

Condensed Consolidated Interim Financial Statements of

**POLLARD BANKNOTE  
LIMITED**

(unaudited)

Nine months ended September 30, 2022

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)

	September 30, 2022	December 31, 2021
<b>Assets</b>		
Current assets		
Cash	\$ 1,861	\$ 3,517
Restricted cash	18,125	19,237
Accounts receivable	75,974	73,351
Inventories (note 6)	60,248	45,008
Prepaid expenses and deposits	8,161	7,576
Income taxes receivable	5,497	4,477
<b>Total current assets</b>	<b>169,866</b>	<b>153,166</b>
Non-current assets		
Long-term receivables	714	584
Property, plant and equipment	101,569	104,590
Equity investment (note 7)	536	585
Goodwill	110,389	108,175
Intangible assets	98,312	94,305
<b>Total non-current assets</b>	<b>311,520</b>	<b>308,239</b>
<b>Total assets</b>	<b>\$ 481,386</b>	<b>\$ 461,405</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 73,019	\$ 81,306
Dividends payable	1,077	1,077
Income taxes payable	113	194
Current portion lease liabilities	6,707	6,151
Contract liabilities (note 11)	1,988	2,242
<b>Total current liabilities</b>	<b>82,904</b>	<b>90,970</b>
Non-current liabilities		
Lease liabilities	7,493	10,419
Deferred income taxes	11,065	11,112
Long-term debt (note 8)	136,682	115,130
Other non-current liabilities	417	4,276
Pension liabilities (note 9)	5,632	22,541
<b>Total non-current liabilities</b>	<b>161,289</b>	<b>163,478</b>
Shareholders' equity		
Share capital (note 10)	149,849	149,849
Reserves	9,212	(1,579)
Retained earnings	78,132	58,687
<b>Total shareholders' equity</b>	<b>237,193</b>	<b>206,957</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 481,386</b>	<b>\$ 461,405</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 September 30, 2022		Three months ended September 30, 2021		Nine months ended September 30, 2022		Nine months ended September 30, 2021	
Sales (note 11)	\$	125,519	\$	116,881	\$	355,336	\$	342,477
Cost of sales		104,920		94,193		291,551		272,122
Gross profit		20,599		22,688		63,785		70,355
Administration		12,547		12,116		36,893		35,268
Selling		4,445		4,457		13,437		12,579
Equity investment income (note 7)		(5,993)		(2,565)		(15,011)		(9,105)
Other expenses (note 12)		2,884		4,265		3,682		2,800
Income from operations		6,716		4,415		24,784		28,813
Finance costs (note 13)		6,708		2,930		13,238		5,675
Finance income (note 13)		–		–		(461)		(750)
Income before income taxes		8		1,485		12,007		23,888
Income taxes (note 14)								
Current		2,905		4,190		8,379		13,253
Deferred reduction		(2,742)		(2,087)		(5,102)		(3,880)
		163		2,103		3,277		9,373
Net income (loss)	\$	(155)	\$	(618)	\$	8,730	\$	14,515
Net income (loss) per share – basic (note 15)	\$	(0.01)	\$	(0.02)	\$	0.32	\$	0.54
Net income (loss) per share – diluted (note 15)	\$	(0.01)	\$	(0.02)	\$	0.32	\$	0.54

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 September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Net income (loss)	\$ (155)	\$ (618)	\$ 8,730	\$ 14,515
Other comprehensive income				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations	12,073	3,640	10,791	(2,986)
Items that will never be reclassified to profit and loss				
Defined benefit plans remeasurements, net of income taxes (note 9 & note 14)	294	1,853	13,667	13,547
Other comprehensive income	12,367	5,493	24,458	10,561
Comprehensive income	\$ 12,212	\$ 4,875	\$ 33,188	\$ 25,076

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 nine months ended September 30, 2022**

	Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2021	\$ 149,849	(1,579)	58,687	206,957
Net income	–	–	8,730	8,730
Other comprehensive income				
Foreign currency translation differences – foreign operations	–	10,791	–	10,791
Defined benefit plans remeasurements, net of income tax	–	–	13,667	13,667
Total other comprehensive income	\$ –	10,791	13,667	24,458
Total comprehensive income	\$ –	10,791	22,397	33,188
Share based compensation	\$ –	–	278	278
Dividends (note 10)	–	–	(3,230)	(3,230)
Balance at September 30, 2022	\$ 149,849	9,212	78,132	237,193

**For the nine months ended September 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	–	–	14,515	14,515
Other comprehensive income (loss)				
Foreign currency translation differences – foreign operations	–	(2,986)	–	(2,986)
Defined benefit plans remeasurements, net of income tax	–	–	13,547	13,547
Total other comprehensive income (loss)	\$ –	(2,986)	13,547	10,561
Total comprehensive income (loss)	\$ –	(2,986)	28,062	25,076
Issue of common shares (note 10)	\$ 32,844	–	(81)	32,763
Issue of common shares related to acquisition of Next Generation Lotteries AS (note 5)	7,998	–	–	7,998
Share based compensation	–	–	325	325
Dividends (note 10)	–	–	(3,229)	(3,229)
Balance at September 30, 2021	\$ 149,849	(423)	55,890	205,316

See accompanying notes to condensed consolidated interim financial statements.

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

	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Cash increase (decrease)		
Operating activities		
Net income	\$ 8,730	\$ 14,515
Adjustments		
Income taxes	3,277	9,373
Amortization and depreciation	29,436	28,788
Interest expense	5,918	3,421
Unrealized foreign exchange (gain) loss	6,633	(297)
Equity investment income (note 7)	(15,011)	(9,105)
Pension expense	7,050	7,545
Contingent consideration fair value adjustment	4,109	6,005
Interest paid	(3,842)	(3,506)
Income taxes paid	(8,386)	(17,053)
Pension contributions	(5,622)	(5,935)
Change in non-cash operating working capital (note 16)	(18,965)	12,657
	13,327	46,408
Investing activities		
Additions to property, plant and equipment	(9,416)	(14,500)
Contingent consideration paid for acquisition of Compliant Gaming, LLC	(13,994)	-
Acquisition of Next Generation Lotteries AS (note 5)	(1,139)	(33,861)
Equity distribution (note 7)	15,108	9,315
Additions to intangible assets	(14,610)	(8,376)
	(24,051)	(47,422)
Financing activities		
Net proceeds from issue of share capital (note 10)	-	32,763
Net borrowings (repayments) of long-term debt	17,370	(15,048)
Change in other non-current liabilities	32	313
Lease principal payments	(4,830)	(4,694)
Deferred financing charges paid	(103)	(87)
Dividends paid	(3,230)	(3,180)
	9,239	10,067
Foreign exchange loss on cash held in foreign currency	(171)	(691)
Change in cash position	(1,656)	8,362
Cash position, beginning of period	3,517	1,888
Cash position, end of period	\$ 1,861	\$ 10,250

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 nine months ended September 30, 2022, 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 and solutions.

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, 2021, are available at [www.sedar.com](http://www.sedar.com).

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 November 9, 2022, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

#### (b) Basis of preparation:

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for the following material items in the statement of financial position:

- The pension liabilities are recognized as the net total of the fair value of plan assets less the present value of the defined benefit obligation.
- The contingent consideration liability is recognized at the present value of the expected payments to be made under the agreement.

These statements are presented in Canadian dollars, Pollard's functional currency, and all values are rounded to the nearest thousand (except share and per share amounts) unless otherwise indicated.

## **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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#### **2. Basis of preparation (continued):**

Certain comparative figures for the prior period have been reclassified to conform to the presentation adopted in the current period.

(c) 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, 2021.

#### **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, 2021 and should be read in conjunction with these statements.

(a) Amendments to IAS 16 – Proceeds Before Intended Use:

In May 2020, the International Accounting Standards Board ("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 has determined that this amendment did not have a material impact on its condensed consolidated interim financial statements.

(b) 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 has determined that this amendment did not have a material impact 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:

(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, 2024. Pollard is currently assessing the impact of the amendment on its condensed consolidated interim financial statements.

(b) Amendments to IAS 1 and International Financial Reporting Standards (“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.

(c) Amendments to IAS 12 – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction:

In May 2021, the IASB issued *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*. The amendments narrow the scope of the initial recognition exemption (“IRE”) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision. 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)

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

(d) Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback:

In September 2022, the IASB issued *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*. The amendments introduce a new accounting model which impacts how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments clarify that on initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction and after initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognizes no gain or loss relating to the right of use it retains. The amendments need to be applied retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2024. Pollard is currently assessing the impact of the amendment on its condensed consolidated interim financial statements.

#### 5. Acquisitions:

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, issuance of common shares 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	\$	39,221
Purchase price payable		1,526
Issuance of common shares		7,998
Total consideration	\$	48,745
Accounts receivable	\$	6,145
Inventories		1,096
Prepaid expenses and deposits		896
Property, plant and equipment		5,116
Income taxes receivable		1,119
Deferred income tax liabilities		(6,460)
Accounts payable and accrued liabilities		(3,342)
Lease liabilities		(1,835)
Net tangible assets acquired	\$	2,735
Technology	\$	22,653
Game library		2,984
Identifiable intangible assets acquired	\$	25,637
Goodwill acquired	\$	20,373

## **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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#### **5. Acquisitions (continued):**

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.

During the measurement period, new information became available regarding the existence and valuation of certain receivables, prepaid expenses, right of use assets and lease liabilities, the valuation of share consideration and the ability to utilize the future tax recoverable recognized at the acquisition date. Adjustments to the preliminary purchase price allocation were required, resulting in a \$544 increase to the cash paid, a \$846 increase to the value of the common shares issued, a \$545 increase in accounts receivable, a \$106 decrease in prepaid expenses, a \$1,835 increase in property, plant and equipment, a \$735 increase in deferred income tax liabilities, a \$1,835 increase in lease liabilities and a \$1,686 increase to goodwill.

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 \$8 increase in cash paid, a \$1 increase in accounts receivable and a \$7 increase to goodwill.

Included in the purchase agreement is the opportunity for contingent consideration, based on achievement of certain contribution margin targets during 2021 and future utilization of certain income tax losses. At September 30, 2022, Pollard has not accrued any amounts relating to this contingent consideration as the requirements are currently not expected to be met.

At December 31, 2021, the acquisition accounting was finalized.

## 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:

	September 30, 2022	December 31, 2021
Raw materials	\$ 28,711	\$ 21,678
Work-in-process	1,963	2,270
Finished goods	29,574	21,060
	\$ 60,248	\$ 45,008

During the third quarter of 2022, Pollard recorded inventory write-downs of \$355, representing an increase in the obsolescence reserves, and reversal of previous write-downs of \$550 due to changes in foreign exchange rates. During the nine months ended September 30, 2022, Pollard recorded inventory write-downs of \$750 representing an increase in the obsolescence reserves, and reversal of previous write-downs of \$552 due to changes in foreign exchange rates.

During the third quarter of 2021, Pollard recorded inventory write-downs of \$253, representing an increase in the obsolescence reserves, and inventory write-downs of \$17 due to changes in foreign exchange rates. During the nine months ended September 30, 2021, Pollard recorded inventory write-downs of \$752 representing an increase in the obsolescence reserves, and inventory write-downs of \$6 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:

*NeoPollard Interactive, LLC ("NPI")*

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

	Nine months ended	
	September 30, 2022	September 30, 2021
Investment in equity accounted entity		
Balance, beginning of period	\$ 585	\$ 881
Investment distribution	(15,108)	(9,315)
Equity income	15,011	9,105
Effects of movements in exchange rates	48	(17)
Balance, end of period	\$ 536	\$ 654

	September 30, 2022		December 31, 2021	
Net Assets				
Current assets	\$ 31,456	\$ 29,435		
Non-current assets	1,797	1,932		
Total	\$ 33,253	\$ 31,367		
Current liabilities	\$ 31,996	\$ 29,835		
Non-current liabilities	186	362		
Total	\$ 32,182	\$ 30,197		
Net assets – 100%	\$ 1,071	\$ 1,170		
Attributable to Pollard – 50%	\$ 536	\$ 585		

At September 30, 2022, included in the current assets of NPI is restricted cash relating to amounts held on behalf of iLottery customers of \$14,319 (December 31, 2021 – \$11,512). There is an offsetting liability included in current liabilities.

	Nine months ended	
	September 30, 2022	September 30, 2021
Interest in joint venture		
Revenue – 100%	\$ 74,766	\$ 59,272
Revenue – attributable to Pollard – 50%	\$ 37,383	\$ 29,636
Comprehensive income – 100%	\$ 27,877	\$ 16,289
Comprehensive income – attributable to Pollard <sup>(1)</sup>	\$ 15,011	\$ 9,105

(1) Comprehensive income attributable to Pollard is greater than 50% due to services provided to NPI by Pollard. Pollard's share of these transactions is eliminated upon consolidation.

## 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 (continued):

##### *Michigan iLottery*

Pollard and NeoGames US, LLP 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 50% share of any assets held jointly, its liabilities, including its 50% share of any liabilities incurred jointly and its 50% share of revenue and expenses.

#### 8. Long-term debt:

	September 30, 2022	December 31, 2021
Credit facility, interest of 4.5% to 5.7%, payable monthly, maturing 2025	\$ 137,138	\$ 115,804
Deferred financing charges, net of amortization	(456)	(674)
	<u>\$ 136,682</u>	<u>\$ 115,130</u>

##### (a) Credit facility:

Effective December 31, 2021, Pollard renewed its credit facility. The credit facility provides loans of up to \$215,000 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 \$50,000. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of \$215,000 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 September 30, 2022, the outstanding letters of guarantee drawn under the credit facility were \$90 (December 31, 2021 – \$126).

Included in the total credit facility balance is a U.S. dollar denominated balance of US\$35,400 (December 31, 2021 – US\$35,400). As of September 30, 2022, Pollard had unused credit facility available of \$97,093 (December 31, 2021 – \$116,822).

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 September 30, 2022, 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 four-year period, renewable December 31, 2025. Principal payments are not required until maturity. The facility can be prepaid without penalties.

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

(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 September 30, 2022, the outstanding letters of credit drawn on this facility were \$10,048 (€7,388). As of December 31, 2021, the outstanding letters of credit drawn on this facility were \$10,526 (€7,315).

#### **9. Pension liabilities**

During the three month period ended September 30, 2022, Pollard recorded a remeasurement gain of \$294 (net of \$47 of income taxes) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate, which was partially offset by lower than expected returns on plan asset investments.

During the three month period ended September 30, 2021, Pollard recorded a remeasurement gain of \$1,853 (net of \$690 of income taxes) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate and higher than expected returns on plan asset investments.

During the nine month period ended September 30, 2022, Pollard recorded a remeasurement gain of \$13,667 (net of \$4,846 of income taxes) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate, which was partially offset by lower than expected returns on plan asset investments.

During the nine month period ended September 30, 2021, Pollard recorded a remeasurement gain of \$13,547 (net of \$4,975 of income taxes) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate and higher than expected returns on plan asset 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)

#### 10. Share capital:

	Shares		Amount
Authorized			
Unlimited common shares			
Unlimited preferred shares			
Issued			
Balance at January 1, 2021	25,706,908	\$	109,007
Issue of common shares	933,800		32,405
Acquisition of NGL (note 5)	233,211		7,998
Stock options exercised	43,750		439
Balance at December 31, 2021 and September 30, 2022	26,917,669	\$	149,849

#### *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 August 10, 2022, a dividend of \$0.04 per share was declared, payable on October 14, 2022, to the shareholders of record on September 30, 2022.



# 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. Revenue and contract balances:

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

Revenue – geographical segment	Nine months ended September 30, 2022			
		Lotteries and charitable gaming	eGaming systems	Total
Canada	\$	62,330	\$ 4,403	\$ 66,733
United States		198,000	30,527	228,527
International		60,076	–	60,076
	\$	320,406	\$ 34,930	\$ 355,336

Revenue – geographical segment	Nine months ended September 30, 2021			
		Lotteries and charitable gaming	eGaming systems	Total
Canada	\$	58,804	\$ 1,758	\$ 60,562
United States		182,948	25,176	208,124
International		73,791	–	73,791
	\$	315,543	\$ 26,934	\$ 342,477

Revenue – product lines	Nine months ended September 30, 2022			
		Lotteries and charitable gaming	eGaming systems	Total
Lottery	\$	270,824	\$ –	\$ 270,824
Charitable		49,582	–	49,582
eGaming systems		–	34,930	34,930
Total	\$	320,406	\$ 34,930	\$ 355,336

Revenue – product lines	Nine months ended September 30, 2021			
		Lotteries and charitable gaming	eGaming systems	Total
Lottery	\$	270,722	\$ –	\$ 270,722
Charitable		44,821	–	44,821
eGaming systems		–	26,934	26,934
	\$	315,543	\$ 26,934	\$ 342,477

## 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. Revenue and contract balances (continued):

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

	September 30, 2022	December 31, 2021
Contract balances		
Trade receivables, which are included in accounts receivable	\$ 68,591	\$ 64,552
Contract assets, which are included in accounts receivable	4,408	4,467
Contract liabilities	1,988	2,242
	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Contract liabilities		
Balance – beginning of period	\$ 2,242	\$ 669
Increases due to cash received	4,495	5,117
Revenue recognized during the period	(4,701)	(3,330)
Effect of movement in exchange rates	(48)	(5)
Balance – end of period	1,988	2,451
Less current portion	(1,988)	(2,451)
	\$ –	\$ –

#### 12. Other expenses:

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Contingent consideration fair value adjustment	\$ 3,232	\$ 4,915	\$ 4,109	\$ 6,005
Other (income) expenses	(348)	50	(427)	151
Canada Emergency Wage Subsidy ("CEWS")	–	(700)	–	(5,876)
Litigation settlement	–	–	–	2,520
	\$ 2,884	\$ 4,265	\$ 3,682	\$ 2,800

## 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 September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Finance costs				
Interest	\$ 1,993	\$ 1,212	\$ 5,918	\$ 3,421
Foreign exchange loss	4,715	1,718	7,320	2,254
	\$ 6,708	\$ 2,930	\$ 13,238	\$ 5,675

  

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Finance income				
Foreign exchange gain	\$ –	\$ –	\$ 461	\$ 750
	\$ –	\$ –	\$ 461	\$ 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)

#### 14. Income taxes:

		Three months ended September 30, 2022		Three months ended September 30, 2021
Reconciliation of effective tax rate				
Net loss for the period		\$ (155)		\$ (618)
Total income taxes		163		2,103
Income before income taxes		\$ 8		\$ 1,485
Income tax using Pollard's domestic tax rate	27.0%	\$ 2	27.0%	\$ 401
Effect of tax rates in foreign jurisdictions	(1)	(489)	(1)	(146)
Non-deductible amounts	(1)	35	(1)	129
Unrecognized non-capital losses	0.0%	–	(1)	871
Other items	(1)	205	(1)	554
Effect of non-taxable items related to foreign exchange	(1)	410	(1)	294
	(1)	\$ 163	(1)	\$ 2,103

(1) Not meaningful

		Nine months ended September 30, 2022		Nine months ended September 30, 2021
Reconciliation of effective tax rate				
Net income for the period		\$ 8,730		\$ 14,515
Total income taxes		3,277		9,373
Income before income taxes		\$ 12,007		\$ 23,888
Income tax using Pollard's domestic tax rate	27.0%	\$ 3,242	27.0%	\$ 6,450
Effect of tax rates in foreign jurisdictions	(12.1%)	(1,450)	(3.6%)	(846)
Non-deductible amounts	0.4%	48	2.6%	628
Change in enacted United Kingdom corporate tax rates	3.8%	461	0.0%	–
Unrecognized non-capital losses	0.0%	–	9.3%	2,223
Other items	1.3%	150	3.2%	756
Effect of non-taxable items related to foreign exchange	6.9%	826	0.7%	162
	27.3%	\$ 3,277	39.2%	\$ 9,373

## 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 (loss) per share:

	Three months ended September 30, 2022	Three months ended September 30, 2021
Net loss attributable to shareholders	\$ (155)	\$ (618)
Weighted average number of shares – basic	26,917,669	26,917,699
Weighted average impact of share options	312,500	312,500
Weighted average number of shares – diluted	27,230,169	27,230,169
Net loss per share – basic	\$ (0.01)	\$ (0.02)
Net loss per share – diluted	\$ (0.01)	\$ (0.02)

  

	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Net income attributable to shareholders	\$ 8,730	\$ 14,515
Weighted average number of shares – basic	26,917,669	26,685,150
Weighted average impact of share options	312,500	314,100
Weighted average number of shares – diluted	27,230,169	26,999,250
Net income per share – basic	\$ 0.32	\$ 0.54
Net income per share – diluted	\$ 0.32	\$ 0.54

## 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:

	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Change in non-cash operating working capital:		
Accounts receivable	\$ 193	\$ (2,301)
Inventories	(13,649)	2,407
Prepaid expenses and deposits	(675)	(509)
Income taxes payable	(964)	(1,187)
Accounts payable and accrued liabilities	(3,664)	12,166
Contract liabilities	(206)	2,081
	\$ (18,965)	\$ 12,657

#### 17. Related party transactions:

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

During the quarter ended September 30, 2022, Pollard paid property rent of \$829 (2021 - \$825) and \$105 (2021 - \$4) in plane charter costs to an affiliate of Pollard Equities Limited. During the nine months ended September 30, 2022, Pollard paid property rent of \$2,483 (2021 - \$2,500) and \$315 (2021 - \$4) in plane charter costs to an affiliate of Equities.

During the quarter, Equities paid Pollard \$18 (2021 - \$18) for accounting and administration fees and \$54 (2021 - \$54) during the nine months ended September 30, 2022.

At September 30, 2022, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, expenses and other items of \$233 (December 31, 2021 - \$nil).

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 September 30, 2022, the net book value of the right-of-use assets was \$4,334 (December 31, 2021 - \$6,601) and the present value of the lease liabilities was \$4,498 (December 31, 2021 - \$6,770).

##### *NeoGames US, LLP and affiliates*

During the quarter ended September 30, 2022, Pollard reimbursed operating costs and paid software royalties of \$3,527 (2021 - \$3,345) to its iLottery partner. During the nine months ended September 30, 2022, Pollard reimbursed operating costs and paid software royalties of \$10,121 (2021 - \$10,050) to its iLottery partner. These costs have been recorded in cost of sales and equity investment 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 September 30, 2022, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of \$2,120 (December 31, 2021 – \$2,176) for its share of profits and reimbursement of operating costs, net of capital investments.

At September 30, 2022, included in restricted cash and accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of \$4,653 (December 31, 2021 – \$4,784) 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 September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Wages, salaries and benefits	\$ 1,116	\$ 1,240	\$ 2,981	\$ 3,206
Deferred director compensation adjustment	(3)	–	27	–
Expenses related to defined benefit plans	220	201	629	602
	\$ 1,333	\$ 1,441	\$ 3,637	\$ 3,808

At September 30, 2022, key management personnel of Pollard, as a group, beneficially owned or exercised control or direction over 17,390,538 common shares of Pollard.

#### 18. Segmented information:

Pollard has two reportable segments: Lotteries and charitable gaming, and eGaming systems 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.

## 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):

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

Segment information about profits and assets is as follows:

	Three months ended September 30, 2022		
	Lotteries and charitable gaming	eGaming systems <sup>(1)</sup>	Total
Revenues from external customers	\$ 113,832	\$ 11,687	\$ 125,519
Operating costs and expenses	114,421	11,090	125,511
Income (loss) before income taxes	(589)	597	8
Total assets	396,941	84,445	481,386

(1) Included in the results of eGaming systems are adjustments to increase the fair value and recognize accretion expense on the contingent consideration liability recognized upon acquisition of Compliant Gaming, LLC, resulting in an increase in operating costs and a decrease in income before income taxes of \$3,516.

	Three months ended September 30, 2021		
	Lotteries and charitable gaming	eGaming systems <sup>(2)</sup>	Total
Revenues from external customers	\$ 106,873	\$ 10,008	\$ 116,881
Operating costs and expenses	103,256	12,140	115,396
Income (loss) before income taxes	3,617	(2,132)	1,485
Total assets	385,848	78,875	464,723

(2) Included in the results of eGaming systems are adjustments to increase the fair value and recognize accretion expense on the contingent consideration liability recognized upon acquisition of Compliant Gaming, LLC, resulting in an increase in operating costs and a decrease in income before income taxes of \$5,308.

	Nine months ended September 30, 2022		
	Lotteries and charitable gaming	eGaming systems <sup>(3)</sup>	Total
Revenues from external customers	\$ 320,406	\$ 34,930	\$ 355,336
Operating costs and expenses	314,858	28,471	343,329
Income before income taxes	5,548	6,459	12,007
Total assets	396,941	84,445	481,386

(3) Included in the results of eGaming systems are adjustments to increase the fair value and recognize accretion expense on the contingent consideration liability recognized upon acquisition of Compliant Gaming, LLC, resulting in an increase in operating costs and a decrease in income before income taxes of \$6,378.



## 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):

	Nine months ended September 30, 2021		
	Lotteries and charitable gaming	eGaming systems <sup>(4)</sup>	Total
Revenues from external customers	\$ 315,543	\$ 26,934	\$ 342,477
Operating costs and expenses	290,546	28,042	318,588
Income (loss) before income taxes	24,997	(1,108)	23,889
Total assets	385,848	78,875	464,723

(4) Included in the results of eGaming systems are adjustments to increase the fair value and recognize accretion expense on the contingent consideration liability recognized upon acquisition of Compliant Gaming, LLC, resulting in an increase in operating costs and a decrease in income before income taxes of \$6,772.

#### 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:

	September 30, 2022	December 31, 2021
Current	\$ 71,692	\$ 67,766
Past due for 1 to 60 days	4,540	4,127
Past due for more than 60 days	1,022	2,452
Less: allowance for losses	(566)	(410)
	\$ 76,688	\$ 73,935
Less: long-term receivables	(714)	(584)
	\$ 75,974	\$ 73,351

## **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):**

##### *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 2022 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 \$3 for the third quarter of 2022 (2021 - \$32) and approximately \$10 for the nine months ended September 30, 2022 (2021 - \$95). 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 \$3 for the third quarter of 2022 (2021 - \$14) and approximately \$9 for the nine months ended September 30, 2022 (2021 - \$57).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At September 30, 2022, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars, with translation impacting the condensed consolidated statements of income, is approximately \$58,014 (December 31, 2021 - \$52,740). 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 \$290 for the three and nine months ended September 30, 2022 (2021 - \$200).

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 September 30, 2022, Pollard had no outstanding foreign currency contracts.

## **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):**

##### *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 September 30, 2022 (2021 - \$145) and approximately \$514 for the nine months ended September 30, 2022 (2021 - \$435).