



***June 30, 2024***

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2024**

August 13, 2024

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and six months ended June 30, 2024, is prepared as at August 13, 2024, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at June 30, 2024, and the audited consolidated financial statements of Pollard for the year ended December 31, 2023, and the notes therein. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("GAAP" or "IFRS").

### ***Forward-Looking Statements***

Certain statements in this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this document, such statements include such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

### **Use of Non-GAAP Financial Measures**

Reference to "EBITDA" is to earnings before interest, income taxes, depreciation, amortization and purchase accounting amortization. Reference to "Adjusted EBITDA" is to EBITDA before unrealized foreign exchange gains and losses, and certain non-recurring items including severance costs, acquisition costs, contingent consideration fair value adjustments and net insurance proceeds. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to net income, Adjusted EBITDA is a useful supplementary measure.

Reference to "Combined sales" is to sales recognized under GAAP plus Pollard's 50% proportionate share of NeoPollard Interactive LLC's ("NPI") sales, its iLottery joint venture operation. Reference to "Combined iLottery sales" is to sales recognized under GAAP for Pollard's 50% proportionate share of its Michigan Lottery joint iLottery operation plus Pollard's 50% proportionate share of NPI's sales, its iLottery joint venture operation.

EBITDA, Adjusted EBITDA, Combined sales and Combined iLottery sales are measures not recognized under GAAP and do not have a standardized meaning prescribed by GAAP. Therefore, these measures may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA, Adjusted EBITDA, Combined sales and Combined iLottery sales should not be construed as alternatives to net income or sales as determined in accordance with GAAP as an indicator of Pollard's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

### **Basis of Presentation**

The results of operations in the following discussions encompass the unaudited consolidated results of Pollard for the three and six months ended June 30, 2024. All figures are in millions except for per share amounts.

# POLLARD BANKNOTE LIMITED

## Overview

Pollard is one of the leading providers of products and solutions to lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant-win scratch tickets ("instant tickets") based in Canada and the second largest producer of instant tickets in the world. In addition, management believes Pollard is also the second largest bingo paper and pull-tab supplier to the charitable gaming industry in North America and, through its 50% joint venture, the largest supplier of iLottery solutions to the U.S. lottery market.

Pollard produces and provides a comprehensive line of instant tickets and lottery products and services including: licensed products, distribution, SureTrack® lottery management system, marketing, iLottery platform, eInstant game content, interactive digital gaming, including mkodo's world class game apps and GeoLocs, PlayOn® loyalty programs, retail management services, ScanACTIV™, EasyVEND™, and lottery ticket dispensers and play stations. In addition, Pollard's charitable gaming product line includes pull-tab (or break-open) tickets, bingo paper, pull-tab vending machines, ancillary products such as pull-tab counting machines and eGaming systems marketed under the Diamond Game and Compliant Gaming trade names.

Pollard's lottery products are sold extensively throughout Canada, the United States and the rest of the world, wherever applicable laws and regulations authorize their use. Pollard serves over 60 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 150 independent and wholly-owned distributors with the majority of revenue generated from repeat business.

## Acquisition

On July 31, 2024, Pollard acquired 100% of the business of Clarence J. Venne, LLC ("Venne") for a purchase price of \$12.6 million U.S. dollars (\$17.4 million) prior to standard working capital adjustments. Venne is the leading manufacturer of bingo markers utilized primarily in the charitable gaming bingo market. The purchase price was funded from Pollard's credit facility and cash on hand.

The following financial information should be read in conjunction with the accompanying unaudited consolidated financial statements of Pollard and the notes therein as at and for the three and six months ended June 30, 2024.

## SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended June 30, 2024	Three months ended June 30, 2023 <sup>(1)</sup>	Six months ended June 30, 2024	Six months ended June 30, 2023 <sup>(1)</sup>
Sales	\$137.8	\$130.8	\$263.6	\$255.8
Cost of sales	\$108.8	110.0	213.1	217.3
Gross profit	\$29.0	20.8	50.5	38.5
<i>Gross profit as a % of sales</i>	<i>21.0%</i>	<i>15.9%</i>	<i>19.2%</i>	<i>15.1%</i>
Administration expenses	16.5	14.5	31.9	27.9
<i>Administration expenses as a % of sales</i>	<i>12.0%</i>	<i>11.1%</i>	<i>12.1%</i>	<i>10.9%</i>
Selling expenses	5.7	5.1	11.2	9.8
<i>Selling expenses as a % of sales</i>	<i>4.1%</i>	<i>3.9%</i>	<i>4.2%</i>	<i>3.8%</i>
NPi equity investment income	(14.1)	(8.8)	(26.4)	(16.9)
<i>NPi equity investment income as a % of sales</i>	<i>(10.3%)</i>	<i>(6.7%)</i>	<i>(10.0%)</i>	<i>(6.6%)</i>
Unrealized foreign exchange (gain) loss	3.0	(1.7)	5.3	(1.9)
<i>Unrealized foreign exchange (gain) loss as a % of sales</i>	<i>2.2%</i>	<i>(1.3%)</i>	<i>2.0%</i>	<i>(0.7%)</i>
Net income	11.9	7.5	18.8	12.4
<i>Net income as a % of sales</i>	<i>8.6%</i>	<i>5.7%</i>	<i>7.1%</i>	<i>4.8%</i>
Adjusted EBITDA	32.3	22.1	56.0	40.7
<i>Adjusted EBITDA as a % of sales</i>	<i>23.4%</i>	<i>16.9%</i>	<i>21.2%</i>	<i>15.9%</i>
Net income per share (basic)	\$0.44	\$0.28	\$0.70	\$0.46
Net income per share (diluted)	\$0.43	\$0.27	\$0.69	\$0.45

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

	June 30, 2024	December 31, 2023
Total Assets	\$551.2	\$515.7
Total Non-Current Liabilities	\$138.4	\$139.5

**RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA**

(millions of dollars)

	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Net income	\$11.9	\$7.5	\$18.8	\$12.4
Adjustments:				
Amortization and depreciation	11.1	11.9	21.8	22.5
Interest	2.5	2.8	4.9	5.5
Income taxes	2.7	1.3	4.1	1.5
EBITDA	\$28.2	\$23.5	\$49.6	\$41.9
Unrealized foreign exchange (gain) loss	3.0	(1.7)	5.3	(1.9)
Contingent consideration fair value adjustment	0.0	0.3	0.0	0.7
Severance costs	1.1	0.0	1.1	0.0
Adjusted EBITDA	\$32.3	\$22.1	\$56.0	\$40.7

**Product line breakdown of revenue**

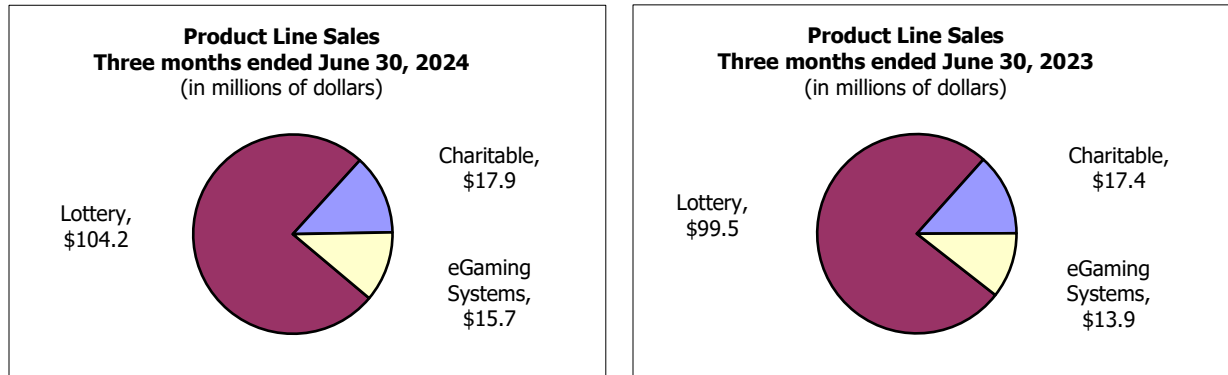
	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Lottery	75.6%	76.1%	75.0%	75.1%
Charitable	13.0%	13.3%	13.4%	14.0%
eGaming systems	11.4%	10.6%	11.6%	10.9%

## REVIEW OF OPERATIONS

Financial and operating information has been derived from, and should be read in conjunction with, the unaudited condensed consolidated financial statements of Pollard and the selected financial information disclosed in this MD&A.

### ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2024

#### Sales



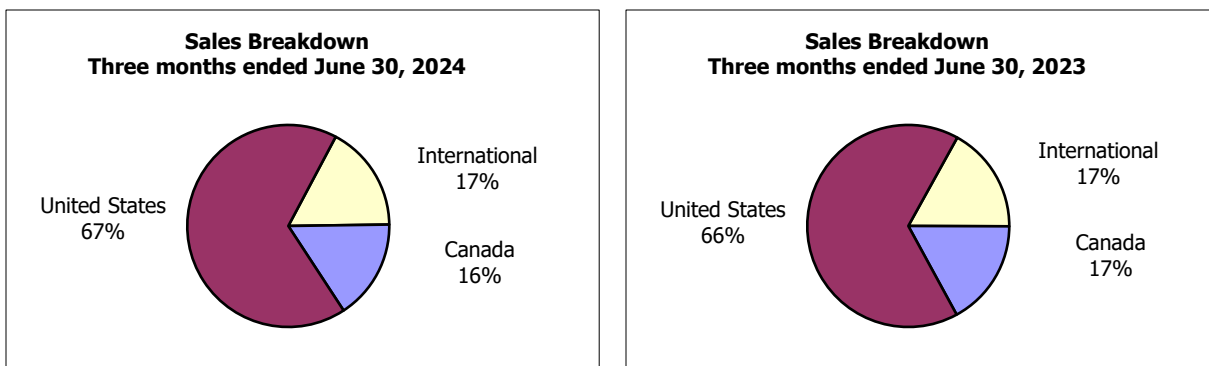
During the three months ended June 30, 2024, Pollard achieved sales of \$137.8 million, compared to \$130.8 million in the three months ended June 30, 2023. Factors impacting the \$7.0 million sales increase were:

The higher instant ticket average selling price in the second quarter of 2024 increased sales by \$5.6 million as compared to 2023, primarily as a result of the change in customer mix, increased proprietary products and the impact of repriced contracts. This increase was offset by the decrease in instant ticket sales volumes of \$5.4 million as compared to 2023, mainly as a result of the timing of customer orders and Pollard declining certain lower margin work.

Higher sales of ancillary lottery products and services increased revenue in the second quarter of 2024 by \$4.2 million as compared to 2023. This growth was largely due to increased sales of digital and loyalty products, distribution services and retail merchandising products.

eGaming systems revenue further increased sales by \$1.8 million in 2024, largely due to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2023.

Higher charitable gaming volumes increased sales by \$0.9 million in 2024, which was partially offset by a decrease in average selling price of charitable games which reduced sales by \$0.3 million.



During the three months ended June 30, 2024, Pollard generated approximately 70.9% (2023 – 72.2%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the second quarter of 2024, the actual U.S. dollar value was converted to Canadian dollars at \$1.358, the same rate, \$1.358, as the second quarter of 2023. Also during the quarter, the value of the Euro weakened against the Canadian dollar resulting in an approximate decrease of \$0.1 million in revenue relative to the second quarter of 2023.

### **Cost of sales and gross profit**

Cost of sales was \$108.8 million in the second quarter of 2024 compared to \$110.0 million in the second quarter of 2023. The decrease of \$1.2 million in cost of sales was primarily the result of lower instant ticket sales volumes as compared to 2023. Partially offsetting this decrease in cost of sales were higher expenses related to increased sales of eGaming systems and ancillary lottery products and services.

Gross profit increased to \$29.0 million (21.0% of sales) in the second quarter of 2024 from \$20.8 million (15.9% of sales) in the second quarter of 2023. The increase of \$8.2 million in gross profit and the increase in gross profit percentage were primarily the result of higher instant ticket sales margins, largely as a result of the higher instant ticket average selling price, and increased margin from charitable gaming products. Higher retail merchandising products and eGaming systems sales also contributed to the increase in gross profit as compared to 2023.

### **Administration expenses**

Administration expenses were \$16.5 million in the second quarter of 2024 compared to \$14.5 million in the second quarter of 2023. The increase of \$2.0 million was largely a result of increased compensation expenses including incentive accruals, consulting costs and software licensing costs.

### **Selling expenses**

Selling expenses increased to \$5.7 million in the second quarter of 2024 from \$5.1 million in the second quarter of 2023. The increase was primarily due to higher compensation costs as well as the expansion of our charitable gaming distribution business.

### **Equity investment income**

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to \$14.1 million in the second quarter of 2024 from \$8.8 million in 2023. This \$5.3 million increase was primarily due to increased organic growth achieved on contracts held by NPi as compared to 2023, which was driven by greater gaming activity including the continued strong eInstants sales in North Carolina following their launch in the fourth quarter of 2023.

### **Other expenses**

Other expenses were \$1.0 million in the second quarter of 2024 compared to \$0.1 million in the second quarter of 2023. The increase of \$0.9 million was primarily due to severance related costs of \$1.1 million related to downsizing a portion of our operational workforce as a result of the expiry of a lottery service contract in Europe. This increase was partially offset by a \$0.3 million decrease in the contingent consideration fair value adjustment expense as compared to 2023.

### **Foreign exchange**

The net foreign exchange loss was \$2.8 million in the second quarter of 2024 compared to a net gain of \$1.7 million in the second quarter of 2023. The 2024 net foreign exchange loss of \$2.8 million consisted of an unrealized foreign exchange loss of \$3.0 million, primarily a result of the increased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the weakening of the Canadian dollar relative to the U.S. dollar, partially offset by an unrealized gain on U.S. dollar denominated accounts receivable. Partially offsetting the unrealized loss was a realized foreign exchange gain of \$0.2 million, which was primarily due to foreign currency denominated accounts receivable being converted into Canadian dollars at favorable foreign exchange rates.

The 2023 net foreign exchange gain of \$1.7 million consisted of an unrealized foreign exchange gain of \$1.7 million, primarily a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the strengthening of the Canadian dollar relative to the U.S. dollar, partially offset by an unrealized loss on U.S. dollar denominated accounts receivable.

### **Adjusted EBITDA**

Adjusted EBITDA increased to \$32.3 million in the second quarter of 2024 compared to \$22.1 million in the second quarter of 2023. The primary reasons for the \$10.2 million increase were the increase in gross profit (net of amortization and depreciation) of \$7.4 million, substantially as a result of the increased instant ticket margin, the increase in equity investment income of \$5.3 million and the increase in realized foreign exchange gain of \$0.2 million. Partially offsetting these increases to Adjusted EBITDA were the increase in administration expenses of \$2.0 million and the increase in selling expenses of \$0.6 million.

### **Interest expense**

Interest expense decreased to \$2.5 million in the second quarter of 2024 from \$2.8 million in the second quarter of 2023, primarily as a result of the decrease in interest accretion of \$0.3 million on the discounted contingent consideration liability relating to a previous acquisition, and the decrease in average long-term debt outstanding as compared to 2023. Partially offsetting these decreases to interest expense was the impact of higher interest rates in the second quarter of 2024.



## Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$11.1 million during the second quarter of 2024 which decreased from \$11.9 million during the second quarter of 2023. The decrease of \$0.8 million was primarily the result of certain property, plant and equipment becoming fully depreciated.

## Income taxes

Income tax expense was \$2.7 million in the second quarter of 2024, an effective rate of 18.7%, which was lower than our domestic rate of 27.0% due primarily to the effect of lower income tax rates in foreign jurisdictions and the effect of non-taxable amounts.

Income tax expense was \$1.3 million in the second quarter of 2023, an effective rate of 14.5%, which was lower than our domestic rate of 27.0% due primarily to the effect of lower income tax rates in foreign jurisdictions and the effect of non-taxable amounts.

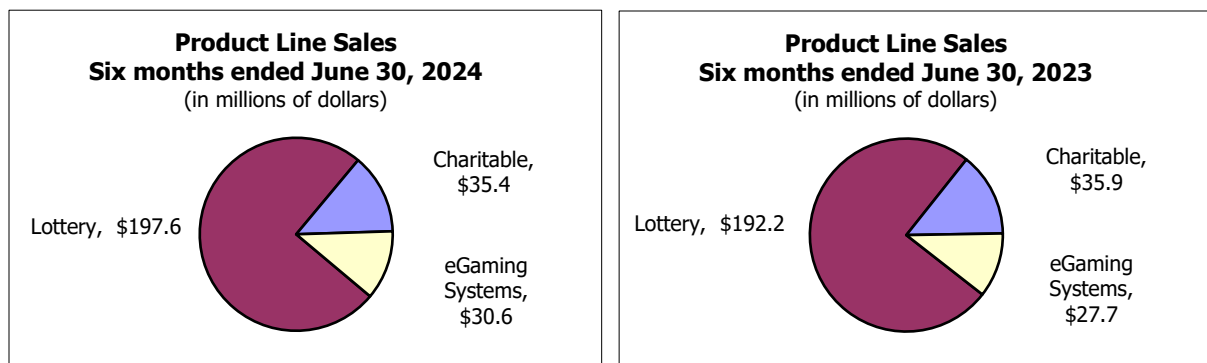
## Net income

Net income was \$11.9 million in the second quarter of 2024 compared to \$7.5 million in the second quarter of 2023. The increase in net income of \$4.4 million was primarily due to the increase in gross profit of \$8.2 million, principally as a result of the increased instant ticket margin, the increase in equity investment income of \$5.3 million and the decrease in interest expense of \$0.3 million. Partially offsetting these increases to net income were the increase in net foreign exchange loss of \$4.5 million, the increase in administration expenses of \$2.0 million, the increase in income tax expense of \$1.4 million, the increase in other expenses of \$0.9 million and the increase in selling expenses of \$0.6 million.

Net income per share (basic and diluted) increased to \$0.44 and \$0.43 per share, respectively, in the second quarter of 2024 from \$0.28 and \$0.27 per share (basic and diluted) in the second quarter of 2023.

## ANALYSIS OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2024

### Sales



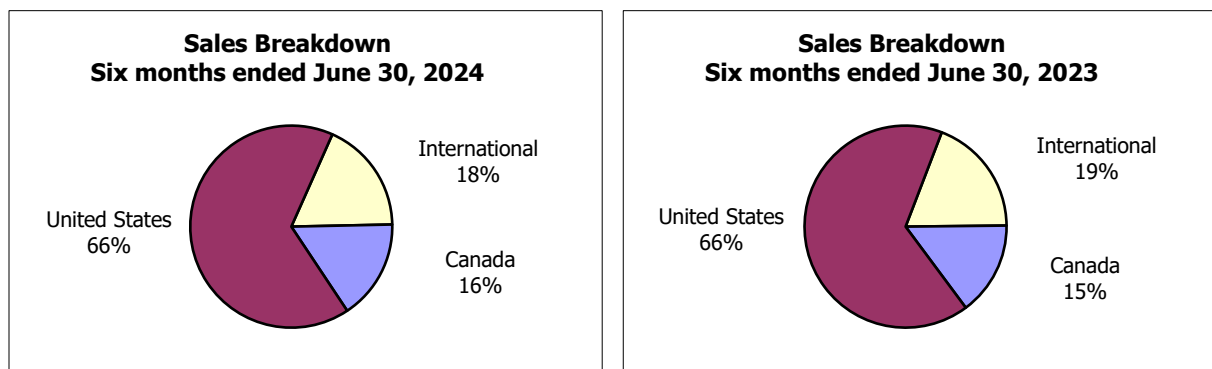
During the six months ended June 30, 2024, Pollard achieved sales of \$263.6 million, compared to \$255.8 million in the six months ended June 30, 2023. Factors impacting the \$7.8 million sales increase were:

The higher instant ticket average selling price in the first six months of 2024 increased sales by \$13.8 million as compared to 2023, primarily as a result of the change in customer mix and the impact of repriced contracts. This increase was offset by the decrease in instant ticket sales volumes of \$18.8 million as compared to 2023, mainly as a result of the timing of customer orders and Pollard declining certain lower margin work.

Higher sales of ancillary lottery products and services increased revenue by \$10.9 million in the first six months of 2024 as compared to 2023. This growth was largely due to increased sales of digital and loyalty products, retail merchandising products, distribution services and licensed products.

Higher eGaming systems revenue increased sales by \$3.1 million due primarily to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2023.

The lower average selling price of charitable games in the first six months of 2024 slightly decreased sales by \$0.3 million as compared to 2023.



During the six months ended June 30, 2024, Pollard generated approximately 71.3% (2023 – 74.0%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first six months of 2024, the actual U.S. dollar value was converted to Canadian dollars at \$1.346, compared to a rate of \$1.354 the first six months of 2023. This 0.6% decrease in the U.S. dollar value resulted in an approximate decrease of \$1.1 million in revenue relative to the first six months of 2023. In addition, during the first six months of 2024, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of \$0.1 million in revenue relative to the first six months of 2023.

### Cost of sales and gross profit

Cost of sales was \$213.1 million in the first six months of 2024 compared to \$217.3 million in the first six months of 2023. The decrease of \$4.2 million in cost of sales was primarily the result of lower instant ticket sales volumes as compared to 2023. Partially offsetting this decrease in cost of sales were the higher expenses related to increased sales of eGaming systems and ancillary lottery products and services.

Gross profit increased to \$50.5 million (19.2% of sales) in the six months ended June 30, 2024, from \$38.5 million (15.1% of sales) in the six months ended June 30, 2023. This increase of \$12.0 million in gross profit and the increase in gross profit percentage were primarily the result of higher instant ticket sales margins, largely as a result of the higher instant ticket average selling price, as well as increased licensed products, retail merchandising products and eGaming systems sales.

### **Administration expenses**

Administration expenses increased to \$31.9 million in the first six months of 2024 from \$27.9 million in 2023. The increase of \$4.0 million was largely a result of increased compensation expenses including incentive accruals, consulting costs and software licensing costs.

### **Selling expenses**

Selling expenses increased to \$11.2 million in the first six months of 2024 from \$9.8 million in the first six months of 2023. The increase of \$1.4 million from the first quarter of 2023 was primarily due to higher compensation expenses as well as the expansion of our charitable gaming distribution business.

### **Equity investment income**

Pollard's share of income from NPi increased to \$26.4 million in the first six months of 2024 from \$16.9 million in 2023. This \$9.5 million increase was primarily due to increased organic growth achieved on contracts held by NPi as compared to 2023. This growth was driven by greater gaming activity, in part as a result of the substantial Mega Millions® and Powerball® jackpot runs during the first quarter of 2024, as well as by the continued strong eInstants sales in North Carolina following their launch in the fourth quarter of 2023.

### **Other expenses**

Other expenses were \$0.6 million in the first six months of 2024 compared to \$0.3 million in 2023. This increase of \$0.3 million was primarily due to severance related costs of \$1.1 million related to downsizing a portion of our operational workforce as a result of the expiry of a lottery service contract in Europe. This increase was partially offset by a \$0.7 million decrease in the contingent consideration fair value adjustment expense as compared to 2023.

### **Foreign exchange**

The net foreign exchange loss was \$5.4 million in the first six months of 2024 compared to a net foreign exchange gain of \$2.0 million in the first six months of 2023. The 2024 net foreign exchange loss of \$5.4 million resulted from a net unrealized foreign exchange loss of \$5.3 million, primarily a result of the increased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the weakening of the Canadian dollar relative to the U.S. dollar, partially offset by an unrealized gain on U.S. dollar denominated cash and accounts receivable. In addition, Pollard experienced a realized foreign exchange loss of \$0.1 million which was primarily due to foreign currency denominated accounts receivable being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2023 net foreign exchange gain of \$2.0 million resulted from a net unrealized foreign exchange gain of \$1.9 million, primarily a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the strengthening of the Canadian dollar relative to the U.S. dollar, partially offset by an unrealized loss on U.S. dollar denominated cash and accounts receivable. In addition, Pollard experienced a realized foreign exchange gain of \$0.1 million which was primarily due to foreign currency denominated accounts receivable being converted into Canadian dollars at favorable foreign exchange rates, partially offset by foreign currency denominated accounts payable paid at unfavorable exchange rates.

### **Adjusted EBITDA**

Adjusted EBITDA increased to \$56.0 million in the first six months of 2024 compared to \$40.7 million in the first six months of 2023. The main reasons for the increase of \$15.3 million were the increase in gross profit (net of amortization and depreciation) of \$11.3 million, primarily as result of increased instant ticket margins, as well as increased licensed products, retail merchandising products and eGaming systems sales. In addition, the increase in equity investment income of \$9.5 million further increased Adjusted EBITDA. Partially offsetting these increases were the increase in administration expenses of \$4.0 million and the increase in selling expenses of \$1.4 million.

### **Interest expense**

Interest expense decreased to \$4.9 million in the first six months of 2024 from \$5.5 million in the first six months of 2023, primarily as a result of the decrease in interest accretion of \$0.8 million on the discounted contingent consideration liability relating to a previous acquisition, and the decrease in average long-term debt outstanding as compared to 2023. Partially offsetting these decreases to interest expense was the impact of higher interest rates in 2024.

### **Amortization and depreciation**

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$21.8 million during the first six months of 2024 which decreased from \$22.5 million during the first six months of 2023. The decrease of \$0.7 million was primarily the result of certain property, plant and equipment becoming fully depreciated.

### **Income taxes**

Income tax expense was \$4.1 million in the first six months of 2024, an effective rate of 17.9%, which was lower than our domestic rate of 27.0% due primarily to the effect of lower income tax rates in foreign jurisdictions and the effect of non-taxable amounts.

Income tax expense was \$1.5 million in the first six months of 2023, an effective rate of 11.3%, which was lower than our domestic rate of 27.0% due primarily to the effect of lower income tax rates in foreign jurisdictions and the effect of non-taxable amounts.

### **Net income**

Net income increased to \$18.8 million in the first six months of 2024 from \$12.4 million in the first six months of 2023. The main reasons for the increase of \$6.4 million was primarily due to the increase in gross profit of \$12.0 million, which was a result of increased instant ticket margins, as well as increased licensed products, retail merchandising products and eGaming systems sales. In addition, the increase in equity investment income of \$9.5 million and the decrease in interest expense of \$0.6 million further increased net income. Partially offsetting these increases to net income were the increase in the net foreign exchange loss of \$7.4 million, the increase in administration expenses of \$4.0 million, the increase in income tax expense of \$2.6 million, the increase in selling expenses of \$1.4 million and the increase in other expenses of \$0.3 million.

Net income per share (basic and diluted) increased to \$0.70 and \$0.69 per share, respectively, in the six months ending June 30, 2024, as compared to \$0.46 and \$0.45 per share (basic and diluted) in the six months ending June 30, 2023.

## iLottery

Pollard and its iLottery partner, Neogames US LLP ("Neogames"), provide iLottery services to the North American Lottery market. In 2013, Pollard was awarded an iLottery contract from the Michigan Lottery. As a result, Pollard entered into a contract with Neogames to provide its technology in return for a 50% financial interest in the operation. Under IFRS, Pollard recognizes its 50% share in the Michigan Lottery contract in its consolidated statements of income in sales and cost of sales.

In 2014 Pollard, in conjunction with Neogames, established NeoPollard Interactive LLC ("NPi"). Under IFRS, Pollard accounts for its investment in its joint venture, NPi, as an equity investment. Under the equity method of accounting, Pollard recognizes its share of the income and expenses of NPi separately as equity investment income.

## SELECT iLOTTERY RELATED FINANCIAL INFORMATION

(millions of dollars)

	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
<b>Sales – Pollard's share</b>									
Michigan iLottery	\$ 6.8	\$ 7.1	\$ 7.0	\$ 7.2	\$ 6.5	\$ 7.3	\$ 7.9	\$ 6.5	\$ 6.2
NPi	\$ 28.2	25.5	21.8	21.5	18.5	18.5	17.7	13.7	12.4
Combined iLottery sales	<u>\$ 35.0</u>	<u>\$ 32.6</u>	<u>\$ 28.8</u>	<u>\$ 28.7</u>	<u>\$ 25.0</u>	<u>\$ 25.8</u>	<u>\$ 25.6</u>	<u>\$ 20.2</u>	<u>\$ 18.6</u>
<b>Income before income taxes – Pollard's share<sup>(1)</sup></b>									
Michigan iLottery	\$ 2.1	\$ 2.7	\$ 2.5	\$ 2.8	\$ 1.8	\$ 2.9	\$ 2.9	\$ 2.2	\$ 2.4
NPi	\$ 14.1	12.2	11.0	11.1	8.8	8.2	8.3	5.7	4.7
Combined income before income taxes – Pollard's share	<u>\$ 16.2</u>	<u>\$ 14.9</u>	<u>\$ 13.5</u>	<u>\$ 13.9</u>	<u>\$ 10.6</u>	<u>\$ 11.1</u>	<u>\$ 11.2</u>	<u>\$ 7.9</u>	<u>\$ 7.1</u>

Throughout 2022, 2023 and the first half of 2024, NPi's contracts achieved strong organic growth, adding to sales and income before taxes. In addition, quarterly sales and income before taxes are positively impacted during quarters where substantial draw-based game (Powerball® and Mega Millions®) jackpots are awarded.

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

## **Liquidity and Capital Resources**

### *Cash provided by operating activities*

For the six months ended June 30, 2024, cash flow provided by operating activities was \$34.0 million compared to cash flow provided by operating activities of \$33.8 million for the first six months of 2023. Changes in the non-cash working capital used \$0.8 million in cash compared to \$16.5 million provided in the first six months of 2023. For the six months ended June 30, 2024, changes in the non-cash working capital decreased cash flow from operations due primarily to increases to inventory and prepaid expenses and a decrease to accounts payable and accrued liabilities, partially offset by a decrease in accounts receivable. For the six months ended June 30, 2023, changes in the non-cash working capital increased cash flow from operations due primarily to a decrease in accounts receivable and an increase to accounts payable and accrued liabilities, partially offset by increases to inventory and prepaid expenses.

Cash used for interest increased to \$4.9 million in 2024 as compared to \$4.7 million in 2023. Cash used for pension plan contributions decreased to \$1.9 million in 2024 as compared to \$3.1 million used in 2023. Cash used for income tax payments decreased to \$17.0 million in 2024 from \$18.9 million in 2023. Partially offsetting these uses of cash, Pollard received \$26.4 million from our investment in our iLottery joint venture in 2024 as compared to \$18.9 million received in 2023.

### *Cash used for investing activities*

In the six months ended June 30, 2024, cash used for investing activities was \$29.9 million compared to cash used for investing activities of \$31.1 million in the first six months of 2023. In the six months ended June 30, 2024, Pollard used \$13.2 million on additions to intangible assets, \$11.3 million on capital expenditures and \$5.4 million related to an acquisition of charitable gaming assets.

In the six months ended June 30, 2023, Pollard used \$11.9 million for contingent consideration paid on an acquisition, \$11.3 million on additions to intangible assets and \$7.9 million on capital expenditures.

### *Cash used for financing activities*

Cash used for financing activities was \$4.4 million in the six months ended June 30, 2024, compared to cash provided by financing activities of \$9.4 million in the six months ended June 30, 2023. During the first six months of 2024, Pollard used cash for lease principal payments of \$2.7 million and \$2.4 million of dividend payments. These uses of cash were partially offset by proceeds received from share issuance of \$0.9 million.

During the first six months of 2023, Pollard received net proceeds from long-term debt of \$15.0 million. This receipt of cash was partially offset by lease principal payments of \$3.5 million and \$2.2 million of dividend payments made during the period.

As at June 30, 2024, Pollard had unused credit facility of \$114.2 million and \$2.8 million in available cash resources. These amounts, in addition to cash flow provided by operating activities, are available to be used for future working capital requirements, contractual obligations, capital expenditures, dividends and to assist in financing future acquisitions.

**Quarterly Information**

(unaudited)

(millions of dollars, except for per share amounts)

	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Sales <sup>(1)</sup>	\$137.8	\$125.7	\$135.5	\$129.1	\$130.8	\$125.1	\$127.3	\$125.9	\$116.3
Adjusted EBITDA	32.3	23.7	25.7	24.8	22.1	18.6	22.4	20.2	18.9
Net income (loss)	11.9	6.9	11.3	7.7	7.5	4.8	10.5	(0.2)	2.5
Net income (loss) per share - basic	0.44	0.26	0.42	0.29	0.28	0.18	0.39	(0.01)	0.09

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

***Working Capital***

Net non-cash working capital varies throughout the year based on the timing of individual sales transactions and other investments. The nature of the lottery industry is few individual customers who generally order large dollar value transactions. As such, the change in timing of a few individual orders can significantly impact the amount required to be invested in inventory or receivables at a particular period end. The high value, low volume of transactions results in some significant volatility in non-cash working capital, particularly during a period of rising volumes. Similarly, the timing of the completion of the sales cycle through collection can significantly impact non-cash working capital.

Instant tickets are produced specifically for individual clients resulting in a limited investment in finished goods inventory. Customers are predominantly government agencies, which result in regular payments. There are a limited number of individual customers, and therefore the net investment in working capital is managed on an individual customer by customer basis, without the need for company-wide benchmarks.

The overall impact of seasonality does not have a material impact on the carrying amounts in working capital.

As at June 30, 2024, Pollard's investment in non-cash working capital increased \$0.8 million compared December 31, 2023, due primarily to increases to inventory and prepaid expenses and a decrease to accounts payable and accrued liabilities, partially offset by a decrease in accounts receivable.

	June 30, 2024	December 31, 2023
Working Capital	\$80.6	\$81.8
Total Assets	\$551.2	\$515.7
Total Non-Current Liabilities	\$138.4	\$139.5

### ***Credit Facility***

The credit facility provides loans of up to \$155.0 million for its Canadian operations and US\$59.0 million for its U.S. subsidiaries. The credit facility also includes an accordion feature which can increase the facility by \$50.0 million. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of \$155.0 million Canadian equivalent. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, Canadian Dollar Offered Rate ("CDOR") or Secured Overnight Financing Rate ("SOFR"). At June 30, 2024, the outstanding letters of guarantee drawn under the credit facility were \$0.1 million. The remaining balance available for drawdown under the credit facility was \$114.2 million.

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, 2024, Pollard is in compliance with all financial covenants.

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. Under the terms of the agreement the facility matures December 31, 2025. Principal payments are not required until maturity. The facility can be prepaid without penalties.

Pollard believes that its credit facility and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital, dividends and acquisitions.

### ***Economic Development Canada ("EDC") Facility***

Effective November 29, 2023, Pollard renewed its 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 June 30, 2024, the outstanding letters of credit drawn on this facility were \$16.1 million (€10.9 million). As of December 31, 2023, the outstanding letters of credit drawn on this facility were \$14.7 million (€10.1 million).

### ***Outstanding Share Data***

As at June 30, 2024 and August 13, 2024, outstanding share data was as follows:

Common shares	27,055,169
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### ***Share Options***

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares. As at June 30, 2024, the total share options issued and outstanding were 387,500.



## **Contractual Obligations**

There have been no material changes to Pollard's contractual obligations since December 31, 2023, that are outside the normal course of business.

## **Off-Balance Sheet Arrangements**

There have been no material changes to Pollard's off-balance sheet arrangements since December 31, 2023, that are outside the normal course of business.

## **Financial Instruments**

The financial instruments of Pollard remain substantially unchanged from those identified in the MD&A for Pollard for the year ended December 31, 2023.

## **Critical Accounting Policies and Estimates**

The critical accounting policies and estimates of Pollard remain substantially unchanged from those identified in Pollard's consolidated financial statements for the year ended December 31, 2023.

## **Related Party Transactions**

Pollard has not entered into any significant transactions with related parties during the six months ended June 30, 2024, which are not disclosed in the unaudited condensed consolidated interim financial statements.

## **Industry Risks and Uncertainties**

The risk factors affecting Pollard remain substantially unchanged from those identified in the MD&A for Pollard for the year ended December 31, 2023.

## **Outlook**

Our second quarter results set records in a number of our key financial performance indicators and is confirmation of the success of our strategy, particularly with the noteworthy improved margins in our instant ticket business. We expect these trends to continue going forward. Continuing strong demand in the charitable gaming market is expected to generate growth in printed product volumes as well as eGaming revenue. We remain extremely confident for the remaining outlook for 2024 and future years as our focused strategy to partner with lotteries and charities throughout the world provides the foundation for ongoing success.

Market demand for all our products and solutions remains strong across our entire portfolio. Instant tickets are the largest contributor to lottery sales and demand for this product remains high. The translation of this demand into revenue for Pollard depends on a number of factors, including timing of orders, inventory management by lotteries and shipping implications that can vary from quarter to quarter.

The ongoing impact on our revenue from our contract repricing strategy will continue to increase throughout the remainder of 2024 and 2025, resulting in further improved gross margins.

Demand for our ancillary solutions such as our proprietary PlayOn® loyalty platform, an important component in the success of iLottery, and our retail merchandising solutions remains strong.

Demand in the charitable gaming market remains high, and this is expected to translate into greater volumes of printed products (pull-tab tickets and bingo paper) as well as higher numbers of machines and gross gaming revenue from our eGaming systems. On July 31 we closed the acquisition of the business of Clarence J. Venne, the leader in the bingo dabber market. The addition of this product to our charitable gaming portfolio will create a number of positive impacts including financial contributions starting in the third quarter of 2024.

Our joint venture iLottery results reflected strong interest and demand for this form of lottery gaming. Large jackpot runs in the draw-based games such as Powerball® and Mega Millions® in the U.S. were less frequent in the second quarter of 2024 and the timing of these runs can have an impact on the growth of iLottery revenue. Strong organic eInstant growth was still achieved, highlighting the underlying fundamental strength in iLottery. Implementation of the West Virginia iLottery contract continues on track for go-live this fall.

We continue to receive significant interest and positive feedback in our own proprietary omni-channel iLottery platform and game content. We are confident our ongoing significant investment and innovation in our solution will result in our continuing growth in iLottery.

During 2024 we have closed two acquisitions expanding our products offerings in the charitable market and we continue to review a number of similar strategic opportunities. In addition, increasing our expertise in the digital area, particularly around gaming content across all of our platforms and eGaming opportunities, continues to be an important focus.

Cash flows remain very robust and provide us a steady flow of capital to continue our investments in critical acquisitions and internal capital projects such as our iLottery platform and game content portfolio. Our debt facility has significant available unused capacity and combined with our operating cash flows ensures our focus on innovation and growth have the necessary resources.

Our strategy is to be the partner of choice for lotteries and charities in helping grow funds for their good causes. We are confident this strategy will continue to be successful in all our offerings including instant tickets and ancillary services, charitable products and eGaming solutions, and iLottery.

## **Disclosure Controls and Procedures**

Under National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") for the interim period regarding the design of the disclosure controls and procedures. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the disclosure controls and procedures as defined in National Instrument 52-109 will provide reasonable assurance of achieving the disclosure objectives.

## **Internal Controls over Financial Reporting**

Under National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Certifying Officers regarding the design of the internal controls over financial reporting. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) as

the control framework in designing its internal controls over financial reporting. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the internal controls over financial reporting as defined in National Instrument 52-109 will provide reasonable assurance of achieving the financial reporting objectives.

No changes were made in Pollard's internal control over financial reporting during the six months ended June 30, 2024, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

### **Additional Information**

Shares of Pollard Banknote Limited are traded on the Toronto Stock Exchange under the symbol PBL.

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form for the year ended December 31, 2023, is available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

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