

Condensed Consolidated Interim Financial Statements of

# **POLLARD BANKNOTE LIMITED**

(unaudited)

Nine months ended September 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)

	September 30, 2024	December 31, 2023
<b>Assets</b>		
Current assets		
Cash	\$ 5,568	\$ 3,331
Restricted cash	23,385	25,985
Accounts receivable (note 18)	104,587	82,835
Inventories (note 6)	71,068	60,509
Prepaid expenses and deposits	10,686	8,142
Income taxes receivable	–	2,401
Total current assets	215,294	183,203
Non-current assets		
Long-term assets	13,736	7,783
Property, plant and equipment	110,351	100,530
Equity investment (note 7)	328	518
Goodwill	118,615	110,982
Intangible assets	122,746	103,931
Deferred income taxes	20,096	8,766
Pension asset (note 9)	4,326	–
Total non-current assets	390,198	332,510
Total assets	\$ 605,492	\$ 515,713
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 103,398	\$ 92,231
Dividends payable	1,353	1,079
Income taxes payable	3,106	52
Current portion lease liabilities	5,232	4,675
Current portion contract liabilities (note 11)	1,953	3,372
Total current liabilities	115,042	101,409
Non-current liabilities		
Lease liabilities	12,840	12,872
Deferred income taxes	1,913	2,701
Long-term debt (note 8)	149,656	119,687
Contract liabilities (note 11)	878	881
Other non-current liabilities	767	767
Pension liability	–	2,592
Total non-current liabilities	166,054	139,500
Shareholders' equity		
Share capital (note 10)	151,827	150,711
Reserves	13,533	4,450
Retained earnings	159,036	119,643
Total shareholders' equity	324,396	274,804
Total liabilities and shareholders' equity	\$ 605,492	\$ 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 September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Sales (note 11)	\$ 153,251	\$ 129,147	\$ 416,839	\$ 384,971
Cost of sales	122,240	106,301	335,313	323,635
Gross profit	31,011	22,846	81,526	61,336
Administration	17,009	14,834	48,888	42,749
Selling	5,877	5,216	17,045	15,033
Equity investment income (note 7)	(13,586)	(11,104)	(39,939)	(28,051)
Other income (note 12)	(758)	(700)	(158)	(425)
Income from operations	22,469	14,600	55,690	32,030
Finance costs (note 13)	2,705	5,344	13,040	10,816
Finance income (note 13)	(2,487)	–	(2,487)	(1,981)
Income before income taxes	22,251	9,256	45,137	23,195
Income taxes (note 14)				
Current	7,861	7,457	22,533	18,025
Deferred reduction	(3,771)	(5,936)	(14,355)	(14,931)
	4,090	1,521	8,178	3,094
Net income	\$ 18,161	\$ 7,735	\$ 36,959	\$ 20,101
Net income per share – basic (note 15)	\$ 0.67	\$ 0.29	\$ 1.37	\$ 0.75
Net income per share – diluted (note 15)	\$ 0.66	\$ 0.28	\$ 1.35	\$ 0.73

See accompanying notes to condensed consolidated interim financial statements.

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

(unaudited)

	Three months ended September 30, 2024		Three months ended September 30, 2023		Nine months ended September 30, 2024		Nine months ended September 30, 2023	
Net income	\$	18,161	\$	7,735	\$	36,959	\$	20,101
Other comprehensive income (loss):								
Items that are or may be reclassified to profit and loss:								
Foreign currency translation differences – foreign operations		(426)		5,398		9,083		216
Items that will never be reclassified to profit and loss:								
Defined benefit plans remeasurements, net of income taxes (note 9 & note 14)		(1,256)		5,229		6,203		6,137
Other comprehensive income (loss)		(1,682)		10,627		15,286		6,353
Comprehensive income	\$	16,479	\$	18,362	\$	52,245	\$	26,454

See accompanying notes to condensed consolidated interim financial statements.

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

**For the nine months ended September 30, 2024**

	Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2023	\$ 150,711	4,450	119,643	274,804
Net income	–	–	36,959	36,959
Other comprehensive income:				
Foreign currency translation differences – foreign operations	–	9,083	–	9,083
Defined benefit plans remeasurements, net of income taxes (note 9 & note 14)	–	–	6,203	6,203
Total other comprehensive income	\$ –	9,083	6,203	15,286
Total comprehensive income	\$ –	9,083	43,162	52,245
Issue of common shares	\$ 1,116	–	(211)	905
Share based compensation	–	–	500	500
Dividends (note 10)	–	–	(4,058)	(4,058)
Balance at September 30, 2024	\$ 151,827	13,533	159,036	324,396

**For the nine months ended September 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	–	–	20,101	20,101
Other comprehensive income:				
Foreign currency translation differences – foreign operations	–	216	–	216
Defined benefit plans remeasurements, net of income taxes	–	–	6,137	6,137
Total other comprehensive income	\$ –	216	6,137	6,353
Total comprehensive income	\$ –	216	26,238	26,454
Issue of common shares	\$ 403	–	(75)	328
Share based compensation	–	–	680	680
Dividends	–	–	(3,232)	(3,232)
Balance at September 30, 2023	\$ 150,252	9,129	116,783	276,164

See accompanying notes to condensed consolidated interim financial statements.

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

	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Cash increase (decrease)		
Operating activities		
Net income	\$ 36,959	\$ 20,101
Adjustments		
Income taxes expense	8,178	3,094
Amortization and depreciation	32,600	33,534
Interest expense	7,633	7,929
Unrealized foreign exchange loss	2,537	714
Equity investment income (note 7)	(39,939)	(28,051)
Pension expense	5,699	5,144
Contingent consideration fair value adjustment	–	463
Interest paid	(7,146)	(7,252)
Income taxes paid	(16,978)	(17,671)
Equity investment distribution (note 7)	40,000	28,015
Pension contributions	(4,168)	(4,249)
Change in long-term assets	(809)	(183)
Change in non-cash equity investment (note 7)	143	–
Change in non-cash operating working capital (note 16)	(20,728)	2,470
	43,981	44,058
Investing activities		
Additions to property, plant and equipment	(20,396)	(12,013)
Acquisitions (note 5)	(23,431)	(13,650)
Additions to intangible assets	(19,707)	(16,867)
	(63,534)	(42,530)
Financing activities		
Net proceeds from issue of share capital	905	328
Net borrowings of long-term debt	29,029	4,968
Change in other non-current liabilities	(19)	132
Lease principal payments	(4,146)	(5,264)
Dividends paid	(3,784)	(3,232)
	21,985	(3,068)
Foreign exchange gain (loss) on cash held in foreign currency	(195)	61
Change in cash position	2,237	(1,479)
Cash position, beginning of period	3,331	1,479
Cash position, end of period	\$ 5,568	\$ –

See accompanying notes to condensed consolidated interim financial statements.

# Pollard Banknote Limited

## Notes to Condensed Consolidated Interim Financial Statements

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

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### 1. Reporting entity:

Pollard Banknote Limited ("Pollard") was incorporated under the laws of Canada on March 26, 2010. The address of Pollard's registered office is 140 Otter Street, Winnipeg, Manitoba, Canada, R3T 0M8.

The condensed consolidated interim financial statements of Pollard as at and for the nine months ended September 30, 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 November 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)*  
(unaudited)

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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 derecognition of 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:

##### (a) Charitable gaming assets:

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 and the transaction 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.

##### (b) Clarence J. Venne, LLC:

On July 31, 2024, Pollard acquired 100% of the equity of Clarence J. Venne, LLC ("Venne"), a leading manufacturer of bingo daubers utilized primarily in the charitable gaming bingo market. The purchase price was funded by proceeds from Pollard's credit facility. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities have been based on management's best estimates and valuation techniques as at July 31, 2024, the acquisition date.

Cash paid, net of cash acquired of \$406	\$	18,031
Working capital receivable		(225)
Purchase price payable		213
Total consideration	\$	18,019
Accounts receivable	\$	1,675
Inventories		5,251
Prepaid expenses and deposits		186
Property, plant and equipment		1,932
Accounts payable and accrued liabilities		(1,055)
Lease liabilities		(919)
Net tangible assets acquired	\$	7,070
Customer relationships	\$	5,492
Brand		1,270
Identifiable intangible assets acquired	\$	6,762
Goodwill acquired	\$	4,187

The goodwill acquired is largely attributable to the assembled workforce and the expected revenue synergies and cost savings after integration of Venne with Pollard. This goodwill is expected to be deductible for tax purposes. The fair values of identifiable assets and liabilities acquired are preliminary and are subject to change if new information becomes available during the measurement period.

## Pollard Banknote Limited

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

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

#### 5. Acquisitions (continued):

If Venne had been acquired on January 1, 2024, incremental revenue of \$10,872 and net income of \$835, after depreciation and amortization of the fair values of identifiable assets acquired, would have been recognized in the nine months ended September 30, 2024.

#### 6. Inventories:

	September 30, 2024	December 31, 2023
Raw materials	\$ 29,892	\$ 28,315
Work-in-process	4,155	2,812
Finished goods	37,021	29,382
	<u>\$ 71,068</u>	<u>\$ 60,509</u>

During the third quarter of 2024, Pollard recorded inventory write-downs of \$283, representing an increase in the obsolescence reserves, and write-downs of \$16 due to changes in foreign exchange rates. During the nine months ended September 30, 2024, Pollard recorded inventory write-downs of \$1,004 representing an increase in the obsolescence reserves, and reversal of previous write-downs of \$117 due to changes in foreign exchange rates.

During the third quarter of 2023, Pollard recorded inventory write-downs of \$515, representing an increase in the obsolescence reserves, and reversal of previous write-downs of \$201 due to changes in foreign exchange rates. During the nine months ended September 30, 2023, Pollard recorded inventory write-downs of \$1,534 representing an increase in the obsolescence reserves, and write-downs of \$309 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 certain iLottery services in the United States and Canada, excluding the Michigan iLottery.

	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Investment in equity accounted entity		
Balance, beginning of period	\$ 518	\$ 549
Investment distribution	(40,000)	(28,015)
Equity income	39,939	28,051
Non-cash change in investment value	(143)	–
Effects of movements in exchange rates	14	–
Balance, end of period	\$ 328	\$ 585

	September 30, 2024	December 31, 2023
Net Assets		
Current assets	\$ 65,825	\$ 51,677
Non-current assets	2,158	1,282
Total	\$ 67,983	\$ 52,959
Current liabilities	\$ 67,041	\$ 51,923
Total	\$ 67,041	\$ 51,923
Net assets – 100%	\$ 942	\$ 1,036
Attributable to Pollard – 50%	\$ 471	\$ 518
Elimination of unrealized profit on downstream sales	(143)	–
Carrying amount of investment	\$ 328	\$ 518

At September 30, 2024, included in the current assets of NPi is restricted cash relating to amounts held on behalf of iLottery customers of \$27,355 (December 31, 2023 – \$26,238). There is an offsetting liability included in current liabilities.

	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Interest in equity accounted entity		
Sales – 100%	\$ 161,739	\$ 116,890
Sales – attributable to Pollard – 50%	\$ 80,870	\$ 58,445
Comprehensive income – 100%	\$ 79,738	\$ 56,101
Comprehensive income – attributable to Pollard <sup>(1)</sup>	\$ 39,939	\$ 28,051

(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 September 30, 2024, included in accounts receivable in the condensed consolidated statement of financial position is a net amount owed from NPi of \$12,178 (December 31, 2023 – \$6,285).

##### *Michigan iLottery*

Pollard and NeoGames US, LLP carry out 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:

	September 30, 2024	December 31, 2023
Credit facility, interest of 5.7% to 8.0%, payable monthly, maturing December 31, 2025	\$ 149,800	\$ 119,944
Deferred financing charges, net of amortization	(144)	(257)
	<u>\$ 149,656</u>	<u>\$ 119,687</u>

##### (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 September 30, 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 \$48,000 U.S. dollars (December 31, 2023 – \$35,400 U.S. dollars). As of September 30, 2024, Pollard had unused credit facility available of \$84,776 (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 September 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 September 30, 2024, the outstanding letters of credit drawn on this facility were \$16,596 (€10,991). 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 September 30, 2024, Pollard recorded a remeasurement loss of \$1,256 (net of \$454 of income taxes) on its defined benefit 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 three month period ended September 30, 2023, Pollard recorded a remeasurement gain of \$5,229 (net of \$1,907 of income taxes) on its defined benefit pension plans. The remeasurement gain resulted from an increase in the discount rate, which was partially offset by lower than expected returns on plan asset investments.

During the nine month period ended September 30, 2024, Pollard recorded a remeasurement gain of \$6,203 (net of \$2,270 of income taxes) on its defined benefit pension plans. The remeasurement gain resulted from higher than expected returns on plan asset investments, which was partially offset by a decrease in the discount rate.

During the nine month period ended September 30, 2023, Pollard recorded a remeasurement gain of \$6,137 (net of \$2,230 of income taxes) on its defined benefit pension plans. The remeasurement gain resulted from an increase in the discount rate and higher than expected returns on plan asset investments.

## Pollard Banknote Limited

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

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)  
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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 September 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 August 13, 2024, a dividend of \$0.05 per share was declared, payable on October 15, 2024, to the shareholders of record on September 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)  
(unaudited)

#### 11. Sales and contract balances:

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

	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Sales – geographical segment		
Canada	\$ 65,925	\$ 61,230
United States	271,936	250,401
International	78,978	73,340
Total	\$ 416,839	\$ 384,971

	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Sales – product lines		
Lottery	\$ 318,562	\$ 290,456
Charitable	53,330	53,702
eGaming systems	44,947	40,813
Total	\$ 416,839	\$ 384,971

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

	September 30, 2024	December 31, 2023
Contract balances		
Trade receivables, which are included in accounts receivable	\$ 78,645	\$ 64,146
Contract assets, which are included in accounts receivable	7,492	7,159
Contract liabilities	2,831	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):

	Nine months ended September 30, 2024		Nine months ended September 30, 2023	
Contract liabilities				
Balance, beginning of period	\$	4,253	\$	2,159
Increases due to cash received		6,267		5,205
Sales recognized		(7,725)		(3,448)
Effect of movement in exchange rates		36		–
Balance, end of period		2,831		3,916
Less: current portion		(1,953)		(3,489)
	\$	878	\$	427

### 12. Other income:

	Three months ended September 30, 2024		Three months ended September 30, 2023		Nine months ended September 30, 2024		Nine months ended September 30, 2023	
Contingent consideration fair value adjustment	\$	–	\$	(228)	\$	–	\$	463
Severance related costs		–		–		1,114		–
Insurance proceeds (net)		–		(242)		–		(242)
Other income		(758)		(230)		(1,272)		(646)
	\$	(758)	\$	(700)	\$	(158)	\$	(425)

#### 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.

**Pollard Banknote Limited****Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except where otherwise noted and for share amounts)*

(unaudited)

**13. Finance costs and finance income:**

	Three months ended September 30, 2024		Three months ended September 30, 2023		Nine months ended September 30, 2024		Nine months ended September 30, 2023	
Finance costs								
Interest	\$	2,705	\$	2,457	\$	7,633	\$	7,929
Foreign exchange loss		–		2,887		5,407		2,887
	\$	2,705	\$	5,344	\$	13,040	\$	10,816

	Three months ended September 30, 2024		Three months ended September 30, 2023		Nine months ended September 30, 2024		Nine months ended September 30, 2023	
Finance income								
Foreign exchange gain	\$	2,487	\$	–	\$	2,487	\$	1,981
	\$	2,487	\$	–	\$	2,487	\$	1,981

**14. Income taxes:**

	Three months ended September 30, 2024		Three months ended September 30, 2023	
Reconciliation of effective tax rate				
Net income for the period	\$	18,161	\$	7,735
Total income tax expense		4,090		1,521
Income before income taxes	\$	22,251	\$	9,256
Income tax using Pollard's domestic tax rate	27.0%	\$ 6,008	27.0%	\$ 2,499
Effect of tax rates in foreign jurisdictions	(5.3%)	(1,194)	(9.6%)	(890)
Effect of non-taxable amounts	(0.7%)	(148)	(3.6%)	(333)
Effect of non-taxable items related to foreign exchange	(0.1%)	(27)	(0.1%)	(4)
Other items	(2.5%)	(549)	2.7%	249
	18.4%	\$ 4,090	16.4%	\$ 1,521

**Pollard Banknote Limited****Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except where otherwise noted and for share amounts)*

(unaudited)

**14. Income taxes (continued):**

		Nine months ended September 30, 2024		Nine months ended September 30, 2023
Reconciliation of effective tax rate				
Net income for the period		\$ 36,959		\$ 20,101
Total income tax expense		8,178		3,094
Income before income taxes		\$ 45,137		\$ 23,195
Income tax using Pollard's domestic tax rate	27.0%	\$ 12,187	27.0%	\$ 6,263
Effect of tax rates in foreign jurisdictions	(6.5%)	(2,947)	(10.9%)	(2,532)
Effect of non-taxable amounts	(1.1%)	(511)	(2.7%)	(634)
Effect of non-taxable items related to foreign exchange	(1.2%)	(538)	(0.2%)	(48)
Other items	(0.1%)	(13)	0.2%	45
	18.1%	\$ 8,178	13.4%	\$ 3,094

**15. Net income per share:**

		Three months ended September 30, 2024		Three months ended September 30, 2023
Net income attributable to shareholders		\$ 18,161		\$ 7,735
Weighted average number of shares – basic		27,055,169		26,950,773
Weighted average impact of share options		387,500		504,396
Weighted average number of shares – diluted		27,442,669		27,455,169
Net income per share – basic		\$ 0.67		\$ 0.29
Net income per share – diluted		\$ 0.66		\$ 0.28

**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 (continued):**

	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Net income attributable to shareholders	\$ 36,959	\$ 20,101
Weighted average number of shares – basic	27,031,525	26,929,595
Weighted average impact of share options	411,114	469,324
Weighted average number of shares – diluted	27,442,669	27,398,919
Net income per share – basic	\$ 1.37	\$ 0.75
Net income per share – diluted	\$ 1.35	\$ 0.73

**16. Supplementary cash flow information:**

	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Change in non-cash operating working capital:		
Accounts receivable	\$ (17,757)	\$ 8,470
Inventories	(4,939)	(4,178)
Prepaid expenses and deposits	(2,567)	(3,826)
Income taxes payable	–	(270)
Accounts payable and accrued liabilities	5,993	517
Current portion contract liabilities	(1,458)	1,757
	\$ (20,728)	\$ 2,470

**17. Related party transactions:***The Control Group and affiliates*

During the nine months ended September 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.

## **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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#### **17. Related party transactions (continued):**

During the quarter ended September 30, 2024, Pollard paid property rent of \$579 (2023 – \$833) and \$111 (2023 – \$160) in plane charter costs to affiliates of the Control Group. During the nine months ended September 30, 2024, Pollard paid property rent of \$1,732 (2023 – \$2,505) and \$296 (2023 – \$359) 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 nine months ended September 30, 2024, the Control Group paid Pollard \$54 (2023 – \$54) for accounting and administration fees.

As at September 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 \$113 (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 September 30, 2024, the net book value of the right-of-use assets was \$7,421 (December 31, 2023 – \$5,472) and the present value of the lease liabilities was \$7,620 (December 31, 2023 – \$5,501).

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

During the quarter ended September 30, 2024, Pollard reimbursed operating costs and paid software royalties of \$4,937 (2023 – \$4,074) to its iLottery partner. During the nine months ended September 30, 2024, Pollard reimbursed operating costs and paid software royalties of \$15,453 (2023 – \$12,042) to its iLottery partner. These costs have been recorded in cost of sales and equity investment income.

At September 30, 2024, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of \$4,537 (December 31, 2023 – \$4,436) for its share of profits and reimbursement of operating costs, net of capital investments.

At September 30, 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.

## 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):

Key management personnel compensation comprised:

	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Salaries, incentives and benefits	\$ 1,432	\$ 1,634	\$ 4,052	\$ 3,957
Share based compensation	126	272	459	864
Expenses related to defined benefit plans	201	217	559	539
	\$ 1,759	\$ 2,123	\$ 5,070	\$ 5,360

As at September 30, 2024, key management personnel of Pollard, as a group, beneficially owned or exercised control or direction over 17,419,988 common shares of Pollard.

#### 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.

## Pollard Banknote Limited

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

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

#### 18. Financial risk management (continued):

##### *Credit risk*

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

	September 30, 2024	December 31, 2023
Current	\$ 99,403	\$ 76,956
Past due for 1 to 60 days	3,942	4,437
Past due for more than 60 days	1,820	1,889
Less: Allowance for losses	(578)	(447)
	\$ 104,587	\$ 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.

Translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At September 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 \$86,576 (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 \$433 for the three and nine months ended September 30, 2024 (2023 – \$420).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Six 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 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):**

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At September 30, 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 \$187 for the three months ended September 30, 2024 (2023 – \$159) and approximately \$562 for the nine months ended September 30, 2024 (2023 – \$477).