POLLARD banknote limited

December 31, 2020

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

FOR THE YEAR ENDED DECEMBER 31, 2020

March 10, 2021

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the year ended December 31, 2020, is prepared as at March 10, 2021, and should be read in conjunction with the accompanying audited financial statements of Pollard and the notes therein as at December 31, 2020. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("GAAP" or "IFRS").

Forward-Looking Statements

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

Use of Non-GAAP Financial Measures

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

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

Basis of Presentation

The results of operations in the following discussions encompass the consolidated results of Pollard for the years ended December 31, 2020 and 2019. All figures are in millions except for per share amounts.

POLLARD BANKNOTE LIMITED

Overview

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

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

Pollard's lottery products are sold extensively throughout Canada, the United States and the rest of the world, wherever applicable laws and regulations authorize their use. Pollard serves over 60 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Acquisitions

On February 3, 2020, Pollard completed the previously announced acquisition of mkodo Limited ("mkodo"). On December 6, 2019, Pollard signed a definitive agreement to purchase 100% of the equity of mkodo for a purchase price of £7.8 million ($13.4 million) prior to standard working capital adjustments and potential future earn-out payments based on certain EBITDA targets. mkodo is a leading provider of digital apps and user interfaces for the lottery and gaming industry.

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 transportation, disassembly and reassembly, and related costs, was $4.9 million.

On December 30, 2020, Pollard signed and closed a definitive agreement to purchase 100% of the equity of Compliant Gaming, LLC ("Compliant") for a purchase price of $19.0 million U.S. dollars ($24.3 million) prior to standard working capital adjustments and potential future earn-out payments based on certain EBITDA targets. Compliant is a leading provider of electronic pull-tab gaming systems and products to the charitable gaming market.

On January 14, 2021, Pollard completed the previously announced acquisition of Next Generation Lotteries AS ("NGL"). On December 31, 2020, Pollard signed a definitive agreement to acquire 100% of the equity of NGL for a purchase price of €36.0 million ($56.5 million), prior to standard working capital adjustments and certain deferred cash considerations, of which €32.0 million ($50.0 million) was paid at the time of closing and the remaining €4.0 million ($6.3 million) of which will be paid upon the achievement of certain gross margin targets in 2021. The purchase price was funded from existing Pollard Banknote cash resources and availability under the existing credit facilities for approximately €27.4 million ($43.0 million) and the issuance of treasury shares of Pollard Banknote for approximately €4.6 million ($7.2 million).

Share offering

On February 9, 2021, Pollard announced that it had entered into an agreement with a syndicate of underwriters to purchase, on a bought deal basis, 812,000 common shares of Pollard at a price of $36.95 per share. Pollard also granted the underwriters an over-allotment option exercisable at any time up to 30 days following the closing of the offering, to purchase up to an additional 121,800 common shares. The offering, including the full over-allotment, closed on March 2, 2021. The total gross proceeds, prior to any commissions and offering expenses, from the sale of 933,800 common shares was approximately $34.5 million.

Pollard used the net proceeds to repay indebtedness under Pollard's credit facility incurred in the recent acquisitions of Compliant and NGL.

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 temporary closure of many retail outlets; however, these sales rebounded to pre-COVID levels in the third quarter with the re-opening of retail outlets. In the later part of the fourth quarter a number of jurisdictions reenacted temporary retail closures, reducing our revenues again. Many of these jurisdictions have reopened in early 2021, with consumer demand once again returning strongly. 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 year ended December 31, 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 management believes 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 this MD&A, 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, work from home policies for employees capable of doing so and use of electronic monitoring to ensure social distancing.

Product line breakdown of revenue

	Year ended December 31, 2020	Year ended December 31, 2019
Lottery (1) (2)	84.1%	77.8%
Charitable (3)	10.4%	14.2%
Gaming systems (3)	5.5%	8.0%

(1) Includes Fastrak Retail (UK) Limited ("Fastrak") which was acquired on May 1, 2019.

(2) Includes mkodo Limited ("mkodo") which was acquired on February 3, 2020.

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

Geographic breakdown of revenue

	Year ended December 31, 2020	Year ended December 31, 2019
United States	61%	60%
Canada	19%	21%
International	20%	19%

The following financial information should be read in conjunction with the accompanying financial statements of Pollard and the notes therein as at and for the year ended December 31, 2020.

SELECTED FINANCIAL INFORMATION
(millions of dollars, except per share information)

	Year ended December 31, 2020	Year ended December 31, 2019	Year ended December 31, 2018
Sales	**$414.1**	$397.8	$331.9
Cost of sales	**323.1**	306.7	256.2
Gross profit	**91.0**	91.1	75.7
Gross profit as a % of sales	***22.0%***	*22.9%*	*22.8%*
Administration expenses	**40.3**	40.6	32.2
Administration expenses as a % of sales	***9.7%***	*10.2%*	*9.7%*
Selling expenses	**14.6**	15.9	13.4
Selling expenses as a % of sales	***3.5%***	*4.0%*	*4.0%*
(Gain) loss on NPi equity investment	**(1.6)**	4.0	2.6
(Gain) loss on NPi as a % of sales	***(0.4%)***	*1.0%*	*0.8%*
Other income	**(12.3)**	(2.0)	(2.2)
Other income as a % of sales	***(3.0%)***	*(0.5%)*	*(0.7%)*
Unrealized foreign exchange (gain) loss	**(1.9)**	(3.3)	4.6
Unrealized foreign exchange (gain) loss as a % of sales	***(0.5%)***	*(0.8%)*	*1.4%*
Net income	**33.3**	22.0	14.9
Net income as a % of sales	***8.0%***	*5.5%*	*4.5%*
Adjusted EBITDA	**80.6**	60.2	48.8
Adjusted EBITDA as a % of sales	***19.5%***	*15.1%*	*14.7%*
Net income per share (basic)	**$1.30**	$0.86	$0.58
Net income per share (diluted)	**$1.28**	$0.86	$0.58

	December 31, 2020	December 31, 2019	December 31, 2018
Total Assets	**$404.6**	$352.3	$305.6
Total Non-Current Liabilities	**$191.3**	$175.6	$142.9

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

	Year ended December 31, 2020	Year ended December 31, 2019	Year ended December 31, 2018 (2)
Net income	**$33.3**	$22.0	$14.9
Adjustments:			
Amortization and depreciation	**31.5**	27.1	18.0
Interest	**4.8**	6.4	4.2
Unrealized foreign exchange (gain) loss	**(1.9)**	(3.3)	4.6
Acquisition costs	**2.2**	1.2	0.8
Severance costs	**-**	-	0.4
Contingent consideration fair value adjustment	**(2.1)**	(0.2)	-
Income taxes	**12.8**	7.0	5.9
Adjusted EBITDA	**$80.6**	$60.2	$48.8
Lotteries and charitable gaming (1)	**$74.2**	$48.0	$38.0
Diamond Game (1)	**6.4**	12.2	10.8
Adjusted EBITDA	**$80.6**	$60.2	$48.8

(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.

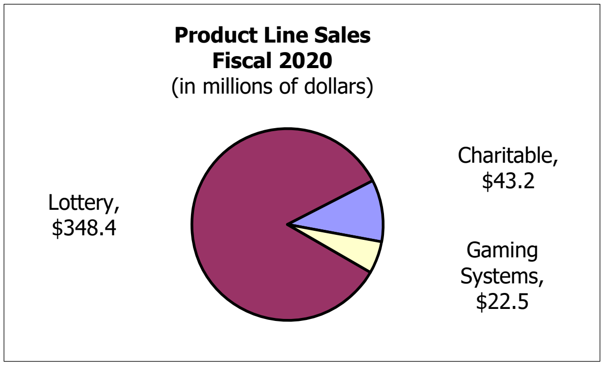
(2) IFRS 16 Leases was implemented effective January 1, 2019. Qualifying leases are capitalized and an offsetting liability is recorded. The right-of-use asset is depreciated over the term of the lease and interest expense related to the liability is expensed over the term of the lease. As a result, Adjusted EBITDA has been increased by the conversion of operating lease expenses into depreciation and interest. Adjusted EBITDA has not been restated for 2018 to reflect IFRS 16's impact.

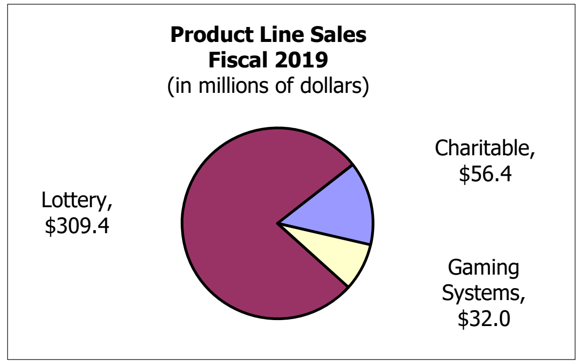
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2020

Sales



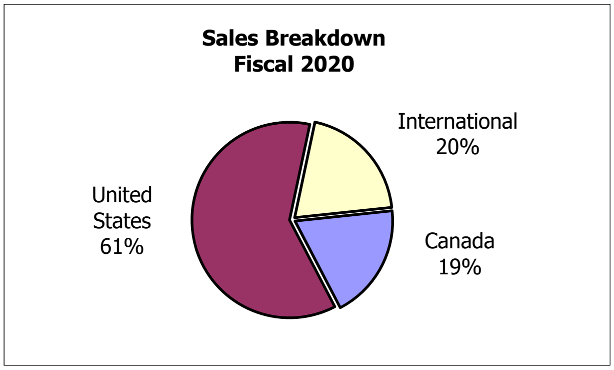


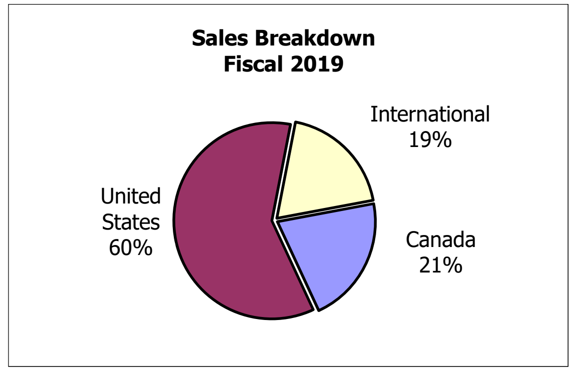
During the year ended December 31, 2020 ("Fiscal 2020" or "2020"), Pollard achieved sales of $414.1 million, compared to $397.8 million in the year ended December 31, 2019 ("Fiscal 2019" or "2019"). Factors impacting the $16.3 million sales increase were:

Higher sales from Michigan iLottery increased revenue in Fiscal 2020 by $17.1 million. Additionally, higher ancillary lottery product sales further increased revenue by $10.0 million, primarily due to greater sales of licensed products. As well, increased sales from digital and loyalty products, including revenue from mkodo, and distribution services further contributed to the increase in ancillary sales. Partially offsetting these increases was a decrease in Schafer's and Fastrak's merchandising product sales in 2020.

Charitable gaming sales volumes decreased by $13.4 million in 2020. As well, Diamond Game sales decreased by $9.6 million in 2020 compared to 2019. Our charitable gaming and Diamond Game products are sold at retail through various bars, veteran organizations and bingo halls, which were closed in the middle of March in response to the onset of the COVID-19 virus. Many U.S. jurisdictions began to reopen these retail locations towards the end of the second quarter, however, for the majority of the three months ended June 30, 2020, our charitable gaming and egaming machine revenue was severely limited. With the reopening of these locations our charitable gaming and Diamond Game revenues returned to pre-COVID levels during the third quarter. However, a number of jurisdictions in Canada and the U.S. once again temporarily shut down retail outlets starting in mid-November. Many of these jurisdictions began to reopen in January and February 2021.

An increase in the instant ticket average selling price in Fiscal 2020, compared to 2019, increased sales by $11.0 million. This increase was partially a result of record sales of Pollard's proprietary Scratch FX® product in 2020. Partially offsetting this increase, was a slight decrease in instant ticket sales volume in 2020, as compared to 2019, decreased sales by $1.9 million.





During Fiscal 2020, Pollard generated approximately 71.3% (2019 – 71.8%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2020 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.338 compared to an average rate of $1.327 during Fiscal 2019. This 0.8% increase in the U.S. dollar value resulted in an approximate increase of $2.4 million in revenue relative to Fiscal 2019. During 2020 the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.8 million in revenue relative to 2019.

Cost of sales and gross profit

Cost of sales was $323.1 million in Fiscal 2020 compared to $306.7 million in Fiscal 2019. Cost of sales was higher as a result of higher ancillary lottery products and services, including the addition of mkodo in 2020. As well, higher exchange rates on U.S. dollar denominated transactions and increased amortization and depreciation further increased cost of sales in 2020. These increases to cost of sales were partially offset by the reduction in charitable and Diamond Game cost of sales due to reduced revenue, predominately in the second quarter and the second half of the fourth quarter, related to temporary COVID-19 closures, as well as reduced merchandising product sales in 2020.

Gross profit was $91.0 million (22.0% of sales) in Fiscal 2020 compared to $91.1 million (22.9% of sales) in Fiscal 2019. This decrease of $0.1 million in gross profit was primarily the result of the significant reduction in charitable and Diamond Game sales in 2020. In addition, a reduction in Fastrak and Schafer merchandising product sales further reduced gross profit in Fiscal 2020. These decreases were substantially offset by the significant increase in Michigan iLottery revenues and the higher instant ticket average selling price. In addition, higher licensed products sales, as well as increased sales of digital and loyalty products, further increased gross profit. The lower gross profit percentage was due to the substantial reduction in charitable and Diamond Game sales, partially offset by increased Michigan iLottery and licensed product sales.

Administration expenses

Administration expenses decreased to $40.3 million in Fiscal 2020 from $40.6 million in Fiscal 2019. The decrease of $0.3 million was partially a result of the reduction in travel and conference related costs due to COVID-19 and lower professional fees. These decreases were partially offset by higher acquisition costs of $1.0 million, and greater compensation and licensing expenses to support Pollard's growth strategies of developing innovative digital products. Additionally, the inclusion of mkodo further increased administration expenses.

Selling expenses

Selling expenses decreased to $14.6 million in Fiscal 2020 from $15.9 million in Fiscal 2019 primarily due to the reduction in travel related costs due to COVID-19 and lower contract related costs. These decreases in selling expenses were partially offset by the additions of mkodo and higher compensation costs.

(Gain) loss on equity investment

Pollard's share of income from its 50% owned iLottery joint venture, NeoPollard Interactive LLC ("NPi"), increased to $1.6 million in Fiscal 2020 from a loss of $4.0 in Fiscal 2019. This $5.6 million increase was primarily due to the increase in revenue in 2020. Contracts held by NPi experienced significant organic growth, in addition to the added sales increase from the Virginia Lottery operation when it went live with e-Instants on July 1, 2020. In the spring of 2020, NPi was awarded a new contract with Alberta Gaming, Liquor & Cannabis ("AGLC"), which went live with a limited product launch on September 30, 2020.

Other income

Other income increased to $12.3 million in Fiscal 2020 compared to $2.0 million in Fiscal 2019. The increase of $10.3 million was primarily due to $9.0 million of Canada Emergency Wage Subsidy ("CEWS") recognized in 2020. In addition, the reversal of the contingent consideration accrued as part of our mkodo acquisition increased other income by $2.1 million. These increases were partially offset by the $1.0 million reduction in the EBITDA support agreement in 2020, which expired on June 30, 2020.

Foreign exchange

The net foreign exchange gain was $0.9 million in Fiscal 2020 compared to a net gain of $2.8 million in Fiscal 2019. The 2020 net foreign exchange gain consisted of a $1.9 million unrealized gain primarily a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt with the strengthening of the Canadian dollar relative to the U.S. dollar. Partially offsetting the unrealized foreign exchange gain, Pollard incurred a realized foreign exchange loss of $1.0 million as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2019 net foreign exchange gain consisted of a $3.3 million unrealized gain primarily a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt with the strengthening of the Canadian dollar relative to the U.S. dollar. Partially offsetting the unrealized foreign exchange gain, Pollard incurred a realized foreign exchange loss of $0.5 million as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

Adjusted EBITDA

Adjusted EBITDA increased to $80.6 million in Fiscal 2020 compared to $60.2 million in Fiscal 2019. The primary reasons for the increase of $20.4 million were the increase in other income (net of the reversal of the contingent consideration) of $8.4 million, primarily due to the inclusion of $9.0 million in CEWS support, and the increase in income from our 50% owned iLottery joint venture, NPi, of $5.6 million. In addition, an increase in gross profit (net of amortization and depreciation) of $4.3 million increased Adjusted EBITDA. Higher Michigan iLottery revenues and increased sales of ancillary lottery products contributed to the increase in gross profit, which were partially offset by the reduction in gross profit from reduced charitable and Diamond Game sales. Also, a decrease in administration expenses (net of acquisition costs) of $1.3 million and lower selling expenses of $1.3 million further increased Adjusted EBITDA. These increases to Adjusted EBITDA were partially offset by the increase in the realized foreign exchange loss of $0.5 million.

Interest expense

Interest expense decreased to $4.8 million in Fiscal 2020 from $6.4 million in Fiscal 2019 primarily as a result of the lower interest rates in 2020.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $31.5 million during Fiscal 2020 which increased from $27.1 million during Fiscal 2019. The increase of $4.4 million was primarily as a result of higher depreciation and amortization on new property, plant and equipment and intangible assets, as well as the addition of mkodo, including the amortization and depreciation relating to the identifiable assets acquired, including intangible assets and property, plant and equipment.

Income taxes

Income tax expense was $12.8 million in Fiscal 2020, an effective rate of 27.8%, which was higher than our domestic rate of 27.0% due primarily to non-deductible expenses. Partially offsetting these increases in effective rate were the lower federal income tax rates in the United States and the non-taxable income related to the reversal of contingent consideration, related to the acquisition of mkodo.

Income tax expense was $7.0 million in Fiscal 2019, an effective rate of 24.1%, which was lower than our domestic rate of 27.0% due primarily to lower federal income tax rates in the United States and the effect of foreign exchange. Partially offsetting these reductions in effective rate was the non-deductible amounts relating to expenses incurred in the acquisitions.

Net income

Net income was $33.3 million in Fiscal 2020 compared to net income of $22.0 million in Fiscal 2019. The primary reasons for the increase in net income of $11.3 million were increased income generated from Michigan iLottery of $11.1 million and the increased contribution from our share of NPi joint venture of $5.6 million. In addition, the increase in other income of $10.3 million, primarily due to the inclusion of $9.0 million in CEWS support, further increased net income. In addition, the decrease in selling costs of $1.3 million and the reduced interest expense of $1.6 million increased net income in 2020. These increases were partially offset by a decrease in gross profit of $11.2 million, net of Michigan iLottery, primarily as a result of the significant reductions in charitable gaming and Diamond Game sales. In addition, the decrease in the foreign exchange gain of $1.9 million and the increase in income taxes of $5.8 million further reduced net income.

Net income per share (basic and diluted) increased to $1.30 and $1.28 per share respectively in Fiscal 2020 from $0.86 per share in Fiscal 2019.

iLottery

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

In 2014 Pollard, in conjunction with Neogames, established NeoPollard Interactive LLC ("NPi"). All iLottery related customer contracts, excluding the Michigan Lottery iLottery contract, have been awarded to NPi. Under IFRS, Pollard accounts for its investment in its joint venture, NPi, as an equity investment. Under the equity method of accounting, Pollard recognizes its share of the income and expenses of NPi separately as (gain) loss on equity investment.

SELECT iLOTTERY RELATED FINANCIAL INFORMATION

Year ended December 31, 2020	Pollard's share of		
	Michigan iLottery	NPi	Combined
Sales	\$33.5	\$12.6	\$46.1
Income before profit share and income taxes	\$18.5	\$1.6	\$20.1

Year ended December 31, 2019	Pollard's share of		
	Michigan iLottery	NPi	Combined
Sales	\$16.4	\$2.5	\$18.9
Income (loss) before profit share and income taxes	\$7.4	(\$4.0)	\$3.4

Sales recorded under Pollard's share of Michigan iLottery are included in Pollard's consolidated sales.

During 2020, with the onset of COVID-19, revenues from Pollard's contract with the Michigan Lottery increased substantially. Contracts held by NPi also experienced significant organic growth, in addition to the added sales growth from the Virginia Lottery operation when it went live with e-Instants on July 1, 2020. In the spring of 2020, NPi was awarded a new contract with Alberta Gaming, Liquor & Cannabis ("AGLC"), which went live with a limited product launch on September 30, 2020.

Liquidity and Capital Resources

Cash provided by operating activities

For the year ended December 31, 2020, cash flow provided by operating activities was $59.7 million compared to $29.3 million in Fiscal 2019. Higher net income before income taxes and after non-cash adjustments in Fiscal 2020 contributed $85.0 million to the cash provided by operating activities compared to $69.6 million in Fiscal 2019.

In Fiscal 2020, increases in non-cash working capital used $11.0 million compared to increases in 2019 which used $22.3 million in cash, a $11.3 million difference. In 2020, changes in the non-cash component of working capital decreased cash flow from operations due primarily to an increase in accounts receivable and inventory. In 2019, changes in the non-cash component of working capital decreased cash flow from operations due primarily to an increase in accounts receivable.

Cash used for interest payments decreased to $4.7 million in 2020 as compared to $6.4 million in 2019. Cash used for pension plan contributions increased to $8.6 million in 2020 as compared to $7.4 million in 2019. Cash used for income taxes paid was $1.1 million in 2020 compared to $4.0 million in 2019.

Cash used for investing activities

In the year ended December 31, 2020, cash used for investing activities was $61.7 million compared to $38.3 million in the year ended December 31, 2019. In Fiscal 2020, Pollard used $15.3 million, net of cash acquired, to purchase mkodo and $24.3 million to purchase Compliant. In addition, Pollard invested $13.0 million in capital expenditures, $4.9 million to purchase certain charitable gaming assets and $6.0 million on additions to intangible assets. Partially offsetting these uses of cash, Pollard received $1.9 million from our investment in our iLottery joint venture in the year.

In Fiscal 2019, Pollard used $8.5 million, net of cash acquired, to purchase Fastrak. In addition, Pollard invested $17.2 million in capital expenditures, $4.0 million on our investment in our iLottery joint venture and $8.6 million on additions to intangible assets.

Cash used for financing activities

Cash used for financing activities was $3.9 million in the year ended December 31, 2020, compared to cash provided by financing activities of $5.6 million in the year ended December 31, 2019.

During Fiscal 2020, Pollard received net proceeds from long-term debt of $5.1 million. This receipt of cash was offset by $5.1 million of lease principal payments and $4.1 million of dividends paid.

During Fiscal 2019, Pollard received net proceeds from long-term debt of $14.3 million. This receipt of cash was partially offset by $4.4 million of lease principal payments and $3.8 million of dividends paid.

As at December 31, 2020, Pollard's unused committed credit facility was $75.7 million, in addition to $1.9 million in available cash resources. These amounts, in addition to cash flow provided by operating activities, are available to be used for future working capital requirements, contractual obligations, capital expenditures, dividends and to assist in financing future acquisitions.

RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2020

SELECTED FINANCIAL INFORMATION
(millions of dollars)

	Three months ended December 31, 2020	Three months ended December 31, 2019
	(unaudited)	(unaudited)
Sales	**$103.7**	$100.0
Cost of sales	**80.7**	78.0
Gross profit	**23.0**	22.0
Administration expenses	**10.4**	10.9
Selling expenses	**3.8**	4.1
(Gain) loss on equity investment	**(1.6)**	0.7
Other income	**(3.7)**	(0.5)
Income from operations	**14.1**	6.8
Foreign exchange gain	**(3.2)**	(1.0)
Interest expense	**0.9**	1.6
Income before income taxes	**16.4**	6.2
Income taxes:		
Current (recovery)	**3.0**	(0.9)
Future	**1.2**	2.5
	4.2	1.6
Net income	**$12.2**	$4.6
Adjustments:		
Amortization and depreciation	**7.7**	7.1
Interest	**0.9**	1.6
Unrealized foreign exchange gain	**(3.5)**	(1.1)
Acquisition costs	**0.9**	0.6
Contingent consideration fair value adjustment	**(2.1)**	(0.2)
Income taxes	**4.2**	1.6
Adjusted EBITDA	**$20.3**	$14.2
Lotteries and charitable gaming (1)	**$18.2**	$11.2
Diamond Game (1)	**2.1**	3.0
Adjusted EBITDA	**$20.3**	$14.2

(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.

Sales

During the three months ended December 31, 2020, Pollard achieved sales of $103.7 million, compared to $100.0 million in the three months ended December 31, 2019. Factors impacting the $3.7 million sales increase were:

Higher sales from Michigan iLottery increased revenue in the fourth quarter of 2020 by $4.2 million as compared to the fourth quarter of 2019. Additionally, higher ancillary lottery products and services sales further increased revenue by $0.4 million in 2020, including increased sales of digital and loyalty products, revenue from mkodo and higher distribution services sales. Partially offsetting these increases were lower license product sales and a decrease in Schafer's and Fastrak's merchandising product sales in the fourth quarter of 2020.

Additionally, an increase in the instant ticket average selling price in the quarter compared to the fourth quarter of 2019 increased sales by $4.6 million. This increase was a result of the positive sales mix in the quarter, including higher sales of Pollard's proprietary Scratch FX® product. Partially offsetting this increase, was a decrease in instant ticket sales volume in the quarter which reduced sales by $2.7 million.

During the fourth quarter, the retail establishments where our charitable gaming products are sold, and Diamond Game egaming machines are placed, once again temporarily closed in a number of key jurisdictions due to COVID-19. As a result, when compared to 2019, charitable gaming sales volumes decreased which reduced sales by $2.2 million and Diamond Game revenue decreased $1.3 million.

During the three months ended December 31, 2020, Pollard generated approximately 70.1% (2019 – 70.9%) of its revenue in U.S. dollars including a portion of international sales which were priced in U.S. dollars. During the fourth quarter of 2020 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.319, compared to an average rate of $1.314 during the fourth quarter of 2019. This 0.4% increase in the value of the U.S. dollar resulted in an approximate increase of $0.3 million in revenue relative to 2019. During the fourth quarter of 2020 the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.4 million in revenue relative to 2019.

Cost of sales and gross profit

Cost of sales was $80.7 million in the fourth quarter of 2020 compared to $78.0 million in the fourth quarter of 2019. Cost of sales was higher as a result of higher sales of ancillary lottery products and services, including the addition of mkodo in 2020. These increases were partially offset by a reduction in charitable sales and, Fastrak and Schafer merchandising product sales.

Gross profit was $23.0 million (22.2% of sales) in the fourth quarter of 2020 compared to $22.0 million (22.0% of sales) in the fourth quarter of 2019. This increase in gross profit was primarily the result of the increase in Michigan iLottery sales and distribution services sales, as well as a result of the higher instant ticket average selling price. These increases were partially offset by reduced charitable gaming and merchandising product sales. The gross margin percentage in the fourth quarter of 2020 was higher than 2019 primarily as a result of increased Michigan iLottery sales and the higher instant ticket average selling price.

Administration expenses

Administration expenses decreased to $10.4 million in the fourth quarter of 2020 compared to $10.9 million in the fourth quarter of 2019. The decrease of $0.5 million was primarily a result of the reduction in travel and conference related costs due to COVID-19 and lower compensation expenses in the fourth quarter of 2020 due to the timing of incentive accruals. Partially offsetting these decreases were increased acquisition costs of $0.3 million and higher compensation and licensing expenses to support Pollard's growth strategies of developing innovative digital products. Additionally, the inclusion of mkodo further increased administration expenses in 2020.

Selling expenses

Selling expenses decreased to $3.8 million in the fourth quarter of 2020 from $4.1 million in the fourth quarter of 2019. The decrease was primarily due to the reduction in travel related costs due to COVID-19 and lower contract related costs. These decreases in selling expenses was partially offset by the addition of mkodo.

(Gain) loss on equity investment

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to $1.6 million in the fourth quarter of 2020 from a loss of $0.7 in the fourth quarter of 2019. This $2.3 million increase was primarily due to the increase in revenue. Contracts held by NPi experienced significant organic growth, in addition to the added sales increase from the Virginia Lottery operation when it went live with e-Instants on July 1, 2020. In the spring of 2020, NPi was awarded a new contract with AGLC, which went live with a limited product launch on September 30, 2020.

Other income

Other income increased to $3.7 million in the fourth quarter of 2020 compared to $0.5 million in the fourth quarter of 2019. This increase of $3.2 million was due in part to $1.4 million of CEWS recognized in the quarter. In addition, the reversal of the contingent consideration previously accrued with the mkodo acquisition increased other income by $2.1 million. These increases were partially offset by the $0.5 million reduction in the EBITDA support agreement in 2020, which expired on June 30, 2020.

Foreign exchange

The net foreign exchange gain was $3.2 million in the fourth quarter of 2020 compared to a net gain of $1.0 million in the fourth quarter of 2019. The 2020 net foreign exchange gain consisted of a $3.5 million unrealized gain primarily as a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the strengthening of the Canadian dollar relative to the U.S. dollar. The unrealized foreign exchange gain was partially offset by the realized foreign exchange loss of $0.3 million, as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchanges rates.

The 2019 net foreign exchange gain consisted of a $1.1 million unrealized gain primarily as a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the strengthening of the Canadian dollar relative to the U.S. dollar. The unrealized foreign exchange gain was partially offset by the realized foreign exchange loss of $0.1 million, as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchanges rates.

Adjusted EBITDA

Adjusted EBITDA increased to $20.3 million in the fourth quarter of 2020 compared to $14.2 million in the fourth quarter of 2019. The primary reasons for the $6.1 million increase in Adjusted EBITDA were the increase in other income of $1.3 million (net of the reversal of the contingent consideration), primarily due to the inclusion of $1.4 million in CEWS support, and the increase in our share of income from our joint venture, NPi, of $2.3 million. In addition, the increase in gross profit of $1.6 million (net of amortization and depreciation) further increased Adjusted EBITDA. Higher Michigan iLottery revenues and increased sales of ancillary lottery products contributed to the increase in gross profit, which were partially offset by the reduction in gross profit from reduced charitable gaming and Diamond Game sales. Also, lower administration expenses (net of acquisition costs) of $0.8 million and a decrease in selling expenses of $0.3 million increased Adjusted EBITDA. These increases were partially offset by the higher realized foreign exchange loss of $0.2 million.

Interest expense

Interest expense decreased to $0.9 million in the fourth quarter of 2020 from $1.6 million in the fourth quarter of 2019 primarily as a result of the lower interest rates in the fourth quarter of 2020 and the decrease in long-term debt as compared to the fourth quarter of 2019.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $7.7 million during the fourth quarter of 2020 which increased from $7.1 million during the fourth quarter of 2019. The increase was primarily as a result of higher amortization on new intangible assets and the addition of mkodo, including the amortization and depreciation relating to the identifiable assets acquired, including intangible assets and property, plant and equipment.

Income taxes

Income tax expense was $4.2 million in the fourth quarter of 2020, an effective rate of 25.5% which was lower than our domestic rate of 27.0% due primarily to the non-taxable income related to the reversal of contingent consideration, related to the acquisition of mkodo, the effect of foreign exchange and lower federal income tax rates in the United States. Partially offsetting these reductions in effective rate was the non-deductible expenses.

Income tax expense was $1.6 million in the fourth quarter of 2019, an effective rate of 25.5% which was lower than our domestic rate of 27.0% due primarily to lower federal income tax rates in the United States and the effect of foreign exchange. Partially offsetting these reductions in effective rate was non-deductible amounts relating to expenses incurred in the acquisitions.

Net income

Net income was $12.2 million in the fourth quarter of 2020 compared to $4.6 million in the fourth quarter of 2019. The primary reasons for the increase in net income of $7.6 million were increased income generated from Michigan iLottery of $2.9 million and the increased contribution from our share of NPi joint venture of $2.3 million. In addition, the increase in other income of $3.2 million was primarily due to $1.4 million of CEWS recognized in the quarter, and the reversal of the contingent consideration of $2.1 million. The increase in the foreign exchange gain of $2.2 million, a decrease in administration expenses of $0.5 million, lower selling costs of $0.3 million and the reduced interest expense of $0.7

million further increased net income in 2020. These increases were partially offset by a decrease in gross profit of $1.9 million, net of Michigan iLottery, primarily as a result of the significant reductions in charitable gaming and Diamond Game sales, as well as the increase in income taxes of $2.6 million.

Net income per share (basic and diluted) increased to $0.47 per share in the fourth quarter of 2020 from $0.18 per share in the fourth quarter of 2019.

iLottery

SELECT iLOTTERY RELATED FINANCIAL INFORMATION

Three months ended December 31, 2020	Pollard's share of Michigan iLottery	NPi	Combined
Sales	$8.6	$6.1	$14.7
Income before profit share and income taxes	$4.5	$1.6	$6.1

Three months ended December 31, 2019	Pollard's share of Michigan iLottery	NPi	Combined
Sales	$4.4	$1.2	$5.6
Income (loss) before profit share and income taxes	$1.6	($0.7)	$0.9

During 2020, with the onset of COVID-19, revenues from Pollard's contract with the Michigan Lottery increased substantially. Contracts held by NPi also experienced significant organic growth, in addition to the added sales growth from the Virginia Lottery operation when it went live with e-Instants on July 1, 2020. In the spring of 2020, NPi was awarded a new contract with AGLC, which went live with a limited product launch on September 30, 2020.

Quarterly Information
(unaudited)
(millions of dollars)

	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Sales	$103.7	$116.7	$91.5	$102.2	$100.0	$103.2	$97.1	$97.5
Adjusted EBITDA	20.3	24.5	19.8	16.0	14.2	16.1	13.6	16.3
Net income (loss)	12.2	13.2	9.2	(1.3)	4.6	4.4	5.0	8.0

Adjusted EBITDA and net income were higher in the fourth quarter of 2020 as a result of higher ancillary sales, including iLottery.

Sales, Adjusted EBITDA and net income were higher in the third quarter of 2020 as a result of higher ancillary sales, including iLottery.

Sales were lower in the second quarter of 2020 as a result of reduced charitable and Diamond Game's sales due to the impact of COVID-19 shutdowns.

Net loss for the first quarter of 2020 included a $6.2 million unrealized foreign exchange loss due to the significant weakening of the Canadian dollar.

Working Capital

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

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

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

As at December 31, 2020, Pollard's investment in non-cash working capital increased by $11.0 million compared to December 31, 2019, primarily a result of the increased investment in accounts receivable and inventories.

	December 31, 2020	December 31, 2019
Working Capital	$69.8	$79.2
Total Assets	$404.6	$352.3
Total Non-Current Liabilities	$191.3	$175.6

Credit Facility

Pollard's credit facility was renewed effective December 31, 2019. The credit facility provides loans of up to $190.0 million for its Canadian operations and US$14.0 million for its U.S. subsidiaries. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $190.0 million Canadian equivalent. The credit facility also includes an accordion feature which can increase the facility by $35.0 million. 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 December 31, 2020, the outstanding letters of guarantee were $0.7 million. The remaining balance available for drawdown under the credit facility was $75.7 million.

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including debt to income before interest, income taxes, amortization, depreciation and certain other items ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at December 31, 2020, Pollard is in compliance with all financial covenants.

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. Under the terms of the agreement the facility 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.

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

Economic Development Canada ("EDC") Facility

Effective February 28, 2020, Pollard entered into an agreement with EDC to provide a €15.0 million facility whereby Pollard can issue qualifying letters of credit against the EDC facility. This facility is guaranteed by a general indemnity from Pollard. As of December 31, 2020, the outstanding letters of credit drawn on this facility were $11.0 million (€7.0 million).

Outstanding Share Data

As at December 31, 2020, outstanding share data was as follows:

Common shares	25,706,908

As at March 10, 2021, outstanding share data was as follows:

Common shares	26,886,419

On January 14, 2021, 233,211 common shares were issued as a portion of the consideration of Pollard's purchase of NGL.

On February 10, 2021, 12,500 common shares were issued through the exercise of stock options.

On March 2, 2021, 933,800 common shares were issued as a result of a share offering.

Share Options

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares. As at December 31, 2020, the total share options issued and outstanding were 331,250.

Contractual Obligations

Pollard rents premises and equipment under long-term operating leases. The following is a schedule by year of commitments and contractual obligations outstanding, including related interest payments:

(millions of dollars)	Total	2021	2022	2023	2024	2025 & thereafter
Long-term debt	$136.6	$2.6	$134.0	-	-	-
Leases	$19.4	$6.0	$5.4	$4.4	$1.6	$2.0
Total	$156.0	$8.6	$139.4	$4.4	$1.6	$2.0

Pension Obligations

Pollard sponsors four non-contributory defined benefit pension plans, of which three are final pay plans and one is a flat benefit plan. As of December 31, 2020, the aggregate fair value of the assets of Pollard's defined benefit pension plans was $77.4 million and the accrued benefit plan obligations were $113.7 million. Pollard's total annual funding contribution for its defined pension plans in 2021 is expected to be approximately $4.9 million, compared to $7.3 million in 2020. Included in the 2020 contributions was $2.7 million in additional solvency payments. For 2021, Pollard is not required to make additional solvency payments.

One of Pollard's Canadian pension plans was subject to a solvency valuation beginning with its December 31, 2016 valuation. The solvency valuation is required to be updated annually. As at the December 31, 2019 valuation there was a deficit of $13.9 million, due to the low current levels of the mandated interest rate used to discount the future liabilities. As a result, Pollard is subject to additional special pension plan payments of approximately $2.7 million in 2021, with the entire deficit being repaid through to 2026. These additional solvency payments do not impact pension expense and therefore will not affect our net income or Adjusted EBITDA and will be funded from operating cash flows. On December 22, 2020, the Province of Manitoba announced it would temporarily provide funding relief for special payments through 2021. As a result, Pollard notified its plan members that it will defer its special payments for 2021.

Off-Balance Sheet Arrangements

Other than the operating leases described previously, Pollard has no other off-balance sheet arrangements.

Related Party Transactions

Pollard Equities Limited and affiliates

During the year ended December 31, 2020, Pollard paid property rent of $3.4 million (2019 - $3.2 million) and $0.2 million (2019 - $0.4 million) in plane charter costs to affiliates of Equities.

During the year ended December 31, 2020, Equities paid Pollard $0.07 million (2019 - $0.07 million) for accounting and administration fees.

At December 31, 2020, Pollard owed Equities and its affiliates $0.5 million (2019 - $0.5 million) for rent, interest, expenses and other items. 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 December 31, 2020, the net book value of the right-of-use assets was $7.7 million (2019 - $10.8 million) and the present value of the lease liabilities was $7.9 million (2019 - $11.8 million).

Neogames S.A. and affiliates

During the year ended December 31, 2020, Pollard reimbursed operating costs and paid software royalties of $9.6 million (2019 - $5.7 million) to its iLottery partner, which are recorded in cost of sales.

At December 31, 2020, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of $2.0 million (2019 - $0.1 million) for its share of profits and reimbursement of operating costs, net of capital investments.

At December 31, 2020, included in restricted cash and accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of $4.8 million (2019 - $2.6 million) for funds relating to contractual performance guarantees.

Critical Accounting Policies and Estimates

Described in the notes to Pollard's 2020 audited consolidated financial statements are the accounting policies and estimates that Pollard believes are critical to its business. Please refer to note 2 (d) to the audited consolidated financial statements for the year ended December 31, 2020, for a discussion of the significant accounting estimates and judgements.

Future Changes in Accounting Policies

Described in the notes to Pollard's 2020 audited consolidated financial statements are the future accounting standards that Pollard believes are potentially applicable to its business. Please refer to note 4 in the audited consolidated financial statements for the year ended December 31, 2020 for a summary.

Industry Risks and Uncertainties

Pollard is exposed to numerous risks and uncertainties which are described in this MD&A and Pollard's most recent Annual Information Form dated March 10, 2021, which is available under Pollard's profile on SEDAR (www.sedar.com).

Financial Instruments

Pollard is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates, liquidity risk and credit risk. Pollard uses financial instruments, from time to time, to manage these risks.

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls 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.

Risk Exposure

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to 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 Canadian and U.S. dollars, primarily in Euros.

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time.

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.

Credit risk

Credit risk is the risk of financial loss if a customer or counterpart to a financial instrument fails to meet its financial obligations.

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due.

Risk Management

Currency risk

Pollard utilizes a number of tools to manage its foreign currency risk including sourcing its manufacturing facilities in the U.S. and sourcing other cost of sales in U.S. dollars.

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 by approximately $0.2 million for the year ended December 31, 2020 (2019 - $0.04 million). 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 $0.07 million for year ended December 31, 2020 (2019 - $0.08 million).

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.

As at December 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 $52.6 million (2019 - $27.9 million). 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 income taxes of approximately $0.3 million (2019 - $0.1 million) for the year ended December 31, 2020.

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

Interest rate risk

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of $0.7 million for the year ended December 31, 2020 (2019 - $0.6 million).

Credit risk

Credit risk on Pollard's accounts receivable is minimized since they are mainly from governments and their agencies and are collected in a relatively short period of time. Credit risk on foreign currency contracts is minimized since the counterparties are restricted to Schedule 1 Canadian financial institutions.

Liquidity risk

Pollard's approach is to ensure that it will always have sufficient liquidity to meet its liabilities when due. Pollard maintains a committed credit facility including up to $190.0 million for its Canadian operations and up to US$14.0 million for its U.S. subsidiaries. At December 31, 2020, the unused balance available for drawdown was $75.7 million (2019 - $69.7 million).

The 2021 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.

Outlook

Lottery sales in the retail marketplace continue to be very strong in early 2021 and show no indication that this trend will change in the near future. In particular, instant tickets have continued to show significant year over year growth so far in 2021. Continued retail growth is driven by a number of factors that don't necessarily translate directly into similar growth in volumes at the manufacturing level, like higher retail price points. However, ultimately higher retail sales do translate to positive impacts on Pollard's revenue through greater sales in proprietary products such as Scratch FX®, additional ancillary lottery product revenue, such as interactive digital support or licensed games, as well as positive impacts on instant ticket volumes. We believe we will continue to benefit from the continued growth in retail sales of instant lottery tickets going forward.

The importance of iLottery as a new revenue source for lotteries was confirmed with its significant growth during 2020 and we expect this trend to continue. We believe existing iLottery operations will continue to increase their organic growth through higher penetration of overall lottery sales as well as drawing in new players to lottery. In addition, greenfield opportunities to initiate new iLottery operations for lotteries currently not served by this solution, particularly in the United States, will generate new revenue opportunities. New iLottery opportunities develop slowly however, reflecting the complexity of the solution and many legislative and operational factors that Lotteries must consider.

The COVID-19 pandemic continues to impact all aspects of our lives and business. While our products and services have overall shown considerable resilience to these challenges, there are still aspects of our business that are negatively impacted. In the middle of the fourth quarter of 2020 a number of key jurisdictions implemented temporary retail shutdowns, which reduced our revenue in the charitable gaming and Diamond Game businesses. While a number of these jurisdictions reopened in early 2021, with retail consumer behavior returning strongly, the impact of further closures or other actions brought on due to COVID-19 remains uncertain. These events could have a negative impact, possibly significant, on charitable gaming, Diamond Game or other aspects of Pollard's business. We are unable to quantify the effect on Pollard's financial results should ongoing restrictions or closures expand to more parts of the economy for extended periods of time.

We remain extremely focused on ensuring a safe and healthy environment for all of our staff as our top priority. Our formal pandemic planning team continues to be proactive in ensuring the safety of all our staff, and they ensure the most up to date guidance from local health authorities are followed or exceeded in all instances. Among our continuing policies are extensive remote work from home policies in place at all our facilities, detailed temperature and health screenings utilized daily, restricted access to our sites for non-Pollard staff, mandatory mask wearing and the use of electronic contact tracing tools to manage social distancing. These and other processes are the foundation of our COVID-19 response.

On January 14, 2021 we completed the acquisition of Next Generation Lotteries AS ("NGL"), a full solution supplier to the lottery industry, including providing a state-of-the-art retail lotto system and iLottery platform. Both NGL and Compliant Gaming LLC, our December 2020 acquisition, are early in the integration phase and we are confident of their long term strategic importance to the growth of our business. We will continue to follow our strategic plan to enhance our current business offerings through identifying and pursuing other acquisitions.

We will also continue to invest in our business through internal development of additional digital solutions as well as ensuring sufficient CAPEX to act on our organic growth opportunities and support new initiatives. Our CAPEX and investments in intangibles were lower in 2020 partly due to a conservative approach in light of the initial unknown impacts of COVID-19. We expect our expenditures in 2021 to be higher than 2020 as we continue investing in both short-term and long-term opportunities. Our ability to convert a significant portion of EBITDA to cash provides a strong internal source of funding. We do not anticipate qualifying for any significant subsidies under the Canada Emergency Wage Subsidy program during 2021.

On March 2, 2021, we completed a bought deal offering for 933,800 common shares that raised approximately $34.5 million, before expenses, with the net proceeds being used to pay down debt incurred to fund our recent acquisitions, freeing up additional funds to reinvest in our businesses.

The outlook of both the lottery and charitable gaming industries is very positive, and we believe the positive trends experienced in 2020 will continue in 2021 and beyond. Our strategic plan has guided us to make the proper investments in our products and solutions to grow our partnership with our existing and new clients. We will ensure the appropriate resources are available to continue to be the partner for choice for lotteries and charitable gaming organizations around the world.

Disclosure Controls and Procedures

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

Pollard has limited its design of disclosure controls and procedures to exclude controls, policies and procedures of mkodo and Compliant, as they were acquired not more than 365 days before the end of the financial period to which this MD&A relates.

Internal Controls over Financial Reporting

Under National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Certifying Officers regarding the design and effectiveness of the internal controls over financial reporting. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) as the control framework in designing its internal controls over financial reporting. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the internal controls over financial reporting as defined in National Instrument 52-109 are designed appropriately and are effective at providing reasonable assurance of achieving the financial reporting objectives.

Pollard has limited its design of ICFR to exclude controls, policies and procedures of mkodo and Compliant, as they were acquired not more than 365 days before the end of the financial period to which this MD&A relates.

No changes were made in Pollard's internal control over financial reporting during the year ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

Additional Information

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

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form for the year ended December 31, 2020, is available on SEDAR at www.sedar.com.

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