Pollard banknote limited

2021 ANNUAL REPORT

CONTENTS

LETTER TO SHAREHOLDERS

Enclosed please find our 2021 Annual Report. In 2021 Pollard Banknote achieved record revenue of $459.0 million, a 10.8% increase over 2020. Net income of $19.7 million was attained, down 40.8% from the prior year primarily due to a number of non-operational IFRS accounting charges. Our Adjusted EBITDA(1) increased to a record level of $84.0 million, 4.2% higher than 2020. Cash flow from operating activities prior to change in non-cash working capital remained strong generating $47.3 million.

COVID-19

2021 continued to feel the effects of the COVID-19 pandemic in all aspects of our lives. We are extremely proud of and thankful for how our Pollard team members responded to the challenges of the second year of the pandemic while continuing to provide the highest level of service and support to our customers around the world. Our focus throughout the year remained on the health and protection of our work-place including utilizing wide-ranging safety protocols such as extensive use of remote workplace policies, onsite health checks including daily temperature screening, mandatory social distancing and use of masks, restrictions of visitors and extensive communication. Many of these protocols are no longer required as we enter 2022 and while cautiously optimistic, we remain vigilant as we go forward.

Sales

Our 2021 sales achieved a record level of $459.0 million, reflecting very strong underlying demand for many of our product lines in addition to the positive impact or our acquisition strategy. Our Combined(1) sales, including our share of revenue from our 50% joint venture operation NeoPollard Interactive LLC, reached $499.2 million, an amount that doubled in the past 5 years.

Our charitable gaming and Diamond Game operations rebounded strongly from 2020. The majority of the retail establishments where these products are sold were closed for long periods in 2020, however for much of 2021 the reverse was true, with most retail locations opened. There were some exceptions in certain jurisdictions and some restrictions were still in place during the year, however retail sales venues were mostly open.

Consumer demand for charitable gaming products reached new record levels in 2021, generating very strong levels of revenue for Pollard. Our charitable sales reached $59.3 million, up 37% from the pandemic reduced revenue in 2020. We continue to see this strong demand in the early part of 2022 and we expect this trend to carry on.

(1) See Non-GAAP measures for explanation

In addition to growing demand for traditional printed products such as pull-tabs and bingo paper, there is a growing trend for increased deployment of electronic based charitable gaming products such as our Diamond Game and Compliant branded eGaming systems. Total eGaming systems revenue attained record levels of $37.8 million in 2021 reflecting a return to pre-pandemic revenue levels in our traditional Diamond Game product lines and the additional impact of our acquisition of Compliant Gaming, whose tablet based gaming system utilized in retail social settings such as bars and restaurants has experienced dramatic growth since we acquired the business.

Our iLottery operations, managed through our 50% owned joint venture NeoPollard Interactive LLC, started out 2021 similarly to the end of 2020, with unprecedented levels of revenue driven by the run up of two very large jackpots in U.S. draw based games during the fourth quarter of 2020 and first quarter of 2021. The ending of the record double jackpot run in January of 2021, combined with increased iGaming competition in Michigan, resulted in overall lower revenue from our Michigan iLottery contract through the rest of the year. However, continued growth in our other iLottery contracts including the first full year of expanded product offerings in both Virginia and Alberta more than offset the lower sales in Michigan. Combined[(1)] iLottery sales, including our share of our joint venture revenue, was $66.8 million in 2021, up 45% from $46.1 million in 2020, reflecting strong organic growth from our existing five iLottery contracts. No major new iLottery opportunities became available in 2021 but we are actively working to help additional lottery organizations to get approval to introduce this important source of funds in 2022 and 2023.

Income before profit sharing and taxes generated from iLottery has increased in 2021, achieving $22.9 million in the year, up from $20.1 million in 2020. Our iLottery business continues to be the market leader in North America, with five of the most successful contracts operating through our 50% owned joint venture.

Consumer demand for instant tickets at retail grew significantly throughout 2020 and we saw continued growth during 2021, particularly in North America. While not as sharp an increase as was witnessed in the earlier part of the pandemic, retail sales were consistently higher than the already elevated levels from 2020, underlining the continued strong demand for instant tickets and an important factor in ultimately increasing our sales.

Our overall instant ticket production volumes increased approximately 3% in 2021 and could have been higher if not for limitations of capacity on our production lines. The trend to higher price point retail tickets help us to increase our average selling price, a very important metric, through strong demand for our premium products and options such as Scratch FX®, pouched products and play features such as accompanying digital games. Premium products do allow us to improve our margins and establish important recurring sales product for our lottery customers.

Throughout 2022 so far we are continuing to see very strong demand for our products which has led us to expand capacity on one of our instant ticket production lines by fully staffing the number of shifts available. This is coming on stream in the first quarter of 2022 and our additional capacity has been scheduled with increased orders from existing lottery clients.

Within our instant ticket contract portfolio, we were successful with a number of key contract awards including receiving a ten-year extension of the primary supply contract with the Ontario Lottery and Gaming Corporation and winning the primary instant ticket supply contract with the Idaho Lottery. New contracts were re-won or extensions of existing contracts were awarded with many of our important lottery customers including Maryland, Iowa, Michigan, and the lotteries of Finland and Poland, to name a few. We have a number of our important contracts under long term commitment and after consideration of available extensions, do not have any significant contracts expiring in 2022.

An important factor of being partner of choice for the lottery industry is ensuring a complete portfolio of ancillary products and solutions is available to drive their success. We continued to enjoy revenue success in such areas as licensed games, including retro arcade themed games such as Tetris® and PAC-MAN®. In addition, we have expanded our development revenue with mobile apps and user interfaces with a number of important lotteries, and our retail merchandising offering from our newly branded Schafer Retail Solutions+ is providing innovative ticket distribution solutions in venues never before accessed by the lottery market.

Operations

In 2021 we achieved a gross margin of $91.1 million, similar to the amount earned in 2020. Higher gross margin from improved charitable gaming and eGaming system sales was offset by lower revenue in the higher margin iLottery operations, margin compression on the instant ticket product line and the impact of lower margins due to the acquisition of Next Generation Lotteries AS. Our gross margin percentage of 19.8% was lower than our 2020 gross margin of 22.0% due to the reasons noted.

During the latter half of 2021 our instant ticket production lines were impacted negatively by supply chain issues including delayed shipments and access to our direct material inputs as well as increased challenges in staffing to meet the demand. In addition, we experienced significant inflationary price increases in our key inputs for instant ticket production including higher costs on paper, ink and other supplies. As a result, we experienced meaningful margin compression in our instant ticket business over the last two quarters of 2021. While we anticipate inflationary input price pressures continuing in 2022, we have a number of initiatives underway to help mitigate the financial impact including increasing our capacity to produce greater volume, internal cost reviews and continued emphasis on improving average selling prices through focus on innovation and bidding higher prices during the contract renewal process.

Our administration and selling expenses increased when compared to 2020. Last years these costs were lower due to the impact of COVID-19 which reduced a number of expenditures including travel and conference related costs. Administration expenses were $47.2 million, $6.9 million higher than the reduced 2020 amounts primarily due to expenditures related to our acquisition of NGL and additional investments in resources to develop our digital solutions. Similarly, our selling expenses increased $2.9 million from 2020 reflecting the addition of NGL and higher compensation costs.

Acquisitions

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

NGL is a full solution supplier to the lottery industry, with a small base of contracts and a very strong retail lotto system and iLottery platform. Our focus in 2021 and for the upcoming year has been upgrading the platform and game library to ensure it is state of the art and meets all current expectations of the lottery industry.

And just prior to the start of 2021, on December 30, 2020, Pollard acquired 100% of the equity of Compliant Gaming LLC ("Compliant") for consideration of US$19.0 million ($24.3 million) prior to standard working capital adjustments and potential earn-out payments based on certain EBITDA targets. The purchase of Compliant further bolstered Pollard's leading presence in the charitable gaming market by providing a new solution offering for our existing portfolio, as Compliant's portable, tablet-based electronic pull-tab product is a strong complement to the Diamond Game kiosk-based technology. Since the closing of the acquisition, Compliant has undergone successful integration with our Diamond Game operations and worked very closely with our charitable gaming marketing team. The result has been extremely strong sales and profitable growth in year one, significantly exceeding our expectations.

Capital

Our capital allocation process remains very conservative, with an emphasis on ongoing decision making to maximize return on capital while maintain a low debt level. Our operations continued to produce significant operating cash, generating $47.3 million, before capital expenditures and drawdowns in working capital. Our capital expenditures totaled $22.2 million, up significantly from the COVID-19 pandemic impacted 2020. Key investments were made across a number of businesses including updates to some of our production lines and the addition of a new innovative digital instant ticket press. We also made significant investments in our intangible asset portfolio of $12.6 million, focusing on improvements to our iLottery platform technology and expanded focus on development of exciting game content across a number of our gaming platforms. In 2022 we will continue to invest in our underlying production capacity for both our instant ticket and printed charitable gaming products to help address the ongoing strong demand in both product lines.

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

Conclusion

2022 presents us with significant opportunities to grow our business and improve our financial results. All of our product lines are experiencing extremely high demand with no indications these trends will change. Instant tickets, charitable gaming products, eGaming systems and iLottery operations are all faced with very strong demand from our clients as well as the ultimate retail consumers. However there are a number of challenges to overcome including pressure on supply chains, limited ticket production capacity in the short term and significant inflationary price increases on a number of our key inputs. We are confident that we will be able to manage these challenges and take advantage of the great opportunities during 2022.

From a small general printer a few decades ago, Pollard has now grown to an international success with half a billion dollars in revenue and over 2,100 employees. More importantly, we continue to be viewed as the partner of choice in the lottery and charitable gaming industries, a term that we are both humbled by and proud to be associated with. 2021 continued to test all of us as the second year of the pandemic stretched us as both family members and Pollard employees. We are very proud of the people we call team members and honoured to work alongside them.

We would also like to acknowledge the other stakeholders in our extended Pollard family including: our customers, lottery and charitable organizations from around the world whose role in generating funds for good causes has never been more important; our suppliers who, despite the continuing challenges facing supply chains across all sectors of the economy, are working hard to provide us the necessary inputs; our shareholders who continue to support us and provide encouragement to build a successful company; and of course our Board of Directors, who are always there to provide counsel, advice and leadership in our quest for excellence.

On March 4, 2021, Garry Leach resigned from our Board of Directors due to health reasons. Garry had been a Director for our organization for 13 years and has played an integral role in helping us attain the success Pollard has achieved over these years. We would like to thank Garry for all of his wisdom and leadership he has provided to the Board of Directors, management and the entire team at Pollard.

To all of you, thank you very much for your support, and we are looking forward to the opportunities ahead of us in 2022.

Douglas Pollard
Co-Chief Executive Officer

John Pollard
Co-Chief Executive Officer

March 31, 2022

DIRECTORS OF POLLARD BANKNOTE LIMITED

Gordon Pollard

Executive Chair

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

Dave Brown

Dave Brown is an Executive Vice-President of Richardson Financial Group Limited and a Managing Director of RBM Capital Limited (a private investment firm). Previously, he was Chief Executive Officer of Richardson Capital Limited, the private equity arm of James Richardson & Sons, Limited, the Corporate Secretary of James Richardson & Sons, Limited, and a partner in the independent law and accounting firm of Gray & Brown. He also serves as Independent Chair of the Board of Directors of Boyd Group Services Inc. and as a Director of RF Capital Group Inc. He has served various Manitoba charities including acting as director of the Misericordia Hospital and Pavilion Gallery Museum Inc. and as Co-chair of Major Donors for the Children's Hospital Foundation Capital Campaign. He graduated from the University of Manitoba law school and is a Chartered Professional Accountant.

Lee Meagher

Lee Meagher is a Founding Director of CAPWER Inc. In 1997, she founded and served as the Chief Executive Officer of Scootaround Inc, an international mobility services company, until it was sold in 2018. She remained Chair of the North American operations until September 2020. Mrs. Meagher is the past Chair of the St Boniface Hospital Research Foundation and currently serves on the Board of Directors of Cancer Care Manitoba Foundation and the Pan Am Clinic Foundation. She has a B.A. from the University of Manitoba.

Douglas Pollard

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

John Pollard

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

POLLARD banknote limited

December 31, 2021

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

FOR THE YEAR ENDED DECEMBER 31, 2021

March 9, 2022

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the year ended December 31, 2021, is prepared as at March 9, 2022, and should be read in conjunction with the accompanying audited financial statements of Pollard and the notes therein as at December 31, 2021. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("GAAP" or "IFRS").

Forward-Looking Statements

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

Use of Non-GAAP Financial Measures

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

Reference to "Combined sales" is to sales recognized under GAAP plus Pollard's 50% proportionate share of NeoPollard Interactive LLC's ("NPi") sales, its iLottery joint venture operation. Reference to "Combined iLottery sales" is to sales recognized under GAAP for Pollard's 50% proportionate share of its Michigan Lottery joint iLottery operation plus Pollard's 50% proportionate share of NeoPollard Interactive LLC's ("NPi") sales, its iLottery joint venture operation.

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

Basis of Presentation

The results of operations in the following discussions encompass the consolidated results of Pollard for the years ended December 31, 2021 and 2020. All figures are in millions except for per share amounts.

POLLARD BANKNOTE LIMITED

Overview

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

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

Pollard's lottery products are sold extensively throughout Canada, the United States and the rest of the world, wherever applicable laws and regulations authorize their use. Pollard serves over 60 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 200 independent distributors with the majority of revenue generated from repeat business.

Acquisitions

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

On January 14, 2021, Pollard completed the acquisition of Next Generation Lotteries AS ("NGL"). On December 31, 2020, Pollard signed a definitive agreement to acquire 100% of the equity of NGL for a purchase price of €36.0 million ($56.5 million), prior to standard working capital adjustments and certain deferred cash considerations, of which €4.0 million ($6.3 million) will be paid upon the achievement of certain gross margin targets in 2021. The purchase price was funded from existing Pollard cash resources and availability under the existing credit facilities, and the issuance of treasury shares of Pollard for approximately €4.6 million ($8.0 million).

Share offering

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

COVID-19

In March 2020, the World Health Organization declared a global pandemic known as COVID-19. Our charitable and Diamond Game 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 this MD&A, 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 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.

Product line breakdown of revenue

	Year ended December 31, 2021	Year ended December 31, 2020
Lottery [(1)] [(3)]	78.9%	84.1%
Charitable	12.9%	10.4%
eGaming systems [(2)]	8.2%	5.5%

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

(2) Includes Compliant Gaming, LLC ("Compliant") which was acquired on December 30, 2020.

(3) Includes Next Generation Lotteries AS ("NGL") which was acquired on January 14, 2021.

Geographic breakdown of revenue

	Year ended December 31, 2021	Year ended December 31, 2020
United States	60%	61%
Canada	18%	19%
International	22%	20%

The following financial information should be read in conjunction with the accompanying financial statements of Pollard and the notes therein as at and for the year ended December 31, 2021.

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

	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2019
Sales	**$459.0**	$414.1	$397.8
Cost of sales	**367.9**	323.1	306.7
Gross profit	**91.1**	91.0	91.1
Gross profit as a % of sales	***19.8%***	*22.0%*	*22.9%*
Administration expenses	**47.2**	40.3	40.6
Administration expenses as a % of sales	***10.3%***	*9.7%*	*10.2%*
Selling expenses	**17.5**	14.6	15.9
Selling expenses as a % of sales	***3.8%***	*3.5%*	*4.0%*
NPi equity investment (income) loss	**(12.3)**	(1.6)	4.0
NPi equity investment (income) loss as a % of sales	***(2.7%)***	*(0.4%)*	*1.0%*
Other (income) expenses	**5.2**	(12.3)	(2.0)
Other (income) expenses as a % of sales	***1.1%***	*(3.0%)*	*(0.5%)*
Unrealized foreign exchange (gain) loss	**0.3**	(1.9)	(3.3)
Unrealized foreign exchange (gain) loss as a % of sales	***0.1%***	*(0.5%)*	*(0.8%)*
Net income	**19.7**	33.3	22.0
Net income as a % of sales	***4.3%***	*8.0%*	*5.5%*
Adjusted EBITDA	**84.0**	80.6	60.2
Adjusted EBITDA as a % of sales	***18.3%***	*19.5%*	*15.1%*
Net income per share (basic)	**$0.74**	$1.30	$0.86
Net income per share (diluted)	**$0.73**	$1.28	$0.86

	December 31, 2021	December 31, 2020	December 31, 2019
Total Assets	**$461.4**	$404.6	$352.3
Total Non-Current Liabilities	**$163.5**	$191.3	$175.6

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA
(millions of dollars)

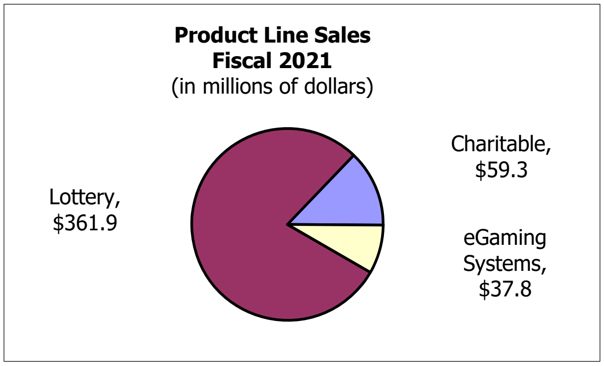
	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2019
Net income	**$19.7**	$33.3	$22.0
Adjustments:			
Amortization and depreciation	**39.5**	31.5	27.1
Interest	**5.0**	4.8	6.4
Income taxes	**7.4**	12.8	7.0
EBITDA	**71.6**	82.4	62.5
Unrealized foreign exchange (gain) loss	**0.3**	(1.9)	(3.3)
Acquisition costs	**1.0**	2.2	1.2
Contingent consideration fair value adjustment	**9.6**	(2.1)	(0.2)
Litigation settlement cost	**2.5**	0.0	0.0
Insurance proceeds (net)	**(1.0)**	0.0	0.0
Adjusted EBITDA	**$84.0**	$80.6	$60.2
Lotteries and charitable gaming	**$64.3**	$74.2	$48.0
eGaming systems	**19.7**	6.4	12.2
Adjusted EBITDA	**$84.0**	$80.6	$60.2

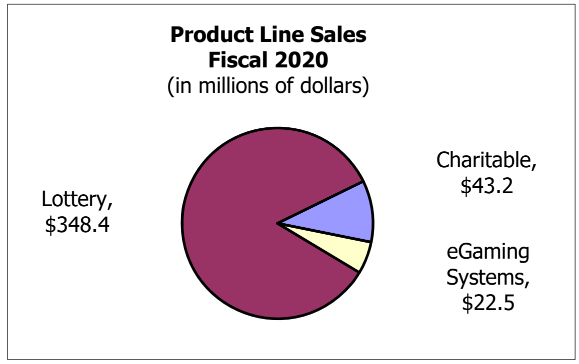
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2021

Sales



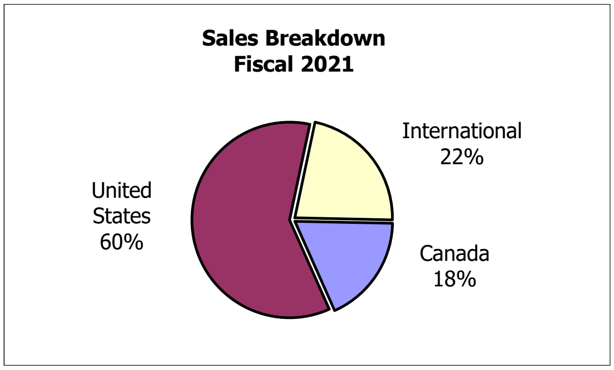


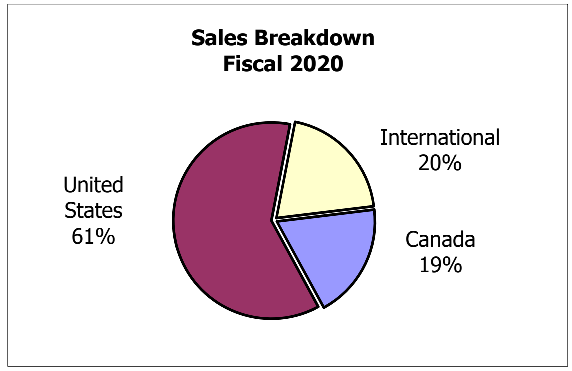
During the year ended December 31, 2021 ("Fiscal 2021" or "2021"), Pollard achieved sales of $459.0 million, compared to $414.1 million in the year ended December 31, 2020 ("Fiscal 2020" or "2020"). Factors impacting the $44.9 million sales increase were:

For the majority of 2021, most retail establishments where our charitable gaming products are sold were open, and Pollard's sales of pull-tab tickets and related products reached record highs. The growth in charitable gaming volumes increased sales by $17.6 million in 2021, as compared to 2020 when many retail establishments were closed for periods of time in response to the onset of COVID-19. eGaming systems revenue increased $17.6 million as compared to 2020 as a result of the acquisition of Compliant and having more retail establishments open in 2021, including the re-opening of bingo halls in Ontario in the third quarter of 2021. In addition, the higher average selling price of charitable games in 2021 further increased sales by $2.5 million.

Higher sales of ancillary lottery products and services increased revenue by $21.6 million in 2021. This growth was largely as a result of the addition of NGL in 2021. In addition, increases in sales of digital and loyalty products, and retail merchandising products, also contributed to the higher sales. Higher instant ticket sales volumes increased sales by $10.4 million in 2021. Also, an increase in the instant ticket average selling price increased sales by $2.6 million as compared to 2020.

Lower sales from Michigan iLottery decreased revenue in 2021 by $5.1 million, excluding the negative impact of foreign exchange rates of $1.8 million, as compared to 2020, when Michigan iLottery sales were at record quarterly highs in the second and third quarters, during the first quarters of the pandemic.





During Fiscal 2021, Pollard generated approximately 68.3% (2020 – 71.3%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2021 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.254 compared to an average rate of $1.338 during Fiscal 2020. This 6.3% decrease in the U.S. dollar value resulted in an approximate decrease of $21.0 million in revenue relative to Fiscal 2020. During 2021 the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $1.3 million in revenue relative to 2020.

Cost of sales and gross profit

Cost of sales was $367.9 million in Fiscal 2021 compared to $323.1 million in Fiscal 2020. The increase of $44.8 million was primarily a result of the increase in charitable gaming sales volumes, as compared to 2020, and the addition of NGL and Compliant. In addition, higher instant ticket sales volumes and certain instant ticket production inefficiencies increased cost of sales in 2021. Also adding to cost of sales in 2021 were increases in raw material costs in the second half of the year, some higher manufacturing overhead costs and increased amortization and depreciation expenses. Also increased sales of ancillary lottery products and services further added to cost of sales. Partially offsetting these increases was the impact of lower exchange rates on U.S. dollar denominated expenses in 2021, of approximately $15.5 million, which decreased cost of sales.

Gross profit increased to $91.1 million (19.8% of sales) in Fiscal 2021 from $91.0 million (22.0% of sales) in Fiscal 2020. Gross profit increased in 2021 as a result of the significant increase in charitable and eGaming sales, including the addition of Compliant. In addition, an increase in merchandising product sales further increased gross profit in 2021. These increases were offset by a number of factors including lower instant ticket sales margin as a result of a less profitable customer mix, particularly in the second half of 2021, and increased manufacturing costs. In addition, the decrease in Michigan iLottery gross profit, lower margin from licensed product sales and the addition of NGL further decreased gross profit in 2021. The lower gross profit percentage was due to the reduction in higher margin Michigan iLottery sales, lower margin from licensed product sales and the change in the mix of instant ticket sales to lower margin customers. As well, the inclusion of NGL had a negative impact on our overall margin percentage.

Administration expenses

Administration expenses increased to $47.2 million in Fiscal 2021 from $40.3 million in Fiscal 2020. The increase of $6.9 million was primarily a result of the addition of NGL, of $5.2 million, in addition to increased compensation expenses, including higher incentive costs, to support Pollard's growth strategies, particularly our investments in digital products and solutions development. Partially offsetting these increases was a reduction in professional fees, including acquisition costs, in 2021.

Selling expenses

Selling expenses increased to $17.5 million in Fiscal 2021 from $14.6 million in Fiscal 2020 primarily due to the addition of NGL, as well as higher compensation costs. These increases were partially offset by the reduction in travel related costs due to the ongoing impact of COVID-19.

Equity investment income

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to $12.3 million in Fiscal 2021 from $1.6 million in Fiscal 2020. This $10.7 million increase was primarily due to the increase in revenue in 2021, as compared to 2020. Contracts held by NPi experienced organic growth, in addition to the added sales increase from the additional offering of eInstants in Virginia starting in the second half of 2020. Also increasing sales was the launch of the Alberta Gaming, Liquor & Cannabis ("AGLC") iLottery platform, which went live with a select product launch on September 30, 2020 and added additional gaming verticals throughout 2021.

Other (income) expenses

Other expenses were $5.2 million in 2021 compared to $12.3 million of other income in 2020. The change of $17.5 million was due, in part, to the contingent consideration accrual adjustments, as part of our Compliant and mkodo acquisitions, which decreased other income by $11.7 million as compared to 2020. Further reducing other income in 2021, Pollard entered into an agreement for a one-time payment of $2.5 million to settle all aspects of certain litigation regarding a patent dispute relating to our instant ticket production. In addition, the $3.6 million reduction in Canada emergency wage subsidy ("CEWS") recognized in 2021 as compared to 2020, as well as the elimination of the EBITDA support agreement of $1.0 million, which expired on June 30, 2020, further reduced other income. Partially offsetting these negative changes was insurance proceeds, net of expenses recovered, of $1.0 million for an insurance claim resulting from damage to ancillary production equipment.

Foreign exchange

The net foreign exchange loss was $1.4 million in Fiscal 2021 compared to a net gain of $0.9 million in Fiscal 2020. The 2021 net foreign exchange loss consisted of a realized foreign exchange loss of $1.1 million as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates, partially offset by gains on repayment of U.S. dollar denominated long-term debt, and a $0.3 million unrealized loss.

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

Adjusted EBITDA

Adjusted EBITDA increased to $84.0 million in Fiscal 2021 compared to $80.6 million in Fiscal 2020. The primary reasons for the increase of $3.4 million were the increase in our share of income from our joint venture, NPi, of $10.7 million in 2021 and the increase in gross profit (net of amortization and depreciation) of $8.1 million. Gross profit (net of amortization and depreciation) increased with the rebound in sales of charitable gaming and eGaming, including the addition of Compliant, in 2021. These increases in net gross profit were partially offset by lower Michigan iLottery revenues and decreased instant ticket margins.

Partially offsetting these increases in Adjusted EBITDA were the higher administration expenses (net of acquisition costs) of $8.1 million, the decrease in other income (net of contingent consideration, legal settlement and insurance proceeds (net)) of $4.3 million, primarily due to the reduction in CEWS support in 2021, and an increase in selling expenses of $2.9 million.

Interest expense

Interest expense increased to $5.0 million in Fiscal 2021 from $4.8 million in Fiscal 2020 primarily as a result of the interest accretion on the discounted contingent consideration liability of $1.5 million, related to the Compliant purchase, and an increase in average long-term debt in 2021. These increases were almost completely offset by lower interest rates.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $39.5 million during Fiscal 2021 which increased from $31.5 million during Fiscal 2020. The increase of $8.0 million was primarily as a result of the additions of Compliant and NGL, including the amortization and depreciation relating to the identifiable assets acquired, including intangible assets and property, plant and equipment and an increase in depreciation related to leased properties.

Income taxes

Income tax expense was $7.4 million in Fiscal 2021, an effective rate of 27.4%, which was higher than our domestic rate of 27.0% due primarily to non-deductible amounts. Partially offsetting these increases in effective rate were the lower federal income tax rates in the United States.

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

Net income

Net income was $19.7 million in Fiscal 2021 compared to net income of $33.3 million in Fiscal 2020. The reason for the decrease in net income of $13.6 million was the increase in other expenses of $17.5 million, including the contingent consideration accrual adjustments of $11.7 million and the reduction of CEWS support of $3.6 million. Also decreasing net income were the increase in administration expenses of $6.9 million, higher selling costs of $2.9 million and the increase in the net foreign exchange loss of $2.3 million. These decreases in net income were partially offset by the increased share of income from our 50% owned iLottery joint venture, NPi, of $10.7 million and the decrease in income tax expense of $5.4 million.

Net income per share (basic and diluted) decreased to $0.74 and $0.73 per share, respectively, in Fiscal 2021 from $1.30 and $1.28 per share, respectively, in Fiscal 2020.

iLottery

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

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

SELECT iLOTTERY RELATED FINANCIAL INFORMATION

(millions of dollars)

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Sales – Pollard's share								
Michigan iLottery	$5.6	$5.9	$6.8	$8.4	$8.6	$9.5	$10.3	$5.1
NPi	10.5	9.8	9.9	9.9	6.1	3.1	2.2	1.2
Combined iLottery sales	$16.1	$15.7	$16.7	$18.3	$14.7	$12.6	$12.5	$6.3
Income (loss) before income taxes – Pollard's share								
Michigan iLottery	$1.8	$2.0	$2.8	$4.0	$4.5	$5.4	$6.5	$2.1
NPi	3.2	2.6	2.5	4.0	1.6	0.8	(0.3)	(0.5)
Combined income before income taxes – Pollard's share	$5.0	$4.6	$5.3	$8.0	$6.1	$6.2	$6.2	$1.6

Beginning in the second quarter of 2020, with the onset of COVID-19, revenues from Pollard's contract with the Michigan Lottery increased substantially. Contracts held by NPi also experienced significant organic growth, in addition to the sales increase from the Virginia Lottery operation which added e-Instants on July 1, 2020. As well, NPi's contract with Alberta Gaming, Liquor & Cannabis ("AGLC"), went live with a limited product launch on September 30, 2020, with additional gaming verticals launching throughout 2021. The substantial jackpots for POWERBALL® and Mega Millions® awarded in the latter half of January 2021 further increased sales significantly in the fourth quarter of 2020 and the first quarter of 2021.

Sales and income before income taxes from our Michigan iLottery operation declined starting in the second quarter of 2021 due to increased online gaming competition, the lower exchange rate on U.S. dollar denominated sales and new pricing coming into effect with our four-year contract extension, starting at the beginning of 2021.

Liquidity and Capital Resources

Cash provided by operating activities

For the year ended December 31, 2021, cash flow provided by operating activities was $56.5 million compared to $59.7 million in Fiscal 2020.

In Fiscal 2021, decreases in non-cash working capital provided $9.3 million compared to increases in 2020 which used $11.0 million in cash, a $20.3 million difference. In 2021, changes in the non-cash component of working capital increased cash flow from operations due primarily to an increase in accounts payable and accrued liabilities, and a decrease in inventories. In 2020, changes in the non-cash component of working capital decreased cash flow from operations due primarily to an increase in accounts receivable and inventories.

Cash used for interest payments decreased to $3.5 million in 2021 as compared to $4.7 million in 2020. Cash used for pension plan contributions decreased to $7.2 million in 2021 as compared to $8.6 million in 2020. Cash used for income taxes paid was $21.1 million in 2021 compared to $1.1 million in 2020. Income tax payments in 2021 included the final installments for the 2020 tax year and installments for 2021.

Cash used for investing activities

For the year ended December 31, 2021, cash used for investing activities was $60.6 million compared to $61.7 million in the year ended December 31, 2020. In Fiscal 2021, Pollard used $38.1 million, net of cash acquired and debt assumed, to purchase NGL. In addition, Pollard used $22.2 million on capital expenditures and $12.6 million on additions to intangible assets. Partially offsetting these uses of cash was $12.6 million Pollard received from our investment in our iLottery joint venture in the year.

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

Cash provided by financing activities

Cash provided by financing activities was $6.4 million in the year ended December 31, 2021, compared to cash used for financing activities of $3.9 million in the year ended December 31, 2020.

During Fiscal 2021, Pollard received net proceeds from a share issuance of $32.8 million. This receipt of cash was partially offset by $15.4 million of long-term debt repayments, $6.2 million of lease principal payments and $4.3 million of dividends.

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

As at December 31, 2021, Pollard's unused committed credit facility was $116.8 million, in addition to $3.5 million in available cash resources. These amounts, in addition to cash flow provided by operating activities, are available to be used for future working capital requirements, contractual obligations, capital expenditures, dividends and to assist in financing future acquisitions.

RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2021

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share amounts)

	Three months ended December 31, 2021	Three months ended December 31, 2020
	(unaudited)	(unaudited)
Sales	**$116.5**	$103.7
Cost of sales	**95.8**	80.7
Gross profit	**20.7**	23.0
Administration expenses	**11.9**	10.4
Selling expenses	**5.0**	3.8
Equity investment income	**(3.2)**	(1.6)
Other (income) expenses	**2.3**	(3.7)
Income from operations	**4.7**	14.1
Foreign exchange gain	**(0.1)**	(3.2)
Interest expense	**1.6**	0.9
Income before income taxes	**3.2**	16.4
Income taxes:		
Current	**1.0**	3.0
Deferred (reduction)	**(3.0)**	1.2
	(2.0)	4.2
Net income	**$5.2**	$12.2
Adjustments:		
Amortization and depreciation	**10.8**	7.7
Interest	**1.6**	0.9
Income taxes	**(2.0)**	4.2
EBITDA	**$15.6**	$25.0
Unrealized foreign exchange (gain) loss	**0.6**	(3.5)
Acquisition costs	**0.0**	0.9
Contingent consideration fair value adjustment	**3.5**	(2.1)
Insurance proceeds (net)	**(1.0)**	0.0
Adjusted EBITDA	**$18.7**	$20.3
Lotteries and charitable gaming	**$12.3**	$18.2
eGaming systems	**6.4**	2.1
Adjusted EBITDA	**$18.7**	$20.3
Net income per share (basic and diluted)	**$0.19**	$0.47

Sales

During the three months ended December 31, 2021, Pollard achieved sales of $116.5 million, compared to $103.7 million in the three months ended December 31, 2020. Factors impacting the $12.8 million sales increase were:

Higher sales of ancillary lottery products and services increased revenue in the fourth quarter of 2021, as compared to the fourth quarter of 2020, by $8.1 million. This increase was primarily from the addition of NGL, as well as increased sales of digital and retail merchandising products. A higher instant ticket average selling price increased sales by a further $3.4 million in the quarter, including certain freight recoveries. Partially offsetting these increases was slightly lower instant ticket sales volume decreased sales by $0.5 million in the quarter.

eGaming systems revenue increased $4.9 million, as compared to 2020, predominately as a result of the acquisition of Compliant and the impact of the Ontario market re-opening bingo halls. Higher charitable gaming volumes increased sales by $2.1 million in the fourth quarter of 2021 as Pollard's sales of pull-tab tickets and related products remained high, due to strong customer demand. In addition, the higher average selling price of charitable games in 2021 further increased sales by $1.6 million.

Lower sales from Michigan iLottery decreased revenue in the fourth quarter of 2021 by $2.8 million excluding the negative impact of foreign exchange rates of $0.2 million, as compared to 2020.

During the three months ended December 31, 2021, Pollard generated approximately 65.6% (2020 – 70.1%) of its revenue in U.S. dollars including a portion of international sales which were priced in U.S. dollars. During the fourth quarter of 2021 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.263, compared to an average rate of $1.319 during the fourth quarter of 2020. This 4.2% decrease in the value of the U.S. dollar resulted in an approximate decrease of $3.4 million in revenue relative to 2020. During the fourth quarter of 2021 the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $0.6 million in revenue relative to 2020.

Cost of sales and gross profit

Cost of sales was $95.8 million in the fourth quarter of 2021 compared to $80.7 million in the fourth quarter of 2020. The increase of $15.1 million was primarily a result of the instant ticket sales mix and certain instant ticket production inefficiencies in 2021. Also contributing to the higher cost of sales were increases in raw material costs in the quarter, higher manufacturing overhead expenses, the increase in amortization and depreciation expenses and increased freight costs. In addition, higher sales of charitable gaming products, and the addition of NGL, further added to the increase in cost of sales in 2021. Partially offsetting these increases was the impact of lower exchange rates on U.S. dollar denominated expenses in the fourth quarter of 2021 which decreased cost of sales.

Gross profit was $20.7 million (17.8% of sales) in the fourth quarter of 2021 compared to $23.0 million (22.2% of sales) in the fourth quarter of 2020. This decrease in gross profit was primarily the result of lower instant ticket sales margin because of a less profitable customer mix in the fourth quarter of 2021 and increased costs. In addition, the decrease in Michigan iLottery sales in comparison to the fourth quarter of 2020, also reduced gross profit in 2021. These decreases were partially offset by the increases in gross profit from higher eGaming systems and charitable sales. The lower gross profit percentage was due, in part, to the reduction in higher margin Michigan iLottery sales and the mix of instant ticket sales having a negative impact on our overall margin percentage, partially offset by the increase in eGaming sales. In addition, the inflationary impact of higher costs for our instant ticket direct material inputs further reduced our gross margin percentage.

Administration expenses

Administration expenses increased to $11.9 million in the fourth quarter of 2021 compared to $10.4 million in the fourth quarter of 2020. The increase of $1.5 million was primarily a result of the addition of NGL, in addition to increased compensation costs, including incentive accruals, to support Pollard's growth strategies, particularly in our digital solutions areas. Partially offsetting these increases was a reduction in professional fees, including acquisition costs, in 2021.

Selling expenses

Selling expenses increased to $5.0 million in the fourth quarter of 2021 from $3.8 million in the fourth quarter of 2020. The increase was primarily due to the addition of NGL and higher compensation costs, including incentive accruals.

Equity investment income

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to $3.2 million in the fourth quarter of 2021 from $1.6 in the fourth quarter of 2020. This $1.6 million increase was primarily due to the increase in revenue, as a result of significant organic growth, plus higher sales from additional gaming verticals going live in 2021 with AGLC's content offering.

Other (income) expenses

Other expenses were $2.3 million in the fourth quarter of 2021 compared to other income of $3.7 million in the fourth quarter of 2020. This change of $6.0 million was primarily due to the contingent consideration accrual adjustments, as part of our Compliant and mkodo acquisitions, which increased other expenses by $5.6 million, as well as the reduction in CEWS recognized in the fourth quarter of 2021, as compared to 2020, of $1.6 million. Partially offsetting these negative changes was insurance proceeds, net of expenses recovered, of $1.0 million for a claim resulting from damage to ancillary production equipment.

Foreign exchange

The net foreign exchange gain was $0.1 million in the fourth quarter of 2021 compared to a net gain of $3.2 million in the fourth quarter of 2020. The 2021 net foreign exchange gain consisted of a realized foreign exchange gain of $0.7 million, as a result of foreign currency denominated accounts payable being settled at favorable foreign exchanges rates. The realized foreign exchange gain was partially offset by the $0.6 million unrealized loss primarily as a result of the reversal of prior unrealized gains on U.S. dollar denominated accounts payable and long-term debt recognized previously.

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

Adjusted EBITDA

Adjusted EBITDA decreased to $18.7 million in the fourth quarter of 2021 compared to $20.3 million in the fourth quarter of 2020. The primary reasons for the $1.6 million decrease in Adjusted EBITDA were the higher administration expenses (net of acquisition costs) of $2.4 million, an increase in selling expenses of $1.2 million and a decrease in other income (net of contingent consideration, legal settlement and insurance proceeds (net)) of $1.4 million, primarily as a result of lower CEWS support of $1.6 million in 2021. These decreases were partially offset by the increase in our share of income from our 50% owned iLottery joint venture, NPi, of $1.6 million, the increase in the realized foreign exchange gain of $1.0 million and the increase in gross profit (net of amortization and depreciation) of $0.8 million, net of the inflationary impact of higher instant ticket direct material input costs.

Interest expense

Interest expense increased to $1.6 million in the fourth quarter of 2021 from $0.9 million in the fourth quarter of 2020 primarily as a result of the interest accretion on the discounted contingent consideration liability of $0.8 million, related to the Compliant purchase, and an increase in average long-term debt in 2021. These increases were partially offset by lower interest rates.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $10.8 million during the fourth quarter of 2021 which increased from $7.7 million during the fourth quarter of 2020. The increase of $3.1 million was primarily a result of the additions of Compliant and NGL, including the amortization and depreciation relating to the identifiable assets acquired, including intangible assets and property, plant and equipment.

Income taxes

Income tax recovery was $2.0 million in the fourth quarter of 2021, an effective rate of (60.6%) which was differed from our domestic rate of 27.0% due primarily due to the recognition of tax losses not previously valued.

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

Net income

Net income was $5.2 million in the fourth quarter of 2021 compared to $12.2 million in the fourth quarter of 2020. The primary reason for the decrease in net income of $7.0 million was the increase in other expenses of $6.0 million. This increase in other expenses includes the change in contingent consideration accrual adjustments of $5.6 million and the reduction of CEWS support of $1.6 million, partially offset by insurance proceeds, net of expenses recovered, of $1.0 million. Also decreasing net income were the decrease in the net foreign exchange gain of $3.1 million, the decrease in gross profit of $2.3 million (including the inflationary impact of higher instant ticket direct material input costs), the increase in administration expenses of $1.5 million and the increase in selling expense of $1.2 million. These decreases in net income were partially offset by the increase in our share of income from our joint venture, NPi, of $1.6 million and a decrease in income taxes of $6.2 million.

Net income per share (basic and diluted) decreased to $0.19 per share in the fourth quarter of 2021 from $0.47 per share in the fourth quarter of 2020.

Working Capital

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

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

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

As at December 31, 2021, Pollard's investment in non-cash working capital decreased by $9.3 million compared to December 31, 2020, primarily a result of the increase in accounts payable and accrued liabilities, and a decrease in inventories.

	December 31, 2021	December 31, 2020
Working Capital	$62.2	$69.8
Total Assets	$461.4	$404.6
Total Non-Current Liabilities	$163.5	$191.3

Credit Facility

Pollard's credit facility was renewed effective December 31, 2021. The credit facility provides loans of up to $215.0 million for its Canadian operations and US$14.0 million for its U.S. subsidiaries. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $215.0 million Canadian equivalent. The credit facility also includes an accordion feature which can increase the facility by $50.0 million. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At December 31, 2021, the outstanding letters of guarantee were $0.1 million. The remaining balance available for drawdown under the credit facility was $116.8 million.

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

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

Economic Development Canada ("EDC") Facility

Effective February 28, 2020, Pollard entered into an agreement with EDC to provide a €15.0 million facility whereby Pollard can issue qualifying letters of credit against the EDC facility. This facility is guaranteed by a general indemnity from Pollard. As of December 31, 2021, the outstanding letters of credit drawn on this facility were $10.5 million (€7.3 million).

Outstanding Share Data

As at December 31, 2021 and March 9, 2022, outstanding share data was as follows:

Common shares	26,917,669

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

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

In the year ended December 31, 2021, 43,750 commons shares were issued through the exercise of stock options.

Share Options

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares. As at December 31, 2021, the total share options issued and outstanding were 312,500.

Contractual Obligations

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

(millions of dollars)	Total	2022	2023	2024	2025	2026 & thereafter
Long-term debt	$124.2	$2.1	$2.1	$2.1	117.9	-
Leases	$17.9	$6.9	$5.5	$2.5	$1.8	$1.2
Total	$142.1	$9.0	$7.6	$4.6	$119.7	$1.2

Pension Obligations

Pollard sponsors four non-contributory defined benefit pension plans, of which three are final pay plans and one is a flat benefit plan. As of December 31, 2021, the aggregate fair value of the assets of Pollard's defined benefit pension plans was $88.3 million and the accrued benefit plan obligations were $110.9 million. Pollard's total annual funding contribution for its defined pension plans in 2022 is expected to be approximately $5.2 million, compared to $5.7 million in 2021.

Off-Balance Sheet Arrangements

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

Related Party Transactions

Pollard Equities Limited and affiliates

During the year ended December 31, 2021, Pollard paid property rent of $3.3 million (2020 - $3.4 million) and $0.1 million (2020 - $0.2 million) in plane charter costs to affiliates of Equities.

During the year ended December 31, 2021, Equities paid Pollard $0.07 million (2020 - $0.07 million) for accounting and administration fees.

At December 31, 2021, Pollard owed Equities and its affiliates $nil (2020 - $0.5 million) for rent, interest, expenses and other items. Included within property, plant and equipment and lease liabilities on the consolidated statement of financial position are right-of-use assets and corresponding liabilities for premises leased to Pollard from Equities. As at December 31, 2021, the net book value of the right-of-use assets was $6.6 million (2020 - $7.7 million) and the present value of the lease liabilities was $6.8 million (2020 - $7.9 million).

Neogames S.A. and affiliates

During the year ended December 31, 2021, Pollard reimbursed its share of operating costs and paid software royalties of $13.4 million (2020 - $9.6 million) 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 $2.2 million (2020 - $2.0 million) 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 $4.8 million (2020 - $4.8 million) for funds relating to contractual performance guarantees.

Critical Accounting Policies and Estimates

Described in the notes to Pollard's 2021 audited consolidated financial statements are the accounting policies and estimates that Pollard believes are critical to its business. Please refer to note 2 (d) to the audited consolidated financial statements for the year ended December 31, 2021, for a discussion of the significant accounting estimates and judgements.

Future Changes in Accounting Policies

Described in the notes to Pollard's 2021 audited consolidated financial statements are the future accounting standards that Pollard believes are potentially applicable to its business. Please refer to note 4 in the audited consolidated financial statements for the year ended December 31, 2021 for a summary.

Industry Risks and Uncertainties

Pollard is exposed to numerous risks and uncertainties which are described in this MD&A and Pollard's most recent Annual Information Form dated March 9, 2022, which is available under Pollard's profile on SEDAR (www.sedar.com).

Financial Instruments

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

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

Risk Exposure

Currency risk

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

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

Interest rate risk

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

Credit risk

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

Liquidity risk

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

Risk Management

Currency risk

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

A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and U.S. dollar would decrease/increase the income before income taxes by approximately $0.1 million for the year ended December 31, 2021 (2020 - $0.2 million). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian dollar and Euro would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $0.05 million for year ended December 31, 2021 (2020 - $0.07 million).

Five manufacturing facilities are located in the U.S. and a significant amount of cost inputs for all production facilities are denominated in U.S. dollars, offsetting a large portion of the U.S. dollar revenue in a natural hedge.

As at December 31, 2021, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately $29.0 million (2020 - $52.6 million). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in income before income taxes of approximately $0.1 million (2020 - $0.3 million) for the year ended December 31, 2021.

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

Interest rate risk

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of $0.6 million for the year ended December 31, 2021 (2020 - $0.7 million).

Credit risk

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

Liquidity risk

Pollard's approach is to ensure that it will always have sufficient liquidity to meet its liabilities when due. Pollard maintains a committed credit facility including up to $215.0 million for its Canadian operations and up to US$14.0 million for its U.S. subsidiaries. At December 31, 2021, the unused balance available for drawdown was $116.8 million (2020 - $75.7 million).

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.

Outlook

Retail sales of instant tickets are continuing at the high level we witnessed in 2021, particularly in the U.S., and we believe this level of consumer demand will continue. Higher retail sales do not directly translate necessarily into proportionate growth at the manufacturing level, however we are seeing strong demand from our customers for more product. Our production schedule through the remainder of the first quarter and through the second quarter is very busy, with volumes at levels higher than our average production in 2021.

In the short term, production capacity is somewhat fixed and can fluctuate based on the run size of games and other factors. We are currently expanding our instant ticket productive capacity by staffing two additional shifts on our second press in our Ypsilanti Michigan facility and expect to have additional capacity available. Higher capacity is expected to help ease some of the inefficiencies of producing close to capacity and help us meet some of this additional demand.

In the latter half of 2021 our production and sales mix was skewed to a greater mix of lower value product relative to traditional expectations for that time period. Looking forward at our current scheduling, later in the first quarter and into the second quarter, we are expecting that mix of work to return to more historic levels of higher valued work including higher use of proprietary products such as Scratch FX®. Timing of shipments can impact the timing of the revenue recognition.

Inflation will be a challenge, particularly in our instant ticket product line, with higher costs already starting in the second half of 2021. Additional cost increases have been identified already for 2022 and there can be no guarantee there won't be further cost headwinds. The specific technical nature of our raw material inputs makes it more difficult to switch out to alternative inputs. Although the long-term nature of our instant ticket contracts is beneficial, these contracts do not allow for explicit price increases to recover higher costs.

A number of initiatives are underway to help mitigate the financial impact of the inflationary price increases including increasing capacity and volume of instant tickets, internal cost reviews and continued focus on improving our average selling prices through focus on innovation and selling proprietary products at higher margins.

Our NGL operation remains in its development stage as we continue to invest resources to improve its suite of solutions. The facility management side of the operations traditionally has much higher sales in the fourth quarter and as such, we expect more normalized operating results for the next three quarters relative to the fourth quarter.

Our charitable gaming and eGaming businesses remain very strong with continued levels of high consumer demand. We have been able to increase our selling prices to offset inflationary costs increases within our charitable gaming product lines. The current demand for our products outstrips our ability to produce, particularly in our pull-tab product line. In the short term it is challenging to increase capacity, primarily because it is reliant on additional staffing which is difficult to recruit in the current environment, however we continue to pursue all avenues to help increase our production capabilities. Our tablet based eGaming business also continues to grow as new and improved game content, and expanded sites, are expected to continue through 2022. We expect charitable gaming, including eGaming, to be an important contributor to our financial success in 2022.

We continue to expect some challenges in the supply chain relating to transportation, both in terms of shipping our goods to customers and receipt of supplier inputs. This may impact the timing of revenue recognition as well as driving some inefficiencies in our manufacturing, however we don't expect this to cause material impacts in the short term.

We continue to invest in and be an active thought leader in the iLottery space. Our existing operations through our NPi joint venture, including our Michigan contract, are the market leaders in the U.S. Growth is expected in the NPi operation based on the ongoing development of our newer contracts in Alberta and Virginia. While it is difficult to estimate when the next formal opportunity for a new iLottery operation in the U.S. or internationally will occur, we are confident that more lotteries will avail themselves of this opportunity and provide a critical growth opportunity for Pollard.

While many of the restrictions related to COVID-19 have been or are being lifted throughout the world, changes to these trends could still have a negative impact on our business, including but not limited to facility closures and retail shutdowns. We remain focused on monitoring the external issues potentially impacting our business and ensure we are providing a healthy and safe environment for our team members, including a number of programs offering encouragement for all employees to be vaccinated.

We generate strong cash flow and have a high conversion ratio of converting EBITDA to cash and we expect this to continue. With our renewed bank facility in place as of December 31, 2021, available liquidity is very significant and combined with our strong operating cashflow, we are confident we will have the internal resources to invest in the growth of our current business, devote capital to new opportunities, including acquisition prospects, as well as maintaining our very conservative debt management policy.

Going into 2022 most of our key business units are experiencing very strong demand for their products. We believe this demand will translate into ongoing growth opportunities for Pollard. There do exist some headwinds in 2022, particularly in the instant ticket market due to inflationary price increases in our key inputs. Our ability to increase volumes in ticket production is a critical factor in offsetting these cost increases. In addition, the very strong growth in the charitable gaming and eGaming product lines will also provide a significant offset to the margin pressures on the instant ticket business. Our strategy of having a very broad product portfolio to help balance our operating results has proven to be very beneficial as we move into 2022.

Disclosure Controls and Procedures

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

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

Internal Controls over Financial Reporting

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

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

No changes were made in Pollard's internal control over financial reporting during the year ended December 31, 2021, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

Additional Information

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

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form for the year ended December 31, 2021, is available on SEDAR at www.sedar.com.

Pollard Banknote Limited
140 Otter Street
Winnipeg, Manitoba R3T 0M8
(204) 474-2323
www.Pollardbanknote.com

Pollard banknote limited

Management's Report

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

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

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

"John Pollard"

JOHN POLLARD
Co-Chief Executive Officer

"Robert Rose"

ROBERT ROSE
Chief Financial Officer

March 9, 2022

Consolidated Financial Statements of

POLLARD BANKNOTE LIMITED

Years ended December 31, 2021 and 2020

KPMG LLP
1900 - 360 Main Street
Winnipeg MB
R3C 3Z3

Telephone (204) 957-1770
Fax (204) 957-0808
www.kpmg.ca

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
Assets		
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
Total current assets	153,166	139,819
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
Total non-current assets	308,239	264,748
Total assets	$ 461,405	$ 404,567

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

		December 31, 2021		December 31, 2020
Liabilities and Shareholders' Equity				
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
Total current liabilities		90,970		70,890
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
Total non-current liabilities		163,478		191,294
Shareholders' equity				
Share capital (note 15)		149,849		109,007
Reserves		(1,579)		2,563
Retained earnings		58,687		30,813
Total shareholders' equity		206,957		142,383
Commitments and contingencies (note 16)				
Total liabilities and shareholders' equity	$	461,405	$	404,567

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

		Share capital	Translation reserve	Retained earnings	Total equity
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
Total other comprehensive income (loss)	$	–	(4,142)	12,111	7,969
Total comprehensive income (loss)	$	–	(4,142)	31,812	27,670
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)
Balance at December 31, 2021	$	149,849	(1,579)	58,687	206,957

Year ended December 31, 2020

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

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.

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.

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.

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.

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

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.

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.

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.

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.

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

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.

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

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.

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

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.

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.

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.

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

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.

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.

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.

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.

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.

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

5. Acquisitions:

(a) mkodo Limited:

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

Cash paid, net of cash acquired of $1,300 and debt assumed of $723	$	15,349
Contingent consideration		2,098
Total consideration	$	17,447
Accounts receivable	$	2,479
Deferred income tax asset		305
Prepaid expenses and deposits		102
Property, plant and equipment		1,429
Income taxes receivable		427
Accounts payable and accrued liabilities		(653)
Contract liabilities		(273)
Lease liabilities		(1,125)
Deferred income tax liability		(1,380)
Net tangible assets acquired (excluding cash acquired and debt assumed)	$	1,311
Customer relationships	$	4,670
Technology		2,064
Brand		1,393
Identifiable intangible assets acquired	$	8,127
Goodwill acquired	$	8,009

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

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

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
Total consideration	$	29,887
Accounts receivable	$	46
Prepaid expenses and deposits		44
Property, plant and equipment		453
Accounts payable and accrued liabilities		(155)
Contract liabilities		(110)
Net tangible assets acquired	$	278
Customer relationships	$	13,137
Game library		2,907
Software		1,398
Identifiable intangible assets acquired	$	17,442
Goodwill acquired	$	12,167

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.

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

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
Total consideration	$	48,745
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)
Net tangible assets acquired	$	2,735
Technology	$	22,653
Game library		2,984
Identifiable intangible assets acquired	$	25,637
Goodwill acquired	$	20,373

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.

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

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
	$ 45,008	$ 46,620

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.

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

7. Property, plant and equipment:

Cost	Land	Buildings	Leasehold improve-ments	Equipment	Furniture, fixtures and computers	Assets in progress & spare parts	Total
Balance at January 1, 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 improve-ments	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 improve-ments	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

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

8. Leases:

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

Pollard presents right-of-use assets in "property, plant and equipment" on the 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:

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

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.

Interest in joint venture		December 31, 2021		December 31, 2020
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.

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

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
Comprehensive income – attributable to Pollard[(1)]	$	12,336	$	1,587

(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)
Balance, end of year	$	108,175	$	89,276

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[(1)]	$	57,802	$	38,921
Charitable gaming		12,581		12,630
eGaming systems[(2)]		26,741		26,601
Retail		11,051		11,124
Total	$	108,175	$	89,276

(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.

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%

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

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

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

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.

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

12. Income taxes:

Income tax expense

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

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

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

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
Tax assets (liabilities)	$ 16,205	15,672	$ (27,317)	(23,142)	$ (11,112)	(7,470)

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
Tax assets (liabilities)	$ (7,470)	6,866	(6,039)	(4,469)	(11,112)

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

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
Tax assets (liabilities)	$	(7,464)	(1,564)	(1,076)	2,634	(7,470)

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

		2021		2020
Deferred (reduction)	$	(6,833)	$	1,899
Finance income		(33)		(335)
	$	(6,866)	$	1,564

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.

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

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)
	$	115,130	$	131,080

		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	$	115,804	(674)	115,130

		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	$	131,365	(285)	131,080

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

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:

		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)

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

14. Pension liability (continued):

Pollard sponsors non-contributory defined benefit plans providing pension benefits to its employees. Pollard has four defined benefit pension plans of which three are final pay plans and one is a flat benefit plan. None of the plans have indexation features. The measurement date for all the plans is December 31. Two of the plans of the U.S. subsidiaries require valuations annually with the last valuations being as of January 1, 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
Benefit plan assets				
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

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

14. Pension liability (continued):

	2021	2020
Accrued benefit plan obligations		
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
Net defined benefit plans expense		
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%

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

14. Pension liability (continued):

Assumptions regarding future mortality have been based on published statistics and mortality tables. As of December 31, 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)

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

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)
Losses accumulated in retained earnings, end of year	$	(17,620)	$	(29,731)

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
Balance at December 31, 2021	26,917,669	$	149,849

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.

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.

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

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.

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

15. Share capital (continued):

	2021			2020		
Exercise price	Number outstanding	Remaining time to exercise	Number exercisable	Number outstanding	Remaining time to exercise	Number exercisable
$ 3.63	–	–	–	12,500	0.19 years	12,500
$ 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

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

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
Total	$ 421,219	$ 37,795	$ 459,014

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
Total	$ 391,581	$ 22,553	$ 414,134

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

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
Total	$ 421,219	$ 37,795	$ 459,014

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
Total	$ 391,581	$ 22,553	$ 414,134

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
Balance, end of year	2,242	379
Less: current portion	(2,242)	(379)
	$ –	$ –

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

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

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

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
Weighted average number of shares (diluted)	27,057,615	26,023,774
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
	$ 179,714	$ 158,798

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)
	$ 9,272	$ (10,973)

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).

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

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.

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

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(1)	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

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

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
	$	307,070	$	259,818

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

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

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

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

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.

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).

Investor Relations

Robert Rose
140 Otter Street
t: 204-474-2323
e: winnipeg@pollardbanknote.com

Stock Exchange Listing

The Toronto Stock Exchange - PBL

Independent Auditors

KPMG LLP,
Winnipeg, Manitoba

Transfer Agent

Computershare Trust Company of Canada,
Toronto, Ontario

Bankers

Toronto-Dominion Bank,
Winnipeg, Manitoba

Bank of Montreal,
Calgary, Alberta

Canadian Western Bank,
Edmonton, Alberta

Head Office

140 Otter Street
Winnipeg, Manitoba, R3T 0M8
t: 204-474-2323
f: 204-453-1375

Manufacturing Facilities

Winnipeg, Manitoba, Canada
1499 Buffalo Place, R3T 1L7
140 Otter Street, R3T 0M8

Barrhead, Alberta, Canada
6203 46th Street, T7N 1A1

Sault Ste. Marie, Ontario, Canada
300-45 White Oak Drive East, P6B 4J7

Ypsilanti, Michigan, USA
775 James L. Hart Parkway, 48197

Council Bluffs, Iowa, USA
504 34th Avenue, 51501

Chatsworth, California, USA
9340 Penfield Avenue, 91311

Adair, Iowa, USA
1000 Flag Road, 50002

Omaha, Nebraska, USA
9335 48th Street, 68152

Macclesfield, U.K.
Calamine Street, SK11 7HU

The Board of Directors of Pollard Banknote Limited

Gordon Pollard[3] EXECUTIVE CHAIR
Dave Brown[1]
Lee Meagher[1]
John Pollard[2]
Douglas Pollard

[1] Member of the Audit Committee, Compensation Committee and the Governance and Nominating Committee
[2] Interim member of the Audit Committee
[3] Interim member of the Compensation Committee and the Governance and Nominating Committee

Senior Management

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Douglas Pollard
CO-CHIEF EXECUTIVE OFFICER

Steven Fingold
EXECUTIVE VICE PRESIDENT, CHARITABLE GAMING

Paul Franzmann
EXECUTIVE VICE PRESIDENT, CORPORATE DEVELOPMENT

Pedro Melo
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Margaret Proven
EXECUTIVE VICE PRESIDENT, HUMAN RESOURCES

Riva Richard
GENERAL COUNSEL AND EXECUTIVE VICE PRESIDENT, LEGAL AFFAIRS

Robert Rose
EXECUTIVE VICE PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

Jennifer Westbury
EXECUTIVE VICE PRESIDENT, SALES AND CUSTOMER DEVELOPMENT

Robert Young
EXECUTIVE VICE PRESIDENT, OPERATIONS

POLLARD banknote limited

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140 Otter Street
Winnipeg, Manitoba R3T 0M8
(204) 474 - 2323
www.pollardbanknote.com

2021 ANNUAL REPORT