POLLARD banknote limited

2020 ANNUAL REPORT

CONTENTS

LETTER TO SHAREHOLDERS

Enclosed please find our 2020 Annual Report. In 2020 Pollard Banknote achieved record revenue of $414.1 million dollars, a 4.1% increase over 2019 despite the negative impact of COVID-19 on certain of our product lines. Record net income of $33.8 million was up over 51% from the prior year and our Adjusted EBITDA increased to record levels of $80.6 million, 34% higher than 2019. Cash flow from operating activities prior to change in non-cash working capital generated $70.6 million in funds, more than 36% higher than last year. A number of factors contributed to these record numbers, including continuing strong performance of our core instant ticket product line and significant growth in our iLottery operations.

COVID-19

2020 was an unprecedented year due to the impact on our personal and business lives of the COVID-19 pandemic. None of us could have imagined at the start of last year what challenges lay ahead of us, and how different our daily lives and business processes would be. We are tremendously proud of how our Pollard employees around the globe have stood up and met these challenges.

Our number one focus at all times during this past year was the safety and protection of our team members, and early in the pandemic Pollard adopted a comprehensive and aggressive pandemic response protocol. Extensive implementation of remote workplace policies, onsite health checks (including daily temperature screening), mandatory social distancing and use of masks, restriction of visitors, extensive communication as well as innovative use of technology were critical. As an example, we continue to utilize such things as electronic monitoring badges to ensure proper social distancing and rapid contract tracing when required. All of these tools formed an integral part of our COVID-19 response.

While some of business units were impacted financially, we were able to ensure all of our operations remained open and operational in a safe manner at all times, which is a reflection of the amazing dedication and commitment from our team. We would like to thank our greater Pollard family for all of their efforts in supporting our customers and each other in the midst of combatting COVID-19 during this difficult period.

Sales

Our record revenue of $414.1 million is a terrific achievement, given lower revenue in certain of our product lines due to the negative impact of COVID-19. Sales of our core product, instant lottery tickets, were strong, reflecting the underlying growth in sales of this product at retail in 2020.

Our iLottery operations achieved some truly remarkable growth in both the top and bottom line metrics through a combination of new contracts and organic growth within our existing contracts. On a combined basis, including both the revenue that is proportionately consolidated into our Pollard financials and the underlying revenue from our 50% owned joint venture, we achieved $46.1 million in sales, compared to $18.9 million last year. Only a portion of that is recorded in our sales in our financial statements due to the accounting rules surrounding 50% joint ventures, however the underlying revenue growth for Pollard in total iLottery has been significant.

Income before profit sharing and taxes generated from iLottery have increased sharply in 2020 due to higher revenue, achieving $20.1 million in the year, up from $3.4 million in 2019.

Not only have our iLottery operations achieved some notable results within Pollard, this business unit continues to be the clear market leader in North America, with five contracts currently operating through our 50% joint venture. Among those is included a new contract to operate the iLottery operation for the Province of Alberta in Canada, which went live in the beginning of the fourth quarter of 2020, and the State of Virginia, which increased the breadth of product offering on their existing website starting July 1, 2020. Both of these new operations have exceeded expectations and join our successful Michigan iLottery operation, which continues to be the North American benchmark for iLottery, as well as significant contracts with the New Hampshire and North Carolina lotteries.

Consumer demand for instant tickets at retail grew sharply starting in the second quarter of 2020 and remained at high levels throughout the year. Beginning in May, retail sales of instant tickets began to register strong growth compared to the previous year and this growth has continued through the end of the year and into 2021. While the factors surrounding the pandemic shutdown may have played a roll in the increased sales, the underlying resilience of the product and sustained growth throughout all of 2020 and so far in 2021 suggests the growth is reflective of the strong ongoing consumer interest in this product.

Our overall instant ticket production volumes remained steady during 2020 compared to 2019 as the growth in sales at retail does not translate directly into similar growth for manufacturers. Retail sales growth was strongest at the higher price points of $10 and up. This trend did help us to increase our average selling price, a very important metric, through increased demand for our premium products and options such as Scratch FX®, pouched products and play features such as accompanying digital games. Premium products do allow us to improve our margins and establish important recurring sales product for our lottery customers.

During the year many of our important contracts were renewed or extended, chief among them being the Michigan iLottery contract which was extended for an additional four years from the end of our current contract, taking our contract term to the summer of 2026. Amongst our instant ticket contract portfolio, we received multi-year renewals on a number of key customers including Arizona, Massachusetts, Michigan, and the lotteries of Israel, Finland and Poland, to name a few. We have a number of our important contracts under long term commitment and after consideration of available extensions, do not have any significant contracts expiring in 2021.

Our ancillary lottery products and solutions also achieved a number of important successes during the year including important sales of our PAC-MAN® themed instant ticket lottery games in our licensed game product line and the very successful launch of the contract to manage the Arizona Lottery's ticket distribution during the first quarter of 2020. These are good examples of Pollard's broad portfolio scope when it comes to servicing the lottery market and enhances our position of partner of choice to successful lotteries worldwide.

Our charitable gaming and Diamond Game operations were impacted negatively during the pandemic in 2020. During the second quarter, significant retail closures were implemented across most of our markets where these products are sold, significantly reducing our revenue. Many of the bars, restaurants and bingo halls were reopened at the start to the third quarter and we were very pleased to see strong consumer demand return, resulting in our revenue returning to levels seen prior to COVID-19. During the fourth quarter, a number of important jurisdictions once again implemented retail closures, further impacting our revenue. As a net result, our charitable gaming and Diamond game revenue for 2020 declined $23 million compared to 2019, a reduction of 26%. Subsequent to year end most of the jurisdictions allowed their retail outlets to reopen and we are very pleased to note that consumer demand for our products has been very strong.

Operations

During 2020 we achieved gross margin of $91.1 million, similar to the amount earned in 2019. Higher gross margin from lottery, including iLottery operations, was offset by the reduction of gross margin from charitable gaming and Diamond Game operations due to the significant revenue reduction as a result of the negative impact of COVID-19. Our gross margin percentage of 22.0% was lower than our 2019 gross margin of 22.9% due to the reasons noted.

Administration and selling expenses both declined in 2020 when compared to last year. Administration expenses were reduced overall $0.3 million versus last year, or $1.3 million when the increases in acquisition related costs are factored out. Reduced costs of travel and other related expenditures as a result of COVID-19 was a key factor in the expense reduction. Similarly, our selling expenses declined $1.3 million from 2019 reflecting lower travel and other related marketing expenditures.

In 2020 we invested $18.9 million in capital and intangible expenditures, continuing to improve our manufacturing efficiencies and build out important digital assets. The total dollar amount invested was slightly lower than 2019 as we took a cautious approach during the onset of the pandemic. We anticipate our capital investment level will return to similar levels incurred in 2019 in the upcoming year. Upgrades to our finishing lines were undertaken in 2020 to expand and improve product handling and we continued to invest in upgrades to our digital product offerings with major expenditures on our PlayOn™ loyalty solution and ongoing investment in expanding our digital game portfolio.

Acquisitions

Acquisitions remain an important feature within our strategic plan and this past year witnessed significant developments in growing our product offering and adding expertise to our company through the completion of a number of transactions.

On February 3, 2020, Pollard acquired 100% of the equity of mkodo Limited for a consideration of £7.8 million ($13.4 million) prior to standard working capital adjustments and potential earn-out payments based on certain EBITDA targets. mkodo Limited, is a world leader in digital user experience and will allow us to lever this expertise to help our customers build effective, direct connections with their player base.

On December 30, 2020, Pollard acquired 100% of the equity of Compliant Gaming LLC (“Compliant”) for consideration of US$19.0 million ($24.3 million) prior to standard working capital adjustments and potential earn-out payments based on certain EBITDA targets. The purchase of Compliant will further bolster Pollard’s leading presence in the charitable gaming market by providing a new solution offering for our existing portfolio, as Compliant’s portable, tablet-based electronic pull-tab product is a strong complement to the Diamond Game kiosk-based technology.

Subsequent to year-end, on January 14, 2021 Pollard acquired 100% of the equity of Next Generation Lotteries AS (“NGL”) for consideration of €36.0 million prior to standard working capital adjustments and certain deferred cash consideration. Pollard paid €32.0 million ($50.0 million) at closing and the remaining €4.0 million will be paid upon the achievement of specific gross margin targets in 2021. Approximately €27.4 million of the purchase price was funded from the Company’s existing cash resources and availability under its existing senior credit facilities with an additional €4.6 million of the purchase price satisfied by the issuance of 233,211 treasury shares.

NGL is a full solution supplier to the lottery industry, including providing a state-of-the-art retail lotto system and iLottery platform. NGL has a proven track record in the European iLottery space and in January 2021 was rewarded for its outstanding products and service by having its largest customer, Loteria de Catalunya, extend their contract for three more years to 2024. The purchase of NGL will significantly expand Pollard's product offering for both retail and iLottery gaming and will be a strong complement to Pollard's North American leading joint venture, NeoPollard Interactive LLC.

Capital

The importance of our conservative approach to the management of capital was underlined this past year when the uncertainty of the pandemic made the focus on sustainable cash flow critical. Despite these business challenges, Pollard set a record for the amount of cash generated from operating activities in 2020 with $70.6 million, before capital expenditures and investments in working capital, up 36% from 2019. Coupled with our cautious management of expenditures on capital and intangibles, our organic cashflow allowed us to maintain very low debt leverage, while at the same time generating significant funds to contribute significantly to the completion of our acquisitions. Our high cash conversion rate of our earnings is a hallmark of our business and a cornerstone of our investment philosophy.

On March 2, 2021, we completed a very successful bought deal offering and raised approximately $34.5 million, before expenses, in new equity, a confirmation that our capital market strategy continues to be successful. These funds were used to reduce debt incurred to complete our acquisitions and allows Pollard to remain flexible and nimble regarding other investment opportunities that we identify in the immediate future.

Conclusion

2020 was a very successful year for Pollard despite the challenges of COVID-19. A number of financial records were attained, our businesses grew and we completed a number of very important financial and strategic acquisitions to enhance our position as partner of choice for the lottery and charitable gaming markets. 2020 also highlighted the strength and resilience of the markets we serve, and we believe both the near-term and long-term future looks very positive.

The most important component of our past and future success are our employees, now numbering over 2,000 strong, whose tireless determination and work ethic we believe is unmatched. We are privileged to work with lotteries and charitable organizations around the world who are focused on raising funds for so many good causes, so important in these times. 2020 was a year to test all supply chains and the strength and resolve shown by our supply partners ensured our supply chains remained open and flexible under very trying circumstances. Our fellow shareholders continue to support our pursuit of excellence through their encouragement and allow us to continue to focus on the long term success of the business. And of course, our Board of Directors provide us important guidance and leadership to help us attain our strategic vision.

At our Annual General Meeting on May 14th, 2021, Dr. Jerry Gray will be retiring from our Board of Directors. Jerry has been a vital part of our leadership since our organization went public as an income trust back in 2005 and over these past 15 years has provided invaluable input, advice and great support to the Pollard family, our executive team and indeed the entire organization. We would like to extend our great appreciation and thanks to Jerry for his tremendous service and all that he has done for Pollard.

To all of you, thank you very much, and together we are excited about the possibilities before us in 2021.

Douglas Pollard Co-Chief Executive Officer	**John Pollard** Co-Chief Executive Officer

March 31, 2021

DIRECTORS OF POLLARD BANKNOTE LIMITED

Gordon Pollard

Executive Chair

Gordon Pollard joined Pollard Banknote in 1989 as Vice President, Marketing. He became Co-Chief Executive Officer in 1997 and on May 1, 2011, was appointed Executive Chair of the Board of Directors. Prior to 1989, he practiced law with a major Manitoba firm specializing in corporate and securities law. Mr. Pollard has an LL.B. from the University of Manitoba and a B.A. from the University of Winnipeg.

Dave Brown

Dave Brown is Executive Vice President of Richardson Financial Group Limited and Managing Director of RBM Capital Limited. Previously, he was Corporate Secretary of James Richardson & Sons, Limited, and a partner in the independent law and accounting firm of Gray & Brown. He also serves on the Board of Directors of RF Capital Group, Inc., Richardson Financial Group and Boyd Group Services Inc.. He graduated from the University of Manitoba law school and is a Chartered Professional Accountant.

Jerry Gray

Jerry Gray is Dean Emeritus of the I. H. Asper School of Business at the University of Manitoba where he also held the CA Manitoba Endowed Chair in Business Leadership. He is a Past Chair of the Winnipeg Regional Health Authority and former director and Chairman of the Board of Gendis, Inc. He has consulted with many major corporations in the United States and Canada in the areas of motivation, organizational design, manpower planning, managing change, management development, incentive system design, customer service and strategic planning.

Garry Leach

Garry Leach is the Chief Executive Officer of Mandak Capital Limited (an investment corporation). From 1988 to 2004, Mr. Leach was President and Chief Executive Officer of Gerdau MRM Steel (Manitoba Rolling Mills) and its predecessors. Mr. Leach has previously served on the Board of Directors for Gerdau Ameristeel, GLM Industries, Manitoba Hydro, the Canadian Steel Producers Association, (Ottawa), the Steel Manufacturers Association, (Washington), as well as the Business Council of Manitoba. Mr. Leach also served as Regent for the University of Winnipeg.

Douglas Pollard

Douglas Pollard is Co-Chief Executive Officer of Pollard Banknote. He joined Pollard Banknote in 1997 as Vice President, Lottery Management Services and on May 1, 2011, he was appointed Co-Chief Executive Officer. From 1997 to 1999 he was a director and the General Manager of Imprimerie Spéciale de Banque, a subsidiary of Pollard Banknote based in Paris, France. Prior to 1997, Mr. Pollard was a Senior Consultant with PricewaterhouseCoopers. Mr. Pollard has an M.B.A. from The Richard Ivey School of Business at the University of Western Ontario and a B.A. from the University of Manitoba.

John Pollard

John Pollard is Co-Chief Executive Officer of Pollard Banknote. He joined Pollard Banknote in 1986 as Vice President, Finance and became Co-Chief Executive Officer in 1997. Prior to 1986, he was an associate with the accounting firm Deloitte & Touche LLP. Mr. Pollard has a B.Comm. (Honours) from the University of Manitoba and is a former member of the Institute of Chartered Accountants of Manitoba.

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.

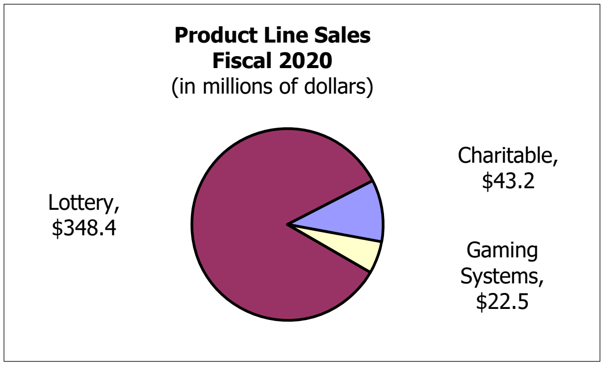
(2) IFRS 16 Leases was implemented effective January 1, 2019. Qualifying leases are capitalized and an offsetting liability is recorded. The right-of-use asset is depreciated over the term of the lease and interest expense related to the liability is expensed over the term of the lease. As a result, 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.

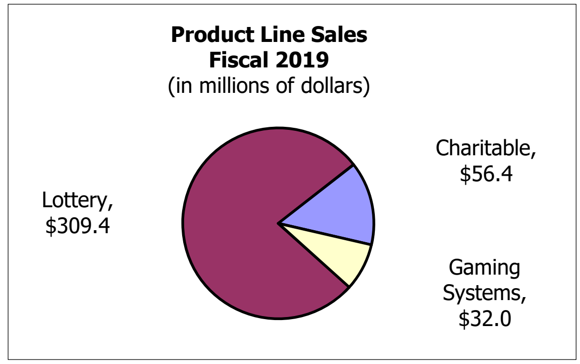
REVIEW OF OPERATIONS

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



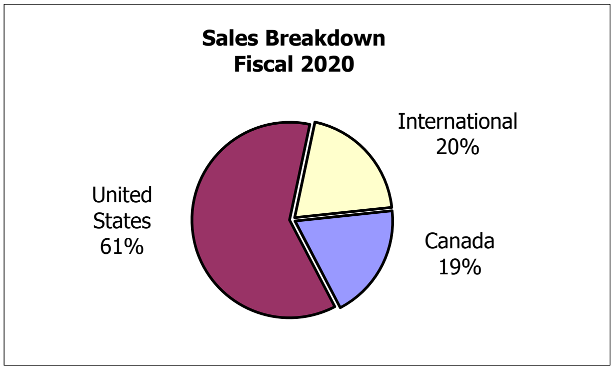


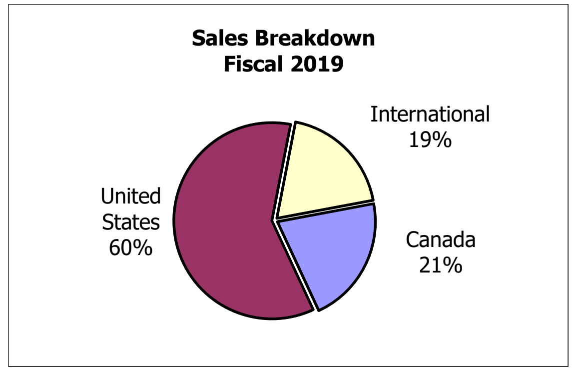
During the year ended December 31, 2020 ("Fiscal 2020" or "2020"), Pollard achieved sales of $414.1 million, compared to $397.8 million in the year ended December 31, 2019 ("Fiscal 2019" or "2019"). Factors impacting the $16.3 million sales increase were:

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.

<u>Interest rate risk</u>

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).

<u>Credit risk</u>

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.

<u>Liquidity risk</u>

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.

Pollard Banknote Limited
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Management's Report

The accompanying consolidated financial statements and all the information contained in the annual report of Pollard Banknote Limited ("Pollard") are the responsibility of management and have been approved by the Board of Directors of Pollard. Financial and operating data elsewhere in the annual report is consistent with the information contained in the financial statements. The financial statements and all other information have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements include some amounts and assumptions based on management's best estimates which have been derived with careful judgment.

In fulfilling its responsibilities, management of Pollard has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparing the financial statements. The Board of Directors of Pollard carries out its responsibility for the financial statements through the Audit Committee. The Audit Committee reviews Pollard's annual consolidated financial statements and recommends their approval by the Board of Directors. The auditors have full access to the Audit Committee with and without management present.

The consolidated financial statements have been audited by KPMG LLP Chartered Accountants, whose opinion is contained in this annual report.

"John Pollard"

JOHN POLLARD
Co-Chief Executive Officer

"Robert Rose"

ROBERT ROSE
Chief Financial Officer

March 10, 2021

Consolidated Financial Statements of

POLLARD BANKNOTE LIMITED

Years ended December 31, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pollard Banknote Limited

Opinion

We have audited the consolidated financial statements of Pollard Banknote Limited (the "Entity"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of intangible assets acquired in the mkodo Limited and Compliant Gaming, LLC acquisitions

Description of the matter

We draw attention to Notes 2(d), 3(b), 5(a) and 5(c) to the financial statements. On February 3, 2020, the Entity acquired mkodo Limited (mkodo) for total consideration of $17,447 thousand, which is net of cash acquired and debt assumed.

On December 30, 2020, the Entity acquired Compliant Gaming, LLC (Compliant) for total consideration of $29,588 thousand. In connection with the mkodo transaction, the Entity recorded customer relationships, technology and brand and in connection with the Compliant transaction, the Entity recorded customer relationships, game library and software (collectively, the “intangible assets”). The acquisition date fair value for the mkodo intangible assets was $8,127 thousand. The acquisition date fair value for the Compliant intangible assets was $17,389 thousand. The Entity’s significant assumptions used in determining the acquisition date fair value for the intangible assets include:

- projected revenue growth rates;
- projected gross profit;
- the discount rates.

Why the matter is a key audit matter

We identified the evaluation of the acquisition date fair value of the intangible assets acquired in the mkodo and Compliant transactions as a key audit matter. We identified this as a key audit matter because significant auditor judgment was required in evaluating the audit evidence obtained relating to the significant assumptions noted above. The estimated fair value of the intangible assets acquired is sensitive to possible changes to these significant assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

To assess the Entity’s projected revenue growth rates and projected gross profit, we compared the assumptions to mkodo’s and Compliant’s historical actual results. We also considered the Entity’s expected synergies and cost savings after integration.

We involved valuation professionals with specialized skills and knowledge, who evaluated the discount rates by comparing them to discount rate ranges that were independently developed using publicly available information for comparable entities.

Evaluation of the goodwill impairment analysis for cash generating units

Description of the matter

We draw attention to Notes 2(d), 3(l) and 10 to the financial statements. The goodwill balance as of December 31, 2020 was $89,276 thousand related to the Lotteries, Charitable gaming, Diamond Game and Retail cash generating units and groups of cash generating units (CGUs). The Entity performs goodwill impairment testing at least on an annual basis. This requires an estimation of the recoverable amount of each CGU based on the greater of the “value in use” or “fair value less costs to sell” of the CGU. The determination of each of these amounts require the Entity to make significant estimates and assumptions which include projected revenue and discount rates.

Why the matter is a key audit matter

We identified the evaluation of the goodwill impairment analysis for the CGUs as a key audit matter. This matter represented an area of significant risk of misstatement given the magnitude of the goodwill balance. This matter required significant auditor judgment in evaluating the results of our audit procedures due to the high degree of estimation uncertainty involved in the Entity’s estimates and assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We compared the Entity's historical revenue estimates to actual results to assess the Entity's ability to accurately project revenue assumptions.

We evaluated the Entity's projected revenue assumptions by comparing those assumptions to the Entity's expected growth rates. We took into account changes in conditions and events affecting each CGU to assess the adjustments or lack of adjustments made in arriving at projected revenue.

We involved valuation professionals with specialized skills and knowledge to assist in assessing the discount rates used in the estimated recoverable amounts, by comparing them to discount rate ranges that were independently developed using publicly available information for comparable entities.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report 2020".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions, as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report 2020" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Robert Kowalchuk.

Winnipeg, Canada

March 10, 2021

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

	December 31, 2020	December 31, 2019
Assets		
Current assets		
Cash	$ 1,888	$ 7,448
Restricted cash	19,058	13,000
Accounts receivable	66,037	57,213
Inventories (note 6)	46,620	42,540
Prepaid expenses and deposits	6,707	7,224
Income tax receivable	338	5,200
Total current assets	140,648	132,625
Non-current assets		
Property, plant and equipment (note 7)	96,396	91,904
Equity investment (note 9)	881	1,161
Goodwill (note 10)	89,276	69,993
Intangible assets (note 11)	74,146	54,207
Deferred income taxes (note 12)	3,220	2,375
Total non-current assets	263,919	219,640
Total assets	$ 404,567	$ 352,265

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

	December 31, 2020	December 31, 2019
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 59,433	$ 47,368
Dividends payable	1,028	1,025
Income taxes payable	4,941	641
Contract liabilities (note 17)	379	–
Current portion lease liabilities (note 8)	5,109	4,375
Total current liabilities	70,890	53,409
Non-current liabilities		
Long-term debt (note 13)	131,080	127,295
Other non-current liabilities	1,322	337
Pension liability (note 14)	36,370	26,547
Lease liabilities (note 8)	11,832	11,554
Deferred income taxes (note 12)	10,690	9,839
Total non-current liabilities	191,294	175,572
Shareholders' equity		
Share capital (note 15)	109,007	108,642
Reserves	2,563	5,705
Retained earnings	30,813	8,937
Total shareholders' equity	142,383	123,284
Commitments and contingencies (note 16)		
Subsequent events (note 28)		
Total liabilities and shareholders' equity	$ 404,567	$ 352,265

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Dave Brown" Director

"John Pollard" Director

Pollard Banknote Limited
Consolidated Statements of Income
(*In thousands of Canadian dollars, except for share amounts*)

Years ended December 31

	2020	2019
Sales (note 17)	$ 414,134	$ 397,839
Cost of sales	323,089	306,733
Gross profit	91,045	91,106
Administration	40,311	40,625
Selling	14,644	15,912
(Gain) loss on equity investment (note 9)	(1,587)	3,942
Other income (note 18)	(12,364)	(1,987)
Income from operations	50,041	32,614
Finance costs (note 19)	10,924	7,544
Finance income (note 19)	(7,025)	(3,931)
Income before income taxes	46,142	29,001
Income taxes (note 12)		
Current	10,955	2,136
Deferred	1,899	4,848
	12,854	6,984
Net income	$ 33,288	$ 22,017
Net income per share (basic) (note 20)	$ 1.30	$ 0.86
Net income per share (diluted) (note 20)	$ 1.28	$ 0.86

See accompanying notes to consolidated financial statements.

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

Years ended December 31

	2020	2019
Net income	$ 33,288	$ 22,017
Other comprehensive loss:		
Items that are or may be reclassified to profit and loss		
Foreign currency translation differences – foreign operations	(3,142)	(6,993)
Items that will never be reclassified to profit and loss		
Defined benefit plans remeasurements, net of income tax (note 12 & note 14)	(7,649)	(5,409)
Other comprehensive loss	(10,791)	(12,402)
Comprehensive income	$ 22,497	$ 9,615

See accompanying notes to consolidated financial statements.

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

Year ended December 31, 2020

		Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2019	$	108,642	5,705	8,937	123,284
Net income		–	–	33,288	33,288
Other comprehensive loss					
Foreign currency translation differences – foreign operations		–	(3,142)	–	(3,142)
Defined benefit plans remeasurements, net of income tax (note 12 & note 14)		–	–	(7,649)	(7,649)
Total other comprehensive loss	$	–	(3,142)	(7,649)	(10,791)
Total comprehensive income (loss)	$	–	(3,142)	25,639	22,497
Issue of common shares (note 15)		365	–	(67)	298
Share based compensation		–	–	409	409
Dividends (note 15)		–	–	(4,105)	(4,105)
Balance at December 31, 2020	$	109,007	2,563	30,813	142,383

Year ended December 31, 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		–	–	22,017	22,017
Other comprehensive loss					
Foreign currency translation differences – foreign operations		–	(6,993)	–	(6,993)
Defined benefit plans remeasurements, net of income tax		–	–	(5,409)	(5,409)
Total other comprehensive loss	$	–	(6,993)	(5,409)	(12,402)
Total comprehensive income (loss)	$	–	(6,993)	16,608	9,615
Issue of common shares		37	–	(18)	19
Share based compensation		–	–	114	114
Dividends		–	–	(4,102)	(4,102)
Balance at December 31, 2019	$	108,642	5,705	8,937	123,284

See accompanying notes to consolidated financial statements.

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

Years ended December 31

	2020	2019
Cash increase (decrease)		
Operating activities		
Net income	$ 33,288	$ 22,017
Adjustments		
Income taxes	12,854	6,984
Amortization and depreciation	31,467	27,138
Interest expense	4,841	6,415
Unrealized foreign exchange gain	(1,894)	(3,361)
Loss (gain) on equity investment (note 9)	(1,587)	3,942
Pension expense (note 14)	8,145	6,476
Contract liabilities	–	(43)
Contingent consideration (note 18)	(2,137)	(192)
Interest paid	(4,713)	(6,372)
Income tax paid	(1,053)	(3,988)
Pension contributions	(8,587)	(7,413)
Change in non-cash operating working capital (note 22)	(10,973)	(22,308)
	59,651	29,295
Investing activities		
Additions to property, plant and equipment (note 7)	(12,957)	(17,240)
Acquisition of Fastrak Retail (UK) Limited	–	(8,542)
Acquisition of mkodo Limited (note 5)	(15,349)	–
Acquisition of Compliant Gaming, LLC (note 5)	(24,349)	–
Charitable gaming asset purchase (note 5)	(4,895)	–
Proceeds from sale of equipment	–	20
Equity (investment) distribution (note 9)	1,860	(3,997)
Additions to intangible assets (note 11)	(5,978)	(8,553)
	(61,668)	(38,312)
Financing activities		
Proceeds from issue of share capital	298	19
Net proceeds from long-term debt (note 13)	5,055	14,321
Change in other non-current liabilities	32	(107)
Deferred financing charges paid (note 13)	(128)	(450)
Lease principal payments	(5,098)	(4,378)
Dividends paid	(4,102)	(3,845)
	(3,943)	5,560
Foreign exchange gain (loss) on cash held in foreign currency	400	(269)
Change in cash	(5,560)	(3,726)
Cash, beginning of year	7,448	11,174
Cash, end of year	$ 1,888	$ 7,448

See accompanying notes to consolidated financial statements.

1. Reporting entity:

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

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

The controlling entity of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owned approximately 67.3% of Pollard's outstanding shares as at December 31, 2020.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

On March 10, 2021, Pollard's Board of Directors approved these consolidated financial statements.

(b) Basis of preparation:

These consolidated financial statements have been prepared on a historical cost basis, except for the following material items in the statement of financial position:

- The pension liability is recognized as the net total of the fair value of plan assets less the present value of the defined benefit obligation.

- The contingent consideration liability is recognized at the present value of the expected payments to be made under the agreement.

These statements are presented in Canadian dollars, Pollard's functional currency, and all values are rounded to the nearest thousand (except share and per share amounts) unless otherwise indicated.

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 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. In addition, Pollard's main lottery products and services have generated 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 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 the consolidated financial statements, all Pollard facilities are operational. 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.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS 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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Actual results may differ from these estimates.

Information about judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next period are as follows:

2. Basis of preparation (continued):

Impairment of goodwill:

Pollard determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units ("CGUs"), or groups of CGUs, to which goodwill is allocated. Estimating value in use requires Pollard to make estimates of the expected future cash flows from the CGUs, or groups of CGUs, to which goodwill is allocated. Pollard also chooses suitable discount rates in order to calculate the present value of those cash flows. Judgment is required in determining the level at which to test goodwill, including the grouping of CGUs that generate cash inflows. Further details are provided in note 10.

Employee future benefits:

Accounting for defined benefit plans requires Pollard to use actuarial assumptions. These assumptions include the discount rate and the rate of compensation increases. These assumptions depend on underlying factors such as economic conditions, government regulations, investment performance, employee demographics and mortality rates. Further details are provided in note 14.

Income taxes:

Pollard is required to evaluate the recoverability of deferred income tax assets. This requires an estimate of Pollard's ability to utilize the underlying future income tax deductions against future taxable income before they expire. In order to evaluate the recoverability of these deferred income tax assets, Pollard must estimate future taxable income. Further details are provided in note 12.

Leases:

Upon inception of all leases, Pollard assesses whether it is reasonably certain that lease extension options will be exercised. Pollard also makes assumptions as to the discount rate applied to the lease liability upon recognition. If there is a significant event or change in circumstances within Pollard's control, these judgments and assumptions could change and may result in material adjustments to right-of-use assets and corresponding lease liabilities. Further details are provided in note 8.

Acquisition accounting:

For acquisition accounting purposes, all identifiable assets and liabilities acquired in a business combination are recognized at fair value at the date of acquisition. Estimates and assumptions are used to calculate the fair value of these assets and liabilities. Changes to assumptions could

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

2. Basis of preparation (continued):

significantly impact the fair values of certain assets, such as intangible assets. Pollard's significant assumptions used in determining the acquisition date fair value of intangible assets include projected revenue and related gross profit, discount rates and projected revenue growth rates.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Principles of consolidation:

These consolidated financial statements include the accounts of Pollard and all its subsidiaries.

Subsidiaries are entities which are under Pollard's control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefits from its activities. Pollard holds 100% of the voting rights in, and therefore controls, its subsidiaries.

Significant subsidiaries:	Percent Ownership Interest	
	December 31, 2020	December 31, 2019
Pollard Holdings, Inc.	100	100
Pollard (U.S.) Ltd.	100	100
Pollard Games, Inc.	100	100
Pollard iLottery Inc.	100	100
Diamond Game Enterprises	100	100
Diamond Game Enterprises Canada ULC	100	100
Schafer Systems (2018) Inc.	100	100
Fastrak Retail (UK) Limited	100	100
mkodo Limited	100	–
Compliant Gaming, LLC	100	–

All inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, have been eliminated.

3. Significant accounting policies (continued):

(b) Business combinations:

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets and equity instruments given, and liabilities incurred or assumed at the date of exchange.

Acquisition costs for business combinations are expensed as incurred and included in administration expenses. Identifiable assets acquired and liabilities assumed are measured at their fair value at the acquisition date.

The excess of the fair value of consideration transferred over the fair value of the identifiable net assets acquired is recorded as goodwill.

As at January 1, 2020, Pollard applied the 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.

(c) Restricted cash:

Pollard, under certain contractual arrangements, controls cash that is restricted in use. Pollard records an equal liability classified within accounts payable and accrued liabilities. Restricted cash includes player deposits held for the benefit of one of Pollard's iLottery customers, in addition to funds held for security purposes and certain contractual liabilities. Pollard has excluded changes in the restricted cash and related liability from its calculation of the change in cash position in the statements of cash flows.

(d) Revenue recognition:

Revenue is recognized when a customer obtains control of the goods or services. Pollard determines revenue recognition through the following steps: a) identification of the contract with a customer, b) identification of the performance obligations in the contract, c) determination of the transaction price, d) allocation of the transaction price to the performance obligations in the contract and e) recognition of revenue when Pollard satisfies a performance obligation.

Many of Pollard's contracts have a single performance obligation, including the sale of instant tickets and related products, pull-tab (or break-open) tickets, bingo paper, pull-tab vending machines, ancillary products such as pull-tab counting machines and gaming machines. The single performance obligation in these contracts is the promise to transfer the individual goods. Revenue is recognized at a point in time when the customer obtains control of a product, which

3. Significant accounting policies (continued):

typically takes place when legal title and physical possession of the product is transferred to the customer. These conditions are usually fulfilled upon delivery. However, under certain contracts, Pollard is compensated for its products based on its customers' sales of those products at retail. Pollard has concluded that control transfers to its customers at delivery of the product to the customer. As such, recognition of sales under these contracts occurs upon receipt of shipment. Pollard's sales under these contracts could vary year over year depending on the timing of shipments.

Certain Pollard contracts include multiple performance obligations, including license and royalty sales, iLottery services, loyalty programs, digital and lottery management services, training and consulting. Where such arrangements exist, the transaction price is allocated to the performance obligations based upon the relative fair value of the various elements. The fair values of each element are determined based on the current market price of each of the elements when sold separately. Revenue is then recognized upon satisfaction of each performance obligation.

Where Pollard provides software and related infrastructure, revenue is recognized over time based on the relevant measure of progress of the asset being transferred to the customer. Any amounts recognized as revenue but not yet billed to the customer are recorded as contract assets and included within accounts receivable.

Pollard earns revenue from gaming machines and other equipment, and capitalizes the costs of installing gaming equipment. Revenue from the provision of gaming services is generally recognized as a daily fee or as a percentage of revenue generated by the gaming machines. Product support services, maintenance and periodic upgrades revenue is recognized over time as the related services are performed. Labour costs associated with performing routine maintenance on participating gaming machines is expensed as incurred and included in cost of sales.

Contract liabilities consist of customer advances for services to be rendered in the future and is recognized as income in future periods.

Volume rebates are accrued and recorded as a reduction to sales based on historical experience and management's expectations regarding future sales volumes.

(e) Inventories:

Raw materials, work-in-process and finished goods are valued at the lower of cost and net realizable value. The cost of raw material inventory is based on its weighted average cost and includes all costs incurred to acquire the materials. In addition to the direct costs of conversion,

3. Significant accounting policies (continued):

the cost of work-in-process and finished goods, which Pollard manufactures, also includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion.

(f) Goodwill:

Goodwill is comprised of the excess sale price over the underlying carrying amount of the net assets sold as at August 5, 2005, as part of the 26.7% of Pollard sold in conjunction with the Initial Public Offering ("IPO") and the excess fair value of the consideration transferred over the fair value of the identifiable net assets acquired of Pollard's subsidiaries.

(g) Intangible assets:

Expenditures related to internally generated intangible assets are recognized as intangible assets only if Pollard can demonstrate that the costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and Pollard has sufficient resources to complete development and to use or sell the asset.

Deferred development

Deferred development consists of the cost of materials, direct labour and related employee benefits that are directly attributable to preparing the asset for its intended use and applicable borrowing costs incurred in respect of qualifying assets. Other development expenditures are expensed as incurred.

Capitalized development expenditures are measured at cost less investment tax credits (including scientific research and experimental development ("SR&ED") credits), accumulated amortization and accumulated impairment losses.

Computer software and licenses

Computer software consists of the cost of acquiring, developing and implementing these systems. Development and implementation costs include third party costs as well as direct labour and related employee benefits attributable to the asset. Minimum license fees, incurred in connection with our licensing agreements for our use of third-party brands, are capitalized and amortized over the estimated life of the asset.

3. Significant accounting policies (continued):

Capitalized computer software costs and licenses are measured at cost less investment tax credits (including SR&ED credits), accumulated amortization and accumulated impairment losses.

Customer assets and patents

Customer assets and patents that have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets, with finite useful lives, are amortized, on a straight-line basis, over their estimated useful lives as follows:

Asset	Rate
Customer assets	7 to 20 years
Patents	Term of patent
Computer software and licenses	3 to 15 years or term of license
Deferred development	5 years

Amortization methods, estimated useful lives and residual values are reviewed each annual reporting date and adjusted prospectively if appropriate.

The carrying value of finite useful life intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Trademarks, trade names and brands

Trademarks, trade names and brands have been deemed to have an indefinite life and are not amortized. For purposes of impairment testing, the fair value of the trademarks, trade names and brands are tested for impairment on an annual basis.

(h) Property, plant and equipment:

Property, plant and equipment ("PP&E") are stated at cost less investment tax credits (including SR&ED credits), accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and related employee benefits, other costs directly attributable to bringing the assets to working condition for their intended use and borrowing costs incurred in respect to qualifying assets.

3. Significant accounting policies (continued):

Major spare parts are treated as PP&E when they have a useful life greater than a year. Once major spare parts are put in service, they are transferred into equipment and amortized accordingly.

An item of PP&E is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on disposal of an item of PP&E is determined by comparing the proceeds from disposal with the carrying value of the PP&E and is recognized in the statement of income on a net basis.

The cost of each component of an item of PP&E is depreciated over its estimated useful life on a straight-line basis, commencing the date it is ready for use. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Asset	Rate
Buildings	10 to 39 years
Leasehold improvements	Term of lease
Equipment	2 to 11 years
Charitable gaming machines	3 to 8 years
Furniture, fixtures and computers	3 to 9 years

Depreciation methods, useful lives and residual values are reviewed each annual reporting date and adjusted prospectively if appropriate.

The carrying value of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(i) Investment in joint venture:

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, rather than rights to the assets and obligations for the liabilities. Joint control is the agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require consent of both parties.

The consolidated financial statements include Pollard’s share of the income and expenses and equity movements of the entity accounted for under the equity method of accounting.

3. Significant accounting policies (continued):

(j) Investment in joint operation:

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require consent of both parties.

The consolidated financial statements include Pollard's interest in the Michigan Lottery iLottery joint operations: 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.

(k) Financial instruments:

Financial assets are initially measured at fair value. On initial recognition, Pollard classifies its financial assets at either amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"), depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, unless Pollard changes its business model for managing financial assets. Financial liabilities are classified at amortized cost.

A financial asset is classified as measured at amortized cost if it meets both of the following conditions: a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

A financial asset is classified as measured at FVOCI if it meets both of the following conditions: a) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI are measured at FVTPL. This includes all derivative financial assets. On initial recognition, Pollard may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3. Significant accounting policies (continued):

Hedge accounting

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.

From time to time, Pollard enters into hedging arrangements in order to mitigate this exposure to foreign exchange fluctuations. Pollard determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. An assessment is made whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

The fair value of each contract is included on the consolidated balance sheet as either a financial asset or liability. Changes in fair value are recorded in either other comprehensive income or the consolidated statement of income, depending on the nature of the hedged item.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to the consolidated statement of income in the same period or periods as the hedged expected future cash flows affects income or loss. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in the hedging reserve are immediately reclassified to the consolidated statement of income.

(l) Impairment:

Financial assets

Pollard applies the simplified approach to providing for expected credit losses, which requires the use of the lifetime expected credit loss provision for all accounts receivable. Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due under the contract and the cash flows that Pollard expects to receive. The expected cash flows reflect all available information, including Pollard's historical experience, the past due status, and forward-looking macroeconomic factors. Further details are provided in note 26 and note 27.

3. Significant accounting policies (continued):

Non-financial assets

The carrying amount of Pollard's non-financial assets, other than inventories and deferred income tax assets, are reviewed at each reporting date to determine whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, Pollard estimates the asset's recoverable amount. For goodwill the recoverable amount is estimated as of December 31 each year. An impairment loss is recognized if the carrying amount of an asset, or its related CGU, or group of CGUs, exceeds its estimated recoverable amount.

The recoverable amount of an asset, CGU, or group of CGUs is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, CGU, or group of CGUs. Pollard calculates fair values using appropriate valuation techniques, which are generally based on a forecast of expected future cash flows for intangible assets, and on a replacement cost approach, an income-based approach and/or a market-based approach for property, plant and equipment. These valuations are closely related to the assumptions made by management about the future return on the related assets and the discount rate applied.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or CGUs.

Impairment losses are recognized in net income. Impairment losses recognized in respect to CGUs or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated, and then to reduce the carrying amounts of the other assets in the CGU or group of CGUs on a pro rata basis. An impairment loss in respect to goodwill is not reversed.

In respect to other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss can only be reversed to the extent that the asset's carrying value that would have been determined, net of amortization, if no impairment had been recognized.

(m) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

3. Significant accounting policies (continued):

(n) Translation of foreign currencies:

The functional currency for each of Pollard's subsidiaries is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the respective functional currencies of each entity within the consolidated group using the exchange rates in effect at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates prevailing at the end of the reporting period. Non-monetary items measured at historical cost in a foreign currency are translated to the functional currency using the exchange rate prevalent at the date of acquisition. Non-monetary items denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate prevalent at the date that the fair value was determined.

Foreign currency differences arising from translation are recognized in net income, except for exchange differences arising on the translation of financial instruments qualifying as a cash flow hedge, which are recognized directly in other comprehensive income ("OCI").

The results and financial position of entities within the consolidated group that have a functional currency different from the presentation currency are translated into Canadian dollars as follows: assets and liabilities are translated at the exchange rate prevailing at the end of the reporting period; income and expenses are translated at the average rate for the reporting period; all resulting exchange differences are recognized in OCI.

On disposal of a foreign operation, the deferred cumulative amount recognized in OCI relating to that particular foreign operation is recognized in net income.

(o) Employee benefits:

Share based compensation

The grant date fair value of stock options granted to employees is recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards.

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 15.

3. Significant accounting policies (continued):

Defined contribution plans

Pollard's U.S. subsidiaries maintain five defined contribution plans in the United States. The obligation to contribute to these plans is recognized as an employee benefit expense as incurred.

Defined benefit plans

Pollard maintains four non-contributory defined benefit pension plans in Canada and the United States, three being final pay plans and one being a flat benefit plan. None of the plans have indexation features.

The costs of Pollard's defined benefit plans are recognized over the period in which employees render service to Pollard in return for the benefits. The defined benefit obligations associated with the plans are actuarially determined using the projected unit credit method pro-rated on service and management's best estimate of salary escalation and retirement ages of employees. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have maturity terms approximating the maturity terms of the related obligation and that are denominated in the currency in which the benefits will be paid. The expected return on pension plan assets is calculated utilizing the discount rate used to measure the defined benefit obligation at the beginning of the annual period.

Past service costs are recognized as an expense on a straight line basis over the average period until the benefits becomes vested. If the benefits have vested, past service costs are recognized in net income immediately.

Remeasurements that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in OCI.

Pollard's pension asset is limited to the total of any unrecognized past services costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to Pollard's plans. An economic benefit is available to Pollard if it is realizable during the life of the plan, or on settlement of the plan liabilities.

3. Significant accounting policies (continued):

(p) Income taxes:

Current income tax and deferred income tax are recognized in the statement of income except to the extent that the tax relates to items recognized directly in equity or in OCI. Current income tax is the expected tax payable or receivable on the taxable income or loss for the period and any adjustment to tax payable in respect to previous years. Current income tax expense includes withholding taxes and U.S. state franchise taxes.

Deferred income tax is recorded to reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Deferred income tax assets and liabilities are determined based on the enacted or substantively enacted tax rates, which are expected to be in effect when the underlying items of income and expense are expected to be realized.

Deferred income tax is not recognized for: temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future, taxable temporary differences arising on the initial recognition of goodwill or temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment, except if it relates to an item previously recognized in equity, in which case the adjustment is made to equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax liabilities and assets, and they are levied by the same taxation authority on the same taxable entity, or on different tax entities which intend to settle their current income tax assets and liabilities on a net basis.

(q) Provisions:

Provisions are recognized when Pollard has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3. Significant accounting policies (continued):

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. If Pollard has a contract that is onerous, the present obligation under the contract shall be recognized and measured as a provision.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(r) Finance costs and finance income:

Finance costs comprises interest expense on borrowings including amortization of deferred financing costs, interest expense on lease liabilities, accretion of contingent consideration, mark-to-market losses on foreign exchange contracts and net foreign exchange losses.

Borrowing costs that are not directly attributable to the acquisition, construction or production of an asset, that necessarily takes a substantial period of time to get ready for its intended use or sale, are expensed in the period incurred using the effective interest method.

Finance income comprises mark-to-market gains on foreign exchange contracts and net foreign exchange gains.

(s) Leases:

At inception of a contract, Pollard assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Pollard recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

3. Significant accounting policies (continued):

The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. The right-of-use asset is subsequently measured at cost less any accumulated depreciation and impairment losses.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Pollard's incremental borrowing rate. Generally, Pollard uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in Pollard's estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Pollard presents right-of-use assets in "property, plant and equipment" on the statement of financial position.

Pollard accounts for short-term and low value leases by applying the recognition exemption available under IFRS 16.

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

(t) Government Grants and Disclosure of Government Assistance:

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 consolidated statements of income as an item included within other income over the periods in which the expense that the subsidy is intended to offset are recognized.

4. Future accounting standards:

(a) Amendments to IAS 1 – classification of liabilities as current or non-current:

In January 2020, the International Accounting Standards Board ("IASB") issued amendments to IAS 1 *Presentation of Financial Statements* to clarify the classification of liabilities as current or non-current. For the purposes of non-current classification, the amendments removed the requirement for a right to defer settlement or roll over a liability for at least twelve months to be unconditional. The amendments are effective for annual periods beginning on or after January 1, 2023. Pollard is currently assessing the impact of the amendment on its consolidated financial statements.

(b) Amendments to IAS 16 – proceeds before intended use:

In May 2020, the IASB issued *Property, Plant and Equipment Proceeds before Intended Use (Amendments to IAS 16).* The amendments provide guidance on the accounting for sale proceeds and related production costs for items a company produces and sells in the process of making an item of property, plant and equipment available for its intended use. The amendments are effective for annual periods beginning on or after January 1, 2022. Pollard is currently assessing the impact of the amendment on its consolidated financial statements.

(c) Amendments to IAS 37 – cost of fulfilling a contract:

In May 2020, the IASB issued *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*. The amendments address the fact that IAS 37 does not specify which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous. The amendments clarify that costs of fulfilling a contract comprise both the incremental costs and an allocation of direct costs. The amendments are effective for annual periods beginning on or after January 1, 2022. Pollard is currently assessing the impact of the amendment on its consolidated financial statements.

(d) Amendments to IFRS 9 – interest rate benchmark reform:

In August 2020, the IASB finalized its response to the ongoing reform of inter-bank offered rates and other interest rate benchmarks by issuing a package of amendments to IFRS standards. The amendments mainly relate to changes to contractual cash flows and clarify that a company will not have to derecognize the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the changes to the alternative benchmark rate. The amendments are effective for annual periods beginning on or after January 1, 2021. Pollard is currently assessing the impact of the amendment on its consolidated financial statements.

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

5. Acquisitions:

(a) mkodo Limited:

On February 3, 2020, Pollard acquired 100% of the share capital of mkodo Limited ("mkodo"), a 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.

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	$	2,479
Deferred income tax asset		305
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		(1,380)
Net tangible assets acquired (excluding cash acquired and debt assumed)	$	1,311
Customer relationships	$	4,670
Technology		2,064
Brand		1,393
Identifiable intangible assets acquired	$	8,127
Goodwill acquired	$	8,009

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.

During the measurement period, new information regarding completion status of a customer contract, as at the acquisition date, became available. An adjustment to the preliminary purchase price allocation was required, resulting in a $737 decrease in revenues in excess of billings, classified within accounts receivable, a $559 increase in identifiable intangible assets acquired, a $94 increase in the deferred income tax liability, a $126 increase in the deferred tax asset and an increase of $146 to goodwill.

5. Acquisitions (continued):

Acquisition costs related to the mkodo purchase in the year ended December 31, 2020, were $151. These costs were included in administration expenses.

During the period between February 3, 2020 and December 31, 2020, mkodo generated revenues of approximately $5,619 and a net loss of $1,616, after depreciation and amortization of the fair values of identifiable assets acquired, which have been recorded in the consolidated financial statements.

If mkodo had been acquired on January 1, 2020, incremental revenue of $633 and net income of $126, after depreciation and amortization of the fair values of identifiable assets acquired, would have been recognized in the year ended December 31, 2020.

Contingent consideration, based on achievement of certain earnings before interest, taxes, depreciation and amortization ("EBITDA") targets, was estimated and accrued as at the acquisition date. 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 December 31, 2020, Pollard reassessed mkodo's progress towards achievement of both the 2020 and 2021 EBITDA targets, and determined that it is unlikely that these targets will be achieved. As such, Pollard adjusted the contingent consideration liability relating to the EBITDA earn-out in the last quarter of 2020 to nil.

As at December 31, 2020, the acquisition accounting was finalized.

(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 transportation, disassembly and reassembly, and related costs, was $4,895.

(c) Compliant Gaming, LLC:

On December 30, 2020, Pollard acquired 100% of the equity of Complaint Gaming, LLC ("Compliant"), a leading provider of electronic pull-tab gaming systems and products to the charitable gaming market. 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 December 30, 2020, the acquisition date.

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

5. Acquisitions (continued):

Cash paid	$	24,349
Contingent consideration		5,239
Total consideration	$	29,588
Accounts receivable	$	46
Prepaid expenses and deposits		44
Property, plant and equipment		453
Accounts payable and accrued liabilities		(155)
Contract liabilities		(110)
Net tangible assets acquired	$	278
Customer relationships	$	13,084
Game Library		2,907
Software		1,398
Identifiable intangible assets acquired	$	17,389
Goodwill acquired	$	11,921

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

Acquisition costs related to the Compliant purchase in the year ended December 31, 2020, were $124. These costs were included in administration expenses.

If Compliant had been acquired on January 1, 2020, incremental revenue of $4,105 and net income of $399, after depreciation and amortization of the fair values of identifiable assets acquired, would have been recognized in the year ended December 31, 2020.

Contingent consideration, based on achievement of certain earnings before interest, taxes, depreciation and amortization ("EBITDA") targets, may be paid to the vendor. The earn-out is based on Compliant's achievement of certain EBITDA targets during 2021 and 2022. The potential payment under the earn-out is unlimited. As at December 31, 2020, Pollard has accrued $4,232 within current liabilities and $1,007 within non-current liabilities relating to the contingent consideration.

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

6. Inventories:

		December 31, 2020		December 31, 2019
Raw materials	$	16,756	$	17,957
Work-in-process		2,209		1,726
Finished goods		27,655		22,857
	$	46,620	$	42,540

During 2020, Pollard recorded inventory write-downs of $704 representing an increase in the obsolescence reserves and write-downs of $8 due to changes in foreign exchange rates.

During 2019, Pollard recorded inventory write-downs of $580 representing an increase in the obsolescence reserves and write-downs of $46 due to changes in foreign exchange rates.

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

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

7. Property, plant and equipment:

Cost	Land	Buildings	Leasehold improve-ments	Equipment	Furniture, fixtures and computers	Assets in progress & spare parts	Total
Balance at January 1, 2019	$ 1,731	19,992	5,061	170,385	7,366	8,997	213,532
Recognition of right-of-use assets on initial application of IFRS 16 – January 1, 2019	–	17,750	–	132	397	–	18,279
Acquisitions	–	321	128	1,170	28	–	1,647
Additions/net transfers*	–	2,684	247	17,096	453	(382)	20,098
Disposals	–	–	–	(1,361)	–	–	(1,361)
Effect of movements in exchange rates	(39)	(557)	(40)	(1,184)	(28)	(120)	(1,968)
Balance at December 31, 2019	$ 1,692	40,190	5,396	186,238	8,216	8,495	250,227
Acquisitions (note 5)	–	1,125	150	562	45	–	1,882
Additions/net transfers	464	5,495	744	13,865	682	1,868	23,118
Disposals	–	–	–	(866)	–	–	(866)
Effect of movements in exchange rates	(24)	(440)	(40)	(1,027)	(27)	(133)	(1,691)
Balance at December 31, 2020	$ 2,132	46,370	6,250	198,772	8,916	10,230	272,670

*Included within additions/net transfers in 2019 is $1,097 of machine costs previously classified as inventory, which were reclassified to property, plant and equipment during 2019.

Accumulated depreciation	Land	Buildings	Leasehold improve-ments	Equipment	Furniture, fixtures and computers	Assets in progress & spare parts	Total
Balance at January 1, 2019	$ –	5,727	2,466	129,108	4,625	–	141,926
Depreciation for the year	–	5,265	391	12,376	433	–	18,465
Disposals	–	–	–	(1,343)	–	–	(1,343)
Effect of movements in exchange rates	–	(72)	(43)	(600)	(10)	–	(725)
Balance at December 31, 2019	$ –	10,920	2,814	139,541	5,048	–	158,323
Depreciation for the year	–	5,667	504	13,055	370	–	19,596
Disposals	–	–	–	(866)	–	–	(866)
Effect of movements in exchange rates	–	(123)	(26)	(620)	(10)	–	(779)
Balance at December 31, 2020	$ –	16,464	3,292	151,110	5,408	–	176,274

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

7. Property, plant and equipment (continued):

Carrying amounts		Land	Buildings	Leasehold improve-ments	Equipment	Furniture, fixture and computers	Assets in progress & spare parts	Total
At December 31, 2019	$	1,692	29,270	2,582	46,697	3,168	8,495	91,904
At December 31, 2020	$	2,132	29,906	2,958	47,662	3,508	10,230	96,396

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, 2019	$	17,750	132	397	18,279
Acquisitions		322	100	–	422
Additions		1,756	–	5	1,761
Depreciation		(4,492)	(72)	(178)	(4,742)
Effect of movements in exchange rates		(104)	(18)	(9)	(131)
Balance at December 31, 2019	$	15,232	142	215	15,589
Acquisitions (note 5)		1,125	–	–	1,125
Additions		5,071	180	–	5,251
Depreciation		(5,050)	(138)	(215)	(5,403)
Effect of movements in exchange rates		(269)	(6)	–	(275)
Balance at December 31, 2020	$	16,109	178	–	16,287

Pollard's total cash outflows, principal and interest relating to its lease obligations classified under IFRS 16 *Leases* for the year ended December 31, 2020 were $5,752 (2019 – $5,039).

Pollard's interest expenses incurred relating to its lease obligations classified under IFRS 16 *Leases* for the year ended December 31, 2020 were $654 (2019 – $662).

The following is a schedule of lease payment commitments outstanding relating to lease obligations classified under IFRS 16:

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

8. Leases (continued):

2021	$	5,740
2022		5,275
2023		4,228
2024		1,431
2025 and thereafter		1,946
Total undiscounted cash flows	$	18,620
Discounting		(1,679)
Total discounted cash flows	$	16,941
Less: current portion lease liabilities		(5,109)
Lease liabilities	$	11,832

9. Equity investment:

Interest in joint venture		December 31, 2020		December 31, 2019
Balance, beginning of year	$	1,161	$	1,164
Investment (distribution)		(1,860)		3,997
Equity income (loss)		1,587		(3,942)
Effects of movements in exchange rates		(7)		(58)
Balance, end of year	$	881	$	1,161

Pollard, in conjunction with NeoGames US, LLP, operates NeoPollard Interactive ("NPi"). The entity was established to provide iLottery services in the United States and Canada, excluding the State of Michigan.

Pollard and Neogames S.A. 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.

10. Goodwill:

		December 31, 2020		December 31, 2019
Balance, beginning of year	$	69,993	$	69,667
Acquisition of Fastrak Retail (UK) Limited		–		2,239
Acquisition of mkodo (note 5)		8,009		–
Acquisition of Compliant (note 5)		11,921		–
Effects of movements in exchange rates		(647)		(1,913)
Balance, end of year	$	89,276	$	69,993

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

10. Goodwill (continued):

Impairment assessment methodology

Pollard performs its annual goodwill impairment test as at December 31. Goodwill has been allocated as follows to Pollard's CGUs and groups of CGUs:

		December 31, 2020		December 31, 2019
Lotteries	$	38,921	$	30,816
Charitable gaming		12,630		12,898
Diamond Game		26,601		14,991
Retail		11,124		11,288
Total	$	89,276	$	69,993

For each CGU, or group of CGUs, the recoverable amounts have been determined based on a value in use calculation using cash flow projections from financial forecasts approved by senior management. These forecasts cover a period of five years and reflect an estimate of a terminal value. Included in these forecasts is an assumption of certain growth rates which was based on historical trends and expected future performance.

The calculation of value in use for the CGUs, or groups of CGUs described above are most sensitive to the following key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Revenue and related gross profit
- Foreign exchange rates
- Discount rates
- Growth rates

Revenue and related gross profit

Projected cash flows from revenue assumes the continuation of recent historical trends adjusted for expected new contract wins, anticipated contract renewal pricing pressures and the expected impact of sales initiatives in conjunction with certain production efficiencies that are being developed or are expected to be developed.

10. Goodwill (continued):

Foreign exchange rates

A significant portion of revenue is denominated in U.S. dollars and Euros, partially offset by U.S. dollar denominated costs. In addition, certain financial assets and liabilities are denominated in U.S. currency. Projected cash flows assume an estimated exchange rate between Canadian dollars to U.S. dollars and Euros based on expected exchange rates during the forecast period.

Discount rates

Discount rates were calculated based on the estimated cost of equity capital and debt capital considering data and factors relevant to the economy, the industry and the CGUs, and groups of CGUs. These costs were then weighted in terms of a typical industry capital structure to arrive at an estimated weighted average cost of capital. The after-tax discount rates applied to the cash flow projections for the CGUs and groups of CGUs described above were as follows:

Lotteries	12.0%
Charitable Gaming	12.0%
Diamond Game	15.0%
Retail	14.7%

Growth rates

Growth rates are based on estimated sustainable long-term growth rates of the CGUs, and groups of CGUs. A terminal value of 2% was applied in the value in use calculations for all of the above CGUs and groups of CGUs.

Management believes that any reasonable possible change in any of the key assumptions on which the recoverable amounts of the CGUs, or groups of CGUs, are based would not cause the unit's carrying amounts to exceed its recoverable amount.

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

11. Intangible assets:

Cost		Customer assets	Patents	Trademarks and brands	Deferred development	Computer software and licenses	Total
Balance at January 1, 2019	$	46,244	6,651	4,503	1,639	19,017	78,054
Asset reclassifications		–	(662)	–	–	662	–
Acquisitions		3,770	361	457	–	–	4,588
Additions (net of investment tax credits)		–	160	25	–	479	664
Additions – internally developed (net of investment tax credits)*		–	–	–	154	7,841	7,995
Effect of movements in exchange rates		(1,379)	(63)	(222)	–	(389)	(2,053)
Balance at December 31, 2019	$	48,635	6,447	4,763	1,793	27,610	89,248
Acquisitions (note 5)		17,754	–	1,393	–	6,369	25,516
Additions (net of investment tax credits)		–	413	(19)	–	30	424
Additions – internally developed (net of investment tax credits)		–	–	–	–	5,554	5,554
Effect of movements in exchange rates		(452)	(8)	(69)	–	(386)	(915)
Balance at December 31, 2020	$	65,937	6,852	6,068	1,793	39,177	119,827

*Included within additions – internally developed (net of investment tax credits) is $106 of software costs previously classified as inventory, which were reclassified to intangible assets during 2019.

Accumulated amortization		Customer assets	Patents	Trademarks and brands	Deferred development	Computer software and licenses	Total
Balance at January 1, 2019	$	18,342	5,118	–	1,246	3,262	27,968
Asset reclassifications		–	(62)	–	–	62	–
Amortization for the year		4,294	167	–	102	2,823	7,386
Effect of movements in exchange rates		(184)	(13)	–	–	(116)	(313)
Balance at December 31, 2019	$	22,452	5,210	–	1,348	6,031	35,041
Amortization for the year		4,956	178	–	120	5,831	11,085
Effect of movements in exchange rates		(252)	(8)	–	–	(185)	(445)
Balance at December 31, 2020	$	27,156	5,380	–	1,468	11,677	45,681

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

11. Intangible assets (continued):

Carrying amounts		Customer assets	Patents	Trademarks and brands	Deferred development	Computer software and licenses	Total
At December 31, 2019	$	26,183	1,237	4,763	445	21,579	54,207
At December 31, 2020	$	38,781	1,472	6,068	325	27,500	74,146

Amortization of intangible assets in 2020 of $11,085 (2019 – $7,386), was included in cost of sales.

As at December 31, 2020, the weighted average remaining useful life of customer assets was 8.0 years and the weighted average remaining useful life of computer software and licenses was 5.4 years.

12. Income taxes:

Income tax expense

		2020		2019
Current	$	10,955	$	2,136
Deferred		1,899		4,848
Total	$	12,854	$	6,984

Income tax recognized in other comprehensive loss

		Amount before tax	Tax benefit	2020 Amount net of tax		Amount before tax	Tax expense	2019 Amount net of tax
Defined benefit plans remeasurements loss	$	(10,397)	2,748	(7,649)	$	(7,300)	1,891	(5,409)

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

12. Income taxes (continued):

Reconciliation of effective tax rate

	2020		2020	2019		2019
Net income for the year		$	33,288		$	22,017
Total income tax expense			12,854			6,984
Income before income taxes		$	46,142		$	29,001
Income tax using Pollard's domestic tax rate	27.0%		12,458	27.0%		7,829
Effect of tax rates in foreign jurisdictions	(1.4%)		(641)	(2.2%)		(632)
Non-deductible amounts	0.8%		387	0.7%		198
Non-deductible items relating to acquisitions	0.3%		134	1.1%		329
Other items	0.8%		384	(0.5%)		(162)
Effect of non-taxable items related to foreign exchange	0.3%		132	(2.0%)		(578)
	27.8%	$	12,854	24.1%	$	6,984

Deferred income tax assets and liabilities

Recognized deferred income tax assets and liabilities

Deferred income tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020	2019	2020	2019	2020	2019
Property, plant and equipment	$ –	–	$ (14,360)	(12,375)	$ (14,360)	(12,375)
Intangible assets	1,612	2,253	(6,207)	(5,913)	(4,595)	(3,660)
Inventories	272	228	–	–	272	228
Employee benefits	11,582	9,070	(1,500)	(1,377)	10,082	7,693
Unrealized foreign exchange (gains) and losses	202	487	(564)	(655)	(362)	(168)
Unused tax losses	1,370	994	–	–	1,370	994
Contract liabilities	–	45	(411)	(247)	(411)	(202)
Other	634	301	(100)	(275)	534	26
Tax assets (liabilities)	$ 15,672	13,378	$ (23,142)	(20,842)	$ (7,470)	(7,464)

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

12. Income taxes (continued):

Movement in temporary differences during the year

		January 1, 2020	Recognized in profit or loss	Acquisitions	Recognized in other comprehensive income	Balance December 31, 2020
Property, plant and equipment	$	(12,375)	(1,985)	–	–	(14,360)
Intangible assets		(3,660)	142	(1,076)	–	(4,594)
Inventories		228	44	–	–	272
Employee benefits		7,708	(377)	–	2,748	10,079
Unrealized foreign exchange gains		(183)	(177)	–	–	(360)
Unused tax losses		994	376	–	–	1,370
Contract liabilities		(202)	(209)	–	–	(411)
Other		26	508	–	–	534
Tax assets (liabilities)	$	(7,464)	(1,678)	(1,076)	2,748	(7,470)

		January 1, 2019	Recognized in profit or loss	Acquisitions	Recognized in other comprehensive income	Balance December 31, 2019
Property, plant and equipment	$	(9,296)	(2,942)	(137)	–	(12,375)
Intangible assets		(3,113)	310	(857)	–	(3,660)
Inventories		202	26	–	–	228
Employee benefits		6,182	(365)	–	1,891	7,708
Unrealized foreign exchange (gains) and losses		252	(435)	–	–	(183)
Unused tax losses		2,094	(1,100)	–	–	994
Contract liabilities		57	(259)	–	–	(202)
Other		(135)	161	–	–	26
Tax assets (liabilities)	$	(3,757)	(4,604)	(994)	1,891	(7,464)

Recognized in the consolidated statements of comprehensive income as follows:

		2020		2019
Deferred income tax expense	$	1,899	$	4,848
Finance loss		(221)		(244)
	$	1,678	$	4,604

Amounts included in finance loss relate to unrealized foreign exchange.

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

13. Long-term debt:

		December 31, 2020		December 31, 2019
Credit facility, interest of 1.9% to 4.2%, payable monthly, maturing 2022	$	131,365	$	127,820
Deferred financing charges, net of amortization		(285)		(525)
	$	131,080	$	127,295

		Credit facility	Deferred financing	Equipment debt	Equipment lease	Total
Balance at January 1, 2020	$	127,820	(525)	–	–	127,295
Net proceeds		5,055	–	–	–	5,055
Payment of deferred financing charges		–	(128)	–	–	(128)
Total changes from financing cash flows		5,055	(128)	–	–	4,927
Effect of movements in exchange rates		(1,510)	–	–	–	(1,510)
Amortization of deferred financing charges		–	368	–	–	368
Total other changes		(1,510)	368	–	–	(1,142)
Balance at December 31, 2020	$	131,365	(285)	–	–	131,080

		Credit facility	Deferred financing	Equipment debt	Equipment lease	Total
Balance at January 1, 2019	$	116,177	(421)	4	36	115,796
Net proceeds (payments)		14,361	–	(4)	(36)	14,321
Payment of deferred financing charges		–	(450)	–	–	(450)
Total changes from financing cash flows		14,361	(450)	(4)	(36)	13,871
Effect of movements in exchange rates		(2,718)	–	–	–	(2,718)
Amortization of deferred financing charges		–	346	–	–	346
Total other changes		(2,718)	346	–	–	(2,372)
Balance at December 31, 2019	$	127,820	(525)	–	–	127,295

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

13. Long-term debt (continued):

(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 December 31, 2020, the outstanding letters of guarantee drawn under the credit facility were $712 (2019 – $10,704).

Included in the total credit facility balance is a U.S. dollar denominated balance of US$55,900 (2019 – US$36,400). As of December 31, 2020, Pollard had unused credit facility available of $75,745 (2019 – $69,676).

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.

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

Effective February 28, 2020, Pollard entered into an agreement with EDC to provide a €15,000 facility whereby Pollard can issue qualifying letters of credit against the EDC facility. The facility is guaranteed by a general indemnity from Pollard. As of December 31, 2020, the outstanding letters of credit drawn on this facility were $10,960 (€7,048).

14. Pension liability:

		December 31, 2020		December 31, 2019
Fair value of benefit plan assets	$	77,351	$	65,481
Present value of benefit plan obligations		(113,721)		(92,028)
Net pension liability	$	(36,370)	$	(26,547)

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

14. Pension liability (continued):

Pollard sponsors non-contributory defined benefit plans providing pension benefits to its employees. Pollard has four defined benefit pension plans of which three are final pay plans and one is a flat benefit plan. None of the plans have indexation features. The measurement date for all the plans is December 31. Two of the plans of the U.S. subsidiaries require valuations annually with the last valuations being as of January 1, 2020. One of the Canadian plans of Pollard currently requires valuation every year with the last valuation as of December 31, 2019. Pollard's other Canadian plan's valuation was as of January 1, 2017. Pollard's U.S. subsidiaries also maintain five defined contribution plans. The pension expense for these defined contribution plans is the annual funding contribution by the subsidiaries.

Pollard expects to contribute approximately $4,850 to its defined benefit plans in 2021.

The benefit plan assets are held in trust and are invested as follows:

	December 31, 2020	December 31, 2019
Equities	62.6%	61.0%
Bonds	35.9%	36.6%
Cash and cash equivalents	1.5%	2.4%
	100.0%	100.0%

Information about Pollard's defined benefit plans, in aggregate, is as follows:

	2020	2019
Benefit plan assets		
Fair value, beginning of year	$ 65,481	$ 52,946
Expected return on plan assets	2,137	2,163
Employer contributions	7,309	6,310
Benefits paid	(2,791)	(2,281)
Remeasurement gains	5,460	6,689
Effect of movements in exchange rates	(245)	(346)
Fair value, end of year	$ 77,351	$ 65,481

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

14. Pension liability (continued):

		2020		2019
Accrued benefit plan obligations				
Balance, beginning of year	$	92,028	$	73,303
Current service cost		6,115		4,656
Interest cost		2,878		2,858
Benefits paid		(2,791)		(2,281)
Remeasurement losses		15,743		13,948
Effect of movements in exchange rates		(252)		(456)
Balance, end of year	$	113,721	$	92,028
Net pension liability	$	(36,370)	$	(26,547)

The total net cost for Pollard's defined benefit and defined contribution pension plans recognized in cost of sales is as follows:

		2020		2019
Net defined benefit plans expense				
Current service cost	$	6,115	$	4,656
Interest on plan obligations		2,878		2,858
Actual return on plan assets		(7,597)		(8,852)
Difference between expected return and actual return on plan assets		5,906		7,059
Net defined benefit plans expense		7,302		5,721
Defined contribution plans expense		843		755
Net pension plans expense	$	8,145	$	6,476

Actuarial assumptions

The principal actuarial assumptions used in measuring at the reporting date are as follows:

	2020	2019
Discount rate	2.2% to 3.1%	3.1% to 3.7%
Rate of compensation increase	0% to 3.0%	0% to 3.0%

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

14. Pension liability (continued):

Assumptions regarding future mortality have been based on published statistics and mortality tables. As of December 31, 2020, Pollard used CPM2014 Private Sector projected CPM-B mortality table for its Canadian subsidiary's pension plans and the Pri-2012 mortality tables using scale MP-2020 for its U.S. subsidiary's pension plans. As of December 31, 2019, Pollard used CPM2014 Private Sector projected CPM-B mortality table for its Canadian subsidiary's pension plans and the Pri-2012 mortality tables using scale MP-2019 for its U.S. subsidiary's pension plans.

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts show below:

		Increase		Decrease
Discount rate (1% movement)	$	(21,833)	$	29,460
Rate of compensation (1% movement)	$	3,028	$	(2,815)
Future mortality (one year)	$	1,713	$	(1,722)

Remeasurements

		2020		2019
Remeasurement gains arising on plan assets	$	5,460	$	6,689
Remeasurement losses (gains) arising on plan liabilities from:				
Demographic assumptions	$	(70)	$	(232)
Financial assumptions		13,996		14,240
Experience adjustments		1,817		(60)
Remeasurement losses arising on plan liabilities	$	15,743	$	13,948

Remeasurements recognized in other comprehensive income

		2020		2019
Losses accumulated in retained earnings, beginning of year	$	(22,082)	$	(16,673)
Remeasurement losses recognized during the year, net of income tax		(7,649)		(5,409)
Losses accumulated in retained earnings, end of year	$	(29,731)	$	(22,082)

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

15. Share capital:

	Shares		Amount
Authorized			
Unlimited common shares			
Unlimited preferred shares			
Issued			
Balance at January 1, 2019	25,625,658	$	108,605
Stock option exercise	10,000		37
Balance at December 31, 2019	25,635,658		108,642
Stock option exercises	71,250		365
Balance at December 31, 2020	25,706,908	$	109,007

Ownership restrictions:

The holders of the common shares are entitled to one vote in respect to each common share held, subject to the Board of Directors ability to take constraint actions when a person, or group of persons acting in concert acquires, agrees to acquire, holds, beneficially owns or controls, either directly or indirectly, a number of shares equal to or in excess of 5% of the common shares (on a non-diluted basis) issued and outstanding ("Ownership Threshold"). The Board of Directors, in its sole discretion, can take the following constraint actions:

- place a stop transfer on all or any of the common shares believed to be in excess of the Ownership Threshold;
- suspend all voting and/or dividend rights on all or any of common share held believed to be in excess of the Ownership Threshold;
- apply to a court seeking an injunction to prevent a person from acquiring, holding, owning, controlling and/or directing, directly or indirectly, common shares in excess of the Ownership Threshold; and/or
- make application to the relevant securities commission to effect a cease trading order or such similar restriction, until the person no longer controls common shares equal to or in excess of the Ownership Threshold.

In addition, if a Gaming Regulatory Authority has determined that ownership by a holder of common shares is inconsistent with its declared policies, the Board of Directors is entitled to take constraint action against such shareholder. Any person who controls common shares equal to or in excess of the Ownership Threshold, may be required to file an application, be investigated and have suitability as a shareholder determined by a Gaming Regulatory Authority, if such Gaming Regulatory Authority has reason to believe such ownership would otherwise be inconsistent with its declared policies.

15. Share capital (continued):

The shareholder must pay all the costs of the investigation incurred by any such Gaming Regulatory Authority.

Capital management:

Pollard's objectives in managing capital are to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Pollard also strives to maintain an optimal capital structure to reduce the overall cost of capital.

In the management of capital, Pollard includes long-term debt, share capital and retained earnings, but excludes reserves. The Board of Directors regularly monitors the levels of debt, equity and dividends.

Pollard monitors capital on the basis of funded debt to Adjusted EBITDA, working capital ratio and debt service coverage. Pollard has externally imposed capital requirements as determined through its bank credit facility. As at December 31, 2020, Pollard is in compliance with all financial covenants.

There were no changes in Pollard's approach to capital management during the current period.

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 November 9, 2020, a dividend of $0.04 per share was declared, paid on January 15, 2021, to the shareholders of record on December 31, 2020.

Share based compensation:

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.

Changes in the number of options outstanding during the years ended December 31, 2020, and 2019 were as follows:

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

15. Share Capital (continued):

	2020			2019		
	Number		Weighted average exercise price	Number		Weighted average exercise price
Balance, beginning of year	377,500	$	12.82	237,500	$	7.46
Granted	50,000	$	20.98	150,000	$	20.70
Forfeited	(25,000)	$	20.70	–	$	–
Exercised	(71,250)	$	4.19	(10,000)	$	3.63
Balance, end of year	331,250	$	15.31	377,500	$	12.82

As of December 31, 2020, no share options had expired. Options have been granted on six grant dates, with the exercise price being the common share price on the exercise price determination date. All of the outstanding options have seven year terms, vesting 25% per year over the first four years.

	2020			2019		
Exercise price	Number outstanding	Remaining time to exercise	Number exercisable	Number outstanding	Remaining time to exercise	Number exercisable
$ 3.63	12,500	0.19 years	12,500	77,500	1.19 years	77,500
$ 8.12	25,000	2.76 years	25,000	25,000	3.76 years	18,750
$ 10.00	118,750	3.32 years	93,750	125,000	4.32 years	62,500
$ 20.70	125,000	5.86 years	31,250	150,000	6.86 years	–
$ 18.31	25,000	6.21 years	–	–	–	–
$ 23.65	25,000	6.87 years	–	–	–	–
	331,250		162,500	377,500		158,750

During the year ended December 31, 2020, the following share options were granted:

Option grant date		March 16, 2020		November 12, 2020
Fair value at grant date	$	4.38	$	6.21
Number of options granted		25,000		25,000
Share price	$	18.31	$	23.65
Exercise price	$	18.31	$	23.65
Exercise price determination date		March 13, 2020		November 11, 2020
Expected volatility		32.1%		33.9%
Option life (expected weighted average life)		4.75 years		4.75 years
Risk-free interest rate (based on Canadian government bonds)		0.6% to 0.7%		0.3% to 0.4%

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

15. Share Capital (continued):

The grant date fair value of these options was determined based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility.

16. Commitments and contingencies:

Pollard rents premises and equipment under long-term leases. The following is a schedule of undiscounted lease payment commitments outstanding relating to short-term and low value leases to which Pollard has applied the recognition exemption available under IFRS 16 *Leases*:

2021	$	300
2022		121
2023		112
2024		111
2025 and thereafter		88

Pollard is contingently liable for outstanding letters of guarantee in the amount of $11,672 at December 31, 2020 (2019 – $10,704). These letters of guarantee are secured as disclosed in note 13.

During 2008, Pollard entered into a sale leaseback with an affiliate of Equities for land and building in Council Bluffs, Iowa. The property was sold for $4,081 and leased back for ten years at an annual lease rate of approximately US$260. During 2019, Pollard entered into a new lease. The new lease covers the period from January 2019 to December 2023. The base rental rate is approximately US$375, which is based on the current market value as determined through an independent appraisal.

Also in 2008, Pollard entered into a lease with an affiliate of Equities for a manufacturing facility in Winnipeg, Manitoba. The lease was for a 12 year 6 month period, ending March 31, 2021, at an annual base rate of approximately $2,453. In 2015, Pollard agreed to exercise its renewal clause. The renewal covers the period from April 2021 to September 2023 with an approximate annual lease rate of $2,400, including an annual amortization of a leasehold improvement allowance of approximately $1,000. The total leasehold allowance is $2,500. The base rental rate was based on current market value as determined through an independent appraisal.

During 2011, Pollard entered into a sale leaseback with an affiliate of Equities for land and building in Winnipeg, Manitoba. The property was sold for $3,473 and leased back for five years (with an option to renew its lease for an additional five year term) for annual rent of $313 per year. The rental rate was based on current market value as determined through an independent appraisal. The sale value was determined through an independent appraisal. During 2016, Pollard exercised its option

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

16. Commitments and contingencies (continued):

to renew its lease for an additional five year term for annual rent of $363 per year. The rental rate was based on current market value as determined through an independent appraisal.

Pollard is involved in litigation and claims associated with operations, the aggregate amounts of which are not determinable. While it is not possible to estimate the outcome of the proceedings, management is of the opinion that any resulting settlements would not materially affect the financial position of Pollard. Should a loss occur on resolution of these claims, such loss would be accounted for as a charge to income in the period in which the settlement occurs.

Pollard has agreed to indemnify Pollard's current and former directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain usual limitations. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

17. Revenue and contract balances:

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

Revenue – geographical segment	Year ended December 31, 2020		
	Lotteries and charitable gaming	Diamond Game	Total
Canada	$ 75,219	$ 4,157	$ 79,376
United States	231,971	18,396	250,367
International	84,391	–	84,391
Total	$ 391,581	$ 22,553	$ 414,134

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

17. Revenue and contract balances (continued):

Revenue – geographical segment	Year ended December 31, 2019 (1)		
	Lotteries and charitable gaming	Diamond Game	Total
Canada	$ 71,883	$ 9,879	$ 81,762
United States	216,480	22,113	238,593
International	77,484	–	77,484
Total	$ 365,847	$ 31,992	$ 397,839

Revenue – product lines	Year ended December 31, 2020		
	Lotteries and charitable gaming	Diamond Game	Total
Lottery	$ 348,359	$ –	$ 348,359
Charitable	43,222	–	43,222
Gaming systems	–	22,553	22,553
Total	$ 391,581	$ 22,553	$ 414,134

Revenue – product lines	Year ended December 31, 2019 (1)		
	Lotteries and charitable gaming	Diamond Game	Total
Lottery	$ 309,453	$ –	$ 309,453
Charitable	56,394	–	56,394
Gaming systems	–	31,992	31,992
Total	$ 365,847	$ 31,992	$ 397,839

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

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

Contract balances	December 31, 2020	December 31, 2019
Trade receivables, which are included in accounts receivable	$ 56,376	$ 50,730
Contract assets, which are included in accounts receivable	6,643	3,491
Contract liabilities	379	–

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

17. Revenue and contract balances (continued):

Contract liabilities		Year ended December 31, 2020		Year ended December 31, 2019
Balance, beginning of year	$	–	$	857
Acquisition		388		–
Increases due to cash received		1,872		–
Revenue recognized during the year		(1,886)		(857)
Effect of movement in exchange rates		5		–
Balance, end of year		379		–
Less current portion		(379)		–
	$	–	$	–

18. Other income:

		2020		2019
EBITDA support agreement income	$	(1,000)	$	(2,000)
Canada emergency wage subsidy ("CEWS")		(8,984)		–
Reversal of contingent consideration (note 5)		(2,137)		(192)
Other (income) expenses		(243)		205
	$	(12,364)	$	(1,987)

Canada emergency wage subsidy

Pollard has elected to account for CEWS earned in 2020 within other income on the consolidated statements of income. As a portion of Pollard's labour expenses are capitalized in inventory, the amount recorded within other income is net of an adjustment of $166 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 December 31, 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.

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

19. Finance costs and finance income:

Finance costs		2020		2019
Foreign exchange loss	$	6,083	$	1,129
Interest		4,841		6,415
	$	10,924	$	7,544

Finance income		2020		2019
Foreign exchange gain	$	7,025	$	3,931
	$	7,025	$	3,931

20. Net income per share:

		2020		2019
Net income attributable to shareholders for basic and diluted net income per share	$	33,288	$	22,017
Weighted average number of shares (basic)		25,644,487		25,632,645
Weighted average impact of share options		379,287		252,705
Weighted average number of shares (diluted)		26,023,774		25,885,350
Net income per share (basic)	$	1.30	$	0.86
Net income per share (diluted)	$	1.28	$	0.86

21. Personnel expenses:

		2020		2019
Wages and salaries	$	124,618	$	116,277
Benefits and government payroll remittances		20,147		18,609
Profit share		5,740		2,838
Expenses related to defined contribution plans		992		755
Expenses related to defined benefit plans		7,301		5,721
	$	158,798	$	144,200

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

22. Supplementary cash flow information:

		2020		2019
Change in non-cash operating working capital:				
Accounts receivable	$	(6,558)	$	(21,573)
Inventories		(4,753)		756
Prepaid expenses and deposits		196		(607)
Income taxes		(718)		(742)
Accounts payable and accrued liabilities		869		656
Contract liabilities		(9)		(798)
	$	(10,973)	$	(22,308)

23. Related party transactions:

Pollard Equities Limited and affiliates

During the year ended December 31, 2020, Pollard paid property rent of $3,420 (2019 – $3,238) and $208 (2019 – $436) in plane charter costs to affiliates of Equities.

During the year, Equities paid Pollard $72 (2019 – $72) for accounting and administration fees.

At December 31, 2020, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, expenses and other items of $454 (2019 – $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 December 31, 2020, the net book value of the right-of-use assets was $7,715 (2019 - $10,803) and the present value of the lease liabilities was $7,887 (2019 - $11,787).

Neogames S.A. and affiliates

During the year ended December 31, 2020, Pollard reimbursed operating costs and paid software royalties of $9,627 (2019 – $5,728) 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 $2,027 (2019 – $134) 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 $4,803 (2019 - $2,600) for funds relating to contractual performance guarantees.

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

23. Related party transactions (continued):

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:

		2020		2019
Wages, salaries and benefits	$	3,355	$	3,370
Profit share		48		15
Expenses related to defined benefit plans		790		614
	$	4,193	$	3,999

As at December 31, 2020, key management personnel of Pollard, as a group, beneficially owned or exercised control or direction over 17,473,408 common shares of Pollard.

24. Sales to major customers:

For the year ended December 31, 2020, sales to one customer amounted to 15.9 percent of consolidated sales. In 2019, sales to one customer amounted to 11.2 percent of consolidated sales and 10.1 percent to a second customer.

25. Segmented information:

Pollard has two reportable segments: Lotteries and charitable gaming, and Diamond Game, which are Pollard's strategic business units.

The strategic business units offer different products and services, and are managed separately. For each of the strategic business units, Pollard's Co–CEO's review internal management reports on a monthly basis.

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

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

25. Segmented information (continued):

	Year ended December 31, 2020		
	Lotteries and charitable gaming	Diamond Game	Total
Revenues from external customers	$ 391,581	$ 22,553	$ 414,134
Operating costs and expenses	344,092	23,900	367,992
Earnings (loss) before income taxes	47,489	(1,347)	46,142
Total assets	346,364	58,203	404,567

	Year ended December 31, 2019 (1)		
	Lotteries and charitable gaming	Diamond Game	Total
Revenues from external customers	$ 365,847	$ 31,992	$ 397,839
Operating costs and expenses	341,321	27,517	368,838
Earnings before income taxes	24,526	4,475	29,001
Total assets	290,023	62,242	352,265

(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.

	December 31, 2020	December 31, 2019
Property, plant and equipment and goodwill:		
Canada	$ 74,535	$ 76,774
U.S.	98,580	81,663
U.K.	12,557	3,460
	$ 185,672	$ 161,897

26. Financial instruments:

The fair value of a financial instrument is the estimated amount that Pollard would receive or pay to terminate the instrument agreement at the reporting date.

The following methods and assumptions were used to estimate the fair value of each type of financial instrument by reference to various market value data and other valuation techniques as appropriate.

The fair values of accounts receivable, accounts payable and accrued liabilities and dividends payable approximate their carrying values given their short-term maturities.

26. Financial instruments (continued):

The fair value of the long-term debt approximates the carrying value due to the variable interest rate of the debt.

The fair value of the other non-current liabilities approximates the carrying value based on the expected settlement amount of these liabilities.

Certain financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on the quoted prices observed in active markets for identical assets or liabilities

Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 – valuation techniques with significant unobservable market inputs

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

As at December 31, 2020, the cash and restricted cash recorded at fair value was classified as level one of the fair value hierarchy, and the contingent consideration recorded at fair value was classified as level three of the fair value hierarchy. The fair value of the contingent consideration is calculated as the present value of the expected future payments, discounted using a risk-adjusted discount rate. A change to the expected future payments or discount rate would impact the fair value of the contingent consideration.

27. 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

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

27. Financial risk management (continued):

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:

	December 31, 2020	December 31, 2019
Current	$ 61,355	$ 50,093
Past due for 1 to 60 days	2,913	2,708
Past due for more than 60 days	1,946	4,600
Less: Allowance for losses	(177)	(188)
	$ 66,037	$ 57,213

Pollard has applied the expected credit loss model in evaluating the credit risk associated with its accounts receivable. As part of this analysis, Pollard has grouped its customers into two tranches: government lottery organizations and charitable gaming distribution networks. For sales to government lottery organizations, Pollard has assessed the loss allowance at zero based on the nature of the customer organizations, and no history of losses, collection issues, or significantly overdue receivables, as well as other customer-specific and forward-looking macroeconomic factors. Pollard has performed the same assessment for charitable gaming distribution network customers, resulting in the provision of a loss allowance, as shown in the table above.

Liquidity risk

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

The following table outlines Pollard's maturity analysis of the undiscounted cash flows, including related interest payments, of certain non-current financial liabilities and leases as of December 31, 2020:

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

27. Financial risk management (continued):

		Total	2021	2022	2023	2024	2025 & thereafter
Long-term debt	$	136,601	2,618	133,983	–	–	–
Leases		19,352	6,040	5,396	4,340	1,542	2,034
	$	155,953	8,658	139,379	4,340	1,542	2,034

Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. 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.

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 by approximately $169 for the year ended December 31, 2020 (2019 – $36). 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 $72 for year ended December 31, 2020 (2019 – $81).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. 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 $52,626 (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 $263 for the year ended December 31, 2020 (2019 – $140).

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.

27. Financial risk management (continued):

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At December 31, 2020, and at December 31, 2019, 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 $656 for the year ended December 31, 2020 (2019 – $639).

28. Subsequent events:

(a) Next Generation Lotteries AS

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 €36,000 ($56,500), prior to standard working capital adjustments and certain deferred cash considerations, of which €32,000 ($50,000) was paid at the time of closing and the remaining €4,000 ($6,300) 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 senior credit facilities for approximately €27,400 ($43,000) and the issuance of treasury shares of Pollard Banknote for approximately €4,600 ($7,200).

The acquisition will be accounted for using the acquisition method. The allocation of the purchase price to the identifiable assets and liabilities has not yet been completed.

(b) 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 $34,504.

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

The Board of Directors of Pollard Banknote Limited

Gordon Pollard EXECUTIVE CHAIR
Dave Brown [1]
Jerry Gray [1,2]
Garry Leach [1]
John Pollard
Douglas Pollard

[1] Member of the Audit Committee, Compensation Committee and the Governance and Nominating Committee
[2] Lead Director

Senior Management

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Douglas Pollard
CO-CHIEF EXECUTIVE OFFICER

Steven Fingold
EXECUTIVE VICE PRESIDENT, CHARITABLE GAMING

Paul Franzmann
EXECUTIVE VICE PRESIDENT, CORPORATE DEVELOPMENT

Pedro Melo
EXECUTIVE VICE PRESIDENT, INFORMATION TECHNOLOGY

Margaret Proven
EXECUTIVE VICE PRESIDENT, HUMAN RESOURCES

Riva Richard
GENERAL COUNSEL AND EXECUTIVE VICE PRESIDENT, LEGAL AFFAIRS

Robert Rose
EXECUTIVE VICE PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

Jennifer Westbury
EXECUTIVE VICE PRESIDENT, SALES AND CUSTOMER DEVELOPMENT

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