POLLARD banknote limited

December 31, 2023

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

FOR THE YEAR ENDED DECEMBER 31, 2023

March 5, 2024

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the year ended December 31, 2023, is prepared as at March 5, 2024, and should be read in conjunction with the accompanying audited consolidated financial statements of Pollard and the notes therein as at December 31, 2023. Results are reported in Canadian dollars and have been prepared in accordance with IFRS Accounting 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 net insurance proceeds. 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 NPi's 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, 2023 and 2022. 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 platform, eInstant 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 and wholly-owned 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, 2023.

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

	Year ended December 31, 2023	Year ended December 31, 2022(1)	Year ended December 31, 2021(1)
Sales	**$520.4**	$483.7	$460.2
Cost of sales	**434.6**	400.3	366.4
Gross profit	**85.8**	83.4	93.8
Gross profit as a % of sales	***16.5%***	*17.2%*	*20.4%*
Administration expenses	**58.3**	50.0	48.7
Administration expenses as a % of sales	***11.2%***	*10.3%*	*10.6%*
Selling expenses	**20.7**	17.4	17.5
Selling expenses as a % of sales	***4.0%***	*3.6%*	*3.8%*
NPi equity investment income	**(39.1)**	(22.3)	(11.1)
NPi equity investment income as a % of sales	***(7.5%)***	*(4.6%)*	*(2.4%)*
Other (income) expenses	**(0.1)**	4.1	5.2
Other (income) expenses as a % of sales	***(0.0%)***	*0.8%*	*1.1%*
Unrealized foreign exchange (gain) loss	**(2.0)**	4.4	0.3
Unrealized foreign exchange (gain) loss as a % of sales	***(0.4%)***	*0.9%*	*0.1%*
Net income	**31.4**	19.3	19.7
Net income as a % of sales	***6.0%***	*4.0%*	*4.3%*
Adjusted EBITDA	**91.3**	80.5	84.0
Adjusted EBITDA as a % of sales	***17.5%***	*16.6%*	*18.3%*
Net income per share (basic)	**$1.17**	$0.72	$0.74
Net income per share (diluted)	**$1.15**	$0.71	$0.73

	December 31, 2023	December 31, 2022(1)	December 31, 2021
Total Assets	**$515.7**	$506.7	$461.4
Total Non-Current Liabilities	**$139.5**	$142.7	$163.5

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

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

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Net income	**$31.4**	$19.3	$19.7
Adjustments:			
Amortization and depreciation	**45.0**	41.0	39.5
Interest	**10.5**	8.3	5.0
Income taxes	**6.1**	2.9	7.4
EBITDA	**93.0**	71.5	71.6
Unrealized foreign exchange (gain) loss	**(2.0)**	4.4	0.3
Contingent consideration fair value adjustment	**0.5**	4.6	9.6
Net insurance proceeds	**(0.2)**	–	(1.0)
Acquisition costs	–	–	1.0
Litigation settlement cost	–	–	2.5
Adjusted EBITDA	**$91.3**	$80.5	$84.0

PRODUCT LINE BREAKDOWN OF REVENUE

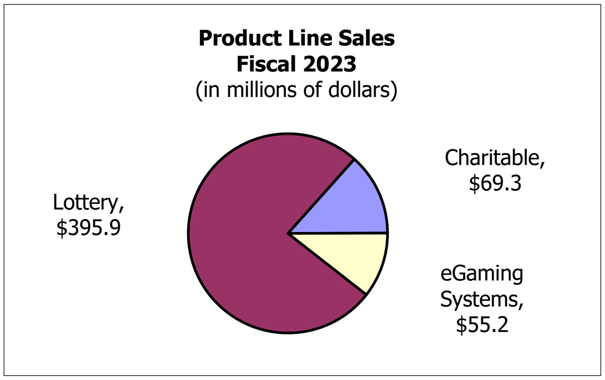
	Year ended December 31, 2023	Year ended December 31, 2022
Lottery	76.1%	76.4%
Charitable	13.3%	13.7%
eGaming systems	10.6%	9.9%

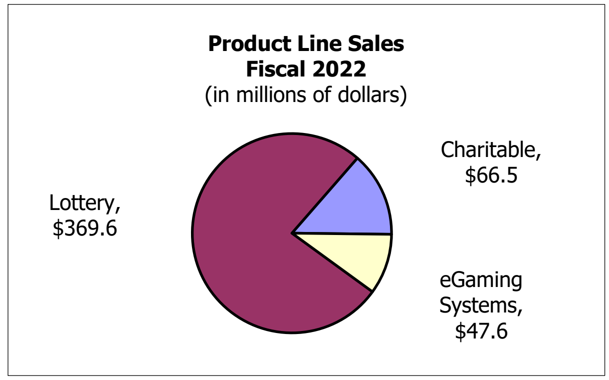
REVIEW OF OPERATIONS

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, 2023

Sales





During the year ended December 31, 2023 ("Fiscal 2023" or "2023"), Pollard achieved sales of $520.4 million, compared to $483.7 million in the year ended December 31, 2022 ("Fiscal 2022" or "2022"). Factors impacting the $36.7 million sales increase were:

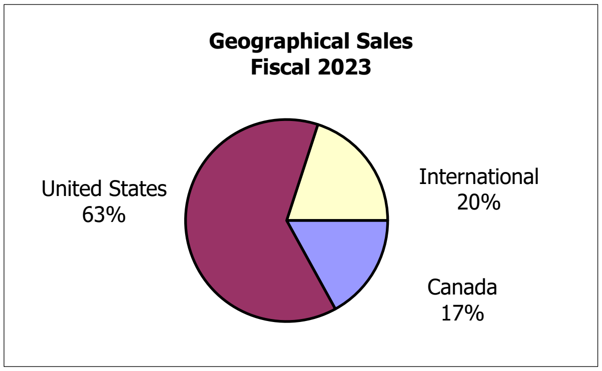
The higher instant ticket average selling price in Fiscal 2023 increased sales by $24.2 million as compared to 2022, as a result of the change in customer mix in part due to Pollard declining to accept certain discretionary lower margin work, the initial impact of repriced contracts and higher proprietary product sales. However, this increase was largely offset by the decrease in instant ticket sales volumes of $22.1 million as compared to 2022, primarily as a result of Pollard declining lower margin work.

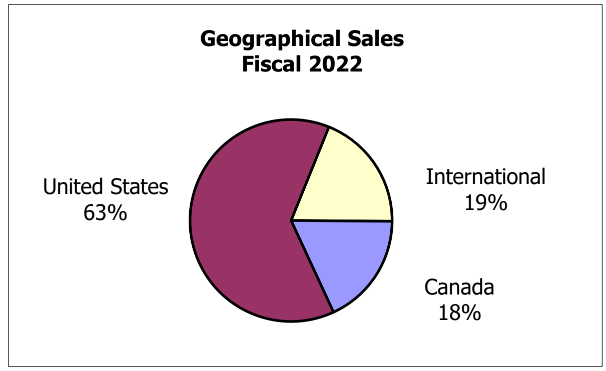
Higher sales of ancillary lottery products and services increased revenue by $11.4 million. This growth was largely due to increased sales of digital and loyalty products, distribution services and retail merchandising products.

Higher eGaming systems revenue increased sales by $5.7 million due primarily to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2022.

The higher average selling price of charitable games in 2023 also increased sales by $3.9 million as compared to 2022. However, this increase was offset by lower charitable gaming volumes, which decreased sales by $3.8 million, largely as a result of certain production inefficiencies.

Higher Michigan iLottery sales further increased revenue in 2023 by $0.4 million as compared to 2022.





During Fiscal 2023, Pollard generated approximately 70.5% (2022 – 71.5%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2023, the actual U.S. dollar value was converted to Canadian dollars at $1.352, compared to a rate of $1.298 in Fiscal 2022. This 4.1% increase in the U.S. dollar value resulted in an approximate increase of $14.4 million in revenue relative to Fiscal 2022. In addition, during 2023, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $2.7 million in revenue relative to 2022.

Cost of sales and gross profit

Cost of sales was $434.6 million in Fiscal 2023 compared to $400.3 million in Fiscal 2022. The increase of $34.3 million in cost of sales was primarily the result of the accumulated impact of significant inflationary cost increases incurred throughout 2022 on raw materials and other manufacturing inputs. In addition, higher exchange rates on U.S. dollar denominated expenses, increases in manufacturing overhead costs and higher expenses related to increased sales of ancillary lottery products and services further contributed to the increase in cost of sales as compared to 2022. Partially offsetting these increases in cost of sales were the lower costs related to the decrease in instant ticket sales volumes as compared to 2022.

Gross profit increased to $85.8 million (16.5% of sales) in Fiscal 2023 compared to $83.4 million (17.2% of sales) in Fiscal 2022. This increase of $2.4 million in gross profit was primarily the result of increased sales of eGaming systems, digital and loyalty products, retail merchandising products, licensed products and distribution services as compared to 2022. These increases were partially offset by lower instant ticket sales margins, and lower charitable gaming sales margins mainly due to certain production inefficiencies. Despite the positive impact of higher instant ticket average selling price compared to 2022, lower instant ticket sales volumes and higher manufacturing costs caused by the impact of accumulated inflation on the costs of inputs to our instant ticket production led to lower instant ticket sales margins as compared to 2022. While we have been successful in raising our selling prices for a number of customer contracts that were renewed in 2022 and 2023, contract terms are generally negotiated well in advance of their start date. Gross profit percentage decreased as a result of the lower instant ticket and charitable gaming sales margins, partially offset by higher eGaming systems, licensed products, and digital and loyalty products gross profit.

Administration expenses

Administration expenses increased to $58.3 million in Fiscal 2023 compared to $50.0 million in Fiscal 2022. The increase of $8.3 million was largely a result of increased compensation expenses, software licensing costs and travel related costs.

Selling expenses

Selling expenses increased to $20.7 million in Fiscal 2023 compared to $17.4 million in Fiscal 2022. The increase of $3.3 million compared to 2022 was primarily due to higher compensation and travel related expenses.

Equity investment income

Pollard's share of income from NPi increased to $39.1 million in Fiscal 2023 from the $22.3 million achieved in Fiscal 2022. This $16.8 million increase was primarily due to organic growth achieved on contracts held by NPi which generated greater gaming activity, further increasing NPi's income. In addition, higher revenues from several substantial Mega Millions® and Powerball® jackpots awarded throughout the year further increased NPi's income.

Other (income) expenses

Other income was $0.1 million in Fiscal 2023 compared to other expenses of $4.1 million in Fiscal 2022. This change of $4.2 million was primarily due to the decrease in the contingent consideration fair value adjustment expense, as part of previous acquisitions, of $4.1 million as compared to 2022.

Foreign exchange

The net foreign exchange gain was $2.0 million in Fiscal 2023 compared to a net foreign exchange loss of $3.7 million in Fiscal 2022. The 2023 net foreign exchange gain of $2.0 million resulted from a net unrealized foreign exchange gain of $2.0 million, primarily due to 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, partially offset by the unrealized loss on U.S. dollar denominated accounts receivable. In addition, Pollard experienced a realized foreign exchange gain primarily due to foreign currency denominated accounts receivable being converted into Canadian dollars at favorable foreign exchange rates, which was offset by a realized foreign exchange loss mainly due to foreign currency denominated accounts payable paid at unfavorable exchange rates.

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.

Adjusted EBITDA

Adjusted EBITDA increased to $91.3 million in Fiscal 2023 compared to $80.5 million in Fiscal 2022. The primary reasons for the increase of $10.8 million were the increase in equity investment income of $16.8 million and the increase in gross profit (net of amortization and depreciation) of $6.4 million. Partially offsetting these increases were the increase in administration expenses of $8.3 million, the increase in selling expenses of $3.3 million and the reduction in realized foreign exchange gain of $0.7 million.

Interest expense

Interest expense increased to $10.5 million in Fiscal 2023 from $8.3 million in Fiscal 2022, primarily as a result of higher interest rates in 2023 and the increase in average long-term debt outstanding which increased interest expense by $4.0 million as compared to 2022. Partially offsetting these increases to interest expense was the decrease in interest accretion of $1.8 million on the discounted contingent consideration liability relating to a previous acquisition.

Amortization and depreciation

Amortization and depreciation totaled $45.0 million during Fiscal 2023 which increased from $41.0 million during Fiscal 2022. The increase of $4.0 million was primarily the result of amortization and depreciation taken on newly acquired intangible assets and property, plant and equipment.

Income taxes

Income tax expense was $6.1 million in Fiscal 2023, an effective rate of 16.3%, which was lower than our domestic rate of 27.0% due primarily to the effect of lower income tax rates in foreign jurisdictions.

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 income tax rates in foreign jurisdictions.

Net income

Net income increased to $31.4 million in Fiscal 2023 compared to net income of $19.3 million in Fiscal 2022. The main reasons for the increase of $12.1 million include the increase in equity investment income of $16.8 million, the increase in net foreign exchange gain of $5.7 million, the increase in other income of $4.2 million and the increase in gross profit of $2.4 million. Partially offsetting these increases to net income were the increase in administration expenses of $8.3 million, the increase in selling expenses of $3.3 million, the increase in income tax expense of $3.2 million and the increase in interest expense of $2.2 million.

Net income per share (basic and diluted) increased to $1.17 and $1.15 per share, respectively, in Fiscal 2023 from $0.72 and $0.71 per share, respectively, in Fiscal 2022.

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"). 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 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Sales – Pollard's share									
Michigan iLottery	$7.0	$7.2	$6.5	$7.3	$7.9	$6.5	$6.2	$5.9	$5.6
NPi	21.8	21.5	18.5	18.5	17.7	13.7	12.4	11.3	10.5
Combined iLottery sales	$28.8	$28.7	$25.0	$25.8	$25.6	$20.2	$18.6	$17.2	$16.1
Income before income taxes – Pollard's share(1)									
Michigan iLottery	$2.5	$2.8	$1.8	$2.9	$2.9	$2.2	$2.4	$2.0	$1.8
NPi	11.0	11.1	8.8	8.2	8.3	5.7	4.7	3.6	3.0
Combined income before income taxes – Pollard's share	$13.5	$13.9	$10.6	$11.1	$11.2	$7.9	$7.1	$5.6	$4.8

Throughout 2022 and 2023, NPi's contracts achieved strong organic growth, adding to sales and income before taxes. In addition, quarterly sales and income before taxes are positively impacted during quarters where substantial draw-based game (Powerball® and Mega Millions®) jackpots are awarded.

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

Liquidity and Capital Resources

Cash provided by operating activities

For the year ended December 31, 2023, cash flow provided by operating activities was $64.6 million compared to cash flow provided by operating activities of $54.2 million in Fiscal 2022. Changes in the non-cash working capital provided $9.7 million in cash in 2023 compared to $15.4 million of cash used in 2022. In Fiscal 2023, changes in the non-cash working capital increased cash flow from operations due primarily to a decrease in inventory and an increase to accounts payable and accrued liabilities, partially offset by an increase to prepaids. 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.

Cash used for interest payments increased to $9.7 million in 2023 as compared to $5.9 million in 2022. Cash used for pension plan contributions decreased to $4.7 million in 2023 as compared to $7.1 million used in 2022. Cash used for income tax payments increased to $24.2 million in 2023 from $7.5 million in 2022. Income tax payments in 2023 included the final installments for the 2022 tax year and installments for 2023. Offsetting these uses of cash, Pollard received $39.1 million from our investment in our iLottery joint venture in 2023 as compared to $22.3 million received in 2022.

Cash used for investing activities

For the year ended December 31, 2023, cash used for investing activities was $52.1 million compared to $48.4 million used in the year ended December 31, 2022. In Fiscal 2023, Pollard used $23.5 million on additions to intangible assets, $14.6 million on capital expenditures and $14.0 million for acquisitions, primarily relating to contingent consideration paid for a previous acquisition.

In Fiscal 2022, Pollard used $18.9 million on additions to intangible assets, $15.1 million for acquisitions, primarily relating to contingent consideration paid for a previous acquisition and $14.3 million on capital expenditures.

Cash used for financing activities

Cash used for financing activities was $10.9 million for the year ended December 31, 2023, compared to cash used for financing activities of $7.7 million for the year ended December 31, 2022. During Fiscal 2023, lease principal payments of $6.7 million, dividend payments of $4.3 million and repayments of long-term debt of $0.9 million were made during the period. During Fiscal 2022, Pollard made lease principal payments of $6.6 million and dividend payments of $4.3 million. These cash outflows were partially offset by net proceeds from long-term debt received of $3.2 million.

As at December 31, 2023, Pollard had unused credit facility of $113.5 million and $3.3 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, 2023

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share amounts)

	Three months ended December 31, 2023	Three months ended December 31, 2022[1]
	(unaudited)	(unaudited)
Sales	**$135.5**	$127.3
Cost of sales	**111.0**	108.5
Gross profit	**24.5**	18.8
Administration expenses	**15.6**	12.8
Selling expenses	**5.6**	4.5
Equity investment income	**(11.0)**	(8.3)
Other expenses	**0.3**	0.4
Income from operations	**14.0**	9.4
Foreign exchange gain	**(2.9)**	(3.1)
Interest expense	**2.6**	2.3
Income before income taxes	**14.3**	10.2
Income taxes:		
Current	**5.1**	1.2
Deferred reduction	**(2.1)**	(1.5)
	3.0	(0.3)
Net income	**$11.3**	$10.5
Adjustments:		
Amortization and depreciation	**11.5**	11.6
Interest	**2.6**	2.3
Income taxes	**3.0**	(0.3)
EBITDA	**$28.4**	$24.1
Unrealized foreign exchange gain	**(2.7)**	(2.2)
Contingent consideration fair value adjustment	–	0.5
Adjusted EBITDA	**$25.7**	$22.4
Net income per share (basic)	**$0.42**	$0.39
Net income per share (diluted)	**$0.41**	$0.39

(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, 2023, Pollard achieved sales of $135.5 million, compared to $127.3 million in the three months ended December 31, 2022. Factors impacting the $8.2 million sales increase were:

The higher instant ticket average selling price in the fourth quarter of 2023 increased sales by $16.3 million as compared to 2022, primarily due to higher proprietary product sales, the growing impact of repriced contracts and the change in customer mix, in part as a result of not accepting certain discretionary lower margin work. However, this increase was partially offset by the decrease in instant ticket sales volumes of $6.2 million as compared to 2022, primarily as a result of Pollard declining lower margin work.

Higher eGaming systems revenue increased sales by $1.6 million due primarily to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2022.

The higher average selling price of charitable games in the fourth quarter of 2023 also increased sales by $0.6 million as compared to 2022. However, this increase was offset by lower charitable gaming volumes, which decreased sales by $2.0 million, largely as a result of certain production inefficiencies.

Also partially offsetting the increases to sales were lower sales of ancillary lottery products and services in the quarter, which further decreased revenue by $2.5 million as compared to 2022, largely due to decreased sales of licensed products and retail merchandising products.

Lower Michigan iLottery sales also decreased revenue in the fourth quarter of 2023 by $0.9 million as compared to the fourth quarter of 2022, partially due to a substantial Powerball® jackpot awarded in the fourth quarter of 2022.

During the three months ended December 31, 2023, Pollard generated approximately 64.9% (2022 – 71.5%) 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 2023, the actual U.S. dollar value was converted to Canadian dollars at $1.370, compared to a rate of $1.361 during the fourth quarter of 2022. This 0.7% increase in the U.S. dollar value resulted in an approximate increase of $0.6 million in revenue relative to 2022. In addition, during the fourth quarter of 2023, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $0.7 million in revenue relative to 2022.

Cost of sales and gross profit

Cost of sales was $111.0 million in the fourth quarter of 2023 compared to $108.5 million in the fourth quarter of 2022. The increase of $2.5 million was primarily the result of the accumulated impact of significant inflationary cost increases incurred throughout 2022 on raw materials and other manufacturing inputs. Partially offsetting this increase in cost of sales were the lower costs related to the decreases in instant ticket sales volumes and manufacturing overhead costs as compared to 2022.

Gross profit was $24.5 million (18.1% of sales) in the fourth quarter of 2023 compared to $18.8 million (14.8% of sales) in the fourth quarter of 2022. This increase of $5.7 million in gross profit and the increase in gross profit percentage were primarily due to higher instant ticket sales margins, largely caused by the higher instant ticket average selling price as a result of higher proprietary product sales, the growing impact of repriced contracts and the change in customer mix as compared to 2022. Higher sales of eGaming systems also contributed to the increase in gross profit in 2023. Partially offsetting these increases were lower charitable gaming sales margins, primarily due to certain production inefficiencies, and lower digital and loyalty product sales margins as compared to 2022.

Administration expenses

Administration expenses increased to $15.6 million in the fourth quarter of 2023 compared to $12.8 million in the fourth quarter of 2022. The increase of $2.8 million was largely a result of increased compensation expenses, consulting costs and travel related costs.

Selling expenses

Selling expenses increased to $5.6 million in the fourth quarter of 2023 compared to $4.5 million in the fourth quarter of 2022. The increase was primarily due to higher compensation expenses as compared to 2022.

Equity investment income

Pollard's share of income from NPi increased to $11.0 million in the fourth quarter of 2023 from the $8.3 million achieved in the fourth quarter of 2022. This $2.7 million increase was primarily due to organic growth achieved on contracts held by NPi which generated greater gaming activity, further increasing NPi's income.

Other expenses

Other expenses were $0.3 million in the fourth quarter of 2023 similar to $0.4 million in the fourth quarter of 2022.

Foreign exchange

The net foreign exchange gain was $2.9 million in the fourth quarter of 2023 compared to a net foreign exchange gain of $3.1 million in the fourth quarter of 2022. The 2023 net foreign exchange gain of $2.9 million resulted from a net unrealized foreign exchange gain of $2.7 million, primarily due to 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, partially offset by the unrealized loss on U.S. dollar denominated accounts receivable. In addition, Pollard experienced a realized foreign exchange gain of $0.2 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 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.

Adjusted EBITDA

Adjusted EBITDA increased to $25.7 million in the fourth quarter of 2023 compared to $22.4 million in the fourth quarter of 2022. The primary reasons for the increase of $3.3 million were the increase in gross profit (net of amortization and depreciation) of $5.6 million and the increase in equity investment income of $2.7 million. Partially offsetting these increases to Adjusted EBITDA were the increase in administration expenses of $2.8 million, the increase in selling expenses of $1.1 million, the reduction in realized foreign exchange gain of $0.7 million and the increase in other expenses (net of contingent consideration) of $0.4 million.

Interest expense

Interest expense increased to $2.6 million in the fourth quarter of 2023 from $2.3 million in the fourth quarter of 2022, primarily as a result of higher interest rates in 2023 which increased interest expense by $0.6 million as compared to 2022. Partially offsetting this increase to interest expense was the decrease in interest accretion of $0.3 million on the discounted contingent consideration liability relating to a previous acquisition.

Amortization and depreciation

Amortization and depreciation totaled $11.5 million during the fourth quarter of 2023 similar to $11.6 million during the fourth quarter of 2022.

Income taxes

Income tax expense was $3.0 million in the fourth quarter of 2023, an effective rate of 21.0%, which was lower than our domestic rate of 27.0% due primarily to the effect of lower income tax rates in foreign jurisdictions and the impact of the capital gains rate.

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 income tax rates in foreign jurisdictions.

Net income

Net income increased to $11.3 million in the fourth quarter of 2023 compared to net income of $10.5 million in the fourth quarter of 2022. The main reasons for the increase of $0.8 million include the increase in gross profit of $5.7 million and the increase in equity investment income of $2.7 million. Partially offsetting these increases to net income were the increase in income tax expense of $3.3 million, the increase in administration expenses of $2.8 million, the increase in selling expenses of $1.1 million, the increase in interest expense of $0.3 million and the decrease in net foreign exchange gain of $0.2 million.

Net income per share (basic and diluted) increased to $0.42 and $0.41 per share, respectively, in the fourth quarter of 2023 from $0.39 per share (basic and diluted) in the fourth quarter of 2022.

Quarterly Information
(unaudited)
(millions of dollars, except for per share amounts)

	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Sales(1)	$135.5	$129.1	$130.8	$125.0	$127.3	$125.9	$116.3	$114.2	$116.8
Adjusted EBITDA	25.7	24.8	22.1	18.6	22.4	20.2	18.9	19.0	18.7
Net income (loss)	11.3	7.7	7.5	4.8	10.5	(0.2)	2.5	6.4	5.2
Net income (loss) per share - basic	0.42	0.29	0.28	0.18	0.39	(0.01)	0.09	0.24	0.19

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

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 changing 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, 2023, Pollard's investment in non-cash working capital decreased $9.7 million compared to December 31, 2022, primarily as a result of a decrease in inventory and an increase to accounts payable and accrued liabilities, partially offset by an increase to prepaids.

	December 31, 2023	December 31, 2022(1)
Working Capital	$81.8	$77.8
Total Assets	$515.7	$506.7
Total Non-Current Liabilities	$139.5	$142.7

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

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 Secured Overnight Financing Rate ("SOFR"). At December 31, 2023, 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 $113.5 million.

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including our debt service coverage ratio and debt to income before interest, income taxes, amortization, depreciation and certain other items ratio. As at December 31, 2023, Pollard was 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 November 29, 2023, Pollard renewed its annual agreement with EDC. This agreement provides a €15.0 million facility whereby Pollard can issue qualifying letters of credit against the EDC facility. The facility is guaranteed by a general indemnity from Pollard. As of December 31, 2023, the outstanding letters of credit drawn on this facility were $14.7 million (€10.1 million). As of December 31, 2022, the outstanding letters of credit drawn on this facility were $13.5 million (€9.3 million).

Outstanding Share Data

As at December 31, 2023 and March 5, 2024, outstanding share data was as follows:

Common shares	26,972,669

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, 2023, the total share options issued and outstanding were 470,000.

Dividends

On March 5, 2024, the Board of Directors increased the rate of dividend from $0.04 per quarter per common share to $0.05 per quarter per common share, declaring a dividend of $0.05 per common share payable on April 15, 2024, for the quarter ending March 31, 2024.

Contractual Obligations

The following table outlines a schedule by year of contractual obligations outstanding, including related interest payments:

(millions of dollars)	Total	2024	2025	2026	2027	2028 & thereafter
Long-term debt	$136.5	$8.3	$128.2	$ –	$ –	$ –
Leases	19.9	5.5	4.7	3.8	2.9	2.9
Total	$156.4	$13.8	$132.9	$3.8	$2.9	$2.9

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, 2023, the aggregate fair value of the assets of Pollard's defined benefit pension plans was $91.6 million and the accrued benefit plan obligations were $94.2 million. Pollard's total annual funding contribution for its defined pension plans in 2024 is expected to be approximately $3.6 million, compared to $3.0 million in 2023.

Off-Balance Sheet Arrangements

Aside from our short-term and low value leases, Pollard has no other off-balance sheet arrangements.

Related Party Transactions

The Control Group and affiliates

Effective December 29, 2023, Pollard Equities Limited, which was jointly controlled by John Pollard, Douglas Pollard and Gordon Pollard, transferred 5,768,386 common shares of Pollard, representing approximately 21.4% of the issued and outstanding common shares of Pollard, equally each to JSP Equities Limited, which is controlled by John Pollard, Park Equities Limited, which is controlled by Gordon Pollard, and Oak Equities Limited, which is controlled by Douglas Pollard (collectively, the "Common Share Transfers"). The purpose of the Common Share Transfers was to reorganize the holdings of common shares by the Pollard family. Prior to giving effect to the Common Share Transfers, Pollard Equities Limited held 17,305,158 common shares representing approximately 64.2% of the issued and outstanding common shares.

In connection with the Common Share Transfers, each of John Pollard, Gordon Pollard, Douglas Pollard, JSP Equities Limited, Park Equities Limited and Oak Equities Limited and their respective shareholders (collectively, the "Control Group"), entered into a shareholders' agreement regarding the common shares of Pollard. Pursuant to the shareholders' agreement, the parties agreed to vote their common shares in the same manner, collectively, as a single block.

During the year ended December 31, 2023, Pollard paid property rent of $3.0 million (2022 - $3.3 million) and $0.5 million (2022 - $0.2 million) in plane charter costs to affiliates of the Control Group.

During the year ended December 31, 2023, the Control Group paid Pollard $0.07 million (2022 - $0.07 million) for accounting and administration fees.

At December 31, 2023, Pollard owed the Control Group and its affiliates $0.1 million (2022 - $0.5 million) 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 the Control Group. As at December 31, 2023, the net book value of the right-of-use assets was $5.5 million (2022 - $3.5 million) and the present value of the lease liabilities was $5.5 million (2022 - $3.7 million).

NeoGames US, LLP and affiliates

During the year ended December 31, 2023, Pollard reimbursed operating costs and paid software royalties of $16.7 million (2022 - $13.8 million) to its iLottery partner. These costs have been recorded in cost of sales and equity investment income.

At December 31, 2023, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of $4.4 million (2022 - $3.1 million) for its share of profits and reimbursement of operating costs, net of capital investments.

At December 31, 2023, included in restricted cash and accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of $5.1 million (2022 - $5.1 million) for funds relating to contractual performance guarantees.

Material Accounting Policies and Estimates

Described in the notes to Pollard's 2023 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, 2023, for a discussion of the significant accounting estimates and judgements.

Future Changes in Accounting Policies

Described in the notes to Pollard's 2023 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, 2023 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 5, 2024, which is available under Pollard's profile on SEDAR+ (www.sedarplus.ca).

Financial Instruments

Pollard has exposure to the following risks from its use of financial instruments:

Credit risk
Liquidity risk
Currency risk
Interest rate risk

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls 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.

Translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. As at December 31, 2023, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately $86.1 million (2022 - $71.9 million). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in income before taxes of approximately $0.4 million (2022 - $0.4 million) for the year ended December 31, 2023.

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At December 31, 2023, and 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, 2023 (2022 - $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. The estimated 2024 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 dollar sales of instant tickets in 2023 were steady compared to the sales achieved in 2022, remaining at the high levels attained following the significant growth experienced during 2020-2021. Based on early 2024 data we would expect similar levels of retail sales to be attained in 2024. We continue to see strong underlying consumer demand for these products, particularly in some of the higher value proprietary products and tickets with higher retail price points. Demand for products and services supporting the sale of instant tickets, such as retail dispensers and digital solutions including second chance draws and loyalty programs, are all seeing increased demand as lotteries look to grow the funds they generate for good causes.

The charitable gaming market, including printed products as well as eGaming machines, also experienced positive demand throughout the past year and we anticipate this will continue in 2024, in particular as charities and regulators look to expand digital offerings in these markets. Future opportunities include jurisdictions approving tablet and kiosk-based gaming in social settings to complement the traditional pull tabs and bingo games. Initiatives are under way in our manufacturing group to leverage new equipment and additional staff to increase our production to meet the growing demand.

The iLottery market experienced significant growth during 2023 as product expansion (North Carolina adding eInstants), a number of record jackpots in draw-based games and ongoing organic growth were all factors driving record North American iLottery results. Large Powerball® and Mega Millions® jackpot buildups led to higher sales as well as exposure to and retention of new players for the lotteries. The West Virginia Lottery will add to the market growth in 2024 with the recent award of a new iLottery contract to NPi.

We continue to see more interest from lotteries about iLottery in both greenfield opportunities as well as existing lotteries looking for refreshed solutions, including in the international marketplace. This has led to a number of opportunities to demonstrate our new state-of-the-art omnichannel platform and our game content library. Our internally developed Pollard iLottery solution provides an important complement to the ongoing success of our 50% owned iLottery joint venture. The sales cycle associated with iLottery opportunities is long, however we continue to believe that long term this business will become an increasingly critical important area for more lotteries.

The large inflationary increases to our instant ticket inputs were fully absorbed during 2023. We experienced no further inflationary cost increases during this past year and saw some small decreases in costs toward the end 2023. We are hopeful we will continue to see cost decreases going forward in 2024 and beyond as supply chains have largely returned to pre-pandemic levels of efficiencies.

Our strategy of aggressively repricing our instant ticket contract selling prices began in 2022 and has been very successful over the past two years. We have repriced a majority of our current volumes, however these contracts are negotiated well in advance of their start date resulting in the financial impact being delayed, with the higher prices not fully impacting our revenue until later in 2024.

Our instant ticket volumes are expected to be at similar levels to 2023, lower than the levels of 2021 and 2022. This is due to our continued strategy of not pursuing work which has unacceptable margins due to the higher input costs and selling prices not yet repriced, where our contracts allow us discretion relative to accepting work.

Identifying appropriate acquisition targets continues to be an important strategic initiative. Opportunities to continue to expand our portfolio of products and solutions targeted for lotteries, further enhancing our charitable gaming product offering and distribution channels, and increasing our expertise in digital solutions including additional game content are all being pursued.

Our business continues to generate strong cashflow, which supports our ongoing investment in CAPEX, development of new products like our iLottery platform and the ability to increase our dividend in the first quarter of 2024. Strong cash flow coupled with a conservative approach to our debt levels provides us with significant available resources to pursue our strategic objectives in a sustainable, capital efficient manner.

Our successes in 2023 have laid the foundation for continued financial growth in 2024 including supporting a 25% increase in our dividend. Strong demand continues across all of our main product lines and both the lottery and charitable gaming markets provide us opportunities to profitably grow our business. Our repricing of instant ticket contracts starting in 2022 has been successful and we will continue to see greater positive impacts throughout 2024. Higher selling prices coupled with emerging cost reductions of our inputs should provide improving margins. Opportunities exist throughout the lottery and charitable gaming markets for innovative solutions to support the objective of raising funds for good causes and we are excited about our prospects for growth in 2024.

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 of the disclosure controls and procedures. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of 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 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 design of 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, 2023, 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, 2023, is available on SEDAR+ at www.sedarplus.ca.

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