Condensed Consolidated Interim Financial Statements of

POLLARD BANKNOTE LIMITED

(unaudited)

Three months ended March 31, 2020

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

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

		March 31, 2020		December 31, 2019
Assets				
Current assets				
Cash	$	11,188	$	7,448
Restricted cash		17,173		13,000
Accounts receivable		51,927		57,213
Inventories (note 5)		46,067		42,540
Prepaid expenses and deposits		6,643		7,224
Income tax receivable		5,634		5,200
Total current assets		138,632		132,625
Non-current assets				
Property, plant and equipment		99,726		91,904
Equity investment (note 6)		1,207		1,161
Goodwill		81,164		69,993
Intangible assets		64,097		54,207
Deferred income taxes		872		2,375
Total non-current assets		247,066		219,640
Total assets	$	385,698	$	352,265
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	57,723	$	47,368
Dividends payable		1,025		1,025
Income taxes payable		2,285		641
Contract liabilities (note 7)		253		–
Current portion lease liabilities (note 8)		4,652		4,375
Total current liabilities		65,938		53,409
Non-current liabilities				
Long-term debt (note 9)		137,528		127,295
Other non-current liabilities		268		337
Pension liability (note 10)		23,084		26,547
Lease liabilities (note 8)		11,821		11,554
Deferred income taxes		10,569		9,839
Total non-current liabilities		183,270		175,572
Shareholders' equity				
Share capital (note 11)		108,642		108,642
Reserves		18,048		5,705
Retained earnings		9,800		8,937
Total shareholders' equity		136,490		123,284
Total liabilities and shareholders' equity	$	385,698	$	352,265

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Income

(*In thousands of Canadian dollars, except for share amounts*)

(unaudited)

		Three months ended March 31, 2020		Three months ended March 31, 2019
Sales (note 7)	$	102,253	$	97,547
Cost of sales		80,528		74,615
Gross profit		21,725		22,932
Administration		10,183		8,651
Selling		3,765		3,523
Other expenses (note 12)		94		263
Income from operations		7,683		10,495
Finance costs (note 13)		7,718		1,487
Finance income (note 13)		–		(1,477)
Income (loss) before income taxes		(35)		10,485
Income taxes (note 14)				
Current		2,116		1,802
Deferred (reduction)		(893)		643
		1,223		2,445
Net income (loss)	$	(1,258)	$	8,040
Net income (loss) per share (basic) (note 15)	$	(0.05)	$	0.31
Net income (loss) per share (diluted) (note 15)	$	(0.05)	$	0.31

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Comprehensive Income

(*In thousands of Canadian dollars*)

(unaudited)

	Three months ended March 31, 2020	Three months ended March 31, 2019
Net income (loss)	$ (1,258)	$ 8,040
Other comprehensive income (loss)		
Items that are or may be reclassified to profit and loss		
Foreign currency translation differences – foreign operations	12,343	(2,872)
Items that will never be reclassified to profit and loss		
Defined benefit plans remeasurements, net of income tax (note 10)	3,027	(4,312)
Other comprehensive income (loss)	15,370	(7,184)
Comprehensive income	$ 14,112	$ 856

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Changes in Equity

(*In thousands of Canadian dollars*)
(unaudited)

For the three months ended March 31, 2020

		Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2019	$	108,642	5,705	8,937	123,284
Net loss		–	–	(1,258)	(1,258)
Other comprehensive income					
Foreign currency translation differences – foreign operations		–	12,343	–	12,343
Defined benefit plans remeasurements, net of income tax		–	–	3,027	3,027
Total other comprehensive income	$	–	12,343	3,027	15,370
Total comprehensive income	$	–	12,343	1,769	14,112
Share based compensation	$	–	–	119	119
Dividends (note 11)		–	–	(1,025)	(1,025)
Balance at March 31, 2020	$	108,642	18,048	9,800	136,490

For the three months ended March 31, 2019

		Share capital	Translation reserve	Deficit	Total equity
Balance at December 31, 2018	$	108,605	12,698	(3,665)	117,638
Net income		–	–	8,040	8,040
Other comprehensive loss					
Foreign currency translation differences – foreign operations		–	(2,872)	–	(2,872)
Defined benefit plans remeasurements, net of income tax reduction		–	–	(4,312)	(4,312)
Total other comprehensive loss	$	–	(2,872)	(4,312)	(7,184)
Total comprehensive income (loss)	$	–	(2,872)	3,728	856
Issue of common shares	$	33	–	(14)	19
Share based compensation		–	–	21	21
Dividends		–	–	(1,025)	(1,025)
Balance at March 31, 2019	$	108,638	9,826	(955)	117,509

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Cash Flows

(*In thousands of Canadian dollars*)

(unaudited)

	Three months ended March 31, 2020	Three months ended March 31, 2019
Cash increase (decrease)		
Operating activities		
Net income (loss)	$ (1,258)	$ 8,040
Adjustments		
Income taxes	1,223	2,445
Amortization and depreciation	7,597	6,254
Interest expense	1,635	1,487
Unrealized foreign exchange loss (gain)	6,230	(1,877)
Loss on equity investment (note 6)	563	920
Pension expense	1,987	1,522
Contract liabilities	–	(22)
Interest paid	(1,550)	(1,272)
Income tax paid	(303)	(1,720)
Pension contribution	(1,608)	(1,624)
Change in non-cash operating working capital (note 16)	12,868	(8,642)
	27,384	5,511
Investing activities		
Additions to property, plant and equipment	(3,346)	(3,800)
Charitable gaming asset purchase (note 4)	(4,895)	–
Acquisition of mkodo Limited (note 4)	(17,447)	–
Equity investment (note 6)	(511)	(839)
Additions to intangible assets	(1,749)	(1,624)
	(27,948)	(6,263)
Financing activities		
Proceeds from issue of share capital	–	19
Net borrowings (repayments) of long-term debt	6,201	(5,645)
Change in other non-current liabilities	(95)	10
Lease principal payments	(1,266)	(1,225)
Deferred financing charges paid	(68)	(14)
Dividends paid	(1,025)	(768)
	3,747	(7,623)
Foreign exchange gain (loss) on cash held in foreign currency	557	(47)
Change in cash position	3,740	(8,422)
Cash position, beginning of period	7,448	11,174
Cash position, end of period	$ 11,188	$ 2,752

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity:

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

The condensed consolidated interim financial statements of Pollard as at and for the three months ended March 31, 2020, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and gaming products.

The controlling entity of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owns approximately 67.5% of Pollard's outstanding shares.

Pollard's consolidated financial statements as at and for the year ended December 31, 2019, are available at www.sedar.com.

The operations of mkodo Limited ("mkodo"), acquired during the first quarter of 2020, are included in the condensed consolidated interim financial statements from February 3, 2020 (note 4).

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

2. Basis of preparation:

(a) Statement of compliance:

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

On May 6, 2020, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Use of estimates and judgements:

The preparation of condensed consolidated interim financial statements requires management to make judgements, 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 judgements 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, 2019.

3. Significant accounting policies:

Except for the accounting policies described below, these condensed consolidated interim financial statements follow the same significant accounting policies as described and used in Pollard's consolidated financial statements for the year ended December 31, 2019 and should be read in conjunction with these statements.

Amendments to International Financial Reporting Standards ("IFRS") 3:

In October 2018, the International Accounting Standards Board ("IASB") issued amendments to IFRS 3 *Business Combinations,* that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020 and had no material impact on the condensed consolidated interim financial statements.

4. Acquisitions:

(a) Fastrak Retail (UK) Limited ("Fastrak"):

On May 1, 2019, Pollard acquired 100% of the common shares of Fastrak, a leading provider of lottery ticket dispensers, lottery play points and other retail merchandising products based in the United Kingdom. The purchase price was funded by proceeds from Pollard's credit facility and cash on hand. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities have been based on management's best estimates and valuation techniques as at May 1, 2019, the acquisition date.

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

4. Acquisitions (continued):

Cash paid, net of cash acquired of $1,213	$	8,038
Contingent consideration		504
Total consideration	$	8,542
Accounts receivable	$	2,418
Inventories		885
Prepaid expenses and deposits		177
Property, plant and equipment		1,646
Income taxes receivable		128
Accounts payable and accrued liabilities		(2,121)
Lease liabilities		(402)
Deferred income tax liability		(997)
Net tangible assets acquired (excluding cash)	$	1,734
Customer relationships	$	3,770
Brand		457
Patents		342
Identifiable intangible assets acquired	$	4,569
Goodwill acquired	$	2,239

The goodwill acquired is largely attributable to the assembled workforce, market share and the expected synergies and cost savings after integration of Fastrak with Pollard. This goodwill is not expected to be deductible for tax purposes.

During the period ended March 31, 2020, the acquisition accounting was finalized.

(b) mkodo Limited:

On February 3, 2020, Pollard acquired 100% of the share capital of mkodo, a leading provider of digital apps and user interfaces for the lottery and gaming industry worldwide. The purchase price was funded by proceeds from Pollard’s credit facility and cash on hand. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities have been based on management’s best estimates and valuation techniques as at February 3, 2020, the acquisition date.

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

4. Acquisitions (continued):

Cash paid, net of cash acquired of $1,300 and debt assumed of $723	$	15,349
Contingent consideration		2,098
Total consideration	$	17,447
Accounts receivable	$	3,216
Deferred income tax asset		179
Prepaid expenses and deposits		102
Property, plant and equipment		1,429
Income taxes receivable		427
Accounts payable and accrued liabilities		(653)
Contract liabilities		(273)
Lease liabilities		(1,125)
Deferred income tax liability		(1,286)
Net tangible assets acquired (excluding cash acquired and debt assumed)	$	2,016
Customer relationships	$	4,111
Technology		2,064
Brand		1,393
Identifiable intangible assets acquired	$	7,568
Goodwill acquired	$	7,863

The goodwill acquired is largely attributable to the assembled workforce, market share and the expected synergies and cost savings after integration of mkodo with Pollard. This goodwill is not 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.

Acquisition costs related to the mkodo purchase in the three months ended March 31, 2020, were $82. These costs were included in administration expenses.

During the period between February 3, 2020 and March 31, 2020, mkodo generated revenues of approximately $1,525 and net income of $26, after depreciation and amortization of the fair values of identifiable assets acquired, which have been recorded in the condensed consolidated interim financial statements.

If mkodo had been acquired on January 1, 2020, incremental revenue of $590 and net income of $96, after depreciation and amortization of the fair values of identifiable assets acquired, would have been recognized in the three months ended March 31, 2020.

Contingent consideration, based on achievement of certain earnings before interest, taxes, depreciation and amortization ("EBITDA") targets, may be paid to the vendor. The earn-out is based on mkodo's achievement of certain EBITDA targets during 2020 and 2021. The potential payment under the earn-out is unlimited. As at March 31, 2020, Pollard has accrued $2,098 relating to the EBITDA earn-out.

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

4. Acquisitions (continued):

(c) Charitable gaming asset purchase:

On February 6, 2020, Pollard entered into an agreement, approved by the courts, to acquire certain assets which were being sold under a bankruptcy process. The transaction was subject to certain closing conditions and closed on March 20, 2020. These assets had previously been used in the operation of a business producing pull-tab tickets for the lottery and charitable gaming business. The total purchase price, including estimated transportation, disassembly and reassembly, and related costs, is $4,895.

5. Inventories:

	March 31, 2020	December 31, 2019
Raw materials	$ 18,237	$ 17,957
Work-in-process	1,875	1,726
Finished goods	25,955	22,857
	$ 46,067	$ 42,540

During the first quarter of 2020, Pollard recorded inventory write-downs of $204 representing an increase in the obsolescence reserves, and reversal of previous write-downs of $21 due to changes in foreign exchange rates.

During the first quarter of 2019, Pollard recorded inventory write-downs of $148 representing an increase in the obsolescence reserves, and inventory write-downs of $40 due to changes in foreign exchange rates.

The cost of sales reflects the costs of inventory including direct material, direct labour and manufacturing overheads.

6. Equity investment:

Interest in joint venture	Three months ended March 31, 2020	Three months ended March 31, 2019
Balance, beginning of period	$ 1,161	$ 1,164
Investment	511	839
Equity loss	(563)	(920)
Effects of movements in exchange rates	98	(23)
Balance, end of period	$ 1,207	$ 1,060

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

6. Equity investment (continued):

Pollard has entered into an agreement with NeoGames US, LLP for the establishment of NeoPollard Interactive LLC. The entity was established to provide iLottery services in the United States and Canada, excluding the State of Michigan.

Pollard and Neogames S.à r.l. 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 share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

7. Revenue and contract balances:

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

Revenue – geographical segment	Three months ended March 31, 2020		
	Lotteries and charitable gaming	Diamond Game	Total
Canada	$ 21,633	$ 1,710	$ 23,343
United States	52,800	4,692	57,492
International	21,418	–	21,418
Total	$ 95,851	$ 6,402	$ 102,253

Revenue – geographical segment (1)	Three months ended March 31, 2019		
	Lotteries and charitable gaming	Diamond Game	Total
Canada	$ 19,021	$ 2,737	$ 21,758
United States	54,788	5,563	60,351
International	15,438	–	15,438
Total	$ 89,247	$ 8,300	$ 97,547

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

7. Revenue and contract balances (continued):

Revenue – product lines	Three months ended March 31, 2020		
	Lotteries and charitable gaming	Diamond Game	Total
Lottery	$ 83,470	$ –	$ 83,470
Charitable	12,381	–	12,381
Gaming systems	–	6,402	6,402
Total	$ 95,851	$ 6,402	$ 102,253

Revenue – product lines (1)	Three months ended March 31, 2019		
	Lotteries and charitable gaming	Diamond Game	Total
Lottery	$ 74,852	$ –	$ 74,852
Charitable	14,395	–	14,395
Gaming systems	–	8,300	8,300
Total	$ 89,247	$ 8,300	$ 97,547

(1) Effective January 1, 2020, the Oasis egaming division was transferred from International Gamco (Charitable) to Diamond Game (Gaming Systems), comparative figures have been restated.

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

Contract balances	March 31, 2020	December 31, 2019
Trade receivables, which are included in accounts receivable	$ 42,968	$ 50,730
Contract assets, which are included in accounts receivable	5,975	3,491
Contract liabilities	253	–

Contract liabilities	Three months ended March 31, 2020	Three months ended March 31, 2019
Balance – beginning of period	$ –	$ 857
Acquisition	278	–
Increases due to cash received	253	–
Revenue recognized during the period	(278)	(108)
Balance – end of period	253	749
Less current portion	(253)	(729)
	$ –	$ 20

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

8. Leases

Pollard's leases are for offices, manufacturing facilities, production equipment and office equipment.

Pollard presents right-of-use assets in "property, plant and equipment" on the condensed consolidated statement of financial position. The following tables present continuity schedules of Pollard's right-of-use assets by asset class:

	Buildings	Equipment	Furniture, Fixtures and Computers	Total
Balance at January 1, 2020	$ 15,232	$ 142	$ 215	$ 15,589
Acquisition	1,125	–	–	1,125
Additions	281	47	–	328
Depreciation	(1,155)	(25)	(62)	(1,242)
Effect of movements in exchange rates	248	13	2	263
Balance at March 31, 2020	$ 15,731	$ 177	$ 155	$ 16,063

	Buildings	Equipment	Furniture, Fixtures and Computers	Total
Balance at January 1, 2019	$ 17,750	$ 132	$ 397	$ 18,279
Acquisition	–	–	–	–
Additions	538	–	–	538
Depreciation	(1,084)	(10)	(25)	(1,119)
Effect of movements in exchange rates	(142)	–	(10)	(152)
Balance at March 31, 2019	$ 17,062	$ 122	$ 362	$ 17,546

For the three months ended March 31, 2020, Pollard's total cash outflow, principal and interest, relating to its lease obligations classified under IFRS 16 *Leases* was $1,420 (2019 - $1,399).

For the three months ended March 31, 2020, Pollard's interest expense incurred relating to its lease obligations classified under IFRS 16 *Leases* was $154 (2019 - $174).

The following table provides information about the timing of Pollard's undiscounted future lease payments:

Less than one year	$ 5,721
One to five years	12,562
More than five years	244

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

9. Long-term debt:

		March 31, 2020		December 31, 2019
Credit facility, interest of 2.6% to 3.7%, payable monthly, maturing 2022	$	138,026	$	127,820
Deferred financing charges, net of amortization		(498)		(525)
	$	137,528	$	127,295

(a) Credit facility:

Effective December 31, 2019, Pollard renewed its credit facility. The credit facility provides loans of up to $190,000 for its Canadian operations and US$14,000 for its U.S. subsidiaries. The credit facility also includes an accordion feature which can increase the facility by $35,000. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $190,000 Canadian equivalent. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At March 31, 2020, the outstanding letters of guarantee drawn under the credit facility were $2,102 (December 2019 – $10,704).

Included in the total credit facility balance is a U.S. dollar denominated balance of US$36,400 (December 2019 – US$36,400).

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 March 31, 2020, Pollard is in compliance with all financial covenants.

As of March 31, 2020, Pollard had unused credit facility available of $69,613 (December 2019 – $69,676).

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. Under the terms of the agreement the facility is committed for a three-year period, renewable December 31, 2022. Principal payments are not required until maturity. The facility can be prepaid without penalties.

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

Effective February 28, 2020, Pollard entered into an agreement with EDC to provide a €15 million facility whereby Pollard can issue qualifying letters of credit against the EDC facility. The facility is guaranteed by a general indemnity from Pollard. As of March 31, 2020, the outstanding letters of credit drawn on this facility were $9,300.

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

10. Pension liability:

During the three month period ended March 31, 2020, Pollard recorded a remeasurement gain of $3,027 (net of $1,135 of income tax) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate, which was partially offset by a loss arising on plan assets.

During the three month period ended March 31, 2019, Pollard recorded a remeasurement loss of $4,312 (net of $1,572 of income tax reduction) on its defined pension plans. The remeasurement loss resulted from a decrease in the discount rate, which was partially offset by a gain arising on plan assets.

11. Share capital:

	Shares		Amount
Authorized			
Unlimited common shares			
Unlimited preferred shares			
Issued			
Balance at January 1, 2019	25,625,658	$	108,605
Stock option exercise	10,000		37
Balance at December 31, 2019 and March 31, 2020	25,635,658	$	108,642

Stock option issuance

On March 11, 2020, the Board of Directors approved the award of 25,000 options to purchase common shares of Pollard for a member of senior management. The options were granted on March 16, 2020, and have a seven year term, vesting 25% per year over the first four years. The exercise price of $18.31 was equal to the closing price of the common shares on March 13, 2020.

Dividends

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

On March 11, 2020, a dividend of $0.04 per share was declared, payable on April 15, 2020, to the shareholders of record on March 31, 2020.

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

12. Other (income) expenses:

	Three months ended March 31, 2020	Three months ended March 31, 2019
Loss on equity investment (note 6)	$ 563	$ 920
EBITDA support agreement	(500)	(500)
Other (income) expense	31	(157)
	$ 94	$ 263

EBITDA support agreement

One of Pollard's subsidiaries, Diamond Game, previously entered into an EBITDA support agreement with Amaya Inc. pursuant to which, subject to certain terms and conditions, Amaya Inc. will pay Diamond Game each year for up to five years from July 1, 2015, an amount equal to the shortfall, if any, between (i) Diamond Game's EBITDA directly or indirectly derived from the deployment of Diamond Game's products at certain entertainment centers or in connection with Diamond Game's relationship with a certain customer, and (ii) $2,000. This agreement remains in effect after the acquisition of Diamond Game's common shares by Pollard.

13. Finance costs and finance income:

Finance costs	Three months ended March 31, 2020	Three months ended March 31, 2019
Interest	$ 1,635	$ 1,487
Foreign exchange loss	6,083	–
	$ 7,718	$ 1,487

Finance income	Three months ended March 31, 2020	Three months ended March 31, 2019
Foreign exchange gain	$ –	$ 1,477
	$ –	$ 1,477

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

14. Income taxes:

Reconciliation of effective tax rate

			Three months ended March 31, 2020			Three months ended March 31, 2019
Net income (loss) for the period		$	(1,258)		$	8,040
Total income taxes			1,223			2,445
Income (loss) before income taxes		$	(35)		$	10,485
Income tax reduction using Pollard's domestic tax rate	27.0%	$	(9)	27.0%	$	2,831
Effect of tax rates in foreign jurisdictions	(1)		(59)	(1.9%)		(199)
Non-deductible amounts	(1)		453	(0.0%)		–
Other items	(1)		(157)	(0.0%)		–
Effect of non-taxable items related to foreign exchange	(1)		995	(1.8%)		(187)
	(1)	$	1,223	23.3%	$	2,445

(1) Not meaningful

15. Net income (loss) per share:

		Three months ended March 31, 2020		Three months ended March 31, 2019
Net income (loss) attributable to shareholders for basic and diluted net income per share	$	(1,258)	$	8,040
Weighted average number of shares (basic)		25,635,658		25,626,332
Weighted average impact of share options		381,895		236,826
Weighted average number of shares (diluted)		26,017,553		25,863,158
Net income (loss) per share (basic)	$	(0.05)	$	0.31
Net income (loss) per share (diluted)	$	(0.05)	$	0.31

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

16. Supplementary cash flow information:

	Three months ended March 31, 2020	Three months ended March 31, 2019
Change in non-cash operating working capital:		
Accounts receivable	$ 10,806	$ (11,672)
Inventories	(2,303)	4,497
Prepaid expenses and deposits	725	641
Income taxes payable	(60)	(60)
Accounts payable and accrued liabilities	3,724	(1,981)
Contract liabilities	(24)	(67)
	$ 12,868	$ (8,642)

17. Related party transactions:

Pollard Equities Limited and affiliates

During the quarter ended March 31, 2020, Pollard paid property rent of $853 (2019 – $809) and $110 (2019 – $118) in plane charter costs to affiliates of Equities.

During the quarter, Equities paid Pollard $18 (2019 – $18) for accounting and administration fees.

At March 31, 2020, included in accounts receivable is an amount owing from Equities and its affiliates for expenses and other items of $23.

At December 31, 2019, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, expenses and other items of $456.

Included within property, plant and equipment and lease liabilities on the consolidated statement of financial position are right-of-use assets and corresponding liabilities for premises leased to Pollard from Equities. As at March 31, 2020, the net book value of the right-of-use assets was $10,109 (December 2019 – $10,803) and the present value of the lease liabilities was $10,357 (December 2019 – $11,787).

Neogames S.à r.l. and affiliates

During the quarter ended March 31, 2020, Pollard reimbursed operating costs and paid software royalties of $1,766 (2019 – $1,153) to its iLottery partner, which are recorded in cost of sales.

At March 31, 2020, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of $1,776 (December 2019 – $134) for reimbursement of operating costs and capital expenditures, and its share of operating profits.

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

17. Related party transactions (continued):

At March 31, 2020, included in restricted cash and accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of $2,380 (December 2019 - $2,600) for funds relating to contractual performance guarantees.

Key management personnel

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

Key management personnel compensation comprised:

		Three months ended March 31, 2020		Three months ended March 31, 2019
Wages, salaries and benefits	$	763	$	692
Profit share		–		4
Expenses related to defined benefit plans		198		154
	$	961	$	850

At March 31, 2020, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,439,058 common shares of Pollard.

18. Segmented information:

Pollard has two reportable segments: Lotteries and charitable gaming, and Diamond Game, which are Pollard's strategic business units. The strategic business units offer different products and services, and are managed separately. For each of the strategic business units, Pollard's Co–CEO's review internal management reports on a monthly basis.

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

	Three months ended March 31, 2020					
		Lotteries and charitable gaming		Diamond Game		Total
Revenues from external customers	$	95,851	$	6,402	$	102,253
Operating costs and expenses		95,897		6,391		102,288
Earnings before income taxes		(46)		11		(35)
Total assets		321,380		64,318		385,698

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

18. Segmented information (continued):

	Three months ended March 31, 2019 (1)		
	Lotteries and charitable gaming	Diamond Game	Total
Revenues from external customers	$ 89,247	$ 8,300	$ 97,547
Operating costs and expenses	80,041	7,021	87,062
Earnings before income taxes	9,206	1,279	10,485
Total assets	253,886	63,126	317,012

(1) Effective January 1, 2020, the Oasis egaming division was transferred from International Gamco (Charitable) to Diamond Game (Gaming Systems), comparative figures have been restated.

19. Financial risk management:

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

Credit risk
Liquidity risk
Currency risk
Interest rate risk

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

Credit risk

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

	March 31, 2020	December 31, 2019
Current	$ 43,110	$ 50,093
Past due for 1 to 60 days	3,772	2,708
Past due for more than 60 days	5,312	4,600
Less: Allowance for losses	(267)	(188)
	$ 51,927	$ 57,213

19. Financial risk management (continued):

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The 2020 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and the unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to some international customers where sales are denominated in U.S. dollars. In addition, a significant portion of its cost inputs are denominated in U.S. dollars. Pollard also generates revenue in currencies other than the Canadian and U.S. dollar, primarily in Euros.

A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and U.S. dollar would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $39 for three months ended March 31, 2020 (2019 – $22). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian dollar and Euro would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $16 for three months ended March 31, 2020 (2019 – $15).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. As at March 31, 2020, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately $32,918 (December 31, 2019 – $27,949). 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 $165 for the three months ended March 31, 2020 (2019 – $164).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Five manufacturing facilities are located in the U.S. and a significant amount of cost inputs for all production facilities are denominated in U.S. dollars, offsetting a large portion of the U.S. dollar revenue in a natural hedge.

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At March 31, 2020, Pollard had no outstanding foreign currency contracts.

19. Financial risk management (continued):

Interest rate risk

Pollard is exposed to interest rate risk relating to its fixed and floating rate instruments. Fluctuation in interest rates will have an effect on the valuation and repayment of these instruments.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately $173 for the three months ended March 31, 2020 (2019 – $137).