

Consolidated Financial Statements of

**POLLARD BANKNOTE  
LIMITED**

Years ended December 31, 2021 and 2020



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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, 2021 and December 31, 2020, 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, 2021 and December 31, 2020, 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, 2021. 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 Next Generation Lotteries AS acquisition**

#### **Description of the matter**

We draw attention to Notes 2(d), 3(b), 5(c) to the financial statements. On January 14, 2021, the Entity acquired Next Generation Lotteries AS (NGL) for total consideration of \$48,745 thousand, which is net of cash acquired and debt assumed.



The Entity recorded technology and game library in connection with the NGL transaction (collectively, the “intangible assets”). The acquisition date fair value for the NGL intangible assets was \$25,637 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 NGL 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 NGL’s historical actual results. We also considered the Entity’s revenue synergies and cost savings after integration of NGL with Pollard.

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, 2021 was \$108,175 thousand related to the Lotteries, Charitable gaming, eGaming systems 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 2021".

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 2021" 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 Austin Abas.

Winnipeg, Canada

March 9, 2022

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

	December 31, 2021	December 31, 2020
<b>Assets</b>		
Current assets		
Cash	\$ 3,517	\$ 1,888
Restricted cash	19,237	19,058
Accounts receivable	73,351	65,208
Inventories (note 6)	45,008	46,620
Prepaid expenses and deposits	7,576	6,707
Income tax receivable	4,477	338
<b>Total current assets</b>	<b>153,166</b>	<b>139,819</b>
Non-current assets		
Long-term receivables	584	829
Property, plant and equipment (note 7)	104,590	96,396
Equity investment (note 9)	585	881
Goodwill (note 10)	108,175	89,276
Intangible assets (note 11)	94,305	74,146
Deferred income taxes (note 12)	-	3,220
<b>Total non-current assets</b>	<b>308,239</b>	<b>264,748</b>
<b>Total assets</b>	<b>\$ 461,405</b>	<b>\$ 404,567</b>

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

	December 31, 2021	December 31, 2020
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 81,306	\$ 59,433
Dividends payable	1,077	1,028
Income taxes payable	194	4,941
Current portion lease liabilities (note 8)	6,151	5,109
Contract liabilities (note 17)	2,242	379
<b>Total current liabilities</b>	<b>90,970</b>	<b>70,890</b>
Non-current liabilities		
Lease liabilities (note 8)	10,419	11,832
Deferred income taxes (note 12)	11,112	10,690
Long-term debt (note 13)	115,130	131,080
Other non-current liabilities	4,276	1,322
Pension liability (note 14)	22,541	36,370
<b>Total non-current liabilities</b>	<b>163,478</b>	<b>191,294</b>
Shareholders' equity		
Share capital (note 15)	149,849	109,007
Reserves	(1,579)	2,563
Retained earnings	58,687	30,813
<b>Total shareholders' equity</b>	<b>206,957</b>	<b>142,383</b>
Commitments and contingencies (note 16)		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 461,405</b>	<b>\$ 404,567</b>

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

	2021	2020
Sales (note 17)	\$ 459,014	\$ 414,134
Cost of sales	367,912	323,089
Gross profit	91,102	91,045
Administration	47,214	40,311
Selling	17,538	14,644
Equity investment income (note 9)	(12,336)	(1,587)
Other (income) expenses (note 18)	5,169	(12,364)
Income from operations	33,517	50,041
Finance costs (note 19)	7,234	10,924
Finance income (note 19)	(832)	(7,025)
Income before income taxes	27,115	46,142
Income taxes (note 12)		
Current	14,247	10,955
Deferred (reduction)	(6,833)	1,899
	7,414	12,854
Net income	\$ 19,701	\$ 33,288
Net income per share (basic) (note 20)	\$ 0.74	\$ 1.30
Net income per share (diluted) (note 20)	\$ 0.73	\$ 1.28

See accompanying notes to consolidated financial statements.

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

Years ended December 31

	2021	2020
Net income	\$ 19,701	\$ 33,288
Other comprehensive income (loss):		
Items that are or may be reclassified to profit and loss		
Foreign currency translation differences – foreign operations	(4,142)	(3,142)
Items that will never be reclassified to profit and loss		
Defined benefit plans remeasurements, net of income tax (note 12 & note 14)	12,111	(7,649)
Other comprehensive income (loss)	7,969	(10,791)
Comprehensive income	\$ 27,670	\$ 22,497

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, 2021

		<b>Share capital</b>	<b>Translation reserve</b>	<b>Retained earnings</b>	<b>Total equity</b>
Balance at December 31, 2020	\$	109,007	2,563	30,813	142,383
Net income		–	–	19,701	19,701
Other comprehensive income (loss)					
Foreign currency translation differences – foreign operations		–	(4,142)	–	(4,142)
Defined benefit plans remeasurements, net of income tax (note 12 & note 14)		–	–	12,111	12,111
<b>Total other comprehensive income (loss)</b>	<b>\$</b>	<b>–</b>	<b>(4,142)</b>	<b>12,111</b>	<b>7,969</b>
<b>Total comprehensive income (loss)</b>	<b>\$</b>	<b>–</b>	<b>(4,142)</b>	<b>31,812</b>	<b>27,670</b>
Issue of common shares (note 15)	\$	32,844	–	(81)	32,763
Issue of common shares related to acquisition of Next Generation Lotteries AS (note 5)		7,998	–	–	7,998
Share based compensation		–	–	449	449
Dividends (note 15)		–	–	(4,306)	(4,306)
<b>Balance at December 31, 2021</b>	<b>\$</b>	<b>149,849</b>	<b>(1,579)</b>	<b>58,687</b>	<b>206,957</b>

Year ended December 31, 2020

		<b>Share capital</b>	<b>Translation reserve</b>	<b>Retained earnings</b>	<b>Total equity</b>
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)
<b>Total other comprehensive loss</b>	<b>\$</b>	<b>–</b>	<b>(3,142)</b>	<b>(7,649)</b>	<b>(10,791)</b>
<b>Total comprehensive income (loss)</b>	<b>\$</b>	<b>–</b>	<b>(3,142)</b>	<b>25,639</b>	<b>22,497</b>
Issue of common shares (note 15)	\$	365	–	(67)	298
Share based compensation		–	–	409	409
Dividends		–	–	(4,105)	(4,105)
<b>Balance at December 31, 2020</b>	<b>\$</b>	<b>109,007</b>	<b>2,563</b>	<b>30,813</b>	<b>142,383</b>

See accompanying notes to consolidated financial statements.

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

Years ended December 31

	2021	2020
Cash increase (decrease)		
Operating activities		
Net income	\$ 19,701	\$ 33,288
Adjustments		
Income taxes	7,414	12,854
Amortization and depreciation	39,554	31,467
Interest expense	4,980	4,841
Unrealized foreign exchange (gain) loss	251	(1,894)
Equity investment income (note 9)	(12,336)	(1,587)
Pension expense (note 14)	9,947	8,145
Contingent consideration adjustment (note 18)	9,550	(2,137)
Interest paid	(3,539)	(4,713)
Income tax paid	(21,068)	(1,053)
Pension contribution	(7,189)	(8,587)
Change in non-cash operating working capital (note 22)	9,272	(10,973)
	56,537	59,651
Investing activities		
Additions to property, plant and equipment (note 7)	(22,226)	(12,957)
Acquisition of mkodo Limited (note 5)	-	(15,349)
Acquisition of Compliant Gaming, LLC (note 5)	(289)	(24,349)
Acquisition of Next Generation Lotteries AS (note 5)	(38,083)	-
Charitable gaming asset purchase	-	(4,895)
Equity distribution (note 9)	12,613	1,860
Additions to intangible assets (note 11)	(12,604)	(5,978)
	(60,589)	(61,668)
Financing activities		
Proceeds from issue of share capital	32,763	298
Net borrowings (repayments) of long-term debt (note 13)	(15,350)	5,055
Change in other non-current liabilities	90	32
Lease principal payments	(6,227)	(5,098)
Deferred financing charges paid (note 13)	(650)	(128)
Dividends paid	(4,257)	(4,102)
	6,369	(3,943)
Foreign exchange gain (loss) on cash held in foreign currency	(688)	400
Change in cash position	1,629	(5,560)
Cash position, beginning of year	1,888	7,448
Cash position, end of year	\$ 3,517	\$ 1,888

See accompanying notes to consolidated financial statements.

# Pollard Banknote Limited

## Notes to Consolidated Financial Statements

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

*Years ended December 31, 2021 and 2020*

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### **1. Reporting entity:**

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

The consolidated financial statements of Pollard as at and for the year ended December 31, 2021, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and charitable gaming products and solutions.

The controlling entity of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owned approximately 64.3% of Pollard's outstanding shares as at December 31, 2021.

The operations of Next Generation Lotteries AS ("NGL"), acquired during the first quarter of 2021, are included in the consolidated financial statements from January 14, 2021. Further details are provided in note 5.

### **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 9, 2022, 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.

Certain comparative figures for the prior period have been reclassified to conform to the presentation adopted in the current period.

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
*(In thousands of Canadian dollars, except for share amounts)*

*Years ended December 31, 2021 and 2020*

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

(c) COVID-19:

In March 2020, the World Health Organization declared a global pandemic known as COVID-19. Our charitable and Diamond Game businesses were negatively impacted with a large reduction in sales in the second quarter of 2020 with the temporary closure of many retail outlets; however, these sales rebounded to pre-COVID levels in the third quarter of 2020 with the re-opening of retail outlets. In the later part of the fourth quarter of 2020, a number of jurisdictions reenacted temporary retail closures, reducing our revenues again. Many of these jurisdictions re-opened in early 2021, with consumer demand once again returning strongly, to levels much higher than pre-pandemic, which have continued to date. In addition, Pollard's main lottery products and services have shown significant resilience with strong retail sales growth throughout the pandemic in many jurisdictions, including the U.S., generating substantial cash flows from operating activities through the years ended December 31, 2020 and December 31, 2021. 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 continue to follow at a minimum their applicable provincial/state and local public health authority measures and guidance. 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. Our supply chains, while remaining functional, are facing pressure and we are seeing inflationary price increases on our instant ticket inputs. We are also experiencing staffing challenges in areas within our organization. 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, encouragement of obtaining vaccines 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.

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
*(In thousands of Canadian dollars, except for share amounts)*

*Years ended December 31, 2021 and 2020*

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

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:

***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.

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
*(In thousands of Canadian dollars, except for share amounts)*

*Years ended December 31, 2021 and 2020*

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

*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 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, 2021	December 31, 2020
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	100
Compliant Gaming, LLC	100	100
Next Generation Lotteries AS	100	–
Next Generation Lotteries GmbH	100	–

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



**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
*(In thousands of Canadian dollars, except for share amounts)*

*Years ended December 31, 2021 and 2020*

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**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.

Pollard performs a concentration test to clarify whether a transaction results in an asset or a business acquisition. 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.

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
*(In thousands of Canadian dollars, except for share amounts)*

*Years ended December 31, 2021 and 2020*

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**3. Significant accounting policies (continued):**

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 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.

Pollard applies bill and hold sales accounting when products are held on behalf of customers provided all of the following conditions are met as of the reporting date: a) there is a substantive reason for the arrangement, b) the goods are separately identified as belonging to the customer, c) Pollard is no longer able to use the goods or direct the goods to another customer, and d) the goods are currently ready for physical transfer to the customer.

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.

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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**3. Significant accounting policies (continued):**

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, 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.

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**Notes to Consolidated Financial Statements (continued)**  
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**3. Significant accounting policies (continued):**

*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.

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

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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. Pollard expects to maintain these assets indefinitely and therefore finite useful lives cannot be determined. For purposes of impairment testing, the fair value of the trademarks, trade names and brands are tested for impairment on an annual basis.

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**3. Significant accounting policies (continued):**

(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.

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
Furniture, fixtures and computers	3 to 9 years

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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.

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**Notes to Consolidated Financial Statements (continued)**  
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**3. Significant accounting policies (continued):**

(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 50% share of the income and expenses and equity movements of the entity accounted for under the equity method of accounting.

(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 50% share of any assets held jointly; its liabilities, including its 50% share of any liabilities incurred jointly and its 50% 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 or FVTPL.

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

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**Notes to Consolidated Financial Statements (continued)**  
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**3. Significant accounting policies (continued):**

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.

A financial liability is classified as measured at FVTPL if it is classified as held-for-trading, a derivative, contingent consideration or it is designated as such on initial recognition.

All financial liabilities not measured at FVTPL are classified as measured at amortized cost.

*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.

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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**3. Significant accounting policies (continued):**

(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.

*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.



**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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**3. Significant accounting policies (continued):**

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.

(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.

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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**3. Significant accounting policies (continued):**

(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. Further details are provided in note 15.

*Deferred director compensation*

Deferred director compensation is comprised of cash-settled share-based payments. Deferred Share Units ("DSU") are granted to eligible directors at the fair value of the common shares at the grant date. The DSUs earn notional dividends, equivalent to actual dividends declared on Pollard's shares. Right to payment of the outstanding DSUs is deferred until termination, retirement or death. The liability associated with the DSUs is recalculated at each reporting date and at settlement. Any change in the fair value of the liability is recognized as an expense within administration expenses in the consolidated statements of income.

*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

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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**3. Significant accounting policies (continued):**

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.

(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.

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**Notes to Consolidated Financial Statements (continued)**  
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**3. Significant accounting policies (continued):**

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.

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.

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**Notes to Consolidated Financial Statements (continued)**  
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**3. Significant accounting policies (continued):**

(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.

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.

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**Notes to Consolidated Financial Statements (continued)**  
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**3. Significant accounting policies (continued):**

- (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 of a liability for at least twelve months to be unconditional. The 2020 amendments also clarify how a company classifies a liability that includes a counterparty conversion option. The amendments are effective for annual periods beginning on or after January 1, 2024. Pollard is currently assessing the impact of the amendment on the 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 does not expect the amendments to have a significant impact on the consolidated financial statements upon adoption.

- (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 does not expect the amendments to have a significant impact on the consolidated financial statements upon adoption.

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**Notes to Consolidated Financial Statements (continued)**  
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**4. Future accounting standards (continued):**

- (d) Amendments to IAS 1 and IFRS Practice Statement 2 – disclosure initiative – accounting policies:

In February 2021, the IASB issued *Disclosure Initiative – Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements)*. The amendments help companies provide useful accounting policy disclosures. The key amendments include requiring companies to disclose their material accounting policies rather than significant accounting policies, clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements. The amendments are effective for annual periods beginning on or after January 1, 2023. Pollard is currently assessing the impact of the amendment on the consolidated financial statements.

- (e) Amendments to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction:

In May 2021, the IASB issued *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*. The amendments narrow the scope of the initial recognition exemption ("IRE") so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision. The amendments are effective for annual periods beginning on or after January 1, 2023. Pollard is currently assessing the impact of the amendment on the consolidated financial statements.

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**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
<b>Total consideration</b>	<b>\$</b>	<b>17,447</b>
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)
<b>Net tangible assets acquired (excluding cash acquired and debt assumed)</b>	<b>\$</b>	<b>1,311</b>
Customer relationships	\$	4,670
Technology		2,064
Brand		1,393
<b>Identifiable intangible assets acquired</b>	<b>\$</b>	<b>8,127</b>
<b>Goodwill acquired</b>	<b>\$</b>	<b>8,009</b>

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 deductible for tax purposes.

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 was unlimited. Pollard reassessed progress towards achievement of these EBITDA targets as at December 31, 2020, and December 31, 2021, and determined that they have not been achieved. As such, Pollard has not accrued any amounts relating to this contingent consideration liability in 2020 or 2021.

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



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**Notes to Consolidated Financial Statements (continued)**  
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**5. Acquisitions (continued):**

(b) Compliant Gaming, LLC:

On December 30, 2020, Pollard acquired 100% of the equity of Compliant 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.

Cash paid	\$	24,349
Final working capital payment		289
Contingent consideration		5,249
<b>Total consideration</b>	<b>\$</b>	<b>29,887</b>
Accounts receivable	\$	46
Prepaid expenses and deposits		44
Property, plant and equipment		453
Accounts payable and accrued liabilities		(155)
Contract liabilities		(110)
<b>Net tangible assets acquired</b>	<b>\$</b>	<b>278</b>
Customer relationships	\$	13,137
Game library		2,907
Software		1,398
<b>Identifiable intangible assets acquired</b>	<b>\$</b>	<b>17,442</b>
<b>Goodwill acquired</b>	<b>\$</b>	<b>12,167</b>

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.

During the measurement period, the closing working capital amount was finalized. Adjustments to the purchase price and purchase price allocation were required, resulting in a \$289 increase in cash paid, a \$10 increase in contingent consideration, a \$53 increase in the customer relationships and a \$246 increase to goodwill.

Acquisition costs related to the Compliant purchase in the year ended December 31, 2021, were \$61 (2020 – \$124). These costs were included in administration expenses.

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**Notes to Consolidated Financial Statements (continued)**  
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*Years ended December 31, 2021 and 2020*

**5. Acquisitions (continued):**

Contingent consideration, based on achievement of certain earnings before interest, income 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 over two twelve-month periods. The potential payment under the earn-out is unlimited. During the year ended December 31, 2021, Pollard reassessed Compliant's progress towards achievement of the EBITDA targets, which resulted in an adjustment to increase the fair value of the liability by \$9,550. This increase is due to Compliant achieving stronger EBITDA during the earn-out period relative to original expectations. Pollard has also recorded accretion expense of \$1,543 during 2021 on this contingent consideration.

As at December 31, 2021, Pollard has accrued \$12,421 within current liabilities and \$3,921 within non-current liabilities relating to the contingent consideration.

The acquisition accounting was finalized during the fourth quarter of 2021.

(c) Next Generation Lotteries AS:

On January 14, 2021, Pollard acquired 100% of the equity of Next Generation Lotteries AS ("NGL"), a leading provider of lottery management and iLottery technology. 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 January 14, 2021, the acquisition date.

Cash paid, net of cash acquired of \$9,015 and debt assumed of \$2,382	\$	38,083
Purchase price payable		2,664
Issuance of common shares		7,998
<b>Total consideration</b>	<b>\$</b>	<b>48,745</b>
Accounts receivable	\$	6,145
Inventories		1,096
Prepaid expenses and deposits		896
Property, plant and equipment		5,116
Income tax receivable		1,119
Deferred tax liability		(6,460)
Accounts payable and accrued liabilities		(3,342)
Lease liabilities		(1,835)
<b>Net tangible assets acquired</b>	<b>\$</b>	<b>2,735</b>
Technology	\$	22,653
Game library		2,984
<b>Identifiable intangible assets acquired</b>	<b>\$</b>	<b>25,637</b>
<b>Goodwill acquired</b>	<b>\$</b>	<b>20,373</b>

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**Notes to Consolidated Financial Statements (continued)**  
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**5. Acquisitions (continued):**

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

During the measurement period, new information became available regarding the existence and valuation of certain receivables, prepaid expenses, right of use assets and lease liabilities, the valuation of share consideration and the ability to utilize the future tax recoverable recognized as at the acquisition date. Adjustments to the preliminary purchase price allocation were required, resulting in a \$544 increase to the cash paid, a \$846 increase to the value of the common shares issued, a \$545 increase in accounts receivable, a \$106 decrease in prepaid expenses, a \$1,835 increase in property, plant and equipment, a \$735 increase in deferred tax liability, a \$1,835 increase in lease liabilities and a \$1,686 increase to goodwill.

During the measurement period, the closing working capital amount was finalized. Adjustments to the purchase price and purchase price allocation were required, resulting in a \$8 increase in cash paid, a \$1 increase in accounts receivable and a \$7 increase to goodwill.

Acquisition costs related to the NGL purchase in the year ended December 31, 2021, were \$898. These costs were included in administration expenses.

If NGL had been acquired on January 1, 2021, incremental revenue of \$405 and net loss of \$658, after depreciation and amortization of the fair values of identifiable net assets acquired, would have been recognized in the year ended December 31, 2021.

Included in the purchase agreement is the opportunity for contingent consideration, based on achievement of certain contribution margin targets during 2021. The maximum amount of contingent consideration payable is \$5,880 (€4,000). As at December 31, 2021, Pollard has not accrued any amounts relating to this contingent consideration as the contribution margin targets are currently not expected to be met.

The acquisition accounting was finalized during the fourth quarter of 2021.

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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*Years ended December 31, 2021 and 2020*

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**6. Inventories:**

	December 31, 2021	December 31, 2020
Raw materials	\$ 21,678	\$ 16,756
Work-in-process	2,270	2,209
Finished goods	21,060	27,655
	<u>\$ 45,008</u>	<u>\$ 46,620</u>

During 2021, Pollard recorded inventory write-downs of \$656 representing an increase in the obsolescence reserves and write-downs of \$23 due to changes in foreign exchange rates.

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.

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

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**Notes to Consolidated Financial Statements (continued)**  
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**7. Property, plant and equipment:**

Cost	Land	Buildings	Leasehold improvements	Equipment	Furniture, fixtures and computers	Assets in progress & spare parts	Total
Balance at January 1, 2020	\$ 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
Acquisitions (note 5)	–	1,474	–	2,930	712	–	5,116
Additions/net transfers	–	4,783	57	14,120	839	6,720	26,519
Disposals	–	(547)	–	(1,614)	(20)	–	(2,181)
Effect of movements in exchange rates	(3)	(280)	(11)	(271)	(75)	(6)	(646)
Balance at December 31, 2021	\$ 2,129	51,800	6,296	213,937	10,372	16,944	301,478

Accumulated depreciation	Land	Buildings	Leasehold improvements	Equipment	Furniture, fixtures and computers	Assets in progress & spare parts	Total
Balance at January 1, 2020	\$ –	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
Depreciation for the year	–	6,845	476	14,842	705	–	22,868
Disposals	–	(503)	–	(1,614)	(17)	–	(2,134)
Effect of movements in exchange rates	–	(40)	(7)	(64)	(9)	–	(120)
Balance at December 31, 2021	\$ –	22,766	3,761	164,274	6,087	–	196,888

Carrying amounts	Land	Buildings	Leasehold improvements	Equipment	Furniture, fixture and computers	Assets in progress & spare parts	Total
At December 31, 2020	\$ 2,132	29,906	2,958	47,662	3,508	10,230	96,396
At December 31, 2021	\$ 2,129	29,034	2,535	49,663	4,285	16,944	104,590

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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*Years ended December 31, 2021 and 2020*

**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 consolidated statement of financial position. The following tables present continuity schedules of Pollard's right-of-use assets by asset class:

		Buildings	Equipment	Furniture, fixtures and computers	Total
Balance at January 1, 2020	\$	15,232	142	215	15,589
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
Acquisitions (note 5)		1,225	610	–	1,835
Additions		4,245	–	–	4,245
Depreciation		(5,910)	(522)	–	(6,432)
Effect of movements in exchange rates		(179)	(28)	–	(207)
Balance at December 31, 2021	\$	15,490	238	–	15,728

Pollard's total cash outflows, principal and interest relating to its lease obligations classified under IFRS 16 *Leases* for the year ended December 31, 2021 were \$6,792 (2020 – \$5,752).

Pollard's interest expenses incurred relating to its lease obligations classified under IFRS 16 *Leases* for the year ended December 31, 2021 were \$565 (2020 – \$654).

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

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2021 and 2020

**8. Leases (continued):**

2022	\$	6,559
2023		5,402
2024		2,395
2025		1,795
2026 and thereafter		1,186
Total undiscounted cash flows	\$	17,337
Discounting		(767)
Total discounted cash flows	\$	16,570
Less: current portion lease liabilities		(6,151)
Lease liabilities	\$	10,419

**9. Equity investment:**

*NeoPollard Interactive, LLC ("NPI")*

Pollard, in conjunction with NeoGames U.S., LLP, operates NPI. The entity was established to provide iLottery services in the United States and Canada, excluding the State of Michigan.

	December 31, 2021		December 31, 2020	
Interest in joint venture				
Balance, beginning of year	\$	881	\$	1,161
Investment distribution		(12,613)		(1,860)
Equity income		12,336		1,587
Effects of movements in exchange rates		(19)		(7)
Balance, end of year	\$	585	\$	881

	December 31, 2021		December 31, 2020	
Current assets	\$	29,435	\$	15,098
Non-current assets		1,932		2,268
Total	\$	31,367	\$	17,366
Current liabilities	\$	29,835	\$	15,279
Non-current liabilities		362		325
Total	\$	30,197	\$	15,604
Net assets – 100%	\$	1,170	\$	1,762
Attributable to Pollard – 50%	\$	585	\$	881

At December 31, 2021, included in the current assets of NPI is restricted cash relating to amounts held on behalf of iLottery customers of \$11,512 (2020 – \$7,200). There is an offsetting liability included in current liabilities.

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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Years ended December 31, 2021 and 2020

**9. Equity investment (continued):**

		2021		2020
Revenue – 100%	\$	80,395	\$	25,214
Revenue – attributable to Pollard – 50%	\$	40,198	\$	12,607
Comprehensive income – 100%	\$	22,196	\$	619
<b>Comprehensive income – attributable to Pollard<sup>(1)</sup></b>	<b>\$</b>	<b>12,336</b>	<b>\$</b>	<b>1,587</b>

(1) Comprehensive income attributable to Pollard is greater than 50% due to services provided to NPi by Pollard. Pollard's share of these transactions is eliminated upon consolidation.

*Michigan iLottery*

Pollard and NeoGames U.S., LLP 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 50% share of any assets held jointly, its liabilities, including its 50% share of any liabilities incurred jointly and its 50% share of revenue and expenses.

**10. Goodwill:**

		December 31, 2021		December 31, 2020
Balance, beginning of year	\$	89,276	\$	69,993
Acquisition of mkodo (note 5)		–		8,009
Acquisition of Compliant (note 5)		246		11,921
Acquisition of NGL (note 5)		20,373		–
Effects of movements in exchange rates		(1,720)		(647)
<b>Balance, end of year</b>	<b>\$</b>	<b>108,175</b>	<b>\$</b>	<b>89,276</b>

**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, 2021		December 31, 2020
Lotteries <sup>(1)</sup>	\$	57,802	\$	38,921
Charitable gaming		12,581		12,630
eGaming systems <sup>(2)</sup>		26,741		26,601
Retail		11,051		11,124
<b>Total</b>	<b>\$</b>	<b>108,175</b>	<b>\$</b>	<b>89,276</b>

(1) NGL was added to the Lotteries CGU upon acquisition on January 14, 2021.

(2) Compliant was added to the eGaming systems CGU upon acquisition on December 30, 2020.



**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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**10. Goodwill (continued):**

For each acquisition an assessment is performed to determine if the acquired entity should be its own CGU or become part of an existing CGU.

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.

*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%
eGaming systems	21.0%
Retail	14.7%

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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Years ended December 31, 2021 and 2020

**10. Goodwill (continued):**

*Growth rates*

Growth rates are based on estimated sustainable long-term growth rates of the CGUs and groups of CGUs. A terminal value growth rate 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.

**11. Intangible assets:**

Cost	Customer assets	Patents	Trademarks and brands	Deferred development	Computer software and licenses	Total
Balance at January 1, 2020	\$ 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
Acquisitions (note 5)	53	–	–	–	25,637	25,690
Additions (net of investment tax credits)	–	128	17	–	36	181
Additions – internally developed (net of investment tax credits)	–	–	–	–	12,423	12,423
Disposals	–	–	(446)	–	–	(446)
Effect of movements in exchange rates	(299)	(10)	(42)	–	(2,056)	(2,407)
Balance at December 31, 2021	\$ 65,691	6,970	5,597	1,793	75,217	155,268

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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Years ended December 31, 2021 and 2020

**11. Intangible assets (continued):**

Accumulated amortization	Customer assets	Patents	Trademarks and brands	Deferred development	Computer software and licenses	Total
Balance at January 1, 2020	\$ 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
Amortization for the year	6,027	177	–	120	9,045	15,369
Effect of movements in exchange rates	(21)	(1)	–	–	(65)	(87)
Balance at December 31, 2021	\$ 33,162	5,556	–	1,588	20,657	60,963

Carrying amounts	Customer assets	Patents	Trademarks and brands	Deferred development	Computer software and licenses	Total
At December 31, 2020	\$ 38,781	1,472	6,068	325	27,500	74,146
At December 31, 2021	\$ 32,529	1,414	5,597	205	54,560	94,305

Amortization of intangible assets in 2021 of \$15,369 (2020 – \$11,085), was included in cost of sales.

As at December 31, 2021, the weighted average remaining useful life of customer assets was 7.2 years and the weighted average remaining useful life of computer software and licenses was 6.0 years.

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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Years ended December 31, 2021 and 2020

**12. Income taxes:**

**Income tax expense**

	2021		2020	
Current	\$	14,247	\$	10,955
Deferred (reduction)		(6,833)		1,899
<b>Total</b>	<b>\$</b>	<b>7,414</b>	<b>\$</b>	<b>12,854</b>

**Income tax recognized in other comprehensive income (loss)**

	Amount before tax	Tax expense	2021 Amount net of tax	Amount before tax	Tax benefit	2020 Amount net of tax
Defined benefit plans remeasurements gain (loss)	\$ 16,580	(4,469)	12,111	\$ (10,283)	2,634	(7,649)

**Reconciliation of effective tax rate**

	2021	2021	2020	2020
Net income for the year		\$ 19,701		\$ 33,288
Total income tax expense		7,414		12,854
Income before income taxes		\$ 27,115		\$ 46,142
Income tax using Pollard's domestic tax rate	27.0%	7,321	27.0%	12,458
Effect of tax rates in foreign jurisdictions	(3.8%)	(1,041)	(1.4%)	(641)
Non-deductible amounts	1.1%	295	0.8%	387
Non-deductible items relating to acquisitions	0.9%	249	0.3%	134
Other items	1.2%	313	0.8%	384
Effect of non-taxable items related to foreign exchange	1.0%	277	0.3%	132
	27.4%	\$ 7,414	27.8%	\$ 12,854

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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Years ended December 31, 2021 and 2020

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

**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	
	2021	2020	2021	2020	2021	2020
Property, plant and equipment	\$ –	–	\$ (14,935)	(14,360)	\$ (14,935)	(14,360)
Intangible assets	3,826	1,613	(10,794)	(6,207)	(6,968)	(4,594)
Inventories	466	272	–	–	466	272
Employee benefits	7,411	11,579	(780)	(1,500)	6,631	10,079
Unrealized foreign exchange (gains) and losses	108	204	(488)	(564)	(380)	(360)
Unused tax losses	3,696	1,370	–	–	3,696	1,370
Contract liabilities	–	–	(270)	(411)	(270)	(411)
Other	698	634	(50)	(100)	648	534
<b>Tax assets (liabilities)</b>	<b>\$ 16,205</b>	<b>15,672</b>	<b>\$ (27,317)</b>	<b>(23,142)</b>	<b>\$ (11,112)</b>	<b>(7,470)</b>

*Movement in temporary differences during the year*

	January 1, 2021	Recognized in net income (loss)	Acquisitions	Recognized in other comprehensive loss	Balance December 31, 2021
Property, plant and equipment	\$ (14,360)	(575)	–	–	(14,935)
Intangible assets	(4,594)	3,665	(6,039)	–	(6,968)
Inventories	272	194	–	–	466
Employee benefits	10,079	1,021	–	(4,469)	6,631
Unrealized foreign exchange gains	(360)	(20)	–	–	(380)
Unused tax losses	1,370	2,326	–	–	3,696
Contract liabilities	(411)	141	–	–	(270)
Other	534	114	–	–	648
<b>Tax assets (liabilities)</b>	<b>\$ (7,470)</b>	<b>6,866</b>	<b>(6,039)</b>	<b>(4,469)</b>	<b>(11,112)</b>

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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**12. Income taxes (continued):**

	January 1, 2020	Recognized in net income (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	(263)	–	2,634	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
<b>Tax assets (liabilities)</b>	<b>\$ (7,464)</b>	<b>(1,564)</b>	<b>(1,076)</b>	<b>2,634</b>	<b>(7,470)</b>

*Recognized in the consolidated statements of comprehensive income (loss) as follows:*

	2021	2020
Deferred (reduction)	\$ (6,833)	\$ 1,899
Finance income	(33)	(335)
	<b>\$ (6,866)</b>	<b>\$ 1,564</b>

Amounts included in finance income relate to unrealized foreign exchange.

As at December 31, 2021, Pollard had \$96,184 in unused tax losses for which no deferred tax asset has been recognized, arising from the acquisition of NGL.

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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Years ended December 31, 2021 and 2020

**13. Long-term debt:**

	December 31, 2021	December 31, 2020
Credit facility, interest of 1.6% to 2.7%, payable monthly, maturing 2025	\$ 115,804	\$ 131,365
Deferred financing charges, net of amortization	(674)	(285)
	<u>\$ 115,130</u>	<u>\$ 131,080</u>

	Credit facility	Deferred financing	Total
Balance at January 1, 2021	\$ 131,365	(285)	131,080
Net payments	(15,350)	–	(15,350)
Payment of deferred financing charges	–	(650)	(650)
Total changes from financing cash flows	(15,350)	(650)	(16,000)
Effect of movements in exchange rates	(211)	–	(211)
Amortization of deferred financing charges	–	261	261
Total other changes	(211)	261	(50)
Balance at December 31, 2021	<u>\$ 115,804</u>	<u>(674)</u>	<u>115,130</u>

	Credit facility	Deferred financing	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	<u>\$ 131,365</u>	<u>(285)</u>	<u>131,080</u>

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
*(In thousands of Canadian dollars, except for share amounts)*

*Years ended December 31, 2021 and 2020*

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**13. Long-term debt (continued):**

(a) Credit facility:

Effective December 31, 2021, Pollard renewed its credit facility. The credit facility provides loans of up to \$215,000 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 \$50,000. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of \$215,000 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, 2021, the outstanding letters of guarantee drawn under the credit facility were \$126 (2020 – \$712).

Included in the total credit facility balance is a U.S. dollar denominated balance of US\$35,400 (2020 – US\$55,900). As of December 31, 2021, Pollard had unused credit facility available of \$116,822 (2020 – \$75,745).

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, 2021, 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 four-year period, renewable December 31, 2025. 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, 2021, the outstanding letters of credit drawn on this facility were \$10,526 (€7,315).

**14. Pension liability:**

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	December 31, 2021	December 31, 2020
Fair value of benefit plan assets	\$ 88,324	\$ 77,351
Present value of benefit plan obligations	(110,865)	(113,721)
Net pension liability	\$ (22,541)	\$ (36,370)

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**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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**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, 2021. One of the Canadian plans of Pollard currently requires valuation every year with the last valuation as of December 31, 2020. Pollard's other Canadian plan's valuation was as of January 1, 2021. Pollard's subsidiaries also maintain three defined contribution plans. The pension expense for these defined contribution plans is the annual funding contribution by the subsidiaries.

Pollard expects to contribute approximately \$5,219 to its defined benefit plans in 2022.

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

	December 31, 2021	December 31, 2020
Equities	67.5%	62.6%
Bonds	30.1%	35.9%
Cash and cash equivalents	2.4%	1.5%
	100.0%	100.0%

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

	2021	2020
<i>Benefit plan assets</i>		
Fair value, beginning of year	\$ 77,351	\$ 65,481
Expected return on plan assets	1,978	2,137
Employer contributions	5,650	7,309
Benefits paid	(4,037)	(2,791)
Remeasurement gains	7,404	5,460
Effect of movements in exchange rates	(22)	(245)
Fair value, end of year	\$ 88,324	\$ 77,351

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
*(In thousands of Canadian dollars, except for share amounts)*

Years ended December 31, 2021 and 2020

**14. Pension liability (continued):**

	2021	2020
<i>Accrued benefit plan obligations</i>		
Balance, beginning of year	\$ 113,721	\$ 92,028
Current service cost	7,563	6,115
Interest cost	2,837	2,878
Benefits paid	(4,037)	(2,791)
Remeasurement (gains) losses	(9,176)	15,743
Effect of movements in exchange rates	(43)	(252)
Balance, end of year	\$ 110,865	\$ 113,721
Net pension liability	\$ (22,541)	\$ (36,370)

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

	2021	2020
<i>Net defined benefit plans expense</i>		
Current service cost	\$ 7,563	\$ 6,115
Interest on plan obligations	2,837	2,878
Actual return on plan assets	(9,382)	(7,597)
Difference between expected return and actual return on plan assets	7,975	5,906
Net defined benefit plans expense	8,993	7,302
Defined contribution plans expense	954	843
Net pension plans expense	\$ 9,947	\$ 8,145

**Actuarial assumptions**

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

	2021	2020
Discount rate	2.6% to 3.1%	2.2% to 3.1%
Rate of compensation increase	0% to 3.0%	0% to 3.0%

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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Years ended December 31, 2021 and 2020

**14. Pension liability (continued):**

Assumptions regarding future mortality have been based on published statistics and mortality tables. As of December 31, 2021, 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-2021 for its U.S. subsidiary's pension plans. 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.

**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)	\$	(18,519)	\$	27,575
Rate of compensation (1% movement)	\$	2,959	\$	(2,736)
Future mortality (one year)	\$	1,604	\$	(1,613)

**Remeasurements**

		2021		2020
Remeasurement gains arising on plan assets	\$	7,404	\$	5,460
Remeasurement gains (losses) arising on plan liabilities from:				
Demographic assumptions	\$	(247)	\$	70
Financial assumptions		11,515		(13,996)
Experience adjustments		(2,092)		(1,817)
Remeasurement gains (losses) arising on plan liabilities	\$	9,176	\$	(15,743)
Net remeasurement gains (losses) on defined benefit plans	\$	16,580	\$	(10,283)

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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**14. Pension liability (continued):**

**Remeasurements recognized in other comprehensive income**

	2021	2020
Losses accumulated in retained earnings, beginning of year	\$ (29,731)	\$ (22,082)
Remeasurement gain (loss) recognized during the year, net of income tax	12,111	(7,649)
<b>Losses accumulated in retained earnings, end of year</b>	<b>\$ (17,620)</b>	<b>\$ (29,731)</b>

**15. Share capital:**

	Shares	Amount
Authorized		
Unlimited common shares		
Unlimited preferred shares		
Issued		
Balance at January 1, 2020	25,635,658	\$ 108,642
Stock option exercise	71,250	365
Balance at December 31, 2020	25,706,908	109,007
Issue of common shares	933,800	32,405
Acquisition of NGL (note 5)	233,211	7,998
Stock option exercises	43,750	439
<b>Balance at December 31, 2021</b>	<b>26,917,669</b>	<b>\$ 149,849</b>

*Issue of common shares:*

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 Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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*Years ended December 31, 2021 and 2020*

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**15. Share capital (continued):**

*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 10, 2021, a dividend of \$0.04 per share was declared, paid on January 14, 2022, to the shareholders of record on December 31, 2021.

*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.

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

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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Years ended December 31, 2021 and 2020

**15. Share capital (continued):**

*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, 2021, Pollard is in compliance with all financial covenants.

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

*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, 2021, and 2020 were as follows:

	2021		2020	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance, beginning of year	331,250	\$ 15.31	377,500	\$ 12.82
Granted	25,000	\$ 61.13	50,000	\$ 20.98
Forfeited	—	\$ —	(25,000)	\$ 20.70
Exercised	(43,750)	\$ 8.18	(71,250)	\$ 4.19
Balance, end of year	312,500	\$ 19.98	331,250	\$ 15.31

As of December 31, 2021, no share options had expired. Options have been granted on seven 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.

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
*(In thousands of Canadian dollars, except for share amounts)*

Years ended December 31, 2021 and 2020

**15. Share capital (continued):**

Exercise price	Number outstanding	2021		2020		
		Remaining time to exercise	Number exercisable	Number outstanding	Remaining time to exercise	Number exercisable
\$ 3.63	–	–	–	12,500	0.19 years	12,500
\$ 8.12	25,000	1.76 years	25,000	25,000	2.76 years	25,000
\$ 10.00	87,500	2.32 years	87,500	118,750	3.32 years	93,750
\$ 20.70	125,000	4.86 years	62,500	125,000	5.86 years	31,250
\$ 18.31	25,000	5.21 years	6,250	25,000	6.21 years	–
\$ 23.65	25,000	5.87 years	6,250	25,000	6.87 years	–
\$ 61.13	25,000	6.42 years	–	–	–	–
	312,500		187,500	331,250		162,500

During the year ended December 31, 2021, the following share options were granted:

Option grant date	May 31, 2021
Fair value at grant date	\$ 18.98
Number of options granted	25,000
Share price	\$ 61.13
Exercise price	\$ 61.13
Exercise price determination date	May 28, 2021
Expected volatility	37.7%
Option life (expected weighted average life)	4.75 years
Risk-free interest rate (based on Canadian government bonds)	0.7% to 0.9%

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*:

2022	\$	348
2023		75
2024		73
2025		38
2026 and thereafter		10

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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Years ended December 31, 2021 and 2020

**16. Commitments and contingencies (continued):**

Pollard is contingently liable for outstanding letters of guarantee in the amount of \$10,652 at December 31, 2021 (2020 – \$11,672). These letters of guarantee are secured as disclosed in note 13.

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, 2021			
	Lotteries and charitable gaming		eGaming systems	Total
Canada	\$ 81,143	\$	3,275	\$ 84,418
United States	238,464		34,520	272,984
International	101,612		–	101,612
<b>Total</b>	<b>\$ 421,219</b>	<b>\$</b>	<b>37,795</b>	<b>\$ 459,014</b>

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



**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
*(In thousands of Canadian dollars, except for share amounts)*

Years ended December 31, 2021 and 2020

**17. Revenue and contract balances (continued):**

Revenue – product lines	Year ended December 31, 2021			
		Lotteries and charitable gaming	eGaming systems	Total
Lottery	\$	361,881	\$ –	\$ 361,881
Charitable		59,338	–	59,338
eGaming systems		–	37,795	37,795
<b>Total</b>	<b>\$</b>	<b>421,219</b>	<b>\$ 37,795</b>	<b>\$ 459,014</b>

Revenue – product lines	Year ended December 31, 2020			
		Lotteries and charitable gaming	eGaming systems	Total
Lottery	\$	348,359	\$ –	\$ 348,359
Charitable		43,222	–	43,222
eGaming systems		–	22,553	22,553
<b>Total</b>	<b>\$</b>	<b>391,581</b>	<b>\$ 22,553</b>	<b>\$ 414,134</b>

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

Contract balances	December 31, 2021	December 31, 2020
Trade receivables, which are included in accounts receivable and long-term receivables	\$ 64,552	\$ 56,376
Contract assets, which are included in accounts receivable	4,467	6,643
Contract liabilities	2,242	379

Contract liabilities	Year ended December 31, 2021	Year ended December 31, 2020
Balance, beginning of year	\$ 379	\$ –
Acquisition	–	388
Increases due to cash received	5,738	1,872
Revenue recognized during the year	(3,869)	(1,886)
Effect of movement in exchange rates	(6)	5
<b>Balance, end of year</b>	<b>2,242</b>	<b>379</b>
<b>Less: current portion</b>	<b>(2,242)</b>	<b>(379)</b>
	<b>\$ –</b>	<b>\$ –</b>

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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*Years ended December 31, 2021 and 2020*

**18. Other (income) expenses:**

	2021		2020	
Canada emergency wage subsidy ("CEWS")	\$	(5,425)	\$	(8,984)
EBITDA support agreement income		–		(1,000)
Litigation settlement		2,520		–
Contingent consideration fair value adjustment (note 5)		9,550		(2,137)
Insurance proceeds (net)		(952)		–
Other income		(524)		(243)
	\$	5,169	\$	(12,364)

*Canada emergency wage subsidy*

Pollard has elected to account for CEWS earned 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 \$nil (2020 – \$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, 2021.

*Litigation Settlement*

On June 15, 2021, Pollard entered into an agreement for a one-time payment of \$2,520 to settle all aspects of a litigation related to a patent dispute relating to Pollard's instant ticket production.

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

Finance costs		2021		2020	
Foreign exchange loss	\$	2,254	\$	6,083	
Interest		4,980		4,841	
	\$	7,234	\$	10,924	
Finance income		2021		2020	
Foreign exchange gain	\$	832	\$	7,025	
	\$	832	\$	7,025	

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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*Years ended December 31, 2021 and 2020*

**20. Net income per share:**

	2021		2020	
Net income attributable to shareholders for basic and diluted net income per share	\$	19,701	\$	33,288
Weighted average number of shares (basic)		26,743,919		25,644,487
Weighted average impact of share options		313,696		379,287
<b>Weighted average number of shares (diluted)</b>		<b>27,057,615</b>		<b>26,023,774</b>
Net income per share (basic)	\$	0.74	\$	1.30
Net income per share (diluted)	\$	0.73	\$	1.28

**21. Personnel expenses:**

	2021		2020	
Wages and salaries	\$	140,548	\$	124,618
Benefits and government payroll remittances		23,974		20,295
Profit share		5,202		5,740
Deferred director compensation		43		–
Expenses related to defined contribution plans		954		843
Expenses related to defined benefit plans		8,993		7,302
	\$	<b>179,714</b>	\$	<b>158,798</b>

**22. Supplementary cash flow information:**

	2021		2020	
Change in non-cash operating working capital:				
Accounts receivable	\$	(1,351)	\$	(6,558)
Inventories		2,628		(4,753)
Prepaid expenses and deposits		(474)		196
Income taxes		(914)		(718)
Accounts payable and accrued liabilities		7,509		869
Contract liabilities		1,874		(9)
	\$	<b>9,272</b>	\$	<b>(10,973)</b>

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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**23. Related party transactions:**

*Pollard Equities Limited and affiliates*

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 was 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 for an additional five year term, which was exercised in 2016. The sale value was determined through an independent appraisal. During 2021, Pollard entered into a new lease for the same property for a five year term (with an option to renew for an additional five year term) for annual rent of \$404 per year. The rental rates charged were based on current market value at the time of the leases and extension, as determined through an independent appraisal.

During the year ended December 31, 2021, Pollard paid property rent of \$3,326 (2020 – \$3,420) and \$139 (2020 – \$208) in plane charter costs to affiliates of Equities.

During the year, Equities paid Pollard \$72 (2020 – \$72) for accounting and administration fees.

At December 31, 2021, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, expenses and other items of \$nil (2020 – \$454).

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, 2021, the net book value of the right-of-use assets was \$6,601 (2020 - \$7,715) and the present value of the lease liabilities was \$6,770 (2020 - \$7,887).

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
*(In thousands of Canadian dollars, except for share amounts)*

*Years ended December 31, 2021 and 2020*

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**23. Related party transactions (continued):**

*NeoGames U.S., LLP and affiliates*

During the year ended December 31, 2021, Pollard reimbursed its share of operating costs and paid software royalties of \$13,368 (2020 – \$9,627) to its iLottery partner, which are recorded in cost of sales.

At December 31, 2021, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of \$2,176 (2020 – \$2,027) for its share of profits and reimbursement of operating costs, net of capital investments.

At December 31, 2021, included in restricted cash and accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of \$4,784 (2020 - \$4,803) for funds relating to contractual performance guarantees.

*Key management personnel*

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

Key management personnel compensation comprised:

		2021		2020
Wages, salaries and benefits	\$	4,315	\$	3,403
Deferred director compensation		43		–
Expenses related to defined benefit plans		869		790
	\$	5,227	\$	4,193

As at December 31, 2021, key management personnel of Pollard, as a group, beneficially owned or exercised control or direction over 17,456,038 common shares of Pollard.

**24. Sales to major customers:**

For the year ended December 31, 2021, sales to one customer amounted to 13.5 percent of consolidated sales. In 2020, sales to one customer amounted to 15.9 percent of consolidated sales.

**Pollard Banknote Limited**  
**Notes to Consolidated Financial Statements (continued)**  
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Years ended December 31, 2021 and 2020

**25. Segmented information:**

Pollard has two reportable segments: Lotteries and charitable gaming, and eGaming systems 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 eGaming systems segment derives its revenues from the development of game systems.

	Year ended December 31, 2021		
	Lotteries and charitable gaming	eGaming systems <sup>(1)</sup>	Total
Revenues from external customers	\$ 421,219	\$ 37,795	\$ 459,014
Operating costs and expenses	392,661	39,238	431,899
Income (loss) before income taxes	28,558	(1,443)	27,115
Total assets	390,411	70,994	461,405

(1) Included in the results of eGaming systems are adjustments to increase the fair value and recognize accretion expense on the contingent consideration liability recognized upon acquisition of Compliant Gaming, LLC, resulting in an increase in operating costs and a decrease in income before income taxes of \$11,093.

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

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**25. Segmented information (continued):**

	December 31, 2021	December 31, 2020
Property, plant and equipment, intangibles and goodwill:		
Canada	\$ 93,935	\$ 89,155
United States	140,802	146,584
International	72,333	24,079
	<u>\$ 307,070</u>	<u>\$ 259,818</u>

**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.

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

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**26. Financial instruments (continued):**

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, 2021, 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

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, 2021	December 31, 2020
Current	\$ 67,766	\$ 62,184
Past due for 1 to 60 days	4,127	2,913
Past due for more than 60 days	2,452	1,117
Less: allowance for losses	(410)	(177)
	\$ 73,935	\$ 66,037
Less: long-term receivables	(584)	(829)
	\$ 73,351	\$ 65,208



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**27. Financial risk management (continued):**

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, 2021:

		Total	2022	2023	2024	2025	2026 & thereafter
Long-term debt	\$	124,212	2,102	2,102	2,102	117,906	–
Leases		17,881	6,907	5,477	2,468	1,833	1,196
	\$	142,093	9,009	7,579	4,570	119,739	1,196

Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The 2022 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.

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**27. Financial risk management (continued):**

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 \$111 for the year ended December 31, 2021 (2020 – \$169). 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 \$57 for year ended December 31, 2021 (2020 – \$72).

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, 2021, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately \$28,965 (2020 – \$52,626).

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 \$145 for the year ended December 31, 2021 (2020 – \$263).

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

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At December 31, 2021, and at December 31, 2020, Pollard had no outstanding foreign currency contracts.

*Interest rate risk*

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

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately \$579 for the year ended December 31, 2021 (2020 – \$656).