

Condensed Consolidated Interim Financial Statements of

# **POLLARD BANKNOTE LIMITED**

(unaudited)

Six months ended June 30, 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)

	June 30, 2024	December 31, 2023
<b>Assets</b>		
Current assets		
Cash	\$ 2,840	\$ 3,331
Restricted cash	24,393	25,985
Accounts receivable (note 18)	76,289	82,835
Inventories (note 6)	65,432	60,509
Prepaid expenses and deposits	9,788	8,142
Income taxes receivable	5,445	2,401
Total current assets	184,187	183,203
Non-current assets		
Long-term assets	11,765	7,783
Property, plant and equipment	105,908	100,530
Equity investment (note 7)	379	518
Goodwill	114,306	110,982
Intangible assets	113,537	103,931
Deferred income taxes	15,295	8,766
Pension asset (note 9)	5,785	—
Total non-current assets	366,975	332,510
Total assets	\$ 551,162	\$ 515,713
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 92,947	\$ 92,231
Dividends payable	1,353	1,079
Income taxes payable	640	52
Current portion lease liabilities	5,238	4,675
Current portion contract liabilities (note 11)	3,422	3,372
Total current liabilities	103,600	101,409
Non-current liabilities		
Lease liabilities	13,688	12,872
Deferred income taxes	1,544	2,701
Long-term debt (note 8)	121,423	119,687
Contract liabilities (note 11)	954	881
Other non-current liabilities	814	767
Pension liability	—	2,592
Total non-current liabilities	138,423	139,500
Shareholders' equity		
Share capital (note 10)	151,827	150,711
Reserves	13,959	4,450
Retained earnings	143,353	119,643
Total shareholders' equity	309,139	274,804
Total liabilities and shareholders' equity	\$ 551,162	\$ 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 June 30, 2024		Three months ended June 30, 2023		Six months ended June 30, 2024		Six months ended June 30, 2023	
Sales (note 11)	\$	137,848	\$	130,772	\$	263,588	\$	255,824
Cost of sales		108,857		109,940		213,072		217,336
Gross profit		28,991		20,832		50,516		38,488
Administration		16,528		14,523		31,879		27,915
Selling		5,769		5,087		11,168		9,817
Equity investment income (note 7)		(14,145)		(8,763)		(26,353)		(16,947)
Other expenses (note 12)		987		109		600		274
Income from operations		19,852		9,876		33,222		17,429
Finance costs (note 13)		5,256		2,753		10,336		5,472
Finance income (note 13)		–		(1,698)		–		(1,981)
Income before income taxes		14,596		8,821		22,886		13,938
Income taxes (note 14)								
Current		7,770		7,575		14,673		10,567
Deferred reduction		(5,043)		(6,294)		(10,585)		(8,995)
		2,727		1,281		4,088		1,572
Net income	\$	11,869	\$	7,540	\$	18,798	\$	12,366
Net income per share – basic (note 15)	\$	0.44	\$	0.28	\$	0.70	\$	0.46
Net income per share – diluted (note 15)	\$	0.43	\$	0.27	\$	0.69	\$	0.45

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 June 30, 2024		Three months ended June 30, 2023		Six months ended June 30, 2024		Six months ended June 30, 2023	
Net income	\$	11,869	\$	7,540	\$	18,798	\$	12,366
Other comprehensive income (loss):								
Items that are or may be reclassified to profit and loss:								
Foreign currency translation differences – foreign operations		4,051		(5,443)		9,509		(5,182)
Items that will never be reclassified to profit and loss:								
Defined benefit plans remeasurements, net of income taxes (note 9 & note 14)		742		(281)		7,459		908
Other comprehensive income (loss)		4,793		(5,724)		16,968		(4,274)
Comprehensive income	\$	16,662	\$	1,816	\$	35,766	\$	8,092

See accompanying notes to condensed consolidated interim financial statements.

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

**For the six months ended June 30, 2024**

	Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2023	\$ 150,711	4,450	119,643	274,804
Net income	–	–	18,798	18,798
Other comprehensive income:				
Foreign currency translation differences – foreign operations	–	9,509	–	9,509
Defined benefit plans remeasurements, net of income taxes (note 9 & note 14)	–	–	7,459	7,459
Total other comprehensive income	\$ –	9,509	7,459	16,968
Total comprehensive income	\$ –	9,509	26,257	35,766
Issue of common shares	\$ 1,116	–	(211)	905
Share based compensation	–	–	369	369
Dividends (note 10)	–	–	(2,705)	(2,705)
Balance at June 30, 2024	\$ 151,827	13,959	143,353	309,139

**For the six months ended June 30, 2023**

	Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2022	\$ 149,849	8,913	93,172	251,934
Net income	–	–	12,366	12,366
Other comprehensive income (loss):				
Foreign currency translation differences – foreign operations	–	(5,182)	–	(5,182)
Defined benefit plans remeasurements, net of income taxes	–	–	908	908
Total other comprehensive income (loss)	\$ –	(5,182)	908	(4,274)
Total comprehensive income (loss)	\$ –	(5,182)	13,274	8,092
Issue of common shares	\$ 14	–	(14)	–
Share based compensation	–	–	400	400
Dividends	–	–	(2,154)	(2,154)
Balance at June 30, 2023	\$ 149,863	3,731	104,678	258,272

See accompanying notes to condensed consolidated interim financial statements.

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

	Six months ended June 30, 2024	Six months ended June 30, 2023
Cash increase (decrease)		
Operating activities		
Net income	\$ 18,798	\$ 12,366
Adjustments		
Income taxes expense	4,088	1,572
Amortization and depreciation	21,830	22,484
Interest expense	4,928	5,472
Unrealized foreign exchange (gain) loss	5,220	(1,837)
Equity investment income (note 7)	(26,353)	(16,947)
Pension expense	3,707	3,427
Contingent consideration fair value adjustment	–	691
Interest paid	(4,862)	(4,724)
Income taxes paid	(16,980)	(18,923)
Equity investment distribution (note 7)	26,413	16,872
Pension contributions	(1,936)	(3,053)
Change in contract liabilities	73	7
Change in long-term assets	(236)	(99)
Change in non-cash equity investment	109	–
Change in non-cash operating working capital (note 16)	(795)	16,530
	34,004	33,838
Investing activities		
Additions to property, plant and equipment	(11,330)	(7,888)
Acquisitions (note 5)	(5,400)	(11,858)
Additions to intangible assets	(13,206)	(11,329)
	(29,936)	(31,075)
Financing activities		
Net proceeds from issue of share capital	905	–
Net borrowings (repayments) of long-term debt	(118)	14,990
Change in other non-current liabilities	22	74
Lease principal payments	(2,733)	(3,496)
Dividends paid	(2,431)	(2,154)
	(4,355)	9,414
Foreign exchange loss on cash held in foreign currency	(204)	(20)
Change in cash position	(491)	12,157
Cash position, beginning of period	3,331	1,479
Cash position, end of period	\$ 2,840	\$ 13,636

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 six months ended June 30, 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 approximately 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](http://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 August 13, 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)

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#### **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 as 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 significant 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)*  
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#### **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)

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

(b) IFRS 9 – Amendments to the Classification and Measurement of Financial Instruments:

On May 30, 2024, the IASB issued *Amendments to the Classification and Measurement of Financial Instruments—Amendments to IFRS 9 and IFRS 7*.

The amendments provide clarity on how to classify financial assets with environmental, social and corporate governance (“ESG”) and similar features, by introducing an additional test for financial assets with contingent features that are not related directly to a change in basic lending risks or costs.

The amendments also provide clarity as to when a company can derecognize financial liabilities that are settled through electronic payments offering an accounting policy option to allow for the derecognize a financial liability before the delivery of cash on the settlement date if specified criteria are met.

The amendments are effective for annual periods beginning on or after January 1, 2026. Pollard is currently assessing the impact of the amendments on its condensed consolidated interim financial statements

(c) 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.

## Pollard Banknote Limited

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

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

#### 5. Acquisitions:

On April 15, 2024, Pollard entered into an agreement to acquire certain assets used in the operation of electronic charitable games with licensed charitable gaming organizations. This transaction was subject to certain closing conditions and closed on June 7, 2024. The acquisition has been accounted for using the acquisition method. The total purchase price was \$5,400. Included in the net assets acquired is \$94 in computer equipment, \$3,605 of intangible assets related to customer assets, \$391 of intangibles assets related to trademarks and brands, \$432 of intangibles assets related to computer software and licenses, and \$878 of goodwill.

The fair values of identifiable assets acquired are preliminary and are subject to change if new information becomes available.

#### 6. Inventories:

	June 30, 2024	December 31, 2023
Raw materials	\$ 26,938	\$ 28,315
Work-in-process	2,446	2,812
Finished goods	36,048	29,382
	<u>\$ 65,432</u>	<u>\$ 60,509</u>

During the second quarter of 2024, Pollard recorded inventory write-downs of \$447, representing an increase in the obsolescence reserves, and reversal of previous write-downs of \$3 due to changes in foreign exchange rates. During the six months ended June 30, 2024, Pollard recorded inventory write-downs of \$721 representing an increase in the obsolescence reserves, and reversal of previous write-downs of \$133 due to changes in foreign exchange rates.

During the second quarter of 2023, Pollard recorded inventory write-downs of \$677, representing an increase in the obsolescence reserves, and write-downs of \$170 due to changes in foreign exchange rates. During the six months ended June 30, 2023, Pollard recorded inventory write-downs of \$1,020 representing an increase in the obsolescence reserves, and write-downs of \$511 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)

#### 7. 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 iLottery.

	Six months ended June 30, 2024	Six months ended June 30, 2023
Investment in equity accounted entity		
Balance, beginning of period	\$ 518	\$ 549
Investment distribution	(26,413)	(16,872)
Equity income	26,353	16,947
Non-cash change in investment value	(109)	–
Effects of movements in exchange rates	30	(20)
Balance, end of period	\$ 379	\$ 604

	June 30, 2024	December 31, 2023
Net Assets		
Current assets	\$ 57,094	\$ 51,677
Non-current assets	1,193	1,282
Total	\$ 58,287	\$ 52,959
Current liabilities	\$ 57,311	\$ 51,923
Total	\$ 57,311	\$ 51,923
Net assets – 100%	\$ 976	\$ 1,036
Attributable to Pollard – 50%	\$ 488	\$ 518
Elimination of unrealized profit on downstream sales	(109)	–
Carrying amount of investment	\$ 379	\$ 518

At June 30, 2024, included in the current assets of NPi is restricted cash relating to amounts held on behalf of iLottery customers of \$24,715 (December 31, 2023 – \$26,238). There is an offsetting liability included in current liabilities.

	Six months ended June 30, 2024	Six months ended June 30, 2023
Interest in equity accounted entity		
Sales – 100%	\$ 107,458	\$ 73,933
Sales – attributable to Pollard – 50%	\$ 53,729	\$ 36,967
Comprehensive income – 100%	\$ 52,338	\$ 33,894
Comprehensive income – attributable to Pollard <sup>(1)</sup>	\$ 26,353	\$ 16,947

(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):

At June 30, 2024, included in accounts receivable in the condensed consolidated statement of financial position is a net amount owed from NPI of \$3,099 (December 31, 2023 – \$6,285).

##### *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.

#### 8. Long-term debt:

	June 30, 2024	December 31, 2023
Credit facility, interest of 6.6% to 8.5%, payable monthly, maturing December 31, 2025	\$ 121,598	\$ 119,944
Deferred financing charges, net of amortization	(175)	(257)
	\$ 121,423	\$ 119,687

##### (a) Credit facility:

The credit facility provides loans of up to \$155,000 for its Canadian operations and \$59,000 U.S. dollars 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 \$155,000 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 \$75 (December 31, 2023 – \$73).

Included in the total credit facility balance is a U.S. dollar denominated balance of \$35,400 U.S. dollars (December 31, 2023 – \$35,400 U.S. dollars). As of June 30, 2024, Pollard had unused credit facility available of \$114,157 (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 June 30, 2024, Pollard was in compliance with all financial covenants.

## **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):**

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 on December 31, 2025. Principal payments are not required until maturity. The facility can be prepaid without penalties.

##### **(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 June 30, 2024, the outstanding letters of credit drawn on this facility were \$16,089 (€10,945). As of December 31, 2023, the outstanding letters of credit drawn on this facility were \$14,726 (€10,086).

#### **9. Pension asset (liability):**

During the three month period ended June 30, 2024, Pollard recorded a remeasurement gain of \$742 (net of \$265 of income taxes) 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 June 30, 2023, Pollard recorded a remeasurement loss of \$281 (net of \$124 of income taxes) on its defined pension plans. The remeasurement loss resulted from a decrease in the discount rate, which was partially offset by higher than expected returns on plan asset investments.

During the six month period ended June 30, 2024, Pollard recorded a remeasurement gain of \$7,459 (net of \$2,724 of income taxes) 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 six month period ended June 30, 2023, Pollard recorded a remeasurement gain of \$908 (net of \$324 of income taxes) 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.

## Pollard Banknote Limited

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

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)  
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#### 10. 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	82,500		1,116
Balance at June 30, 2024	27,055,169	\$	151,827

#### *Dividends:*

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

On May 8, 2024, a dividend of \$0.05 per share was declared, payable on July 15, 2024, to the shareholders of record on June 30, 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)  
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#### 11. Sales and contract balances:

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

	Six months ended June 30, 2024	Six months ended June 30, 2023
Sales – geographical segment		
Canada	\$ 41,062	\$ 37,349
United States	174,630	168,525
International	47,896	49,950
Total	\$ 263,588	\$ 255,824

	Six months ended June 30, 2024	Six months ended June 30, 2023
Sales – product lines		
Lottery	\$ 197,614	\$ 192,200
Charitable	35,341	35,959
eGaming systems	30,633	27,665
Total	\$ 263,588	\$ 255,824

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

	June 30, 2024	December 31, 2023
Contract balances		
Trade receivables, which are included in accounts receivable	\$ 60,207	\$ 64,146
Contract assets, which are included in accounts receivable	7,568	7,159
Contract liabilities	4,376	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)

### 11. Sales and contract balances (continued):

	Six months ended June 30, 2024	Six months ended June 30, 2023
Contract liabilities		
Balance, beginning of period	\$ 4,253	\$ 2,159
Increases due to cash received	5,156	2,656
Sales recognized	(5,048)	(2,159)
Effect of movement in exchange rates	15	4
Balance, end of period	4,376	2,660
Less: current portion	(3,422)	(2,231)
	\$ 954	\$ 429

### 12. Other expenses:

	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Contingent consideration fair value adjustment	\$ –	\$ 257	\$ –	\$ 691
Severance related costs	1,114	–	1,114	–
Other income	(127)	(148)	(514)	(417)
	\$ 987	\$ 109	\$ 600	\$ 274

#### *Severance related costs*

Severance related costs related to downsizing a portion of our operational workforce as a result of the expiry of a lottery service contract in Europe.

### 13. Finance costs and finance income:

	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Finance costs				
Interest	\$ 2,513	\$ 2,753	\$ 4,928	\$ 5,472
Foreign exchange loss	2,743	–	5,408	–
	\$ 5,256	\$ 2,753	\$ 10,336	\$ 5,472

# 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 (continued):

	Three months ended June 30, 2024		Three months ended June 30, 2023		Six months ended June 30, 2024		Six months ended June 30, 2023	
Finance income								
Foreign exchange gain	\$	–	\$	1,698	\$	–	\$	1,981
	\$	–	\$	1,698	\$	–	\$	1,981

### 14. Income taxes:

	Three months ended June 30, 2024		Three months ended June 30, 2023	
Reconciliation of effective tax rate				
Net income for the period	\$	11,869	\$	7,540
Total income tax expense		2,727		1,281
Income before income taxes	\$	14,596	\$	8,821
Income tax using Pollard's domestic tax rate	27.0%	\$ 3,941	27.0%	\$ 2,382
Effect of tax rates in foreign jurisdictions	(6.4%)	(935)	(9.6%)	(845)
Effect of non-taxable amounts	(2.0%)	(294)	(1.0%)	(87)
Effect of non-deductible (non-taxable) items related to foreign exchange	(1.7%)	(241)	0.6%	52
Other items	1.8%	256	(2.5%)	(221)
	18.7%	\$ 2,727	14.5%	\$ 1,281

	Six months ended June 30, 2024		Six months ended June 30, 2023	
Reconciliation of effective tax rate				
Net income for the period	\$	18,798	\$	12,366
Total income tax expense		4,088		1,572
Income before income taxes	\$	22,886	\$	13,938
Income tax using Pollard's domestic tax rate	27.0%	\$ 6,179	27.0%	\$ 3,763
Effect of tax rates in foreign jurisdictions	(7.7%)	(1,753)	(11.8%)	(1,642)
Effect of non-taxable amounts	(1.6%)	(363)	(2.1%)	(301)
Effect of non-taxable items related to foreign exchange	(2.2%)	(511)	(0.3%)	(44)
Other items	2.3%	536	(1.5%)	(204)
	17.9%	\$ 4,088	11.3%	\$ 1,572

**Pollard Banknote Limited****Notes to Condensed Consolidated Interim Financial Statements (continued)**

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

**15. Net income per share:**

	Three months ended June 30, 2024	Three months ended June 30, 2023
Net income attributable to shareholders	\$ 11,869	\$ 7,540
Weighted average number of shares – basic	27,055,169	26,920,169
Weighted average impact of share options	387,500	535,000
Weighted average number of shares – diluted	27,442,669	27,455,169
Net income per share – basic	\$ 0.44	\$ 0.28
Net income per share – diluted	\$ 0.43	\$ 0.27

  

	Six months ended June 30, 2024	Six months ended June 30, 2023
Net income attributable to shareholders	\$ 18,798	\$ 12,366
Weighted average number of shares – basic	27,019,506	26,918,919
Weighted average impact of share options	423,164	451,250
Weighted average number of shares – diluted	27,442,670	27,370,169
Net income per share – basic	\$ 0.70	\$ 0.46
Net income per share – diluted	\$ 0.69	\$ 0.45

## Pollard Banknote Limited

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

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

#### 16. Supplementary cash flow information:

	Six months ended June 30, 2024	Six months ended June 30, 2023
Change in non-cash operating working capital:		
Accounts receivable	\$ 7,644	\$ 21,390
Inventories	(4,085)	(4,257)
Prepaid expenses and deposits	(1,746)	(3,419)
Income taxes payable	–	(180)
Accounts payable and accrued liabilities	(2,643)	2,507
Current portion contract liabilities	35	489
	\$ (795)	\$ 16,530

#### 17. Related party transactions:

##### *The Control Group and affiliates*

During the six months ended June 30, 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 \$583 U.S. dollars 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 June 30, 2024, Pollard paid property rent of \$579 (2023 – \$836) and \$111 (2023 – \$80) in plane charter costs to affiliates of the Control Group. During the six months ended June 30, 2024, Pollard paid property rent of \$1,154 (2023 – \$1,671) and \$222 (2023 – \$200) 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. During the six months ended June 30, 2024, the Control Group paid Pollard \$36 (2023 – \$36) for accounting and administration fees.

As at June 30, 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 \$80 (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 June 30, 2024, the net book value of the right-of-use assets was \$7,974 (December 31, 2023 – \$5,472) and the present value of the lease liabilities was \$8,117 (December 31, 2023 – \$5,501).

## 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):

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

During the quarter ended June 30, 2024, Pollard reimbursed operating costs and paid software royalties of \$5,405 (2023 – \$3,928) to its iLottery partner. During the six months ended June 30, 2024, Pollard reimbursed operating costs and paid software royalties of \$10,516 (2023 – \$7,968) to its iLottery partner. These costs have been recorded in cost of sales and equity investment income.

At June 30, 2024, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of \$4,285 (December 31, 2023 – \$4,436) for its share of profits and reimbursement of operating costs, net of capital investments.

At June 30, 2024, included in restricted cash and accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of \$5,272 (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 June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Salaries, incentives and benefits	\$ 1,549	\$ 1,295	\$ 2,620	\$ 2,323
Share based compensation	69	319	333	592
Expenses related to defined benefit plans	182	133	358	322
	\$ 1,800	\$ 1,747	\$ 3,311	\$ 3,237

As at June 30, 2024, key management personnel of Pollard, as a group, beneficially owned or exercised control or direction over 17,425,288 common shares of Pollard.

## Pollard Banknote Limited

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

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)  
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#### 18. Financial risk management:

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

Credit risk  
Liquidity risk  
Currency risk  
Interest rate risk

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

##### *Credit risk*

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

	June 30, 2024	December 31, 2023
Current	\$ 72,522	\$ 76,956
Past due for 1 to 60 days	2,211	4,437
Past due for more than 60 days	2,093	1,889
Less: Allowance for losses	(537)	(447)
	\$ 76,289	\$ 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.

## **Pollard Banknote Limited**

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

*(In thousands of Canadian dollars, except where otherwise noted and for share amounts)*  
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#### **18. Financial risk management (continued):**

##### *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.

Translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At June 30, 2024, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately \$98,090 (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 \$490 for the three and six months ended June 30, 2024 (2023 – \$369).

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 June 30, 2023, 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 \$152 for the three months ended June 30, 2024 (2023 – \$169) and approximately \$304 for the six months ended June 30, 2024 (2023 – \$340).

#### **19. Subsequent event:**

On July 31, 2024, Pollard acquired 100% of the business of Clarence J. Venne, LLC ("Venne") for a purchase price of \$12,600 U.S. dollars (\$17,388) 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.