

Condensed Consolidated Interim Financial Statements of

**POLLARD BANKNOTE  
LIMITED**

(unaudited)

Nine months ended September 30, 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)

	September 30, 2020	December 31, 2019
<b>Assets</b>		
Current assets		
Cash	\$ 11,311	\$ 7,448
Restricted cash	16,468	13,000
Accounts receivable	61,725	57,213
Inventories (note 5)	44,204	42,540
Prepaid expenses and deposits	5,712	7,224
Income tax receivable	2,155	5,200
Total current assets	141,575	132,625
Non-current assets		
Property, plant and equipment	97,299	91,904
Equity investment (note 6)	1,000	1,161
Goodwill	78,711	69,993
Intangible assets	58,941	54,207
Deferred income taxes	3,331	2,375
Total non-current assets	239,282	219,640
Total assets	\$ 380,857	\$ 352,265
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 59,064	\$ 47,368
Dividends payable	1,025	1,025
Income taxes payable	1,437	641
Contract liabilities (note 7)	253	–
Current portion lease liabilities (note 8)	4,837	4,375
Total current liabilities	66,616	53,409
Non-current liabilities		
Long-term debt (note 9)	117,595	127,295
Other non-current liabilities	392	337
Pension liability (note 10)	34,891	26,547
Lease liabilities (note 8)	11,615	11,554
Deferred income taxes	10,753	9,839
Total non-current liabilities	175,246	175,572
Shareholders' equity		
Share capital (note 11)	108,642	108,642
Reserves	8,892	5,705
Retained earnings	21,461	8,937
Total shareholders' equity	138,995	123,284
Total liabilities and shareholders' equity	\$ 380,857	\$ 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 September 30, 2020		Three months ended September 30, 2019		Nine months ended September 30, 2020		Nine months ended September 30, 2019	
Sales (note 7)	\$	116,644	\$	103,164	\$	310,399	\$	297,832
Cost of sales		88,899		78,535		242,175		228,706
Gross profit		27,745		24,629		68,224		69,126
Administration		10,291		10,499		30,002		29,703
Selling		3,770		4,200		10,917		11,788
Other (income) expenses (note 12)		(2,971)		863		(8,634)		1,788
Income from operations		16,655		9,067		35,939		25,847
Finance costs (note 13)		1,008		2,800		9,940		5,915
Finance income (note 13)		(1,816)		–		(3,789)		(2,870)
Income before income taxes		17,463		6,267		29,788		22,802
Income taxes (note 14)								
Current		3,952		1,965		7,991		3,045
Deferred (reduction)		359		(55)		693		2,357
		4,311		1,910		8,684		5,402
Net income	\$	13,152	\$	4,357	\$	21,104	\$	17,400
Net income per share (basic) (note 15)	\$	0.51	\$	0.17	\$	0.82	\$	0.68
Net income per share (diluted) (note 15)	\$	0.51	\$	0.17	\$	0.82	\$	0.68

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, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Net income	\$ 13,152	\$ 4,357	\$ 21,104	\$ 17,400
Other comprehensive income (loss):				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations	(2,694)	1,382	3,187	(4,805)
Items that will never be reclassified to profit and loss				
Defined benefit plans remeasurements, net of income tax (note 10)	35	(174)	(5,817)	(7,538)
Other comprehensive income (loss)	(2,659)	1,208	(2,630)	(12,343)
<b>Comprehensive income</b>	<b>\$ 10,493</b>	<b>\$ 5,565</b>	<b>\$ 18,474</b>	<b>\$ 5,057</b>

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, 2020**

		Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2019	\$	108,642	5,705	8,937	123,284
Net income		–	–	21,104	21,104
Other comprehensive income (loss)					
Foreign currency translation differences – foreign operations		–	3,187	–	3,187
Defined benefit plans remeasurements, net of income tax		–	–	(5,817)	(5,817)
Total other comprehensive income (loss)	\$	–	3,187	(5,817)	(2,630)
Total comprehensive income	\$	–	3,187	15,287	18,474
Share based compensation		–	–	312	312
Dividends (note 11)		–	–	(3,075)	(3,075)
Balance at September 30, 2020	\$	108,642	8,892	21,461	138,995

**For the nine months ended September 30, 2019**

		Share capital	Translation reserve	Retained earnings (deficit)	Total equity
Balance at December 31, 2018	\$	108,605	12,698	(3,665)	117,638
Net income		–	–	17,400	17,400
Other comprehensive loss					
Foreign currency translation differences – foreign operations		–	(4,805)	–	(4,805)
Defined benefit plans remeasurements, net of income tax		–	–	(7,538)	(7,538)
Total other comprehensive loss	\$	–	(4,805)	(7,538)	(12,343)
Total comprehensive income (loss)	\$	–	(4,805)	9,862	5,057
Issue of common shares	\$	37	–	(18)	19
Share based compensation		–	–	50	50
Dividends		–	–	(3,076)	(3,076)
Balance at September 30, 2019	\$	108,642	7,893	3,153	119,688

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, 2020	Nine months ended September 30, 2019
Cash increase (decrease)		
Operating activities		
Net income	\$ 21,104	\$ 17,400
Adjustments		
Income taxes	8,684	5,402
Amortization and depreciation	23,727	20,082
Interest expense	3,857	4,786
Unrealized foreign exchange (gain) loss	1,601	(2,286)
Loss on equity investment (note 6)	25	3,210
Pension expense	5,942	4,631
Contract liabilities	-	(42)
Interest paid	(3,756)	(4,264)
Income tax paid	(4,030)	(2,709)
Pension contribution	(5,554)	(5,383)
Change in non-cash operating working capital (note 16)	6,649	(24,496)
	58,249	16,331
Investing activities		
Additions to property, plant and equipment	(9,869)	(12,690)
Charitable gaming asset purchase (note 4)	(4,895)	-
Acquisition of mkodo Limited (note 4)	(17,447)	-
Acquisition of Fastrak Retail (UK) Limited	-	(8,501)
Equity (investment) distribution (note 6)	167	(3,325)
Additions to intangible assets	(4,848)	(6,351)
	(36,892)	(30,867)
Financing activities		
Proceeds from issue of share capital	-	19
Net borrowings (repayments) of long-term debt	(11,000)	17,021
Change in other non-current liabilities	68	(214)
Lease principal payments	(3,791)	(3,792)
Deferred financing charges paid	(80)	(108)
Dividends paid	(3,075)	(2,819)
	(17,878)	10,107
Foreign exchange gain (loss) on cash held in foreign currency	384	(74)
Change in cash position	3,863	(4,503)
Cash position, beginning of period	7,448	11,174
Cash position, end of period	\$ 11,311	\$ 6,671

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, 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](http://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 November 9, 2020, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

#### (b) 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, 2019.

## **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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#### **2. Basis of preparation (continued):**

##### (c) COVID-19:

In March 2020, the World Health Organization declared a global pandemic known as COVID-19. Our charitable and Diamond Game (“egaming”) businesses were negatively impacted with a large reduction in sales in the second quarter with the closure of many retail outlets; however, these sales rebounded to pre-COVID levels in the third quarter. In addition, Pollard’s main lottery products and services have shown significant resilience throughout the pandemic, generating substantial cash flows from operating activities during the nine months ended September 30, 2020. The extent of the pandemic’s effect on Pollard’s operational and financial performance will depend on future developments, including the extent and duration of the pandemic, both of which are uncertain and difficult to predict. As a result, it is not currently possible to ascertain the overall financial impact on Pollard’s business. Pollard has significant cash resources and unused credit facility available, which we believe will allow Pollard to support its operations during the pandemic.

All Pollard facilities are now under some level of health state of emergency, or shelter-in-place order, restricting business activities, movement of people, size of groups and instituting mandatory quarantine for travelers. Wherever a shelter-in-place order or state of emergency has been declared, local and federal authorities have identified, under specific acts, which essential industries remain open and active until further notice. In all affected jurisdictions, Pollard is classified as an essential government supplier, which has allowed Pollard to continue to operate throughout the pandemic. As of the date of these condensed consolidated interim financial statements, all Pollard facilities are operational and our supply chains have remained functional. Pollard is extremely dedicated to providing a safe workplace in all facilities and is working to curb the spread of the virus through implementation of extensive safety measures at all locations, including daily temperature checks and health screening, extensive social distancing, restriction of visitors and mandated work from home policies for employees capable of doing so.

#### **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.



## 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. Significant accounting policies (continued):

(a) 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.

(b) Government Grants and Disclosure of Government Assistance (IAS 20):

Government subsidies are recognized on an accrual basis when there is reasonable assurance that Pollard will comply with the conditions required to qualify for the subsidy and that the collection of the subsidy is also reasonably assured. Government subsidies are recognized on the condensed consolidated statements of income as an item included within other (income) expenses over the periods in which the expense that the subsidy is intended to offset are recognized. Refer to Note 12.

(c) Share-based payments (IFRS 2):

In accordance with IFRS 2, entities are permitted to make an accounting policy election when accounting for share-based payment awards that could be accounted for as having been either forfeited or cancelled. Pollard has elected to treat such circumstances as forfeitures of awards. Refer to Note 11.

#### 4. Acquisitions:

(a) 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.

## Pollard Banknote Limited

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

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

(unaudited)

#### 4. 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 and nine months ended September 30, 2020, were \$2 and \$145, respectively. These costs were included in administration expenses.

During the period between February 3, 2020 and September 30, 2020, mkodo generated revenues of approximately \$4,230 and net loss of \$1,290, 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 nine months ended September 30, 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 September 30, 2020, Pollard has accrued \$2,099 relating to the EBITDA earn-out.

## Pollard Banknote Limited

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

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

(unaudited)

#### 4. Acquisitions (continued):

(b) 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:

	September 30, 2020	December 31, 2019
Raw materials	\$ 16,810	\$ 17,957
Work-in-process	1,795	1,726
Finished goods	25,599	22,857
	<u>\$ 44,204</u>	<u>\$ 42,540</u>

During the third quarter of 2020, Pollard recorded inventory write-downs of \$190, representing an increase in the obsolescence reserves, and inventory write-downs of \$4 due to changes in foreign exchange rates. During the nine months ended September 30, 2020, Pollard recorded inventory write-downs of \$777 representing an increase in the obsolescence reserves, and inventory write-downs of \$26 due to changes in foreign exchange rates.

During the third quarter of 2019, Pollard recorded inventory write-downs of \$173, representing an increase in the obsolescence reserves, and inventory write-downs of \$15 due to changes in foreign exchange rates. During the nine months ended September 30, 2019, Pollard recorded inventory write-downs of \$589 representing an increase in the obsolescence reserves, and inventory write-downs of \$78 due to changes in foreign exchange rates.

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

## Pollard Banknote Limited

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

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

(unaudited)

#### 6. Equity investment:

	Nine months ended		Nine months ended	
Interest in joint venture	September 30, 2020		September 30, 2019	
Balance, beginning of period	\$	1,161	\$	1,164
Investment (distribution)		(167)		3,325
Equity loss		(25)		(3,210)
Effects of movements in exchange rates		31		(35)
Balance, end of period	\$	1,000	\$	1,244

Pollard has entered into an agreement with NeoGames US, LLP for the establishment of NeoPollard Interactive LLC ("NPI"). The entity was established to provide iLottery services in the United States and Canada, excluding the State of Michigan. The structure of this arrangement requires Pollard to show its investment in NPI as an equity investment.

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.

## 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. Revenue and contract balances:

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

Revenue – geographical segment	Nine months ended September 30, 2020		
	Lotteries and charitable gaming	Diamond Game	Total
Canada	\$ 55,220	\$ 3,091	\$ 58,311
United States	175,310	13,105	188,415
International	63,673	–	63,673
	\$ 294,203	\$ 16,196	\$ 310,399

Revenue – geographical segment	Nine months ended September 30, 2019		
	Lotteries and charitable gaming	Diamond Game	Total
Canada	\$ 51,720	\$ 7,314	\$ 59,034
United States	165,746	17,024	182,770
International	56,028	–	56,028
	\$ 273,494	\$ 24,338	\$ 297,832

Revenue – product lines	Nine months ended September 30, 2020		
	Lotteries and charitable gaming	Diamond Game	Total
Lottery	\$ 262,519	\$ –	\$ 262,519
Charitable	31,684	–	31,684
Gaming systems	–	16,196	16,196
	\$ 294,203	\$ 16,196	\$ 310,399

Revenue – product lines	Nine months ended September 30, 2019		
	Lotteries and charitable gaming	Diamond Game	Total
Lottery	\$ 230,836	\$ –	\$ 230,836
Charitable	42,658	–	42,658
Gaming systems	–	24,338	24,338
	\$ 273,494	\$ 24,338	\$ 297,832

(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.

## 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. Revenue and contract balances (continued):

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

	September 30, 2020	December 31, 2019
Contract balances		
Trade receivables, which are included in accounts receivable	\$ 51,375	\$ 50,730
Contract assets, which are included in accounts receivable	7,041	3,491
Contract liabilities	253	–

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Contract liabilities		
Balance, beginning of period	\$ –	\$ 857
Acquisition	278	–
Increases due to cash received	1,270	–
Revenue recognized during the period	(1,290)	(857)
Effect of movement in exchange rates	(5)	–
Balance, end of period	253	–
Less current portion	(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)  
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#### 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	3,044	141	–	3,185
Depreciation	(3,580)	(83)	(182)	(3,845)
Effect of movements in exchange rates	71	5	2	78
Balance at September 30, 2020	\$ 15,892	\$ 205	\$ 35	\$ 16,132

	Buildings	Equipment	Furniture, Fixtures and Computers	Total
Balance at January 1, 2019	\$ 17,750	\$ 132	\$ 397	\$ 18,279
Acquisition	301	101	–	402
Additions	2,065	74	–	2,139
Depreciation	(3,257)	(62)	(74)	(3,393)
Effect of movements in exchange rates	(60)	(11)	(20)	(91)
Balance at September 30, 2019	\$ 16,799	\$ 234	\$ 303	\$ 17,336

For the three months and nine months ended September 30, 2020, Pollard's total cash outflows, principal and interest, relating to its lease obligations classified under IFRS 16 *Leases* were \$1,405 and \$4,235 (2019 – \$1,494 and \$4,312), respectively.

For the three months and nine months ended September 30, 2020, Pollard's interest expenses incurred relating to its lease obligations classified under IFRS 16 *Leases* were \$164 and \$488 (2019 – \$181 and \$520), respectively.

## 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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#### 8. Leases (continued):

The following is a schedule of rental payment commitments outstanding. The majority of these leases have been classified as right-of-use assets.

Less than one year	\$	6,410
One to five years		14,640
More than five years		391

#### 9. Long-term debt:

	September 30, 2020	December 31, 2019
Credit facility, interest of 1.9% to 2.2%, payable monthly, maturing 2022	\$ 117,912	\$ 127,820
Deferred financing charges, net of amortization	(317)	(525)
	\$ 117,595	\$ 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 September 30, 2020, the outstanding letters of guarantee drawn under the credit facility were \$744 (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 September 30, 2020, Pollard is in compliance with all financial covenants.

As of September 30, 2020, Pollard had unused credit facility available of \$89,964 (December 2019 – \$69,676).



## **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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#### **9. 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 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 September 30, 2020, the outstanding letters of credit drawn on this facility were \$10,900.

#### **10. Pension liability:**

During the three month period ended September 30, 2020, Pollard recorded a remeasurement gain of \$35 (net of \$5 of income tax) on its defined pension plans. The remeasurement gain resulted from higher returns than expected on plan asset investments, which was partially offset by a decrease in the discount rate.

During the three month period ended September 30, 2019, Pollard recorded a remeasurement loss of \$174 (net of \$85 of income tax) on its defined pension plans. The remeasurement loss resulted from a decrease in the discount rate, which was partially offset by a gain resulting from higher returns than expected on plan asset investments.

During the nine month period ended September 30, 2020, Pollard recorded a remeasurement loss of \$5,817 (net of \$2,093 of income tax) on its defined pension plans. The remeasurement loss resulted from a decrease in the discount rate, which was partially offset by a gain resulting from higher returns than expected on plan asset investments.

During the nine month period ended September 30, 2019, Pollard recorded a remeasurement loss of \$7,538 (net of \$2,737 of income tax) on its defined pension plans. The remeasurement loss resulted from a decrease in the discount rate, which was partially offset by a gain resulting from higher returns than expected 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)

(unaudited)

#### 11. Share capital:

	Shares	Amount
Authorized		
Unlimited common shares		
Unlimited preferred shares		
Issued		
Balance at January 1, 2019	23,625,658	\$ 108,605
Stock option exercise	10,000	37
Balance at December 31, 2019 and September 30, 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.

Subsequent to the period ended September 30, 2020, on November 9, 2020, the Board of Directors approved the award of 25,000 options to purchase common shares of Pollard for a key management employee. The options will be granted on November 12, 2020, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options will be equal to the closing price of the common shares on November 11, 2020.

##### *Stock option forfeiture*

On June 30, 2020, a member of Pollard's senior management forfeited 25,000 options that were originally granted in November 2019. During the second quarter of 2020, Pollard reversed \$26 that had been expensed in prior periods relating to the forfeited options.

##### *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 12, 2020, a dividend of \$0.04 per share was declared, payable on October 15, 2020, to the shareholders of record on September 30, 2020.

## 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)

#### 12. Other (income) expenses:

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Loss (gain) on equity investment (note 6)	\$ (802)	\$ 1,217	\$ 25	\$ 3,210
EBITDA support agreement	–	(500)	(1,000)	(1,500)
Canada emergency wage subsidy ("CEWS")	(2,134)	–	(7,638)	–
Other (income) expense	(35)	146	(21)	78
	\$ (2,971)	\$ 863	\$ (8,634)	\$ 1,788

#### *Canada emergency wage subsidy*

In accordance with IAS 20, Pollard elected to account for CEWS earned in 2020 within other (income) expenses on the interim condensed consolidated statements of income. As a portion of Pollard's labour expenses are capitalized in inventory, the amount recorded within other (income) expenses is net of an adjustment of \$185 to defer the wage subsidy income recognition for the portion of the subsidy that can be attributed to capitalized labour for inventory that had not been sold as at September 30, 2020.

#### *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 expired on June 30, 2020.

## 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, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Finance costs				
Foreign exchange loss	\$ –	\$ 1,129	\$ 6,083	\$ 1,129
Interest	1,008	1,671	3,857	4,786
	\$ 1,008	\$ 2,800	\$ 9,940	\$ 5,915

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Finance income				
Foreign exchange gain	\$ 1,816	\$ –	\$ 3,789	\$ 2,870
	\$ 1,816	\$ –	\$ 3,789	\$ 2,870

## 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:

	Three months ended September 30, 2020		Three months ended September 30, 2019	
Reconciliation of effective tax rate				
Net income for the period	\$	13,152	\$	4,357
Total income taxes		4,311		1,910
Income before income taxes	\$	17,463	\$	6,267
Income tax using Pollard's domestic tax rate	27.0%	\$ 4,715	27.0%	\$ 1,692
Effect of tax rates in foreign jurisdictions	(1.8%)	(321)	0.5%	33
Non-deductible amounts	1.4%	241	3.3%	207
Effect of non-taxable items related to foreign exchange	(1.9%)	(324)	(0.3%)	(22)
	24.7%	\$ 4,311	30.5%	\$ 1,910

	Nine months ended September 30, 2020		Nine months ended September 30, 2019	
Reconciliation of effective tax rate				
Net income for the period	\$	21,104	\$	17,400
Total income taxes		8,684		5,402
Income before income taxes	\$	29,788	\$	22,802
Income tax using Pollard's domestic tax rate	27.0%	\$ 8,043	27.0%	\$ 6,157
Effect of tax rates in foreign jurisdictions	(1.8%)	(525)	(2.2%)	(506)
Non-deductible amounts	1.8%	543	0.9%	207
Other items	0.5%	158	0.0%	–
Effect of non-taxable items related to foreign exchange	(1.6%)	465	(2.0%)	(456)
	29.2%	\$ 8,684	23.7%	\$ 5,402

## 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 September 30, 2020	Three months ended September 30, 2019
Net income attributable to shareholders for basic and diluted net income per share	\$ 13,152	\$ 4,357
Weighted average number of shares (basic)	25,635,658	25,635,658
Weighted average impact of share options on issue	377,500	227,500
Weighted average number of shares (diluted)	26,013,158	25,863,158
Net income per share (basic)	\$ 0.51	\$ 0.17
Net income per share (diluted)	\$ 0.51	\$ 0.17

  

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Net income attributable to shareholders for basic and diluted net income per share	\$ 21,104	\$ 17,400
Weighted average number of shares (basic)	25,635,658	25,631,615
Weighted average impact of share options on issue	387,207	231,543
Weighted average number of shares (diluted)	26,022,865	25,863,158
Net income per share (basic)	\$ 0.82	\$ 0.68
Net income per share (diluted)	\$ 0.82	\$ 0.68

## 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:

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Change in non-cash operating working capital:		
Accounts receivable	\$ 28	\$ (21,348)
Inventories	(1,638)	(370)
Prepaid expenses and deposits	1,389	(249)
Income taxes payable	(78)	(682)
Accounts payable and accrued liabilities	6,970	(1,049)
Contract liabilities	(22)	(798)
	\$ 6,649	\$ (24,496)

#### 17. Related party transactions:

##### *Pollard Equities Limited and affiliates*

During the quarter ended September 30, 2020, Pollard paid property rent of \$854 (2019 – \$808) and \$nil (2019 – \$118) in plane charter costs to an affiliate of Equities. During the nine months ended September 30, 2020, Pollard paid property rent of \$2,567 (2019 – \$2,426) and \$118 (2019 – \$354) in plane charter costs to an affiliate of Equities.

During the quarter, Equities paid Pollard \$18 (2019 – \$18) for accounting and administration fees and \$54 (2019 – \$54) during the nine months ended September 30, 2020.

At September 30, 2020, included in accounts receivable is an amount owing from Equities and its affiliates for expenses and other items of \$12. 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 September 30, 2020, the net book value of the right-of-use assets was \$8,591 (December 2019 – \$10,803) and the present value of the lease liabilities was \$8,771 (December 2019 – \$11,787).

##### *Neogames S.à r.l. and affiliates*

Pollard reimbursed operating costs and paid software royalties of \$2,641 (2019 – \$1,480) during the quarter ended September 30, 2020, and \$6,757 (2019 – \$4,084) during the nine months ended September 30, 2020 to its iLottery joint venture partner, which are recorded in cost of sales.

## 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):

At September 30, 2020, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of \$2,515 (December 31, 2019 – \$134) for reimbursement of operating costs and capital expenditures, and its share of operating results.

In addition, at September 30, 2020, included in restricted cash and accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of \$5,018 (December 31, 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 September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Wages, salaries and benefits	\$ 1,034	\$ 866	\$ 2,564	\$ 2,255
Profit share	16	6	34	12
Expenses related to defined benefit plans	198	154	594	462
	\$ 1,248	\$ 1,026	\$ 3,192	\$ 2,729

At September 30, 2020, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,446,858 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 sale and lease of egaming machines.



## 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. Segmented information (continued):

Segment information about profits and assets is as follows:

Three months ended September 30, 2020			
	Lotteries and charitable gaming	Diamond Game	Total
Revenues from external customers	\$ 108,944	\$ 7,700	\$ 116,644
Operating costs and expenses	92,639	6,542	99,181
Earnings before income taxes	16,305	1,158	17,463
Total assets	320,008	60,849	380,857

  

Three months ended September 30, 2019			
	Lotteries and charitable gaming	Diamond Game	Total
Revenues from external customers	\$ 96,119	\$ 7,045	\$ 103,164
Operating costs and expenses	90,250	6,647	96,897
Earnings before income taxes	5,869	398	6,267
Total assets	285,762	62,726	348,488

  

Nine months ended September 30, 2020			
	Lotteries and charitable gaming	Diamond Game	Total
Revenues from external customers	\$ 294,203	\$ 16,196	\$ 310,399
Operating costs and expenses	263,199	17,412	280,611
Earnings before income taxes	31,004	(1,216)	29,788
Total assets	320,008	60,849	380,857

  

Nine months ended September 30, 2019			
	Lotteries and charitable gaming	Diamond Game	Total
Revenues from external customers	\$ 273,484	\$ 24,348	\$ 297,832
Operating costs and expenses	253,999	21,031	275,030
Earnings before income taxes	19,485	3,317	22,802
Total assets	285,762	62,726	348,488

(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.

## 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)

#### 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:

	September 30, 2020	December 31, 2019
Current	\$ 57,763	\$ 50,093
Past due for 1 to 60 days	1,898	2,708
Past due for more than 60 days	2,464	4,600
Less: Allowance for losses	(400)	(188)
	\$ 61,725	\$ 57,213

Pollard performed an assessment of the allowance for expected credit losses as at September 30, 2020, while considering the economic impact of the COVID-19 pandemic. Pollard has determined that the pandemic had no impact on credit risk relating to its government lottery organization customers. Pollard's allowance for losses as at September 30, 2020, pertains solely to its charitable gaming distribution network customers. The allowance for losses was not significantly affected by the economic impact of the pandemic.

##### *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.

## 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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#### 19. 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 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 \$80 for the third quarter of 2020 (2019 - \$1) and approximately \$127 for the nine months ended September 30, 2020 (2019 - \$31). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and Euro would decrease/increase the income before income taxes due to changes in operating cashflow by approximately \$22 for the third quarter of 2020 (2019 - \$19) and approximately \$52 for the nine months ended September 30, 2020 (2019 - \$56).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At September 30, 2020, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately \$28,726 (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 \$144 for the three and nine months ended September 30, 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 September 30, 2020, 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 \$147 for the three months ended September 30, 2020 (2019 - \$165) and approximately \$442 for the nine months ended September 30, 2020 (2019 - \$461).