December 31, 2022

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

FOR THE YEAR ENDED DECEMBER 31, 2022

March 7, 2023

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the year ended December 31, 2022, is prepared as at March 7, 2023, and should be read in conjunction with the accompanying audited consolidated financial statements of Pollard and the notes therein as at December 31, 2022. 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, 2022 and 2021. All figures are in millions except for per share amounts.

POLLARD BANKNOTE LIMITED

Overview

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 and GeoLocs, PlayOn™ loyalty programs, retail management services, ScanACTIV™, EasyVEND™, 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 150 independent distributors with the majority of revenue generated from repeat business.

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, 2022.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Year ended December 31, 2022	Year ended December 31, 2021(1)	Year ended December 31, 2020(1)
Sales	**$482.3**	$459.0	$414.1
Cost of sales	**400.5**	368.2	323.1
Gross profit	**81.8**	90.8	91.0
Gross profit as a % of sales	***17.0%***	*19.8%*	*22.0%*
Administration expenses	**49.8**	47.2	40.3
Administration expenses as a % of sales	***10.3%***	*10.3%*	*9.7%*
Selling expenses	**17.4**	17.2	14.6
Selling expenses as a % of sales	***3.6%***	*3.7%*	*3.5%*
NPi equity investment income	**(23.7)**	(12.3)	(1.6)
NPi equity investment income as a % of sales	***(4.9%)***	*(2.7%)*	*(0.4%)*
Other (income) expenses	**4.1**	5.2	(12.3)
Other (income) expenses as a % of sales	***0.9%***	*1.1%*	*(3.0%)*
Unrealized foreign exchange (gain) loss	**4.4**	0.3	(1.9)
Unrealized foreign exchange (gain) loss as a % of sales	***0.9%***	*0.1%*	*(0.5%)*
Net income	**19.3**	19.7	33.3
Net income as a % of sales	***4.0%***	*4.3%*	*8.0%*
Adjusted EBITDA	**80.5**	84.0	80.6
Adjusted EBITDA as a % of sales	***16.7%***	*18.3%*	*19.5%*
Net income per share (basic)	**$0.72**	$0.74	$1.30
Net income per share (diluted)	**$0.71**	$0.73	$1.28

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

	December 31, 2022	December 31, 2021	December 31, 2020
Total Assets	**$499.3**	$461.4	$404.6
Total Non-Current Liabilities	**$142.3**	$163.5	$191.3

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

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
Net income	**$19.3**	$19.7	$33.3
Adjustments:			
Amortization and depreciation	**41.0**	39.5	31.5
Interest	**8.3**	5.0	4.8
Income taxes	**2.9**	7.4	12.8
EBITDA	**71.5**	71.6	82.4
Unrealized foreign exchange (gain) loss	**4.4**	0.3	(1.9)
Acquisition costs	–	1.0	2.2
Contingent consideration fair value adjustment	**4.6**	9.6	(2.1)
Litigation settlement cost	–	2.5	–
Insurance proceeds (net)	–	(1.0)	–
Adjusted EBITDA	**$80.5**	$84.0	$80.6

PRODUCT LINE BREAKDOWN OF REVENUE

	Year ended December 31, 2022	Year ended December 31, 2021
Lottery (1)	76.3%	78.9%
Charitable	13.8%	12.9%
eGaming systems	9.9%	8.2%

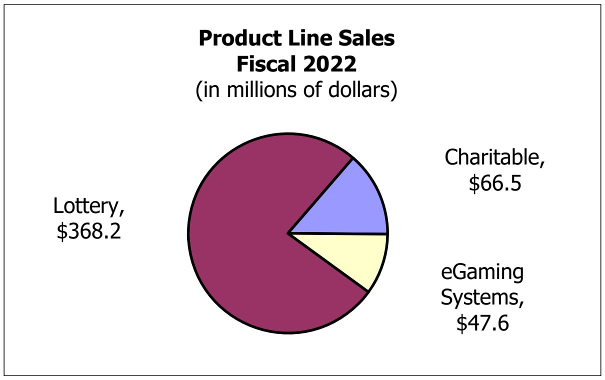
(1) Includes Next Generation Lotteries AS ("NGL") which was acquired on January 14, 2021.

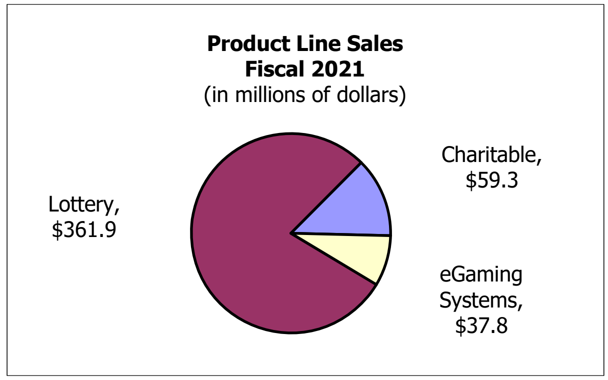
REVIEW OF OPERATIONS

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, 2022

Sales





During the year ended December 31, 2022 ("Fiscal 2022" or "2022"), Pollard achieved sales of $482.3 million, compared to $459.0 million in the year ended December 31, 2021 ("Fiscal 2021" or "2021"). Factors impacting the $23.3 million sales increase were:

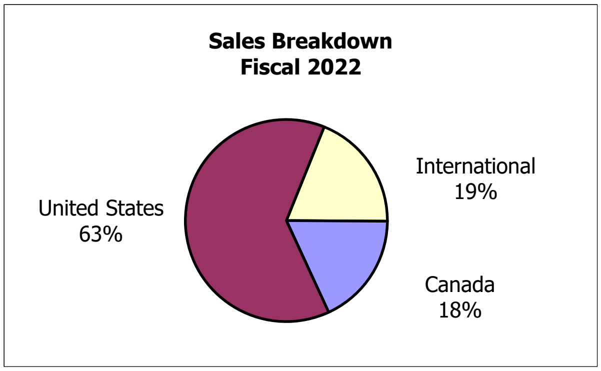
Higher eGaming systems revenue increased sales by $8.4 million, largely due to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2021. In addition, more retail establishments were open during 2022 as compared to 2021, further contributing to the increase in eGaming systems sales.

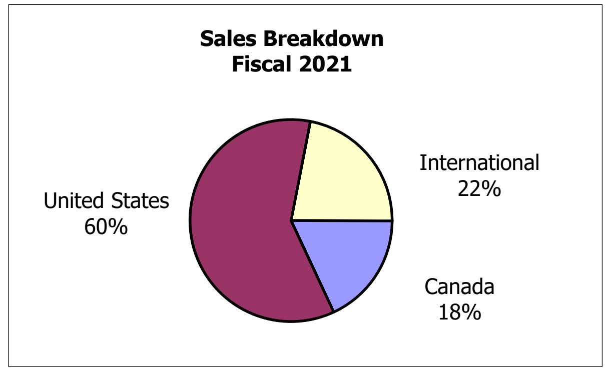
The higher average selling price of charitable games in Fiscal 2022 also increased sales by $8.2 million, as we have been able to pass along inflationary cost increases to our customers. Charitable gaming sales volumes were slightly lower in 2022 when compared to the record high pull-tab sales volumes achieved in 2021, decreasing sales by $3.3 million. In 2021, sales volumes were boosted by additional sales from pre-existing inventory.

Higher sales of ancillary lottery products and services increased revenue by $6.3 million in 2022, largely due to increased distribution, digital and loyalty product sales, partially offset by decreased sales of licensed products and retail merchandising products.

Furthermore, higher instant ticket sales volumes in 2022 increased sales by $2.5 million. This increase in sales was offset by the lower instant ticket average selling price as compared to 2021, which decreased sales by $6.6 million, due to the customer sales mix. Although we have been successful in repricing a sizable portion of instant ticket contracts during 2022, many of these contracts do not start until 2023, and therefore have not yet positively impacted our instant ticket average selling price.

Michigan iLottery sales were lower by $1.1 million as compared to 2021, when sales were higher, partially as a result of a double jackpot run in the first quarter of 2021.





During Fiscal 2022, Pollard generated approximately 71.5% (2021 – 68.3%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2022, the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.299, compared to an average rate of $1.254 during Fiscal 2021. This 3.6% increase in the U.S. dollar value resulted in an approximate increase of $11.8 million in revenue relative to Fiscal 2021. In addition, during 2022, the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $2.9 million in revenue relative to 2021.

Cost of sales and gross profit

Cost of sales was $400.5 million in Fiscal 2022 compared to $368.2 million in Fiscal 2021. The increase of $32.3 million in cost of sales was primarily the result of very significant inflationary pressures on raw material costs (including paper and ink), freight and other inputs to our instant ticket and printed charitable gaming products. Higher exchange rates on U.S. dollar denominated expenses, increases in certain manufacturing overhead costs and the increase in digital product sales in 2022 also added to the higher cost of sales. Partially offsetting these increases were small decreases in charitable gaming and retail merchandising product sales volumes as compared to 2021.

Gross profit was $81.8 million (17.0% of sales) in Fiscal 2022 compared to $90.8 million (19.8% of sales) in Fiscal 2021. This decrease of $9.0 million in gross profit was primarily a result of lower instant ticket sales margins, due to increased manufacturing costs, including the significant impact of inflation on the costs of inputs to our instant ticket production. Our instant ticket sales margins were also negatively impacted by the inability to increase our selling prices in the short-term, due to the nature of most our instant ticket contracts with lotteries being long-term and fixed price. Lower licensed product and Michigan iLottery sales compared to 2021 also lowered gross margins slightly. These decreases were partially offset by increases in eGaming systems, charitable gaming and digital product sales, which increased gross profit as compared to 2021. The lower gross margin percentage was largely due to the substantial impact of inflationary cost increases, coupled with an inability to increase our selling prices in the short-term, partially offset by increases in eGaming systems, charitable gaming and digital product gross margins as compared to 2021.

Administration expenses

Administration expenses were $49.8 million in Fiscal 2022 compared to $47.2 million in Fiscal 2021. The increase of $2.6 million was primarily a result of increased compensation expenses, consulting costs, professional fees, and conference and travel related costs. These increases were partially offset by a reduction in acquisition costs.

Selling expenses

Selling expenses were $17.4 million in Fiscal 2022 compared to $17.2 million in Fiscal 2021. The increase was primarily due to slightly higher travel related expenses.

Equity investment income

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to $23.7 million in Fiscal 2022 from the $12.3 million achieved in Fiscal 2021. This $11.4 million increase was primarily due to increased revenue on existing contracts held by NPi driven by greater gaming activity, reflecting strong organic growth, and a higher number of large jackpots in draw-based games.

Other expenses

Other expenses were $4.1 million in Fiscal 2022 compared to $5.2 million in Fiscal 2021. This decrease of $1.1 million was partially due to lower contingent consideration fair value adjustment expense, as part of our Compliant acquisition, decreasing other expenses by $5.0 million as compared to 2021. In addition, 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. Partially offsetting these decreases in other expenses was the receipt of $nil CEWS in 2022 compared to $5.4 million received in 2021.

Foreign exchange

The net foreign exchange loss was $3.7 million in Fiscal 2022 compared to a net foreign exchange loss of $1.4 million in Fiscal 2021. The 2022 net foreign exchange loss of $3.7 million resulted from a net unrealized foreign exchange loss of $4.4 million, comprised predominately of an unrealized loss on U.S. dollar denominated accounts payable and long-term debt due to the weakening of the Canadian dollar, which was partially offset by an unrealized gain on U.S. dollar denominated cash and accounts receivable. Partially offsetting the unrealized foreign exchange loss was a realized foreign exchange gain of $0.7 million, which was primarily due to foreign currency denominated accounts receivable being converted into Canadian dollars at favorable foreign exchange rates, partially offset by foreign currency denominated accounts payable paid at unfavorable exchange rates.

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.

Adjusted EBITDA

Adjusted EBITDA decreased to $80.5 million in Fiscal 2022 compared to $84.0 million in Fiscal 2021. The primary reasons for the decrease of $3.5 million include the decrease in gross profit (net of amortization and depreciation) of $7.5 million, primarily the result of lower instant ticket sales margins, due to increased manufacturing expenses, mainly caused by the impact of inflation on manufacturing input costs. This decrease in gross profit (net of amortization and depreciation) was partially offset by increased gross profits achieved on eGaming systems, charitable gaming and digital product sales as compared to 2021.

Other factors contributing to the decrease in Adjusted EBITDA include the increase in other expenses (net of contingent consideration, litigation settlement and insurance settlement) of $5.4 million, higher administration expenses (net of acquisition costs) of $3.6 million and higher selling expenses of $0.2 million. These decreases were partially offset by the increase in equity investment income of $11.4 million and the increase in realized foreign exchange gain of $1.8 million.

Interest expense

Interest expense increased to $8.3 million in Fiscal 2022 from $5.0 million in Fiscal 2021, primarily as a result of higher interest rates in 2022 and the increase in interest accretion on the discounted contingent consideration liability relating to the Compliant purchase of $1.1 million. Partially offsetting these increases to interest expense was the decrease in average long-term debt outstanding as compared to 2021.

Amortization and depreciation

Amortization and depreciation totaled $41.0 million during Fiscal 2022 which increased from $39.5 million during Fiscal 2021. The increase of $1.5 million was primarily as a result of amortization and depreciation taken on newly acquired property, plant and equipment, and intangible assets, partially offset by the reduction in amortization expense due to certain intangible assets becoming fully amortized during 2021.

Income taxes

Income tax expense was $2.9 million in Fiscal 2022, an effective rate of 13.2%, which was lower than our domestic rate of 27.0% due primarily to the effect of the lower federal income tax rates in foreign jurisdictions.

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.

Net income

Net income was $19.3 million in Fiscal 2022 compared to net income of $19.7 million in Fiscal 2021. The main reasons for the decrease of $0.4 million include the decrease in gross profit of $9.0 million, primarily caused by the impact of inflation on manufacturing input costs. This decrease in gross profit was partially offset by increased gross profits achieved on eGaming systems, charitable gaming and digital product sales as compared to 2021.

Other factors contributing to the decrease in net income include the increase in interest expense of $3.3 million, the increase in administration expenses of $2.6 million, the increase in net foreign exchange loss of $2.3 million and the increase in selling costs of $0.2 million. Partially offsetting these decreases in net income were the increase in equity investment income of $11.4 million, the decrease in income tax expense of $4.5 million and the decrease in other expenses of $1.1 million as compared to 2021.

Net income per share (basic and diluted) decreased to $0.72 and $0.71 per share, respectively, in Fiscal 2022 from $0.74 and $0.73 per share, respectively, in Fiscal 2021.

iLottery

Pollard and its iLottery partner, Neogames US 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 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Sales – Pollard's share									
Michigan iLottery	$7.9	$6.5	$6.2	$5.9	$5.6	$5.9	$6.8	$8.4	$8.6
NPi	17.7	13.7	12.4	11.3	10.5	9.8	9.9	9.9	6.1
Combined iLottery sales	$25.6	$20.2	$18.6	$17.2	$16.1	$15.7	$16.7	$18.3	$14.7
Income before income taxes – Pollard's share									
Michigan iLottery	$2.9	$2.2	$2.4	$2.0	$1.8	$2.0	$2.8	$4.0	$4.5
NPi	8.7	6.0	5.1	3.9	3.2	2.6	2.5	4.0	1.6
Combined income before income taxes – Pollard's share	$11.6	$8.2	$7.5	$5.9	$5.0	$4.6	$5.3	$8.0	$6.1

Substantial jackpots for POWERBALL® and Mega Millions® awarded in the latter half of January 2021 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 reduced draw-based game sales after the double jackpots in the first quarter of 2021, increased online gaming competition and new pricing coming into effect with our four-year contract extension, starting at the beginning of 2021. Through 2021 and 2022, NPi continued to achieve strong organic growth, adding to sales and income before taxes. In July 2022, a substantial Mega Millions® jackpot was awarded which increased sales in the third quarter of 2022. In November 2022, a record POWERBALL® jackpot was awarded which increased sales in the fourth quarter of 2022.

Liquidity and Capital Resources

Cash provided by operating activities

For the year ended December 31, 2022, cash flow provided by operating activities was $30.4 million compared to cash flow provided by operating activities of $56.5 million in Fiscal 2021. Changes in the non-cash working capital used $15.4 million in cash in 2022 compared to $9.3 million provided in 2021. In Fiscal 2022, changes in the non-cash working capital decreased cash flow from operations due primarily to increases to inventory and accounts receivable, partially offset by an increase to accounts payable and accrued liabilities. In Fiscal 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 inventory.

Cash used for interest increased to $5.9 million in 2022 as compared to $3.5 million in 2021. Cash used for income tax payments decreased to $7.5 million in 2022 from $21.1 million in 2021. 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, 2022, cash used for investing activities was $24.6 million compared to $60.6 million used in the year ended December 31, 2021. In Fiscal 2022, Pollard used $14.0 million on contingent consideration for the acquisition of Compliant, $14.3 million on capital expenditures, $18.9 million on additions to intangible assets and $1.2 million relating to the purchase of NGL. Partially offsetting these uses of cash, Pollard received $23.8 million from our investment in our iLottery joint venture in 2022.

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 in 2021 was $12.6 million Pollard received from our investment in our iLottery joint venture.

Cash used for financing activities

Cash used for financing activities was $7.7 million in the year ended December 31, 2022, compared to cash provided by financing activities of $6.4 million in the year ended December 31, 2021. During Fiscal 2022, Pollard received net proceeds from long-term debt of $3.2 million. This receipt of cash was offset by $6.6 million of lease principal payments and $4.3 million of dividend payments. 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.

As at December 31, 2022, Pollard had unused credit facility of $111.8 million and $1.5 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, 2022

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share amounts)

	Three months ended December 31, 2022	Three months ended December 31, 2021(1)
	(unaudited)	(unaudited)
Sales	**$126.9**	$116.5
Cost of sales	**108.0**	95.8
Gross profit	**18.9**	20.7
Administration expenses	**12.9**	11.9
Selling expenses	**4.9**	4.9
Equity investment income	**(8.7)**	(3.2)
Other expenses	**0.4**	2.4
Income from operations	**9.4**	4.7
Foreign exchange gain	**(3.1)**	(0.1)
Interest expense	**2.3**	1.6
Income before income taxes	**10.2**	3.2
Income taxes:		
Current	**1.2**	1.0
Deferred (reduction)	**(1.5)**	(3.0)
	(0.3)	(2.0)
Net income	**$10.5**	$5.2
Adjustments:		
Amortization and depreciation	**11.6**	10.8
Interest	**2.3**	1.6
Income taxes	**(0.3)**	(2.0)
EBITDA	**$24.1**	$15.6
Unrealized foreign exchange (gain) loss	**(2.2)**	0.6
Contingent consideration fair value adjustment	**0.5**	3.5
Insurance proceeds (net)	–	(1.0)
Adjusted EBITDA	**$22.4**	$18.7
Net income per share (basic and diluted)	**$0.39**	$0.19

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

Sales

During the three months ended December 31, 2022, Pollard achieved sales of $126.9 million, compared to $116.5 million in the three months ended December 31, 2021. Factors impacting the $10.4 million sales increase were:

Higher sales of ancillary lottery products and services increased revenue in the fourth quarter of 2022, as compared to the fourth quarter of 2021, by $6.5 million. This increase was primarily due to increased sales of licensed products, distribution services, retail merchandising products and digital products. In addition, higher instant ticket sales volumes increased sales by $1.9 million in the quarter. Partially offsetting these sales increases was a lower instant ticket average selling price due to a change in customer sales mix, decreasing sales by $7.9 million.

Higher Michigan iLottery sales increased revenue in the fourth quarter of 2022 by $1.7 million as compared to 2021, partially due to a substantial POWERBALL® jackpot awarded in the fourth quarter of 2022.

The higher average selling price of charitable games in 2022 further increased sales by $1.0 million as compared to 2021, as we have been able to pass along inflationary cost increases to our customers. In addition, higher charitable gaming volumes increased sales by $0.2 million in the fourth quarter of 2022 as Pollard's sales of pull-tab tickets and related products remained high due to strong customer demand.

eGaming systems revenue increased by $1.0 million in 2022, largely due to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2021.

During the three months ended December 31, 2022, Pollard generated approximately 71.5% (2021 – 65.6%) 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 2022, the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.361, compared to an average rate of $1.263 during the fourth quarter of 2021. This 7.7% increase in the value of the U.S. dollar resulted in an approximate increase of $6.5 million in revenue relative to 2021. In addition, during the fourth quarter of 2022, the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $0.5 million in revenue relative to 2021.

Cost of sales and gross profit

Cost of sales was $108.0 million in the fourth quarter of 2022 compared to $95.8 million in the fourth quarter of 2021. The increase of $12.2 million was primarily a result of significant inflationary pressure on raw material costs and other manufacturing inputs. The impact of cost increases on inputs throughout 2022 were substantially absorbed in the fourth quarter. Higher exchange rates on U.S. dollar denominated expenses, increases in certain manufacturing overhead costs and higher expenses related to greater licensed product and distribution services sales volumes also increased cost of sales as compared to 2021.

Gross profit was $18.9 million (14.9% of sales) in the fourth quarter of 2022 compared to $20.7 million (17.8% of sales) in the fourth quarter of 2021. This decrease in gross profit was primarily the result of lower instant ticket sales margins, due to increased manufacturing costs and driven by significant inflationary cost increases. In addition, we sold a greater mix of lower valued instant tickets, resulting in a lower instant ticket average selling price following the higher valued mix of sales in the third quarter of 2022. These decreases were partially offset by gross profit increases in charitable gaming, eGaming systems, Michigan iLottery, retail merchandising and digital product sales as compared to 2021. The lower gross profit percentage was largely due to increased manufacturing costs driven by significant inflationary cost increases, combined with selling a greater mix of lower valued instant tickets, resulting in a lower instant ticket average selling price following the higher valued mix of sales in the third quarter. These decreases in gross profit percentage were partially offset by increases in charitable gaming, retail merchandising and digital product sales.

Administration expenses

Administration expenses increased to $12.9 million in the fourth quarter of 2022 compared to $11.9 million in the fourth quarter of 2021. The increase of $1.0 million was largely a result of increased software licensing, and conference and travel related costs.

Selling expenses

Selling expenses were $4.9 million in the fourth quarter of 2022 and the fourth quarter of 2021.

Equity investment income

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to $8.7 million in the fourth quarter of 2022 from $3.2 million in the fourth quarter of 2021. This $5.5 million increase was primarily due to increased organic growth achieved on contracts held by NPi, as well as a substantial POWERBALL® jackpot awarded during the fourth quarter of 2022 which increased NPi's revenue as compared to 2021.

Other expenses

Other expenses were $0.4 million in the fourth quarter of 2022 compared to $2.4 million in the fourth quarter of 2021. This decrease of $2.0 million was primarily due to lower contingent consideration fair value adjustment expenses incurred in 2022, as part of our Compliant acquisition, decreasing other expenses by $3.0 million. This decrease was partially offset by the decrease in insurance proceeds, net of expenses recovered, of $1.0 million received in the fourth quarter of 2021 for a claim resulting from damage to ancillary production equipment.

Foreign exchange

The net foreign exchange gain was $3.1 million in the fourth quarter of 2022 compared to a net foreign exchange gain of $0.1 million in the fourth quarter of 2021. The 2022 net foreign exchange gain of $3.1 million consisted of a net unrealized foreign exchange gain of $2.2 million, primarily 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, which was partially offset by an unrealized loss on U.S. dollar denominated cash and accounts receivable. Also contributing to the 2022 net foreign exchange gain was a realized foreign exchange gain of $0.9 million, primarily due to foreign currency denominated accounts receivable being converted into Canadian dollars at favorable foreign exchange rates.

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.

Adjusted EBITDA

Adjusted EBITDA increased to $22.4 million in the fourth quarter of 2022 compared to $18.7 million in the fourth quarter of 2021. The primary reason for the $3.7 million increase in Adjusted EBITDA was the increase in equity investment income of $5.5 million. This increase was partially offset by the decrease in gross profit (net of amortization and depreciation) of $1.0 million, primarily due to lower instant ticket sales margins resulting from increased manufacturing costs, including the significant impact of inflation combined with a greater mix of lower valued instant tickets sold compared to 2021. This decrease in gross profit (net of amortization and depreciation) was partially offset by increases in eGaming systems, charitable gaming, Michigan iLottery, retail merchandising and digital product sales. The increase in administration expenses of $1.0 million also partially offset the increase in Adjusted EBITDA compared to 2021.

Interest expense

Interest expense increased to $2.3 million in the fourth quarter of 2022 from $1.6 million in the fourth quarter of 2021, primarily as a result of higher interest rates in 2022 and an increase in average long-term debt outstanding as compared to 2021, partially offset by lower interest accretion on the discounted contingent consideration liability related to the Compliant purchase of $0.4 million.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $11.6 million during the fourth quarter of 2022 which increased from $10.8 million during the fourth quarter of 2021. The increase of $0.8 million was primarily the result of amortization and depreciation taken on newly acquired property, plant and equipment, and intangible assets, partially offset by the reduction in amortization expense due to certain intangible assets becoming fully amortized during 2021.

Income taxes

Income tax recovery was $0.3 million in the fourth quarter of 2022, an effective rate of (3.3%), which differed from our domestic rate of 27.0% due primarily to the effect of non-taxable amounts, the effect of non-taxable items related to foreign exchange and the effect of lower federal income tax rates in foreign jurisdictions.

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

Net income

Net income was $10.5 million in the fourth quarter of 2022 compared to $5.2 million in the fourth quarter of 2021. The primary reasons for the increase in net income of $5.3 million were the increase in our share of income from our joint venture, NPi, of $5.5 million, the increase in the net foreign exchange gain of $3.0 million and the decrease in other expenses of $2.0 million. These increases in net income were partially offset by the decrease in gross profit of $1.8 million, primarily due to lower instant ticket sales margins resulting from increased manufacturing input costs, including the significant impact of inflation, coupled with a lower instant ticket average selling price due to a greater mix of lower valued instant ticket sales compared to 2021. This decrease in gross profit was partially offset by increases in eGaming systems, charitable gaming, Michigan iLottery, retail merchandising and digital product sales. Also decreasing net income were the increase in income tax expense of $1.7 million, the increase in administration expenses of $1.0 million and the increase in interest expense of $0.7 million.

Net income per share (basic and diluted) increased to $0.39 per share in the fourth quarter of 2022 from $0.19 per share in the fourth quarter of 2021.

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, 2022, Pollard’s investment in non-cash working capital increased $15.4 million compared to December 31, 2021, primarily as a result of increases to inventory and accounts receivable, partially offset by an increase to accounts payable and accrued liabilities. The increase in inventory was primarily due to the timing of the recognition of certain sales, in addition to the significant increase in the cost of key instant ticket manufacturing inputs (including raw materials such as paper and ink).

	December 31, 2022	December 31, 2021
Working Capital	$79.9	$62.2
Total Assets	$499.3	$461.4
Total Non-Current Liabilities	$142.3	$163.5

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 credit facility also includes an accordion feature which can increase the facility by $50.0 million. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $215.0 million 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, 2022, the outstanding letters of guarantee drawn under the credit facility were $0.1 million. The remaining balance available for drawdown under the credit facility was $111.8 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, 2022, 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, 2022, the outstanding letters of credit drawn on this facility were $13.5 million (€9.3 million). 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, 2022, outstanding share data was as follows:

Common shares	26,917,669

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, 2022, 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	2023	2024	2025	2026	2027 & thereafter
Long-term debt	$144.1	$7.3	$7.3	$129.5	$ –	$ –
Leases	15.4	7.0	3.5	2.6	1.5	0.8
Total	$159.5	$14.3	$10.8	$132.1	$1.5	$0.8

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, 2022, the aggregate fair value of the assets of Pollard's defined benefit pension plans was $79.5 million and the accrued benefit plan obligations were $78.5 million. Pollard's total annual funding contribution for its defined pension plans in 2023 is expected to be approximately $5.1 million, compared to $5.5 million in 2022.

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, 2022, Pollard paid property rent of $3.3 million (2021 - $3.3 million) and $0.2 million (2021 - $0.1 million) in plane charter costs to affiliates of Equities.

During the year ended December 31, 2022, Equities paid Pollard $0.07 million (2021 - $0.07 million) for accounting and administration fees.

At December 31, 2022, Pollard owed Equities and its affiliates $0.5 million (2021 - $nil) for rent, 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, 2022, the net book value of the right-of-use assets was $3.5 million (2021 - $6.6 million) and the present value of the lease liabilities was $3.7 million (2021 - $6.8 million).

Neogames US, LLP and affiliates

During the year ended December 31, 2022, Pollard reimbursed operating costs and paid software royalties of $13.8 million (2021 - $13.4 million) to its iLottery partner. These costs have been recorded in cost of sales and equity investment income.

At December 31, 2022, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of $3.1 million (2021 - $2.2 million) for its share of profits and reimbursement of operating costs, net of capital investments.

At December 31, 2022, included in restricted cash and accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of $5.1 million (2021 - $4.8 million) for funds relating to contractual performance guarantees.

Critical Accounting Policies and Estimates

Described in the notes to Pollard's 2022 audited consolidated financial statements are the accounting policies and estimates that Pollard believes are critical to its business. Please refer to note 2 (c) to the audited consolidated financial statements for the year ended December 31, 2022, for a discussion of the significant accounting estimates and judgements.

Future Changes in Accounting Policies

Described in the notes to Pollard's 2022 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, 2022 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 7, 2023, 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 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.

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 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.

As at December 31, 2022, the amount of financial liabilities denominated in U.S. dollars that exceeded the amount of financial assets denominated in U.S. dollars, with translation impacting the consolidated statements of income, was approximately $71.9 million (2021 - $52.7 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 $0.4 million (2021 - $0.3 million) for the year ended December 31, 2022.

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At December 31, 2022, 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 approximately $0.6 million for the year ended December 31, 2022 (2021 - $0.6 million).

Credit risk

Credit risk on Pollard's accounts receivable is minimized as accounts receivable are mainly from governments and their agencies. They are generally 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, as far as possible, 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, 2022, the unused balance available for drawdown was $111.8 million (2021 - $116.8 million).

The 2023 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

During 2022 retail dollar sales of instant tickets declined slightly from the previous year, following significant two-year growth totaling over 30% during 2020 and 2021. However, during the first two months of 2023 retail dollar sales have returned to mid-single digit growth in comparison to last year and continue to show significant resilience in light of current economic uncertainty. We believe solid underlying consumer demand will continue to generate positive demand from lotteries for instant tickets from their manufacturers, including Pollard.

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 printed charitable gaming product lines. The current demand for our products continues to outpace our ability to produce, particularly in our pull-tab product line, and we are increasing capacity to capitalize on this demand. The staffing challenges we have been experiencing have improved somewhat, allowing us to increase and retain additional staff to help us grow our volumes.

In addition, a number of equipment purchases and improvements are in process that will also increase our production capacity later in 2023. Our tablet and kiosk-based eGaming business also continues to fuel growth through new and improved game content and expanded sites. Charities, in conjunction with their regulators, are increasingly exploring opportunities to expand charitable gaming into electronic formats to help generate higher proceeds for their good causes, and we expect this trend to continue.

The iLottery market continues to generate significant opportunities, both in the short-term and long-term. Our existing iLottery contracts operated through our joint partnership have seen strong organic growth throughout 2022 as well as the very positive impacts of a number of record high POWERBALL® and Mega Millions® jackpots during the course of the year. Large jackpot runs attract a sizeable increase in the number of players to the iLottery sites, generating substantial increases in revenue in the immediate term, but also bringing in new long-term customers who continue to access and play iLottery going forward. We believe the organic growth experienced in 2022 will continue, and while it is hard to predict the cadence of large jackpot runs, in the first two months of 2023 we have already experienced the positive impact of both a large POWERBALL® and a large Mega Millions® jackpot.

Also difficult to project is the timing of new iLottery opportunities, particularly in the United States. The last new iLottery startup was in 2020, and the overall expansion of the market has been slow. We believe in the longer term there will be a number of additional U.S. lotteries initiating new iLottery operations. With the recent significant investments in our state-of-the-art iLottery platform and game content library, we are confident Pollard is well positioned to take advantage of these opportunities.

We have not seen any new significant inflationary cost increases on our major instant ticket manufacturing inputs such as paper, ink, packaging or freight for 2023 and so far do not anticipate any major new cost increases through the rest of the year. However, the large cost increases incurred during 2022 were done in stages throughout the year, with most of the higher costs being absorbed by the end of 2022. On a year over year basis, our manufacturing costs will be higher in 2023, reflecting these higher cost levels in place for the entirety of the year.

Our strategy for addressing the significant inflationary cost increases continues to be focused on aggressively resetting our selling prices at every rebid or renewal of our long-term contracts, which will continue through 2023 and beyond. We have been successful in raising our prices in a number of key contracts that were renewed in 2022, which confirmed the market's acceptance of the new market pricing and we believe this will continue in 2023. Contract terms are generally negotiated well in advance of their start date, so the 2022 repricing has not impacted our 2022 results but will start to be reflected in our financial results during the latter part of 2023 and into 2024.

We are being selective in accepting instant ticket orders where the current terms would require us to produce the work at unacceptable margins due to our recent input cost increases. Some of our contracts allow us discretion relative to accepting work. As a result, our instant ticket production volume is anticipated to be slightly lower than 2022 in the first half of 2023 as we focus on volumes with higher margins.

In addition to repricing our instant ticket contracts, a number of other initiatives are underway to help mitigate the financial impact of the inflationary cost increases including improving the efficiency of our manufacturing processes, internal cost reviews and continued focus on improving our average selling prices through innovation and selling proprietary products at higher margins.

We are seeing our various supply chains start to return to normal operating capacity and are seeing improved access to our key manufacturing inputs both in terms of increased available volumes and quicker turnaround times. While nothing is guaranteed, as we look out into 2023 we believe some of the supply chain challenges experienced in 2022 and prior because of the pandemic have been mitigated. Staffing resource issues have caused some inefficiencies in our production processes last year and, although we have seen some improvement in attracting and retaining staff in a number of our operations, we believe staffing will continue to be a challenge in 2023 for many manufacturers including Pollard.

Our business continues to generate strong cashflow with a high ratio of converting Adjusted EBITDA to cash, and we expect this to continue. We expect to retain significant available liquidity with our existing bank facilities and combined with our strong operating cashflow, we are confident we will have the available resources to continue to invest in the growth of our current businesses, devote capital to new opportunities, including acquisition prospects, as well as maintaining our very conservative debt management policy.

We are excited about the prospects for Pollard in 2023 as demand for our products and solutions remains high. Our strategy of developing a broad product portfolio to address all areas of our customers' needs has successfully allowed us to substantially offset the significant negative pressure on our instant ticket business due to the recent unprecedented inflationary input cost increases. We expect our charitable gaming, including eGaming system businesses, to continue to prosper in 2023 and anticipate continued growth from iLottery as well. We are hopeful that the cost pressures in our instant ticket business have plateaued and the contract repricing achieved in 2022, and through future negotiations, will start to positively impact our margins.

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.

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.

No changes were made in Pollard's internal control over financial reporting during the year ended December 31, 2022, 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, 2022, is available on SEDAR at www.sedar.com.

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