

Condensed Consolidated Interim Financial Statements of

**POLLARD BANKNOTE
LIMITED**

(unaudited)

Six months ended June 30, 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)

	June 30, 2021	December 31, 2020
Assets		
Current assets		
Cash	\$ 9,057	\$ 1,888
Restricted cash	21,382	19,058
Accounts receivable	72,629	66,037
Inventories (note 6)	46,963	46,620
Prepaid expenses and deposits	7,889	6,707
Income tax receivable	1,826	338
Total current assets	159,746	140,648
Non-current assets		
Property, plant and equipment	97,475	96,396
Equity investment (note 7)	671	881
Goodwill	106,536	89,276
Intangible assets	95,040	74,146
Deferred income taxes	–	3,220
Total non-current assets	299,722	263,919
Total assets	\$ 459,468	\$ 404,567
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 80,815	\$ 59,433
Dividends payable	1,077	1,028
Income taxes payable	633	4,941
Contract liabilities (note 8)	384	379
Current portion lease liabilities	4,852	5,109
Total current liabilities	87,761	70,890
Non-current liabilities		
Long-term debt (note 9)	123,305	131,080
Other non-current liabilities	424	1,322
Pension liability (note 10)	21,951	36,370
Lease liabilities	9,473	11,832
Contract liabilities (note 8)	159	–
Deferred income taxes	15,863	10,690
Total non-current liabilities	171,175	191,294
Shareholders' equity		
Share capital (note 11)	149,003	109,007
Reserves	(4,063)	2,563
Retained earnings	55,592	30,813
Total shareholders' equity	200,532	142,383
Total liabilities and shareholders' equity	\$ 459,468	\$ 404,567

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 June 30, 2021		Three months ended June 30, 2020		Six months ended June 30, 2021		Six months ended June 30, 2020	
Sales (note 8)	\$	113,382	\$	91,502	\$	225,596	\$	193,755
Cost of sales		90,797		72,747		178,502		153,275
Gross profit		22,585		18,755		47,094		40,480
Administration		11,079		9,528		23,124		19,711
Selling		3,958		3,382		7,543		7,147
(Gain) loss on equity investment (note 7)		(2,535)		264		(6,540)		827
Other income (note 12)		(1,976)		(6,021)		(1,430)		(6,490)
Income from operations		12,059		11,602		24,397		19,285
Finance costs (note 13)		1,135		1,214		2,744		8,932
Finance income (note 13)		(750)		(1,973)		(750)		(1,973)
Income before income taxes		11,674		12,361		22,403		12,326
Income taxes (note 14)								
Current		4,774		1,924		9,063		4,040
Deferred (reduction)		(770)		1,227		(1,793)		334
		4,004		3,151		7,270		4,374
Net income	\$	7,670	\$	9,210	\$	15,133	\$	7,952
Net income per share (basic) (note 15)	\$	0.29	\$	0.36	\$	0.56	\$	0.31
Net income per share (diluted) (note 15)	\$	0.29	\$	0.36	\$	0.56	\$	0.31

See accompanying notes to condensed consolidated interim financial statements.

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

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Net income	\$ 7,670	\$ 9,210	\$ 15,133	\$ 7,952
Other comprehensive income (loss)				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations	(2,634)	(6,462)	(6,626)	5,881
Items that will never be reclassified to profit and loss				
Defined benefit plans remeasurements, net of income tax (note 10)	(774)	(8,879)	11,694	(5,852)
Other comprehensive income (loss)	(3,408)	(15,341)	5,068	29
Comprehensive income (loss)	\$ 4,262	\$ (6,131)	\$ 20,201	\$ 7,981

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 six months ended June 30, 2021

	Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2020	\$ 109,007	2,563	30,813	142,383
Net income	–	–	15,133	15,133
Other comprehensive income (loss)				
Foreign currency translation differences – foreign operations	–	(6,626)	–	(6,626)
Defined benefit plans remeasurements, net of income tax	–	–	11,694	11,694
Total other comprehensive income (loss)	\$ –	(6,626)	11,694	5,068
Total comprehensive income (loss)	\$ –	(6,626)	26,827	20,201
Issue of common shares (note 11)	\$ 32,844	–	(81)	32,763
Issue of common shares related to acquisition of Next Generation Lotteries AS (note 5)	7,152	–	–	7,152
Share based compensation	–	–	186	186
Dividends (note 11)	–	–	(2,153)	(2,153)
Balance at June 30, 2021	\$ 149,003	(4,063)	55,592	200,532

For the six months ended June 30, 2020

	Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2019	\$ 108,642	5,705	8,937	123,284
Net income	–	–	7,952	7,952
Other comprehensive income (loss)				
Foreign currency translation differences – foreign operations	–	5,881	–	5,881
Defined benefit plans remeasurements, net of income tax	–	–	(5,852)	(5,852)
Total other comprehensive income (loss)	\$ –	5,881	(5,852)	29
Total comprehensive income	\$ –	5,881	2,100	7,981
Share based compensation	\$ –	–	181	181
Dividends	–	–	(2,050)	(2,050)
Balance at June 30, 2020	\$ 108,642	11,586	9,168	129,396

See accompanying notes to condensed consolidated interim financial statements.

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

	Six months ended June 30, 2021	Six months ended June 30, 2020
Cash increase (decrease)		
Operating activities		
Net income	\$ 15,133	\$ 7,952
Adjustments		
Income taxes	7,270	4,374
Amortization and depreciation	19,225	15,379
Interest expense	2,208	2,849
Unrealized foreign exchange (gain) loss	(2,514)	4,463
(Gain) loss on equity investment (note 7)	(6,540)	827
Pension expense	4,950	3,893
Contract liabilities	159	–
Contingent consideration	1,090	–
Interest paid	(2,283)	(2,710)
Income tax paid	(13,346)	(304)
Pension contribution	(3,292)	(3,299)
Change in non-cash operating working capital (note 16)	14,803	4,203
	36,863	37,627
Investing activities		
Additions to property, plant and equipment	(9,174)	(5,322)
Charitable gaming asset purchase	–	(4,895)
Acquisition of mkodo Limited	–	(17,447)
Acquisition of Next Generation Lotteries AS (note 5)	(40,740)	–
Equity distribution (investment) (note 7)	6,717	(741)
Additions to intangible assets	(5,977)	(3,223)
	(49,174)	(31,628)
Financing activities		
Proceeds from issue of share capital	32,763	–
Net borrowings (repayments) of long-term debt	(6,407)	2,577
Change in other non-current liabilities	(859)	68
Lease principal payments	(3,103)	(2,506)
Deferred financing charges paid	(63)	(79)
Dividends paid	(2,104)	(2,050)
	20,227	(1,990)
Foreign exchange gain (loss) on cash held in foreign currency	(747)	249
Change in cash position	7,169	4,258
Cash position, beginning of period	1,888	7,448
Cash position, end of period	\$ 9,057	\$ 11,706

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)

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 six months ended June 30, 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.

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 August 11, 2021, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Use of estimates and judgments:

The preparation of condensed consolidated interim financial statements requires management to make judgments, 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 judgments 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)

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)

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 six months ended June 30, 2021, were \$61. These costs were included in administration expenses.

Contingent consideration, based on achievement of certain earnings before interest, income 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 June 30, 2021, Pollard reassessed Compliant's progress towards achievement of the 2021 and 2022 EBITDA targets, which resulted in an adjustment to increase the fair value of the liability by \$1,090. As at June 30, 2021, Pollard has accrued \$6,604 within 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	\$	40,740
Issuance of common shares		7,152
Total consideration	\$	47,892
Accounts receivable	\$	6,144
Inventories		1,096
Prepaid expenses and deposits		1,002
Property, plant and equipment		3,281
Income tax receivable		1,119
Deferred tax liability		(6,460)
Accounts payable and accrued liabilities		(3,342)
Net tangible assets acquired	\$	2,840
Technology	\$	22,653
Game library		2,984
Identifiable intangible assets acquired	\$	25,637
Goodwill acquired	\$	19,415

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.

During the measurement period, new information became available regarding the ability to utilize the future tax recoverable recognized as at the acquisition date. An adjustment to the preliminary purchase price allocation was required, resulting in a \$735 increase in deferred tax liability and an increase of \$735 to goodwill.

During the measurement period, new information regarding the existence and valuation of certain receivables became known. An adjustment to the preliminary purchase price allocation was required, resulting in a \$545 increase to the consideration paid and a \$545 increase in accounts receivable.

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):

Acquisition costs related to the NGL purchase in the six months ended June 30, 2021, were \$887. 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 six months ended June 30, 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 \$5,880 (€4,000). As at June 30, 2021, Pollard has not accrued any amounts relating to this contingent consideration as the contribution margin targets are currently not expected to be met.

6. Inventories:

	June 30, 2021	December 31, 2020
Raw materials	\$ 18,443	\$ 16,756
Work-in-process	2,179	2,209
Finished goods	26,341	27,655
	\$ 46,963	\$ 46,620

During the second quarter of 2021, Pollard recorded inventory write-downs of \$358, representing an increase in the obsolescence reserves, and reversal of previous write-downs of \$54 due to changes in foreign exchange rates. During the six months ended June 30, 2021, Pollard recorded inventory write-downs of \$499 representing an increase in the obsolescence reserves, and reversal of previous write-downs of \$11 due to changes in foreign exchange rates.

During the second quarter of 2020, Pollard recorded inventory write-downs of \$383, representing an increase in the obsolescence reserves, and inventory write-downs of \$43 due to changes in foreign exchange rates. During the six months ended June 30, 2020, Pollard recorded inventory write-downs of \$587 representing an increase in the obsolescence reserves, and inventory write-downs of \$22 due to changes in foreign exchange rates.

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

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)

7. Equity investment:

	Six months ended		Six months ended	
	June 30, 2021		June 30, 2020	
Interest in joint venture				
Balance, beginning of period	\$	881	\$	1,161
Investment (distribution)		(6,717)		741
Equity income (loss)		6,540		(827)
Effects of movements in exchange rates		(33)		55
Balance, end of period	\$	671	\$	1,130

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 business 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		Six months ended June 30, 2021		
		Lotteries and charitable gaming	Diamond Game	Total
Canada	\$	34,550	\$ 4,658	\$ 39,208
United States		126,267	12,268	138,535
International		47,853	–	47,853
	\$	208,670	\$ 16,926	\$ 225,596

Revenue – geographical segment		Six months ended June 30, 2020		
		Lotteries and charitable gaming	Diamond Game	Total
Canada	\$	37,970	\$ 1,713	\$ 39,683
United States		104,909	6,783	111,692
International		42,380	–	42,380
	\$	185,259	\$ 8,496	\$ 193,755

Revenue – product lines		Six months ended June 30, 2021		
		Lotteries and charitable gaming	Diamond Game	Total
Lottery	\$	179,298	\$ –	\$ 179,298
Charitable		29,372	–	29,372
Gaming systems		–	16,926	16,926
	\$	208,670	\$ 16,926	\$ 225,596

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):

Revenue – product lines	Six months ended June 30, 2020		
	Lotteries and charitable gaming	Diamond Game	Total
Lottery	\$ 167,349	\$ –	\$ 167,349
Charitable	17,910	–	17,910
Gaming systems	–	8,496	8,496
	\$ 185,259	\$ 8,496	\$ 193,755

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

Contract balances	June 30, 2021	December 31, 2020
Trade receivables, which are included in accounts receivable	\$ 61,542	\$ 56,376
Contract assets, which are included in accounts receivable	4,990	6,643
Contract liabilities	543	379

Contract liabilities	Six months ended June 30, 2021	Six months ended June 30, 2020
Balance, beginning of period	\$ 379	\$ –
Acquisition	–	278
Increases due to cash received	1,582	542
Revenue recognized during the period	(1,411)	(551)
Effect of movement in exchange rates	(7)	(11)
Balance, end of period	543	258
Less current portion	(384)	(258)
	\$ 159	\$ –

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)

9. Long-term debt:

	June 30, 2021	December 31, 2020
Credit facility, interest of 1.5% to 1.9%, payable monthly, maturing 2022	\$ 123,516	\$ 131,365
Deferred financing charges, net of amortization	(211)	(285)
	\$ 123,305	\$ 131,080

(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 June 30, 2021, the outstanding letters of guarantee drawn under the credit facility were \$130 (December 31, 2020 – \$712).

Included in the total credit facility balance is a U.S. dollar denominated balance of US\$38,400 (December 31, 2020 – US\$55,900). As of June 30, 2021, Pollard had unused credit facility available of \$83,714 (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 June 30, 2021, Pollard was 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 June 30, 2021, the outstanding letters of credit drawn on this facility were \$11,169 (€7,598). As of December 31, 2020, the outstanding letters of credit drawn on this facility were \$10,960 (€7,048).

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)

10. Pension liability:

During the three month period ended June 30, 2021, Pollard recorded a remeasurement loss of \$774 (net of \$251 of income tax) on its defined pension plans. The remeasurement loss resulted from a decrease in the discount rate, partially offset by higher returns than expected on plan asset investments.

During the three month period ended June 30, 2020, Pollard recorded a remeasurement loss of \$8,879 (net of \$3,235 of income tax) on its defined pension plans. The remeasurement loss resulted from a decrease in the discount rate and lower returns than expected on plan asset investments.

During the six month period ended June 30, 2021, Pollard recorded a remeasurement gain of \$11,694 (net of \$4,293 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 six month period ended June 30, 2020, Pollard recorded a remeasurement loss of \$5,852 (net of \$2,101 of income tax) on its defined pension plans. The remeasurement loss resulted from a decrease in the discount rate and lower returns than expected on plan asset investments.

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 exercises	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	43,750	439
Balance at June 30, 2021	26,917,669	\$ 149,003

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

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 (continued):

gross proceeds, prior to any commissions and offering expenses, from the sale of 933,800 common shares was approximately \$34,504.

Stock option issuance

On May 13, 2021, the Board of Directors approved the award of 25,000 options to purchase common shares of Pollard for a member of senior management. The options were granted on May 31, 2021, and have a seven year term, vesting 25% per year over the first four years. The exercise price of \$61.13 was equal to the closing price of the common shares on May 28, 2021.

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 May 13, 2021, a dividend of \$0.04 per share was declared, payable on July 15, 2021, to the shareholders of record on June 30, 2021.

12. Other income:

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Litigation settlement	\$ -	\$ -	\$ 2,520	\$ -
EBITDA support agreement	-	(500)	-	(1,000)
Canada emergency wage subsidy	(3,153)	(5,504)	(5,176)	(5,504)
Contingent consideration fair value adjustment (note 5)	1,090	-	1,090	-
Other (income) expenses	87	(17)	136	14
	\$ (1,976)	\$ (6,021)	\$ (1,430)	\$ (6,490)

Litigation Settlement

In the six months ended June 30, 2021, 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.

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)

13. Finance costs and finance income:

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Finance costs				
Foreign exchange loss	\$ –	\$ –	\$ 536	\$ 6,083
Interest	1,135	1,214	2,208	2,849
	\$ 1,135	\$ 1,214	\$ 2,744	\$ 8,932
	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Finance income				
Foreign exchange gain	\$ 750	\$ 1,973	\$ 750	\$ 1,973
	\$ 750	\$ 1,973	\$ 750	\$ 1,973

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:

		Three months ended June 30, 2021		Three months ended June 30, 2020
Reconciliation of effective tax rate				
Net income for the period		\$ 7,670		\$ 9,210
Total income taxes		4,004		3,151
Income before income taxes		\$ 11,674		\$ 12,361
Income tax using Pollard's domestic tax rate	27.0%	\$ 3,152	27.0%	\$ 3,337
Effect of tax rates in foreign jurisdictions	(2.2%)	(254)	(1.2%)	(144)
Non-deductible amounts	2.9%	348	0.5%	60
Unrecognized non-capital losses	6.3%	737	0.0%	–
Other items	1.2%	142	0.8%	104
Effect of non-taxable items related to foreign exchange	(1.0%)	(121)	(1.7%)	(206)
	34.2%	\$ 4,004	25.4%	\$ 3,151
Reconciliation of effective tax rate				
		Six months ended June 30, 2021		Six months ended June 30, 2020
Net income for the period		\$ 15,133		\$ 7,952
Total income taxes		7,270		4,374
Income before income taxes		\$ 22,403		\$ 12,326
Income tax using Pollard's domestic tax rate	27.0%	\$ 6,049	27.0%	\$ 3,328
Effect of tax rates in foreign jurisdictions	(3.1%)	(700)	(1.7%)	(203)
Non-deductible amounts	2.2%	498	2.5%	302
Unrecognized non-capital losses	6.0%	1,353	0.0%	–
Other items	0.9%	202	1.3%	158
Effect of non-taxable items related to foreign exchange	(0.6%)	(132)	6.4%	789
	32.4%	\$ 7,270	35.5%	\$ 4,374

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)

15. Net income per share:

	Three months ended June 30, 2021	Three months ended June 30, 2020
Net income attributable to shareholders for basic and diluted net income per share	\$ 7,670	\$ 9,210
Weighted average number of shares (basic)	26,906,402	25,635,658
Weighted average impact of share options on issue	307,101	402,225
Weighted average number of shares (diluted)	27,213,503	26,037,883
Net income per share (basic)	\$ 0.29	\$ 0.36
Net income per share (diluted)	\$ 0.29	\$ 0.36

	Six months ended June 30, 2021	Six months ended June 30, 2020
Net income attributable to shareholders for basic and diluted net income per share	\$ 15,133	\$ 7,952
Weighted average number of shares (basic)	26,566,308	25,635,658
Weighted average impact of share options on issue	314,918	392,060
Weighted average number of shares (diluted)	26,881,226	26,027,718
Net income per share (basic)	\$ 0.56	\$ 0.31
Net income per share (diluted)	\$ 0.56	\$ 0.31

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:

	Six months ended June 30, 2021	Six months ended June 30, 2020
Change in non-cash operating working capital:		
Accounts receivable	\$ 106	\$ 6,376
Inventories	289	(5,730)
Prepaid expenses and deposits	(438)	1,875
Income taxes payable	(313)	(120)
Accounts payable and accrued liabilities	15,141	1,813
Contract liabilities	18	(11)
	\$ 14,803	\$ 4,203

17. Related party transactions:

Pollard Equities Limited and affiliates

During the quarter ended June 30, 2021, Pollard paid property rent of \$812 (2020 - \$860) and \$nil (2020 - \$8) in plane charter costs to an affiliate of Pollard Equities Limited. During the six months ended June 30, 2021, Pollard paid property rent of \$1,675 (2020 - \$1,713) and \$nil (2020 - \$118) in plane charter costs to an affiliate of Equities.

During the quarter, Equities paid Pollard \$18 (2020 - \$18) for accounting and administration fees and \$36 (2020 - \$36) during the six months ended June 30, 2021.

At June 30, 2021, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, expenses and other items of \$230 (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 June 30, 2021, the net book value of the right-of-use assets was \$6,124 (December 31, 2020 - \$7,715) and the present value of the lease liabilities was \$6,325 (December 31, 2020 - \$7,887).

Neogames S.A. and affiliates

Pollard reimbursed operating costs and paid software royalties to its iLottery partner of \$3,349 (2020 - \$2,350) and \$6,705 (2020 - \$4,116) for the three and six month periods ended June 30, 2021. These costs have been recorded in cost of sales and other income.

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 June 30, 2021, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of \$1,433 (December 31, 2020 – \$2,027) for its share of profits and reimbursement of operating costs, net of capital investments.

At June 30, 2021, included in restricted cash and accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of \$4,679 (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 June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Wages, salaries and benefits	\$ 859	\$ 785	\$ 1,966	\$ 1,548
Expenses related to defined benefit plans	201	198	402	396
	\$ 1,060	\$ 983	\$ 2,368	\$ 1,944

At June 30, 2021, key management personnel of Pollard, as a group, beneficially owned or exercised control or direction over 17,487,438 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 strategic business units offer different products and services, and are managed separately. For each of the strategic business units, Pollard's Co-CEO's review internal management reports on a monthly basis.

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 and includes the operations of Compliant, acquired on December 30, 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)

18. Segmented information (continued):

Segment information about profits and assets is as follows:

Three months ended June 30, 2021			
	Lotteries and charitable gaming	Diamond Game	Total
Revenues from external customers	\$ 104,516	\$ 8,866	\$ 113,382
Operating costs and expenses	93,081	8,627	101,708
Earnings before income taxes	11,435	239	11,674
Total assets	399,252	60,216	459,468

Three months ended June 30, 2020			
	Lotteries and charitable gaming	Diamond Game	Total
Revenues from external customers	\$ 89,407	\$ 2,095	\$ 91,502
Operating costs and expenses	74,661	4,480	79,141
Earnings before income taxes	14,746	(2,385)	12,361
Total assets	329,487	61,263	390,750

Six months ended June 30, 2021			
	Lotteries and charitable gaming	Diamond Game	Total
Revenues from external customers	\$ 208,670	\$ 16,926	\$ 225,596
Operating costs and expenses	187,291	15,902	203,193
Earnings before income taxes	21,379	1,024	22,403
Total assets	399,252	60,216	459,468

Six months ended June 30, 2020			
	Lotteries and charitable gaming	Diamond Game	Total
Revenues from external customers	\$ 185,259	\$ 8,496	\$ 193,755
Operating costs and expenses	170,559	10,870	181,429
Earnings before income taxes	14,700	(2,374)	12,326
Total assets	329,487	61,263	390,750

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:

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.

Credit risk

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

	June 30, 2021	December 31, 2020
Current	\$ 69,891	\$ 61,355
Past due for 1 to 60 days	665	2,913
Past due for more than 60 days	2,626	1,946
Less: Allowance for losses	(553)	(177)
	\$ 72,629	\$ 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.

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):

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 \$28 for the second quarter of 2021 (2020 - \$8) and approximately \$64 for the six months ended June 30, 2021 (2020 - \$47). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and Euro would decrease/increase the income before income taxes due to changes in operating cashflow by approximately \$26 for the second quarter of 2021 (2020 - \$14) and approximately \$43 for the six months ended June 30, 2021 (2020 - \$30).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At June 30, 2021, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately \$45,113 (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 in a decrease/increase in income before taxes of approximately \$226 for the three and six months ended June 30, 2021 (2020 - \$134).

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 June 30, 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 \$154 for the three months ended June 30, 2021 (2020 - \$166) and approximately \$309 for the six months ended June 30, 2021 (2020 - \$339).