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)

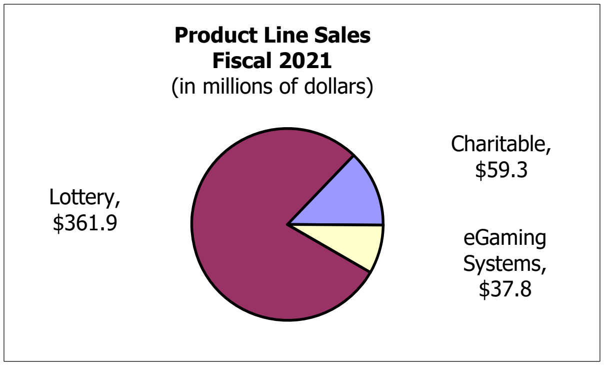
	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2019
Net income	**$19.7**	$33.3	$22.0
Adjustments:			
Amortization and depreciation	**39.5**	31.5	27.1
Interest	**5.0**	4.8	6.4
Income taxes	**7.4**	12.8	7.0
EBITDA	**71.6**	82.4	62.5
Unrealized foreign exchange (gain) 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

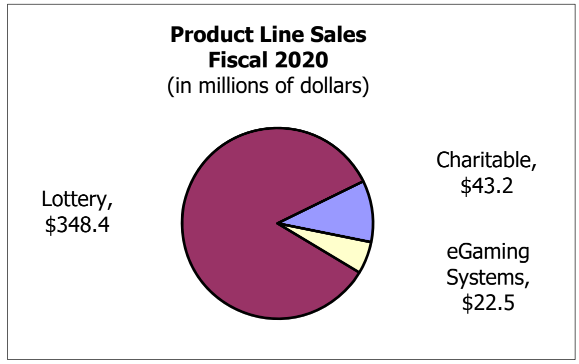
REVIEW OF OPERATIONS

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



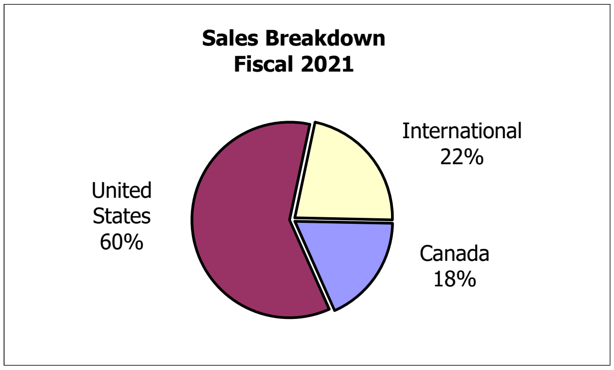


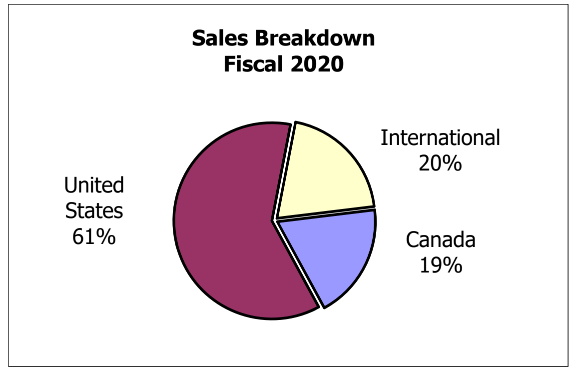
During the year ended December 31, 2021 ("Fiscal 2021" or "2021"), Pollard achieved sales of $459.0 million, compared to $414.1 million in the year ended December 31, 2020 ("Fiscal 2020" or "2020"). Factors impacting the $44.9 million sales increase were:

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