 11)	148,770	109,007
Reserves	(1,429)	2,563
Retained earnings	49,717	30,813
<b>Total shareholders' equity</b>	<b>197,058</b>	<b>142,383</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 464,691</b>	<b>\$ 404,567</b>

See accompanying notes to condensed consolidated interim financial statements.

**Pollard Banknote Limited**  
**Condensed Consolidated Statements of Income**  
*(In thousands of Canadian dollars, except for share amounts)*  
(unaudited)

	Three months ended March 31, 2021	Three months ended March 31, 2020
Sales (note 8)	\$ 112,214	\$ 102,253
Cost of sales	87,704	80,528
Gross profit	24,510	21,725
Administration	12,045	10,183
Selling	3,585	3,765
(Gain) loss on equity investment (note 7)	(4,005)	563
Other expenses (income) (note 12)	546	(469)
Income from operations	12,339	7,683
Finance costs (note 13)	1,609	7,718
Income (loss) before income taxes	10,730	(35)
Income taxes (note 14)		
Current	4,289	2,116
Deferred reduction	(1,022)	(893)
	3,267	1,223
Net income (loss)	\$ 7,463	\$ (1,258)
Net income (loss) per share (basic) (note 15)	\$ 0.28	\$ (0.05)
Net income (loss) per share (diluted) (note 15)	\$ 0.28	\$ (0.05)

See accompanying notes to condensed consolidated interim financial statements.

**Pollard Banknote Limited**  
**Condensed Consolidated Statements of Comprehensive Income**  
*(In thousands of Canadian dollars)*  
(unaudited)

	Three months ended March 31, 2021	Three months ended March 31, 2020
Net income (loss)	\$ 7,463	\$ (1,258)
Other comprehensive income		
Items that are or may be reclassified to profit and loss		
Foreign currency translation differences – foreign operations	(3,992)	12,343
Items that will never be reclassified to profit and loss		
Defined benefit plans remeasurements, net of income tax (note 10 & note 14)	12,468	3,027
Other comprehensive income	8,476	15,370
Comprehensive income	\$ 15,939	\$ 14,112

See accompanying notes to condensed consolidated interim financial statements.

**Pollard Banknote Limited**  
**Condensed Consolidated Statements of Changes in Equity**  
*(In thousands of Canadian dollars)*  
(unaudited)

**For the three months ended March 31, 2021**

		Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2020	\$	109,007	2,563	30,813	142,383
Net income		–	–	7,463	7,463
Other comprehensive income (loss)					
Foreign currency translation differences – foreign operations		–	(3,992)	–	(3,992)
Defined benefit plans remeasurements, net of income tax (note 10 & note 14)		–	–	12,468	12,468
Total other comprehensive income (loss)	\$	–	(3,992)	12,468	8,476
Total comprehensive income (loss)	\$	–	(3,992)	19,931	15,939
Issue of common shares (note 11)	\$	32,611	–	(38)	32,573
Issue of common shares related to acquisition of Next Generation Lotteries AS (note 5)		7,152	–	–	7,152
Share based compensation		–	–	87	87
Dividends (note 11)		–	–	(1,076)	(1,076)
Balance at March 31, 2021	\$	148,770	(1,429)	49,717	197,058

**For the three months ended March 31, 2020**

		Share capital	Translation reserve	Retained earning	Total equity
Balance at December 31, 2019	\$	108,642	5,705	8,937	123,284
Net loss		–	–	(1,258)	(1,258)
Other comprehensive income					
Foreign currency translation differences – foreign operations		–	12,343	–	12,343
Defined benefit plans remeasurements, net of income tax		–	–	3,027	3,027
Total other comprehensive income	\$	–	12,343	3,027	15,370
Total comprehensive income	\$	–	12,343	1,769	14,112
Share based compensation	\$	–	–	119	119
Dividends		–	–	(1,025)	(1,025)
Balance at March 31, 2020	\$	108,642	18,048	9,800	136,490

See accompanying notes to condensed consolidated interim financial statements.

**Pollard Banknote Limited**  
**Condensed Consolidated Statements of Cash Flows**  
*(In thousands of Canadian dollars)*  
*(unaudited)*

	Three months ended March 31, 2021	Three months ended March 31, 2020
Cash increase (decrease)		
Operating activities		
Net income (loss)	\$ 7,463	\$ (1,258)
Adjustments		
Income taxes	3,267	1,223
Amortization and depreciation	9,344	7,597
Interest expense	1,073	1,635
Unrealized foreign exchange (gain) loss	(897)	6,230
(Gain) loss on equity investment (note 7)	(4,005)	563
Pension expense	2,302	1,987
Contract liabilities	694	–
Interest paid	(1,001)	(1,550)
Income tax paid	(6,879)	(303)
Pension contribution	(1,263)	(1,608)
Change in non-cash operating working capital (note 16)	11,617	12,868
	21,715	27,384
Investing activities		
Additions to property, plant and equipment	(4,237)	(3,346)
Charitable gaming asset purchase	–	(4,895)
Acquisition of mkodo Limited	–	(17,447)
Acquisition of Next Generation Lotteries AS (note 5)	(40,195)	–
Equity distribution (investment) (note 7)	4,112	(511)
Additions to intangible assets	(2,608)	(1,749)
	(42,928)	(27,948)
Financing activities		
Proceeds from issue of share capital (note 11)	32,573	–
Net borrowings of long-term debt	6,254	6,201
Change in other non-current liabilities	81	(95)
Lease principal payments	(1,377)	(1,266)
Deferred financing charges paid	(8)	(68)
Dividends paid	(1,028)	(1,025)
	36,495	3,747
Foreign exchange gain (loss) on cash held in foreign currency	(461)	557
Change in cash position	14,821	3,740
Cash position, beginning of period	1,888	7,448
Cash position, end of period	\$ 16,709	\$ 11,188

See accompanying notes to condensed consolidated interim financial statements.

# Pollard Banknote Limited

## Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

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### 1. Reporting entity:

Pollard Banknote Limited ("Pollard") was incorporated under the laws of Canada on March 26, 2010. The address of Pollard's registered office is 140 Otter Street, Winnipeg, Manitoba, Canada, R3T 0M8.

The condensed consolidated interim financial statements of Pollard as at and for the three months ended March 31, 2021, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and gaming products.

The controlling entity of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owns approximately 64.3% of Pollard's outstanding shares.

Pollard's consolidated financial statements as at and for the year ended December 31, 2020, are available at [www.sedar.com](http://www.sedar.com).

The operations of Next Generation Lotteries AS ("NGL"), acquired during the first quarter of 2021, are included in the condensed consolidated interim financial statements from January 14, 2021 (note 5).

The overall impact of seasonality does not have a significant impact on the operations of Pollard.

### 2. Basis of preparation:

#### (a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* and do not include all of the information required for full annual consolidated financial statements.

On May 13, 2021, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

#### (b) Use of estimates and judgements:

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying Pollard's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2020.

## **Pollard Banknote Limited**

### **Notes to Condensed Consolidated Interim Financial Statements (continued)**

*(In thousands of Canadian dollars, except where otherwise noted and for share amounts)*

(unaudited)

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#### **3. Significant accounting policies:**

Except for the accounting policies described below, these condensed consolidated interim financial statements follow the same significant accounting policies as described and used in Pollard's consolidated financial statements for the year ended December 31, 2020 and should be read in conjunction with these statements.

- (a) Amendments to International Financial Reporting Standards ("IFRS") 9 – interest rate benchmark reform:

In August 2020, the International Accounting Standards Board ("IASB") finalized its response to the ongoing reform of inter-bank offered rates and other interest rate benchmarks by issuing a package of amendments to IFRS standards. The amendments mainly relate to changes to contractual cash flows and clarify that a company will not have to derecognize the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the changes to the alternative benchmark rate. The amendments are effective for annual periods beginning on or after January 1, 2021. Pollard has determined that this amendment did not have a material impact on its condensed consolidated interim financial statements.

#### **4. Future accounting standards:**

- (a) Amendments to IAS 1 – classification of liabilities as current or non-current:

In January 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to clarify the classification of liabilities as current or non-current. For the purposes of non-current classification, the amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. The amendments are effective for annual periods beginning on or after January 1, 2023. Pollard is currently assessing the impact of the amendment on its condensed consolidated interim financial statements.

- (b) Amendments to IAS 16 – proceeds before intended use:

In May 2020, the IASB issued *Property, Plant and Equipment Proceeds before Intended Use (Amendments to IAS 16)*. The amendments provide guidance on the accounting for sale proceeds and related production costs for items a company produces and sells in the process of making an item of property, plant and equipment available for its intended use. The amendments are effective for annual periods beginning on or after January 1, 2022. Pollard is currently assessing the impact of the amendment on its condensed consolidated interim financial statements.

## **Pollard Banknote Limited**

### **Notes to Condensed Consolidated Interim Financial Statements (continued)**

*(In thousands of Canadian dollars, except where otherwise noted and for share amounts)*

(unaudited)

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#### **4. Future accounting standards (continued):**

- (c) Amendments to IAS 37 – cost of fulfilling a contract:

In May 2020, the IASB issued *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*. The amendments address the fact that IAS 37 does not specify which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous. The amendments clarify that costs of fulfilling a contract comprise both the incremental costs and an allocation of direct costs. The amendments are effective for annual periods beginning on or after January 1, 2022. Pollard is currently assessing the impact of the amendment on its condensed consolidated interim financial statements.

- (d) Amendments to IAS 1 and IFRS Practice Statement 2 – disclosure initiative – accounting policies:

In February 2021, the IASB issued *Disclosure Initiative – Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements)*. The amendments help companies provide useful accounting policy disclosures. The key amendments include requiring companies to disclose their material accounting policies rather than significant accounting policies, clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements. The amendments are effective for annual periods beginning on or after January 1, 2023. Pollard is currently assessing the impact of the amendment on its condensed consolidated interim financial statements.

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

#### 5. Acquisitions:

(a) Compliant Gaming, LLC:

On December 30, 2020, Pollard acquired 100% of the equity of Compliant Gaming, LLC ("Compliant"), a leading provider of electronic pull-tab gaming systems and products to the charitable gaming market. The purchase price was funded by proceeds from Pollard's credit facility and cash on hand. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities have been based on management's best estimates and valuation techniques as at December 30, 2020, the acquisition date.

Cash paid	\$	24,623
Contingent consideration		5,239
Total consideration	\$	29,862
Accounts receivable	\$	46
Prepaid expenses and deposits		44
Property, plant and equipment		453
Accounts payable and accrued liabilities		(155)
Contract liabilities		(110)
Net tangible assets acquired	\$	278
Customer relationships	\$	13,121
Game Library		2,907
Software		1,398
Identifiable intangible assets acquired	\$	17,426
Goodwill acquired	\$	12,158

The goodwill acquired is largely attributable to the assembled workforce, market share and the expected revenue synergies and cost savings after integration of Compliant with Pollard. This goodwill is expected to be deductible for tax purposes.

During the measurement period, the closing working capital amount was finalized. Adjustments to the purchase price and purchase price allocation were required, resulting in a \$274 increase in cash paid, a \$37 increase in the customer relationships and a \$237 increase to goodwill.

Acquisition costs related to the Compliant purchase in the three months ended March 31, 2021, were \$32. These costs were included in administration expenses.

Contingent consideration, based on achievement of certain earnings before interest, taxes, depreciation and amortization ("EBITDA") targets, may be paid to the vendor. The earn-out is based on Compliant's achievement of certain EBITDA targets during 2021 and 2022. The potential payment under the earn-out is unlimited. As at March 31, 2021, Pollard has accrued \$4,199 within current liabilities and \$997 within non-current liabilities relating to the contingent consideration.

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

#### 5. Acquisitions (continued):

(b) Next Generation Lotteries AS:

On January 14, 2021, Pollard acquired 100% of the equity of Next Generation Lotteries AS ("NGL"), a leading provider of lottery management and iLottery technology. The purchase price was funded by proceeds from Pollard's credit facility and cash on hand. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities have been based on management's best estimates and valuation techniques as at January 14, 2021, the acquisition date.

Cash paid, net of cash acquired of \$9,015 and debt assumed of \$2,382	\$	40,195
Issuance of common shares		7,152
Total consideration	\$	47,347
Accounts receivable	\$	5,599
Inventories		1,096
Prepaid expenses and deposits		1,002
Property, plant and equipment		3,281
Income tax receivable		1,119
Deferred tax liability		(5,725)
Accounts payable and accrued liabilities		(3,342)
Net tangible assets acquired	\$	3,030
Technology	\$	22,653
Game Library		2,984
Identifiable intangible assets acquired	\$	25,637
Goodwill acquired	\$	18,680

The goodwill acquired is largely attributable to the assembled workforce and the expected revenue synergies and cost savings after integration of NGL with Pollard. This goodwill is not expected to be deductible for tax purposes. The fair values of identifiable assets and liabilities acquired are preliminary and are subject to change if new information becomes available during the measurement period.

Acquisition costs related to the NGL purchase in the three months ended March 31, 2021, were \$486. These costs were included in administration expenses.

If NGL had been acquired on January 1, 2021, incremental revenue of \$458 and net loss of \$374, after depreciation and amortization of the fair values of identifiable net assets acquired, would have been recognized in the three months ended March 31, 2021.

Included in the purchase price is contingent consideration, based on achievement of certain contribution margin targets during 2021. The maximum amount of contingent consideration payable is \$6,186. As at March 31, 2021 Pollard has not accrued any amounts relating to this contingent consideration as the contribution margin targets are currently not expected to be met.

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

#### 6. Inventories:

	March 31, 2021	December 31, 2020
Raw materials	\$ 16,942	\$ 16,756
Work-in-process	2,030	2,209
Finished goods	25,764	27,655
	\$ 44,736	\$ 46,620

During the first quarter of 2021, Pollard recorded inventory write-downs of \$142 representing an increase in the obsolescence reserves, and inventory write-downs of \$43 due to changes in foreign exchange rates.

During the first quarter of 2020, Pollard recorded inventory write-downs of \$204 representing an increase in the obsolescence reserves, and reversal of previous write-downs of \$21 due to changes in foreign exchange rates.

The cost of sales reflects the costs of inventory including direct material, direct labour and manufacturing overheads.

#### 7. Equity investment:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Interest in joint venture		
Balance, beginning of period	\$ 881	\$ 1,161
Investment (distribution)	(4,112)	511
Equity income (loss)	4,005	(563)
Effects of movements in exchange rates	10	98
Balance, end of period	\$ 784	\$ 1,207

Pollard, in conjunction with NeoGames US, LLP, operates NeoPollard Interactive ("NPI"). The entity was established to provide iLottery services in the United States and Canada, excluding the State of Michigan.

Pollard and Neogames S.A. operate the iLottery operation for the Michigan Lottery under a separate joint operating agreement. Pollard recognizes its interest in the joint operation by including its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

#### 8. Revenue and contract balances:

In the following tables, revenue from contracts with customers is disaggregated by geographical segment and product line:

Revenue – geographical segment	Three months ended March 31, 2021		
	Lotteries and charitable gaming	Diamond Game	Total
Canada	\$ 17,336	\$ 2,195	\$ 19,531
United States	62,058	5,865	67,923
International	24,760	–	24,760
<b>Total</b>	<b>\$ 104,154</b>	<b>\$ 8,060</b>	<b>\$ 112,214</b>

Revenue – geographical segment	Three months ended March 31, 2020		
	Lotteries and charitable gaming	Diamond Game	Total
Canada	\$ 21,633	\$ 1,710	\$ 23,343
United States	52,800	4,692	57,492
International	21,418	–	21,418
<b>Total</b>	<b>\$ 95,851</b>	<b>\$ 6,402</b>	<b>\$ 102,253</b>

Revenue – product lines	Three months ended March 31, 2021		
	Lotteries and charitable gaming	Diamond Game	Total
Lottery	\$ 89,947	\$ –	\$ 89,947
Charitable	14,207	–	14,207
Gaming systems	–	8,060	8,060
<b>Total</b>	<b>\$ 104,154</b>	<b>\$ 8,060</b>	<b>\$ 112,214</b>

Revenue – product lines	Three months ended March 31, 2020		
	Lotteries and charitable gaming	Diamond Game	Total
Lottery	\$ 83,470	\$ –	\$ 83,470
Charitable	12,381	–	12,381
Gaming systems	–	6,402	6,402
<b>Total</b>	<b>\$ 95,851</b>	<b>\$ 6,402</b>	<b>\$ 102,253</b>

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

#### 8. Revenue and contract balances (continued):

The following tables provide information about receivables, contract assets and contract liabilities from contracts with customers:

	March 31, 2021	December 31, 2020
Contract balances		
Trade receivables, which are included in accounts receivable	\$ 59,057	\$ 56,376
Contract assets, which are included in accounts receivable	6,784	6,643
Contract liabilities	555	379

	Three months ended March 31, 2021	Three months ended March 31, 2020
Contract liabilities		
Balance – beginning of period	\$ 379	\$ –
Acquisition	–	278
Increases due to cash received	874	253
Revenue recognized during the period	(695)	(278)
Effect of movement in exchange rates	(3)	–
Balance – end of period	555	253
Less current portion	(375)	(253)
	\$ 180	\$ –

#### 9. Long-term debt:

	March 31, 2021	December 31, 2020
Credit facility, interest of 1.6% to 3.2%, payable monthly, maturing 2022	\$ 137,012	\$ 131,365
Deferred financing charges, net of amortization	(216)	(285)
	\$ 136,796	\$ 131,080

## **Pollard Banknote Limited**

### **Notes to Condensed Consolidated Interim Financial Statements (continued)**

*(In thousands of Canadian dollars, except where otherwise noted and for share amounts)*

(unaudited)

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#### **9. Long-term debt (continued):**

(a) Credit facility:

Effective December 31, 2019, Pollard renewed its credit facility. The credit facility provides loans of up to \$190,000 for its Canadian operations and US\$14,000 for its U.S. subsidiaries. The credit facility also includes an accordion feature which can increase the facility by \$35,000. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of \$190,000 Canadian equivalent. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At March 31, 2021, the outstanding letters of guarantee drawn under the credit facility were \$705 (December 31, 2020 – \$712).

Included in the total credit facility balance is a U.S. dollar denominated balance of US\$45,900 (December 31, 2020 – US\$55,900). As of March 31, 2021, Pollard had unused credit facility available of \$69,923 (December 31, 2020 – \$75,745).

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including debt to income before interest, income taxes, amortization, depreciation and certain other items ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at March 31, 2021, Pollard is in compliance with all financial covenants.

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. Under the terms of the agreement the facility is committed for a three-year period, renewable December 31, 2022. Principal payments are not required until maturity. The facility can be prepaid without penalties.

(b) Economic Development Canada ("EDC") facility:

Effective February 28, 2020, Pollard entered into an agreement with EDC to provide a €15,000 facility whereby Pollard can issue qualifying letters of credit against the EDC facility. The facility is guaranteed by a general indemnity from Pollard. As of March 31, 2021, the outstanding letters of credit drawn on this facility were \$10,361 (€7,048). As of December 31, 2020, the outstanding letters of credit drawn on this facility were \$10,960 (€7,048).

#### **10. Pension liability:**

During the three month period ended March 31, 2021, Pollard recorded a remeasurement gain of \$12,468 (net of \$4,544 of income tax) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate and higher returns than expected on plan asset investments.

During the three month period ended March 31, 2020, Pollard recorded a remeasurement gain of \$3,027 (net of \$1,135 of income tax) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate, which was partially offset by a loss arising on plan assets.

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

#### 11. Share capital:

	Shares		Amount
Authorized			
Unlimited common shares			
Unlimited preferred shares			
Issued			
Balance at January 1, 2020	25,635,658	\$	108,642
Stock option exercise	71,250		365
Balance at December 31, 2020	25,706,908		109,007
Issue of common shares	933,800		32,405
Acquisition of NGL (note 5)	233,211		7,152
Stock option exercises	24,750		206
Balance at March 31, 2021	26,898,669	\$	148,770

#### *Issue of common shares*

On February 9, 2021, Pollard announced that it had entered into an agreement with a syndicate of underwriters to purchase, on a bought deal basis, 812,000 common shares of Pollard at a price of \$36.95 per share. Pollard also granted the underwriters an over-allotment option exercisable at any time up to 30 days following the closing of the offering, to purchase up to an additional 121,800 common shares. The offering, including the full over-allotment, closed on March 2, 2021. The total gross proceeds, prior to any commissions and offering expenses, from the sale of 933,800 common shares was approximately \$34,504.

#### *Dividends*

Dividends are paid on the common shares within 15 days of the end of each quarter and are fully discretionary, as determined by the Board of Directors of Pollard.

On March 10, 2021, a dividend of \$0.04 per share was declared, payable on April 15, 2021, to the shareholders of record on March 31, 2021.

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

#### 12. Other expenses (income):

	Three months ended March 31, 2021	Three months ended March 31, 2020
Litigation settlement	\$ 2,520	\$ –
EBITDA support agreement	–	(500)
Canada emergency wage subsidy	(1,857)	–
Other (income) expenses	(117)	31
	\$ 546	\$ (469)

##### *Litigation Settlement*

Pollard entered into an agreement for a one-time payment of \$2,520 to settle all aspects of a litigation related to a patent dispute relating to Pollard's instant ticket production.

#### 13. Finance costs:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Interest	\$ 1,073	\$ 1,635
Foreign exchange loss	536	6,083
	\$ 1,609	\$ 7,718

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

#### 14. Income taxes:

Reconciliation of effective tax rate

	Three months ended March 31, 2021		Three months ended March 31, 2020	
Net income (loss) for the period	\$	7,463	\$	(1,258)
Total income taxes		3,267		1,223
Income (loss) before income taxes	\$	10,730	\$	(35)
Income tax reduction using Pollard's domestic tax rate	27.0%	\$ 2,897	27.0%	\$ (9)
Effect of tax rates in foreign jurisdictions	(4.2%)	(446)	(1)	(59)
Non-deductible amounts	0.2%	24	(1)	56
Non-deductible amounts relating to acquisitions	1.2%	126		175
Other items	0.6%	61	(1)	65
Effect of non-taxable items related to foreign exchange	(0.1%)	(11)	(1)	995
Unrecognized non-capital losses	5.7%	616	(1)	–
	30.4%	\$ 3,267	(1)	\$ 1,223

(1) Not meaningful

#### 15. Net income (loss) per share:

	Three months ended March 31, 2021		Three months ended March 31, 2020	
Net income (loss) attributable to shareholders for basic and diluted net income per share	\$	7,463	\$	(1,258)
Weighted average number of shares (basic)		26,218,657		25,635,658
Weighted average impact of share options		322,918		381,895
Weighted average number of shares (diluted)		26,541,575		26,017,553
Net income (loss) per share (basic)	\$	0.28	\$	(0.05)
Net income (loss) per share (diluted)	\$	0.28	\$	(0.05)

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

#### 16. Supplementary cash flow information:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Change in non-cash operating working capital:		
Accounts receivable	\$ 1,615	\$ 10,806
Inventories	2,867	(2,303)
Prepaid expenses and deposits	191	725
Income taxes payable	(60)	(60)
Accounts payable and accrued liabilities	7,517	3,724
Contract liabilities	(513)	(24)
	\$ 11,617	\$ 12,868

#### 17. Related party transactions:

##### *Pollard Equities Limited and affiliates*

During the quarter ended March 31, 2021, Pollard paid property rent of \$863 (2020 – \$853) and \$nil (2020 – \$110) in plane charter costs to affiliates of Equities.

During the quarter, Equities paid Pollard \$18 (2020 – \$18) for accounting and administration fees.

At March 31, 2021, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, expenses and other items of \$nil (December 31, 2020 - \$454).

Included within property, plant and equipment and lease liabilities on the condensed consolidated statements of financial position are right-of-use assets and corresponding liabilities for premises leased to Pollard from Equities. As at March 31, 2021, the net book value of the right-of-use assets was \$6,899 (December 31, 2020 – \$7,715) and the present value of the lease liabilities was \$7,093 (December 31, 2020 – \$7,887).

##### *Neogames S.à r.l. and affiliates*

During the quarter ended March 31, 2021, Pollard reimbursed operating costs and paid software royalties of \$3,356 (2020 – \$1,766) to its iLottery partner, which are recorded in cost of sales and other expenses (income).

At March 31, 2021, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of \$1,870 (December 31, 2020 – \$2,027) for its share of profits and reimbursement of operating costs, net of capital investments.

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

#### 17. Related party transactions (continued):

At March 31, 2021, included in restricted cash and accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of \$4,754 (December 31, 2020 - \$4,803) for funds relating to contractual performance guarantees.

##### *Key management personnel*

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors and the Executive Committee are considered key management personnel.

Key management personnel compensation comprised:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Wages, salaries and benefits	\$ 1,096	\$ 763
Expenses related to defined benefit plans	201	198
	\$ 1,297	\$ 961

At March 31, 2021, key management personnel of Pollard, as a group, beneficially owned or exercised control or direction over 17,474,458 common shares of Pollard.

#### 18. Segmented information:

Pollard has two reportable segments: Lotteries and charitable gaming, and Diamond Game, which are Pollard's strategic business units.

The Lotteries and charitable gaming segment derives its revenues from the manufacture of instant tickets and related products. The Diamond Game segment derives its revenues from the development of game systems.

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

#### 18. Segmented information (continued):

Three months ended March 31, 2021				
		Lotteries and charitable gaming	Diamond Game	Total
Revenues from external customers	\$	104,154	\$ 8,060	\$ 112,214
Operating costs and expenses		94,209	7,275	101,484
Earnings before income taxes		9,945	785	10,730
Total assets		405,160	59,531	464,691

  

Three months ended March 31, 2020				
		Lotteries and charitable gaming	Diamond Game	Total
Revenues from external customers	\$	95,851	\$ 6,402	\$ 102,253
Operating costs and expenses		95,897	6,391	102,288
Earnings before income taxes		(46)	11	(35)
Total assets		321,380	64,318	385,698

#### 19. Financial risk management:

Pollard has exposure to the following risks from its use of financial instruments:

Credit risk  
Liquidity risk  
Currency risk  
Interest rate risk

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Audit Committee oversees how management monitors compliance with Pollard's risk management policies and procedures. The Audit Committee is assisted in its oversight role by Internal Audit, who undertakes regular reviews of risk management controls and utilizes the annual risk assessment process as the basis for the annual internal audit plan.

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

#### 19. Financial risk management (continued):

##### *Credit risk*

The following table outlines the details of the aging of Pollard's receivables and the related allowance for losses:

	March 31, 2021	December 31, 2020
Current	\$ 66,053	\$ 61,355
Past due for 1 to 60 days	1,952	2,913
Past due for more than 60 days	2,503	1,946
Less: Allowance for losses	(504)	(177)
	\$ 70,004	\$ 66,037

##### *Liquidity risk*

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The 2021 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and the unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

##### *Currency risk*

Pollard sells a significant portion of its products and services to customers in the United States and to some international customers where sales are denominated in U.S. dollars. In addition, a significant portion of its cost inputs are denominated in U.S. dollars. Pollard also generates revenue in currencies other than the Canadian and U.S. dollar, primarily in Euros.

A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and U.S. dollar would decrease/increase the income before income taxes due to changes in operating cashflow by approximately \$36 for three months ended March 31, 2021 (2020 – \$39). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian dollar and Euro would decrease/increase the income before income taxes due to changes in operating cashflow by approximately \$119 for three months ended March 31, 2021 (2020 – \$16).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. As at March 31, 2021, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately \$42,579 (December 31, 2020 – \$52,626). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result

## **Pollard Banknote Limited**

### **Notes to Condensed Consolidated Interim Financial Statements (continued)**

*(In thousands of Canadian dollars, except where otherwise noted and for share amounts)*

(unaudited)

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#### **19. Financial risk management (continued):**

in a decrease/increase in income before taxes of approximately \$213 for the three months ended March 31, 2021 (2020 – \$165).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Five manufacturing facilities are located in the U.S. and a significant amount of cost inputs for all production facilities are denominated in U.S. dollars, offsetting a large portion of the U.S. dollar revenue in a natural hedge.

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At March 31, 2021, Pollard had no outstanding foreign currency contracts.

#### *Interest rate risk*

Pollard is exposed to interest rate risk relating to its fixed and floating rate instruments. Fluctuation in interest rates will have an effect on the valuation and repayment of these instruments.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately \$171 for the three months ended March 31, 2021 (2020 – \$173).