

Condensed Consolidated Interim Financial Statements of

**POLLARD BANKNOTE
LIMITED**

(unaudited)

Three months ended March 31, 2024

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

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

| | March 31, 2024 | December 31, 2023 |
|--|-------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 6,582 | \$ 3,331 |
| Restricted cash | 27,940 | 25,985 |
| Accounts receivable (note 17) | 83,175 | 82,835 |
| Inventories (note 5) | 62,889 | 60,509 |
| Prepaid expenses and deposits | 8,443 | 8,142 |
| Income taxes receivable | – | 2,401 |
| Total current assets | 189,029 | 183,203 |
| Non-current assets | | |
| Long-term assets | 10,122 | 7,783 |
| Property, plant and equipment | 103,545 | 100,530 |
| Equity investment (note 6) | 527 | 518 |
| Goodwill | 112,507 | 110,982 |
| Intangible assets | 106,513 | 103,931 |
| Deferred income taxes | 11,156 | 8,766 |
| Pension asset (note 8) | 5,442 | – |
| Total non-current assets | 349,812 | 332,510 |
| Total assets | \$ 538,841 | \$ 515,713 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 101,424 | \$ 92,231 |
| Dividends payable | 1,352 | 1,079 |
| Income taxes payable | 4,447 | 52 |
| Current portion lease liabilities | 5,361 | 4,675 |
| Current portion contract liabilities (note 10) | 2,937 | 3,372 |
| Total current liabilities | 115,521 | 101,409 |
| Non-current liabilities | | |
| Lease liabilities | 14,531 | 12,872 |
| Deferred income taxes | 2,192 | 2,701 |
| Long-term debt (note 7) | 111,171 | 119,687 |
| Contract liabilities (note 10) | 947 | 881 |
| Other non-current liabilities | 888 | 767 |
| Pension liability | – | 2,592 |
| Total non-current liabilities | 129,729 | 139,500 |
| Shareholders' equity | | |
| Share capital (note 9) | 151,705 | 150,711 |
| Reserves | 9,908 | 4,450 |
| Retained earnings | 131,978 | 119,643 |
| Total shareholders' equity | 293,591 | 274,804 |
| Total liabilities and shareholders' equity | \$ 538,841 | \$ 515,713 |

See accompanying notes to condensed consolidated interim financial statements.

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

| | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|--|---|---|
| Sales (note 10) | \$ 125,740 | \$ 125,052 |
| Cost of sales | 104,217 | 107,395 |
| Gross profit | 21,523 | 17,657 |
| Administration | 15,350 | 13,392 |
| Selling | 5,398 | 4,730 |
| Equity investment income (note 6) | (12,208) | (8,184) |
| Other (income) expenses (note 11) | (387) | 165 |
| Income from operations | 13,370 | 7,554 |
| Finance costs (note 12) | 5,080 | 2,718 |
| Finance income (note 12) | – | (283) |
| Income before income taxes | 8,290 | 5,119 |
| Income taxes (note 13) | | |
| Current | 6,903 | 2,993 |
| Deferred reduction | (5,542) | (2,700) |
| | 1,361 | 293 |
| Net income | \$ 6,929 | \$ 4,826 |
| Net income per share – basic (note 14) | \$ 0.26 | \$ 0.18 |
| Net income per share – diluted (note 14) | \$ 0.25 | \$ 0.18 |

See accompanying notes to condensed consolidated interim financial statements.

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

| | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|--|---|---|
| Net income | \$ 6,929 | \$ 4,826 |
| Other comprehensive income: | | |
| Items that are or may be reclassified to profit and loss: | | |
| Foreign currency translation differences – foreign operations | 5,458 | 261 |
| Items that will never be reclassified to profit and loss: | | |
| Defined benefit plans remeasurements, net of income taxes (note 8 & note 13) | 6,717 | 1,189 |
| Other comprehensive income | 12,175 | 1,450 |
| Comprehensive income | \$ 19,104 | \$ 6,276 |

See accompanying notes to condensed consolidated interim financial statements.

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

For the three months ended March 31, 2024

| | | Share capital | Translation reserve | Retained earnings | Total equity |
|---|----|--------------------------|--------------------------------|------------------------------|-------------------------|
| Balance at December 31, 2023 | \$ | 150,711 | 4,450 | 119,643 | 274,804 |
| Net income | | – | – | 6,929 | 6,929 |
| Other comprehensive income | | | | | |
| Foreign currency translation differences – foreign operations | | – | 5,458 | – | 5,458 |
| Defined benefit plans remeasurements, net of income taxes (note 8 & note 13) | | – | – | 6,717 | 6,717 |
| Total other comprehensive income | \$ | – | 5,458 | 6,717 | 12,175 |
| Total comprehensive income | \$ | – | 5,458 | 13,646 | 19,104 |
| Issue of common shares | \$ | 994 | – | (189) | 805 |
| Share based compensation | | – | – | 230 | 230 |
| Dividends (note 9) | | – | – | (1,352) | (1,352) |
| Balance at March 31, 2024 | \$ | 151,705 | 9,908 | 131,978 | 293,591 |

For the three months ended March 31, 2023

| | | Share capital | Translation reserve | Retained earnings | Total equity |
|--|----|--------------------------|--------------------------------|------------------------------|-------------------------|
| Balance at December 31, 2022 | \$ | 149,849 | 8,913 | 93,172 | 251,934 |
| Net income | | – | – | 4,826 | 4,826 |
| Other comprehensive income | | | | | |
| Foreign currency translation differences – foreign operations | | – | 261 | – | 261 |
| Defined benefit plans remeasurements, net of income taxes | | – | – | 1,189 | 1,189 |
| Total other comprehensive income | \$ | – | 261 | 1,189 | 1,450 |
| Total comprehensive income | \$ | – | 261 | 6,015 | 6,276 |
| Share based compensation | \$ | – | – | 111 | 111 |
| Dividends | | – | – | (1,077) | (1,077) |
| Balance at March 31, 2023 | \$ | 149,849 | 9,174 | 98,221 | 257,244 |

See accompanying notes to condensed consolidated interim financial statements.

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

| | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|--|---|---|
| Cash increase (decrease) | | |
| Operating activities | | |
| Net income | \$ 6,929 | \$ 4,826 |
| Adjustments | | |
| Income taxes expense | 1,361 | 293 |
| Amortization and depreciation | 10,721 | 10,542 |
| Interest expense | 2,415 | 2,718 |
| Unrealized foreign exchange (gain) loss | 2,208 | (186) |
| Equity investment income (note 6) | (12,208) | (8,184) |
| Pension expense | 1,847 | 1,671 |
| Contingent consideration fair value adjustment (note 11) | – | 434 |
| Interest paid | (2,328) | (2,274) |
| Income taxes paid | (57) | (5,028) |
| Equity investment distribution (note 6) | 12,221 | 8,245 |
| Pension contributions | (729) | (1,829) |
| Change in contract liabilities | 66 | 430 |
| Change in long-term assets | 4 | 14 |
| Change in non-cash operating working capital (note 15) | 2,974 | 3,142 |
| | 25,424 | 14,814 |
| Investing activities | | |
| Additions to property, plant and equipment | (4,317) | (2,629) |
| Acquisitions | – | (93) |
| Additions to intangible assets | (6,348) | (5,573) |
| | (10,665) | (8,295) |
| Financing activities | | |
| Net proceeds from issue of share capital | 805 | – |
| Net repayments of long-term debt | (9,620) | (2,291) |
| Change in other non-current liabilities | 108 | 200 |
| Lease principal payments | (1,368) | (1,727) |
| Dividends paid | (1,352) | (1,077) |
| | (11,427) | (4,895) |
| Foreign exchange loss on cash held in foreign currency | (81) | (69) |
| Change in cash position | 3,251 | 1,555 |
| Cash position, beginning of period | 3,331 | 1,479 |
| Cash position, end of period | \$ 6,582 | \$ 3,034 |

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 three months ended March 31, 2024, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and charitable gaming products and solutions.

Pollard is controlled by JSP Equities Limited, Park Equities Limited and Oak Equities Limited (collectively, the "Control Group") who together own 64.0% of Pollard's outstanding shares and have entered into a shareholders' agreement in which the parties have agreed to vote their common shares in the same manner, collectively, as a single block.

Pollard's consolidated financial statements as at and for the year ended December 31, 2023, are available at www.sedarplus.ca.

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

2. Basis of preparation:

(a) Statement of compliance:

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

On May 8, 2024, 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 asset is recognized as the net total of the fair value of plan assets less the present value of the defined benefit obligation determined using acceptable actuarial practices.
- The contingent consideration liability is recognized at the present value of the expected payments to be made under the agreement.

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)

2. Basis of preparation (continued):

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.

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 at and for the year ended December 31, 2023.

3. Accounting standards implemented in 2024:

Except for the accounting policies described below, these condensed consolidated interim financial statements follow the same material accounting policies as described and used in Pollard's consolidated financial statements for the year ended December 31, 2023 and should be read in conjunction with these statements.

(a) Amendments to IAS 1 – Classification of Liabilities as Current or Non-current:

In January 2020, the International Accounting Standards Board ("IASB") issued *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* 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 2020 amendments also clarify how a company classifies a liability that includes a counterparty conversion option.

In October 2022, the IASB issued *Non-current Liabilities with Covenants (Amendments to IAS 1)*, to improve the information a company provides about long-term debt with covenants. The amendments reconfirmed that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which a company must comply after the reporting date do not affect liability classification as at that date.

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. Accounting standards implemented in 2024 (continued):

The amendments are effective for annual periods beginning on or after January 1, 2024. Pollard has determined that the amendments have not had a material impact on its condensed consolidated interim financial statements.

(b) Amendments to IFRS Accounting Standards ("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 has determined that the amendments have not had a material impact on its condensed consolidated interim financial statements.

4. Future accounting standards:

(a) Amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates:

In August 2023, the IASB issued *Lack of Exchangeability (Amendments to IAS 21)*, to clarify when a currency is exchangeable into another currency and how a company estimates a spot rate when a currency lacks exchangeability. The amendments clarify that a currency is exchangeable into another currency when a company is able to exchange that currency for the other currency at the measurement date and for a specified purpose.

The amendments also clarify that when a currency is not exchangeable, a company needs to estimate a spot rate. A company's objective when estimating a spot rate is only that it reflects the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. When estimating a spot rate a company can use an observable exchange rate without adjustment, or another estimation technique.

The amendments are effective for annual periods beginning on or after January 1, 2025. Pollard is currently assessing the impact of the amendments 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):

(b) IFRS 18 – Presentation and Disclosure in the Financial Statements:

On April 9, 2024, the IASB issued *IFRS 18 Presentation and Disclosure in Financial Statements* to improve reporting of financial performance. IFRS 18 replaces *IAS 1 Presentation of Financial Statements*. It carries forward many requirements from IAS 1 unchanged.

The new accounting standard introduces significant changes to the structure of a company's statement of income, more discipline and transparency in presentation of management's own performance measures (commonly referred to as 'non-GAAP measures') and less aggregation of items into large, single numbers.

IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027. Pollard is currently assessing the impact of the new accounting standard on its condensed consolidated interim financial statements.

5. Inventories:

| | March 31, 2024 | December 31, 2023 |
|-----------------|-------------------|----------------------|
| Raw materials | \$ 29,651 | \$ 28,315 |
| Work-in-process | 3,028 | 2,812 |
| Finished goods | 30,210 | 29,382 |
| | \$ 62,889 | \$ 60,509 |

During the first quarter of 2024, Pollard recorded within cost of sales inventory write-downs of \$274 representing an increase in the obsolescence reserves, and reversal of previous write-downs of \$130 due to changes in foreign exchange rates.

During the first quarter of 2023, Pollard recorded within cost of sales inventory write-downs of \$343 representing an increase in the obsolescence reserves, and inventory write-downs of \$341 due to changes in foreign exchange rates.

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. Equity investment:

NeoPollard Interactive, LLC

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 Michigan Lottery.

| | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|--|---|---|
| Investment in equity accounted entity | | |
| Balance, beginning of period | \$ 518 | \$ 549 |
| Investment distribution | (12,221) | (8,245) |
| Equity income | 12,208 | 8,184 |
| Effects of movements in exchange rates | 22 | – |
| Balance, end of period | \$ 527 | \$ 488 |

| | March 31, 2024 | December 31, 2023 |
|-------------------------------|-------------------|----------------------|
| Net Assets | | |
| Current assets | \$ 61,904 | \$ 51,677 |
| Non-current assets | 1,223 | 1,282 |
| Total | \$ 63,127 | \$ 52,959 |
| Current liabilities | \$ 62,074 | \$ 51,923 |
| Total | \$ 62,074 | \$ 51,923 |
| Net assets – 100% | \$ 1,053 | \$ 1,036 |
| Attributable to Pollard – 50% | \$ 527 | \$ 518 |

At March 31, 2024, included in the current assets of NPi is restricted cash relating to amounts held on behalf of iLottery customers of \$29,214 (December 31, 2023 – \$26,238). There is an offsetting liability included in current liabilities.

| | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|--|---|---|
| Interest in equity accounted entity | | |
| Sales – 100% | \$ 51,071 | \$ 36,922 |
| Sales – attributable to Pollard – 50% | \$ 25,536 | \$ 18,461 |
| Comprehensive income – 100% | \$ 24,416 | \$ 16,369 |
| Comprehensive income – attributable to Pollard – 50% | \$ 12,208 | \$ 8,184 |

At March 31, 2024, included in accounts receivable in the condensed consolidated statements of financial position is a net amount owed from NPi of \$7,595 (December 31, 2023 – \$6,285).

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. 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 sales and expenses.

7. Long-term debt:

| | March 31, 2024 | December 31, 2023 |
|--|-------------------|----------------------|
| Credit facility, interest of 6.7% to 7.4% payable monthly, maturing 2025 | \$ 111,386 | \$ 119,944 |
| Deferred financing charges, net of amortization | (215) | (257) |
| | \$ 111,171 | \$ 119,687 |

(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 Secured Overnight Financing Rate ("SOFR"). At March 31, 2024, the outstanding letters of guarantee drawn under the credit facility were \$74 (December 31, 2023 – \$73).

Included in the total credit facility balance is a U.S. dollar denominated balance of US\$35,400 (December 31, 2023 – US\$35,400). As of March 31, 2024, Pollard had unused credit facility available of \$122,439 (December 31, 2023 – \$113,464).

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including our debt service coverage ratio and debt to income before interest, income taxes, amortization, depreciation and certain other items ratio. As at March 31, 2024, 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)

7. Long-term debt (continued):

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

Effective November 29, 2023, Pollard renewed its annual agreement with EDC. This agreement provides a €15,000 facility whereby Pollard can issue qualifying letters of credit against the EDC facility. The facility is guaranteed by a general indemnity from Pollard. As of March 31, 2024, the outstanding letters of credit drawn on this facility were \$14,859 (€10,177). As of December 31, 2023, the outstanding letters of credit drawn on this facility were \$14,726 (€10,086).

8. Pension asset (liability):

During the three month period ended March 31, 2024, Pollard recorded a remeasurement gain of \$6,717 (net of \$2,459 of income tax) on its defined pension plans. The remeasurement gain resulted from higher than expected returns on plan asset investments and an increase in the discount rate.

During the three month period ended March 31, 2023, Pollard recorded a remeasurement gain of \$1,189 (net of \$447 of income tax) on its defined pension plans. The remeasurement gain resulted from higher than expected returns on plan asset investments, which were partially offset by a decrease in the discount rate.

9. Share capital:

| | Shares | Amount |
|------------------------------|------------|------------|
| Authorized | | |
| Unlimited common shares | | |
| Unlimited preferred shares | | |
| Issued | | |
| Balance at January 1, 2023 | 26,917,669 | \$ 149,849 |
| Stock options exercised | 55,000 | 862 |
| Balance at December 31, 2023 | 26,972,669 | 150,711 |
| Stock options exercised | 72,500 | 994 |
| Balance at March 31, 2024 | 27,045,169 | \$ 151,705 |

Dividends:

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

On March 5, 2024, a dividend of \$0.05 per share was declared, payable on April 15, 2024, to the shareholders of record on March 31, 2024.

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. Sales and contract balances:

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

| | Three months ended | |
|------------------------------|--------------------|----------------|
| Sales – geographical segment | March 31, 2024 | March 31, 2023 |
| Canada | \$ 19,559 | \$ 14,799 |
| United States | 82,460 | 81,913 |
| International | 23,721 | 28,340 |
| Total | \$ 125,740 | \$ 125,052 |

| | Three months ended | |
|-----------------------|--------------------|----------------|
| Sales – product lines | March 31, 2024 | March 31, 2023 |
| Lottery | \$ 93,396 | \$ 92,685 |
| Charitable | 17,391 | 18,606 |
| eGaming systems | 14,953 | 13,761 |
| Total | \$ 125,740 | \$ 125,052 |

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

| | March 31, | December 31, |
|--|-----------|--------------|
| Contract balances | 2024 | 2023 |
| Trade receivables, which are included in accounts receivable | \$ 63,488 | \$ 64,146 |
| Contract assets, which are included in accounts receivable | 6,781 | 7,159 |
| Contract liabilities | 3,884 | 4,253 |

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. Sales and contract balances (continued):

| | | Three months ended March 31, 2024 | | Three months ended March 31, 2023 |
|--------------------------------------|----|---|----|---|
| Contract liabilities | | | | |
| Balance, beginning of period | \$ | 4,253 | \$ | 2,159 |
| Increases due to cash received | | 1,896 | | 2,018 |
| Sales recognized | | (2,270) | | (2,085) |
| Effect of movement in exchange rates | | 5 | | 13 |
| Balance, end of period | | 3,884 | | 2,105 |
| Less: current portion | | (2,937) | | (1,675) |
| | \$ | 947 | \$ | 430 |

11. Other (income) expenses:

| | | Three months ended March 31, 2024 | | Three months ended March 31, 2023 |
|--|----|---|----|---|
| Contingent consideration fair value adjustment | \$ | – | \$ | 434 |
| Other income | | (387) | | (269) |
| | \$ | (387) | \$ | 165 |

12. Finance costs and finance income:

| | | Three months ended March 31, 2024 | | Three months ended March 31, 2023 |
|-----------------------|----|---|----|---|
| Finance costs | | | | |
| Interest | \$ | 2,415 | \$ | 2,718 |
| Foreign exchange loss | | 2,665 | | – |
| | \$ | 5,080 | \$ | 2,718 |

| | | Three months ended March 31, 2024 | | Three months ended March 31, 2023 |
|-----------------------|----|---|----|---|
| Finance income | | | | |
| Foreign exchange gain | \$ | – | \$ | 283 |
| | \$ | – | \$ | 283 |

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. Income taxes:

| | Three months ended March 31, 2024 | | Three months ended March 31, 2023 | |
|---|--------------------------------------|----------|--------------------------------------|----------|
| Reconciliation of effective tax rate | | | | |
| Net income for the period | \$ | 6,929 | \$ | 4,826 |
| Total income tax expense | | 1,361 | | 293 |
| Income before income taxes | \$ | 8,290 | \$ | 5,119 |
| Income tax using Pollard's domestic tax rate | 27.0% | \$ 2,238 | 27.0% | \$ 1,382 |
| Effect of tax rates in foreign jurisdictions | (9.9%) | (818) | (15.6%) | (797) |
| Non-taxable amounts | (0.8%) | (69) | (4.2%) | (215) |
| Effect of non-taxable items related to foreign exchange | (3.3%) | (270) | (1.8%) | (94) |
| Other items | 3.4% | 280 | 0.3% | 17 |
| | 16.4% | \$ 1,361 | 5.7% | \$ 293 |

14. Net income per share:

| | Three months ended March 31, 2024 | | Three months ended March 31, 2023 | |
|---|--------------------------------------|------------|--------------------------------------|------------|
| Net income attributable to shareholders | \$ | 6,929 | \$ | 4,826 |
| Weighted average number of shares – basic | | 26,983,559 | | 26,917,669 |
| Weighted average impact of share options | | 459,112 | | 365,590 |
| Weighted average number of shares – diluted | | 27,442,671 | | 27,283,259 |
| Net income per share – basic | \$ | 0.26 | \$ | 0.18 |
| Net income per share – diluted | \$ | 0.25 | \$ | 0.18 |

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. Supplementary cash flow information:

| | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|---|---|---|
| Change in non-cash operating working capital: | | |
| Accounts receivable | \$ 1,197 | \$ 12,708 |
| Inventories | (1,865) | (2,266) |
| Prepaid expenses and deposits | (363) | (2,315) |
| Income taxes payable | – | (90) |
| Accounts payable and accrued liabilities | 4,445 | (4,398) |
| Current portion contract liabilities | (440) | (497) |
| | \$ 2,974 | \$ 3,142 |

16. Related party transactions:

The Control Group and affiliates

During the quarter ended March 31, 2024, the terms of a lease extension for a lease between Pollard and an affiliate of the Control Group for land and building in Council Bluffs, Iowa were agreed to. The extension is for a five year term with annual rent of US\$583 for the first year and increasing by 2% each subsequent year. The rental rate charged was based on the current market value at the time of the extension as determined through an independent appraisal.

During the quarter ended March 31, 2024, Pollard paid property rent of \$575 (2023 – \$835) and \$111 (2023 – \$120) in plane charter costs to affiliates of the Control Group.

During the quarter, the Control Group paid Pollard \$18 (2023 – \$18) for accounting and administration fees.

At March 31, 2024, included in accounts payable and accrued liabilities is an amount owing to the Control Group and its affiliates for rent, expenses and other items of \$125 (December 31, 2023 – \$117).

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 the Control Group. As at March 31, 2024, the net book value of the right-of-use assets was \$8,435 (December 31, 2023 – \$5,472) and the present value of the lease liabilities was \$8,515 (December 31, 2023 – \$5,501).

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Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

16. Related party transactions (continued):

NeoGames US, LLP and affiliates

During the quarter ended March 31, 2024, Pollard reimbursed operating costs and paid software royalties of \$5,111 (2023 – \$4,040) to its iLottery partner, which are recorded in cost of sales and equity investment income.

At March 31, 2024, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of \$5,399 (December 31, 2023 – \$4,436) for its share of profits and reimbursement of operating costs, net of capital investments.

At March 31, 2024, included in restricted cash and accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of \$5,195 (December 31, 2023 – \$5,079) for funds relating to contractual performance guarantees.

Key management personnel

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

Key management personnel compensation comprised:

| | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|---|---|---|
| Salaries, incentives and benefits | \$ 1,071 | \$ 1,027 |
| Share based compensation | 264 | 273 |
| Expenses related to defined benefit plans | 176 | 189 |
| | <u>\$ 1,511</u> | <u>\$ 1,489</u> |

As at March 31, 2024, key management personnel of Pollard, as a group, beneficially owned or exercised control or direction over 17,415,288 common shares of Pollard.

17. 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

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Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

17. Financial risk management (continued):

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:

| | March 31, 2024 | December 31, 2023 |
|--------------------------------|-------------------|----------------------|
| Current | \$ 77,605 | \$ 76,956 |
| Past due for 1 to 60 days | 3,878 | 4,437 |
| Past due for more than 60 days | 2,181 | 1,889 |
| Less: allowance for losses | (489) | (447) |
| | \$ 83,175 | \$ 82,835 |

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 2024 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and the unused portion of Pollard's 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 sales 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)

17. Financial risk management (continued):

Translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At March 31, 2024, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately \$88,179 (December 31, 2023 – \$86,141). 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 \$441 for the three months ended March 31, 2024 (2023 – \$351).

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 sales in a natural hedge.

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At March 31, 2024, and at December 31, 2023, 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 \$139 for the three months ended March 31, 2024 (2023 – \$149).