POLLARD banknote limited

2022 ANNUAL REPORT

CONTENTS

LETTER TO SHAREHOLDERS

Enclosed please find our 2022 Annual Report. 2022 was a strong year, as most of our products and solutions saw record breaking demand which helped us fuel continued growth of the company. This despite negative margin pressures in our largest segment, instant tickets, due to significant inflationary cost increases on our key inputs. Our strategy of developing expanded product portfolios and more diversified offerings to both lotteries and charitable gaming customers was critically important in generating the financial results to partially offset the margin squeeze experienced on instant tickets.

In 2022 Pollard Banknote achieved record revenue of $482.3 million, a 5.1% increase over 2021. Net income of $19.3 million was similar to 2021 Net Income of $19.7 million. Our Adjusted EBITDA(1) attained $80.5 million, down 4.2% from 2021. Cash flow from operating activities prior to change in non-cash working capital generated $45.8 million, similar to the funds generated in 2021 of $47.3 million.

Sales

Our 2022 sales achieved a record level of $482.3 million, reflecting very strong underlying demand for most of our product lines and generated by strictly organic growth, as no acquisitions were completed the last two years. Our Combined sales(1), including our share of revenue from our 50% joint venture operation NeoPollard Interactive LLC reached $537.4 million, also a new record, again due to strong organic growth in our iLottery operations.

Consumer demand for our traditional charitable gaming products including pull-tabs and bingo paper continued to grow in 2022. Revenue in 2022 was $66.5 million, $7.2 million or 12.1% higher than 2021 revenue of $59.3 million. We continue to see this strong demand in the early part of 2023, and we expect this trend to carry on.

In addition to growing demand for traditional printed products, there is significant interest within charities to expand their fund raising through the increased use of electronic gaming options to address growing consumer demand for these offerings. Our Diamond Game branded kiosk and Compliant Gaming branded tablet based eGaming options continue to grow through additional machine placements in retail establishments such as bars, bingo halls and fraternals. Another important factor driving higher revenue is more popular game content, which increases gross gaming revenue, an important factor in growing sales. eGaming systems revenue attained record levels of $47.6 million in 2022, an increase of 25.9% from last year's $37.8 million.

(1) See Non-GAAP measures for explanation

Our iLottery operations, managed through our 50% owned joint venture NeoPollard Interactive LLC, attained new record levels in 2022 driven by an increased number of significant high jackpots in the draw-based games, particularly with POWERBALL® and Mega Millions®, and increasing organic growth in a number of our existing contracts.

Among the significant jackpots during the year was the North American record setting USD$2.04 billion POWERBALL® jackpot awarded on November 7, 2022. Not only do these large jackpot runs attract significantly more players to the iLottery sites, we are also retaining many of these new customers to become ongoing regular iLottery players, generating higher revenue even after the large jackpots are paid out. This is a key driver of continuing organic growth in our existing iLottery contracts, particularly with our U.S. customers.

Combined iLottery sales(1), including our share of our joint venture revenue, was $81.6 million in 2022, up 22.2% from $66.8 million in 2021. No major new iLottery opportunities became available in 2022 but significant interest continues within the lottery market, particularly in the United States and certain jurisdictions internationally, and we are actively working to help additional lottery organizations obtain approvals to introduce this important new revenue stream.

Income before profit sharing and taxes generated from iLottery has increased in 2022, achieving $33.2 million in the year, up 45.0% from $22.9 million in 2021. Our iLottery business continues to be the market leader in North America, with five of the most successful contracts operating through our 50% owned joint business, generating approximately 66% of total iLottery gross gaming revenue in the United States.

After two years of very high growth in the retail dollar sales of instant tickets during the two-year period of 2020 and 2021, retail dollar sales in 2022 registered a small decline compared to last year. Consumer demand remains strong however, and with retail dollar sales in the first quarter of 2023 returning to positive growth. the slight reduction in growth in 2022 was not unexpected, particularly given the very high growth rates in the previous two years. We anticipate this renewed positive growth at the retail level, particularly in North America, to continue.

We enjoyed significant success within our instant ticket portfolio with a number of key contract awards, highlighted by receiving a new ten-year contract with the Texas Lottery and winning the primary instant ticket supply contract with the Minnesota Lottery. Expiring contracts were re-won, as well as extensions of existing contracts were granted, with many of our important lottery customers including California, Michigan, and the lotteries of France, Finland and Belgium, to name a few.

Our focus on new innovations across all our product lines remains an integral part of our strategy to drive sales growth, and include such examples as loyalty platforms, ongoing print innovations as well the introduction of a multi-phase approach to expand retail instant ticket sales in multi-lane big box stores. Lottery sales have primarily been sold through convenience stores and with our innovative solutions easyVEND™ and scanACTIV™, we can provide different options for retailers to effectively sell instant tickets right at the cash register in multi-lane retail environments. A number of pilot installations are now in the field. We are excited about these and other new innovative solutions in development to help our lottery and charitable gaming customers grow.

Our expanding strategy of offering more varied solutions to our lottery customers is highlighted by the success of our mkodo branded gaming apps and user interfaces. Increased demand for these critical tools in the digital lottery landscape resulted in an increase in year over year revenue of approximately 88% in this division, including a number of key gaming clients and a continued focus on developing exclusive proprietary digital products, such as GeoLocs, our proprietary geo location service critical in allowing our gaming clients to enforce jurisdictional boundaries.

Operations

2022 was a challenging year in our instant ticket operation due to the impact of significant cost inflation on all our main inputs through the year. Similar to our competitors, our paper, ink, packaging, freight and various manufacturing overheads all incurred significant double digit cost increases in a very short period of time. Due to the specialty nature of much of our inputs, there is very little ability to switch to alternatives in an attempt to mitigate these cost increases. It is also very difficult to increase our selling prices to offset these cost increases in the short term due to our instant ticket contracts being long-term in nature, on average 3-5 years in length, with our selling prices fixed for the length of the contract.

It is important to note that we have not experienced any significant new cost increases in our major inputs in 2023. We believe that will be the case going forward and ultimately are hopeful that some cost reductions may develop in the marketplace as overall demand for items like paper and ink from other sectors of the economy decline. However the full annual impact of cost increases incurred in 2022 will be felt in 2023, as much of the 2022 cost increases were implemented partway through 2022.

We have developed a number of strategies to address the large inflation impact on our input costs. Our primary strategy is to aggressively reprice all of our customer contracts when the opportunity allows us to do so, usually when the contract is expiring and comes up for rebid. Starting in 2022 we have been very successful in obtaining new higher selling prices to compensate us for these additional costs and gradually restore our margins to historic levels. New contract terms, however, are usually negotiated well in advance of their effective date so very little of these higher selling prices have impacted our financial results in 2022. For example, new terms may be negotiated in July of 2022 for orders starting in January 2023, and new orders may not be completed until April or May of 2023, delaying the impact of these new selling prices in our financial results until that time. In addition, due to the length of our contracts, on average having a three to five year term, it will take some period of time for all of our major contracts to come up for rebid. We will continue resetting our selling prices as the opportunities arise and we anticipate seeing some positive impact on our revenue and margins later in 2023.

In addition, we continue to focus on selling our valued-added options in order to increase selling prices and margins on instant tickets. We have also become more selective in taking on discretionary instant ticket production, declining work where our new cost structure does not provide for an adequate return on our investment.

We also incurred some challenges in our supply chain logistics during the year resulting in some inefficiencies and delays in our manufacturing operations, while the staffing difficulties experienced by many organizations throughout 2022 also negatively impacted our overall production processes. We are pleased to note that as we enter 2023 pressures on our various supply chains and logistics have eased significantly and while still an ongoing challenge, attracting and retaining qualified staff throughout our organization has improved.

Overall instant ticket production volumes increased approximately 5.2% in 2022, despite some of the ongoing challenges in supply chain timing and staffing. Our focus remained on premium products and instant tickets including options such as Scratch FX®, pouched products and play features such as accompanying digital games. Premium products do allow us to improve our margins and establish important recurring sales for our lottery customers.

Helping to mitigate the negative pressure on our margins in our instant ticket business was higher gross margins from the charitable gaming and eGaming systems businesses. Greater customer demand, coupled with an ability to pass on higher costs through increased selling prices, allowed this area to generate very strong margins. This includes benefiting from incrementally higher margins in our eGaming operations as they grow.

Our overall gross margin declined in 2022 when compared to last year, from a gross margin of $90.8 million in 2021 to $81.1 million in 2022, a 9.9% decline. Gross margin percentage of 17.0% was lower than our 2020 gross margin of 19.8% due to negative margin pressure on instant tickets partially offset by higher margins in the charitable gaming and eGaming operations. As discussed previously we are focused on our key strategy to mitigate the negative margin pressure on instant tickets through aggressively repricing our contracts when they come due to recover the impact of the cost increases and return our margins to historic levels.

Our administration and selling expenses increased in total by 4.3% when compared to 2021, $67.2 million versus $64.4 million. Increased travel and marketing related costs due to a continuing return to pre-COVID levels of activity and additional investments in resources to expand our digital resources accounts for the increase.

Our net finance costs of $12.0 million exceeded the 2021 net finance costs of $6.4 million due to higher Interest costs of $3.3 million, due to higher interest expense related to the interest accretion on our contingent consideration liability and higher interest rates. In addition, the weakening Canadian Dollar relative to the U.S. Dollar generated a higher foreign exchange loss of $2.3 million due to long term debt being denominated in U.S. Dollars.

Acquisitions

No new acquisitions were completed during 2022, after a number of successful transactions over the past five years, and the focus continued on integrating our operations to maximize cost efficiencies and providing valued service to our lottery and charitable gaming customers.

Acquisitions continue to be an important objective of Pollard and we continue to review opportunities to expand and complement our current product offerings, with a focus on strategic and value-adding prospects in the charitable gaming and digital technology areas to support our growth.

Capital

Our capital management process remains very conservative, with an emphasis on ongoing decision making to maximize return on capital while maintaining a low debt level. This conservative debt strategy has allowed us to maintain significant flexibility with our liquidity, particularly useful in the current interest rate environment.

Our operations continued to produce significant operating cash, generating almost $45.8 million before investments in non-cash working capital. This significant internally generated cash allowed us to invest in the critical areas of our business throughout 2022. Approximately $15.4 million was invested in working capital during 2022, primarily in increased inventory.

Our capital expenditures totaled $14.3 million, down from the levels incurred in 2021. We also made significant investments in our intangible asset portfolio of $18.9 million up 50.0% from the levels invested in 2021. Significant ongoing investments were made to our iLottery platform technology and increasing the number of eInstant games developed in our game content library, a critically important asset for success in the iLottery market. We have upgraded our iLottery technology from the strong base acquired with the acquisition of Next Generation Lotteries and will continue to ensure our solution remains state of the art. Significant investment in additional game content for our eGaming solutions were also incurred in 2022.

Conclusion

2022 was a positive year for Pollard Banknote, despite the inflationary cost challenges in instant tickets, as all of our product lines experienced high demand throughout the year, which has continued into 2023. In particular, charitable gaming products, eGaming systems and iLottery operations all experienced very strong demand from our clients, driven by the ultimate retail consumers. Indeed, it was our strategy of expanding our portfolio to include other products and solutions outside traditional instant tickets that allowed us to substantially mitigate the negative inflationary pressures and generate strong overall financial results. In addition, our instant ticket contract repricing strategy continues to be successful and over time we are confident of a return to historic margins in this product line. And in combination with our continued success in areas like charitable gaming, eGaming systems and iLottery, we are very excited for the future of our organization.

Our vision of being the partner of choice for lotteries and charitable gaming organizations has uniquely positioned Pollard for ongoing success as we grow alongside our customers. While 2022 provided our organization with some challenges, we are incredibly proud of our 2,200 team members who continue to tirelessly work with our customers to help them generate proceeds for their various good causes. To all our employees who make Pollard Banknote the successful organization it is today, we say thank you.

We would also like to thank the other stakeholders in our extended Pollard family including: our customers, lottery and charitable organizations from around the world whose vision for generating funds for good causes in a socially responsible manner is the focal point for all; our shareholders who continue to support our long-term vision of serving our core markets the right way and help us to build a successful company; and of course our Board of Directors, who are always there to provide advice, direction and leadership in our journey for excellence.

Jerry Gray is not standing for re-election to the board in our upcoming Annual General Meeting. Jerry retired from our Board originally May 14, 2021, but was reappointed on an interim basis on August 10, 2022. We would like to thank Jerry for coming back to the Board to assist us over this past year and for continuing to provide guidance and direction to the Board of Directors and the senior management team.

To all of you, thank you very much for your support, and we are looking forward to the opportunities ahead of us in 2023.

Douglas Pollard
Co-Chief Executive Officer

John Pollard
Co-Chief Executive Officer

March 31, 2023

DIRECTORS OF POLLARD BANKNOTE LIMITED

Gordon Pollard

Executive Chair

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

Dave Brown

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

Lee Meagher

Lee Meagher founded Scootaround, Inc. in 1997, an international personal transportation solutions company providing rentals, sales and service to the travelling public. She served as its Chief Executive Officer from inception to 2019, when Scootaround merged its operations with Whill Inc., a Tokyo based mobility device company. She currently serves as one of the directors of Scootaround Mobility Holdings Inc. Mrs. Meagher is the current Chair of the Board of CancerCare Manitoba Foundation. She also serves as a Director of the Pan Am Clinic Foundation, sits on the Advisory Committee of The Co-Habit Project and is past Chair of the St. Boniface Hospital Research Foundation. She holds a B.A. from the University of Manitoba.

Jerry Gray

Jerry Gray is Dean Emeritus of the I. H. Asper School of Business at the University of Manitoba where he also held the CA Manitoba Endowed Chair in Business Leadership. He is a Past Chair of the Winnipeg Regional Health Authority and former director and Chairman of the Board of Gendis, Inc. He has consulted with many major corporations in the United States and Canada in the areas of motivation, organizational design, manpower planning, managing change, management development, incentive system design, customer service and strategic planning.

Douglas Pollard

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

John Pollard

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

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%

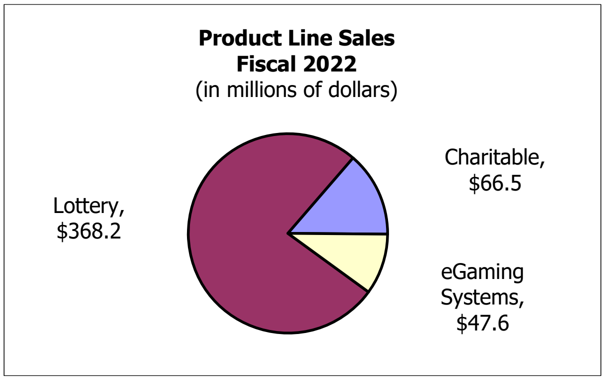
(1) Includes Next Generation Lotteries AS ("NGL") which was acquired on January 14, 2021.

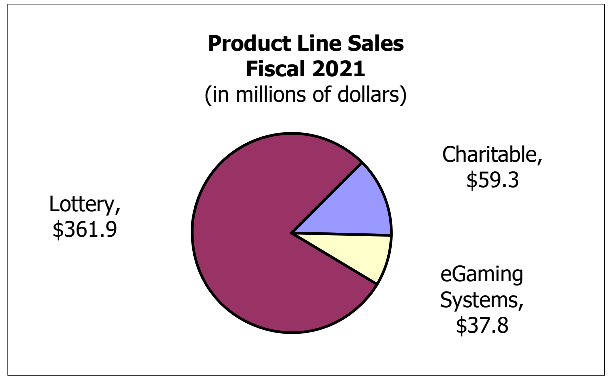
REVIEW OF OPERATIONS

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:

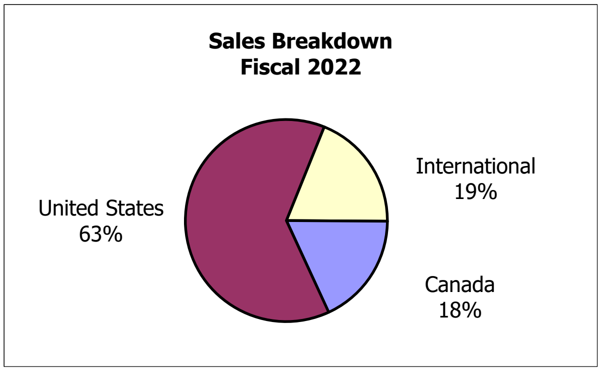
Higher eGaming systems revenue increased sales by $8.4 million, largely due to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2021. In addition, more retail establishments were open during 2022 as compared to 2021, further contributing to the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

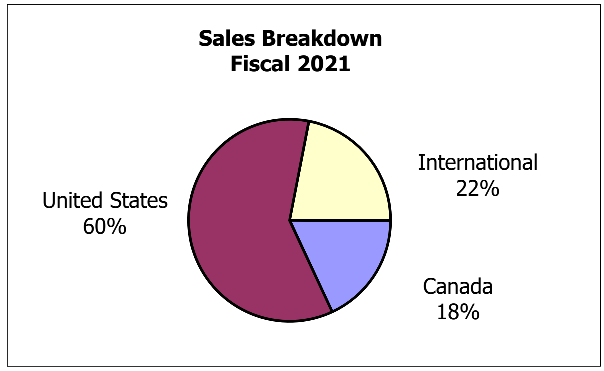
The higher average selling price of charitable games in Fiscal 2022 also increased sales by $8.2 million, as we have been able to pass along inflationary cost increases to our customers. Charitable gaming sales volumes were slightly lower in 2022 when compared to the record high pull-tab sales volumes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

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

Management's Report

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

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

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

"John Pollard"

JOHN POLLARD
Co-Chief Executive Officer

"Robert Rose"

ROBERT ROSE
Chief Financial Officer

March 10, 2023

Consolidated Financial Statements of

POLLARD BANKNOTE LIMITED

Years ended December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pollard Banknote Limited

Opinion

We have audited the consolidated financial statements of Pollard Banknote Limited (the "Entity"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of the goodwill impairment analysis for cash generating units

Description of the matter

We draw attention to Notes 2(c), 3(l) and 10 to the financial statements. The goodwill balance as of December 31, 2022 was $111,156 thousand related to the Lotteries, Charitable gaming, eGaming systems and Retail cash generating units and groups of cash generating units (CGUs). The Entity performs goodwill impairment testing at least on an annual basis. This requires an estimation of the recoverable amount of each CGU based on the greater of the "value in use" or "fair value less costs to sell" of the CGU.

The determination of each of these amounts require the Entity to make significant estimates and assumptions which include projected revenue and discount rates.

Why the matter is a key audit matter

We identified the evaluation of the goodwill impairment analysis for the CGUs as a key audit matter. This matter represented an area of significant risk of misstatement given the magnitude of the goodwill balance. This matter required significant auditor judgment in evaluating the results of our audit procedures due to the high degree of estimation uncertainty involved in the Entity's estimates and assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We compared the Entity's historical revenue estimates to actual results to assess the Entity's ability to accurately project revenue assumptions.

We evaluated the Entity's projected revenue assumptions by comparing those assumptions to the Entity's expected growth rates. We took into account changes in conditions and events affecting each CGU to assess the adjustments or lack of adjustments made in arriving at projected revenue.

We involved valuation professionals with specialized skills and knowledge to assist in assessing the discount rates used in the estimated recoverable amounts, by comparing them to discount rate ranges that were independently developed using publicly available information for comparable entities.

Other Information

Management is responsible for the other information. Other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report, and the Annual Report 2022, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report 2022, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is Austin Abas.

Winnipeg, Canada

March 7, 2023

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

	December 31, 2022	December 31, 2021
Assets		
Current assets		
Cash	$ 1,479	$ 3,517
Restricted cash	25,030	19,237
Accounts receivable	79,310	73,351
Inventories (note 6)	62,132	45,008
Prepaid expenses and deposits	6,917	7,576
Income taxes receivable	10,065	4,477
Total current assets	184,933	153,166
Non-current assets		
Long-term receivables	488	584
Property, plant and equipment (note 7)	100,620	104,590
Equity investment (note 9)	549	585
Goodwill (note 10)	111,156	108,175
Intangible assets (note 11)	99,462	94,305
Deferred income taxes (note 12)	1,070	–
Pension asset (note 14)	988	–
Total non-current assets	314,333	308,239
Total assets	$ 499,266	$ 461,405

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

		December 31, 2022		December 31, 2021
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	89,523	$	81,306
Dividends payable		1,077		1,077
Income taxes payable		6,189		194
Current portion lease liabilities (note 8)		6,081		6,151
Contract liabilities (note 17)		2,159		2,242
Total current liabilities		105,029		90,970
Non-current liabilities				
Lease liabilities (note 8)		7,539		10,419
Deferred income taxes (note 12)		12,623		11,112
Long-term debt (note 13)		121,655		115,130
Other non-current liabilities		486		4,276
Pension liability (note 14)		–		22,541
Total non-current liabilities		142,303		163,478
Shareholders' equity				
Share capital (note 15)		149,849		149,849
Reserves		8,913		(1,579)
Retained earnings		93,172		58,687
Total shareholders' equity		251,934		206,957
Commitments and contingencies (note 16)				
Total liabilities and shareholders' equity	$	499,266	$	461,405

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Dave Brown" Director

"John Pollard" Director

Pollard Banknote Limited
Consolidated Statements of Income
(*In thousands of Canadian dollars, except for share amounts*)

Years ended December 31

		2022		2021
Sales (note 17)	$	482,278	$	459,014
Cost of sales		400,455		368,261
Gross profit		81,823		90,753
Administration		49,795		47,214
Selling		17,457		17,189
Equity investment income (note 9)		(23,720)		(12,336)
Other expenses (note 18)		4,097		5,169
Income from operations		34,194		33,517
Finance costs (note 19)		15,579		7,234
Finance income (note 19)		(3,600)		(832)
Income before income taxes		22,215		27,115
Income taxes (note 12)				
Current		9,584		14,247
Deferred (reduction)		(6,646)		(6,833)
		2,938		7,414
Net income	$	19,277	$	19,701
Net income per share (basic) (note 20)	$	0.72	$	0.74
Net income per share (diluted) (note 20)	$	0.71	$	0.73

See accompanying notes to consolidated financial statements.

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

Years ended December 31

		2022		2021
Net income	$	19,277	$	19,701
Other comprehensive income:				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations		10,492		(4,142)
Items that will never be reclassified to profit and loss				
Defined benefit plans remeasurements, net of income tax (note 12 & note 14)		19,171		12,111
Other comprehensive income		29,663		7,969
Comprehensive income	$	48,940	$	27,670

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited
Consolidated Statements of Changes in Equity
(*In thousands of Canadian dollars*)

Year ended December 31, 2022

		Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2021	$	149,849	(1,579)	58,687	206,957
Net income		–	–	19,277	19,277
Other comprehensive income					
Foreign currency translation differences – foreign operations		–	10,492	–	10,492
Defined benefit plans remeasurements, net of income tax (note 12 & note 14)		–	–	19,171	19,171
Total other comprehensive income	$	–	10,492	19,171	29,663
Total comprehensive income	$	–	10,492	38,448	48,940
Share based compensation	$	–	–	344	344
Dividends (note 15)		–	–	(4,307)	(4,307)
Balance at December 31, 2022	$	149,849	8,913	93,172	251,934

Year ended December 31, 2021

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

See accompanying notes to consolidated financial statements.

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

Years ended December 31

	2022	2021
Cash increase (decrease)		
Operating activities		
Net income	$ 19,277	$ 19,701
Adjustments		
Income taxes	2,938	7,414
Amortization and depreciation	40,982	39,554
Interest expense	8,259	4,980
Unrealized foreign exchange loss	4,465	251
Equity investment income (note 9)	(23,720)	(12,336)
Pension expense (note 14)	9,453	9,947
Contingent consideration fair value adjustment (note 18)	4,559	9,550
Interest paid	(5,855)	(3,539)
Income taxes paid	(7,489)	(21,068)
Pension contributions	(7,083)	(7,189)
Change in non-cash operating working capital (note 22)	(15,382)	9,272
	30,404	56,537
Investing activities		
Additions to property, plant and equipment (note 7)	(14,318)	(22,226)
Contingent consideration paid for acquisition of Compliant Gaming, LLC	(13,994)	–
Acquisition of Compliant Gaming, LLC	–	(289)
Acquisition of Next Generation Lotteries AS (note 5)	(1,150)	(38,083)
Equity distribution (note 9)	23,792	12,613
Additions to intangible assets (note 11)	(18,902)	(12,604)
	(24,572)	(60,589)
Financing activities		
Net proceeds from issue of share capital	–	32,763
Net borrowings (repayments) of long-term debt (note 13)	3,174	(15,350)
Change in other non-current liabilities	108	90
Lease principal payments	(6,551)	(6,227)
Deferred financing charges paid (note 13)	(152)	(650)
Dividends paid	(4,307)	(4,257)
	(7,728)	6,369
Foreign exchange loss on cash held in foreign currency	(142)	(688)
Change in cash position	(2,038)	1,629
Cash position, beginning of year	3,517	1,888
Cash position, end of year	$ 1,479	$ 3,517

See accompanying notes to consolidated financial statements.

1. Reporting entity:

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

The consolidated financial statements of Pollard as at and for the year ended December 31, 2022, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and charitable gaming products and solutions.

The controlling entity of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owned approximately 64.3% of Pollard's outstanding shares as at December 31, 2022.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

On March 7, 2023, Pollard's Board of Directors approved these consolidated financial statements.

(b) Basis of preparation:

These consolidated financial statements have been prepared on a historical cost basis, except for the following material items in the statement of financial position:

- The pension asset is recognized as the net total of the fair value of plan assets less the present value of the defined benefit obligation.

- The contingent consideration liability is recognized at the present value of the expected payments to be made under the agreement.

These statements are presented in Canadian dollars, Pollard's functional currency, and all values are rounded to the nearest thousand (except share and per share amounts) unless otherwise indicated.

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

2. Basis of preparation (continued):

(c) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Actual results may differ from these estimates.

Information about judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next period are as follows:

Impairment of goodwill:

Pollard determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units ("CGUs"), or groups of CGUs, to which goodwill is allocated. Estimating value in use requires Pollard to make estimates of the expected future cash flows from the CGUs, or groups of CGUs, to which goodwill is allocated. Pollard also chooses suitable discount rates in order to calculate the present value of those cash flows. Judgment is required in determining the level at which to test goodwill, including the grouping of CGUs that generate cash inflows. Further details are provided in note 10.

Employee future benefits:

Accounting for defined benefit plans requires Pollard to use actuarial assumptions. These assumptions include the discount rate and the rate of compensation increases. These assumptions depend on underlying factors such as economic conditions, government regulations, investment performance, employee demographics and mortality rates. Further details are provided in note 14.

Income taxes:

Pollard is required to evaluate the recoverability of deferred income tax assets. This requires an estimate of Pollard's ability to utilize the underlying future income tax deductions against future taxable income before they expire. In order to evaluate the recoverability of these deferred income tax assets, Pollard must estimate future taxable income. Further details are provided in note 12.

2. Basis of preparation (continued):

Leases:

Upon inception of all leases, Pollard assesses whether it is reasonably certain that lease extension options will be exercised. Pollard also makes assumptions as to the discount rate applied to the lease liability upon recognition. If there is a significant event or change in circumstances within Pollard's control, these judgments and assumptions could change and may result in material adjustments to right-of-use assets and corresponding lease liabilities. Further details are provided in note 8.

Acquisition accounting:

For acquisition accounting purposes, all identifiable assets and liabilities acquired in a business combination are recognized at fair value at the date of acquisition. Estimates and assumptions are used to calculate the fair value of these assets and liabilities. Changes to assumptions could significantly impact the fair values of certain assets, such as intangible assets. Pollard's significant assumptions used in determining the acquisition date fair value of intangible assets include projected revenue and related gross profit, discount rates and projected revenue growth rates.

3. Significant accounting policies:

The following accounting standards came into effect in 2022:

Amendments to IAS 37 – Cost of Fulfilling a Contract:

In May 2020, the International Accounting Standards Board ("IASB") issued *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*. The amendments address the fact that IAS 37 does not specify which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous. The amendments clarify that costs of fulfilling a contract comprise both the incremental costs and an allocation of direct costs. The amendments were implemented on January 1, 2022. Pollard has determined that the amendments have not had a material impact on its consolidated financial statements.

Amendments to IAS 16 – Proceeds before Intended Use:

In May 2020, the IASB issued *Property, Plant and Equipment Proceeds before Intended Use (Amendments to IAS 16).* The amendments provide guidance on the accounting for sale proceeds and related production costs for items a company produces and sells in the process of making an item of property, plant and equipment available for its intended use. The amendments were implemented on January 1, 2022. Pollard has determined that the amendments have not had a material impact on its consolidated financial statements.

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

3. Significant accounting policies (continued):

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Principles of consolidation:

These consolidated financial statements include the accounts of Pollard and all its subsidiaries.

Subsidiaries are entities which are under Pollard's control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefits from its activities. Pollard holds 100% of the voting rights in, and therefore controls, its subsidiaries.

Significant subsidiaries:	Percent Ownership Interest	
	December 31, 2022	December 31, 2021
Pollard Holdings, Inc.	100	100
Pollard (U.S.) Ltd.	100	100
Pollard Games, Inc.	100	100
Pollard iLottery Inc.	100	100
Diamond Game Enterprises	100	100
Diamond Game Enterprises Canada ULC	100	100
Schafer Systems (2018) Inc.	100	100
Schafer Systems (UK) Limited	100	100
mkodo Limited	100	100
Compliant Gaming, LLC	100	100
Next Generation Lotteries AS	100	100
Pollard Digital Solutions GmbH	100	100

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

(b) Business combinations:

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets and equity instruments given, and liabilities incurred or assumed at the date of exchange.

Acquisition costs for business combinations are expensed as incurred and included in administration expenses. Identifiable assets acquired and liabilities assumed are measured at their fair value at the acquisition date.

The excess of the fair value of consideration transferred over the fair value of the identifiable net assets acquired is recorded as goodwill.

3. Significant accounting policies (continued):

Pollard performs a concentration test to clarify whether a transaction results in an asset or a business acquisition. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

(c) Restricted cash:

Pollard, under certain contractual arrangements, controls cash that is restricted in use. Pollard records an equal liability classified within accounts payable and accrued liabilities. Restricted cash includes player deposits held for the benefit of one of Pollard's iLottery customers, in addition to funds held for security purposes and certain contractual liabilities. Pollard has excluded changes in the restricted cash and related liability from its calculation of the change in cash position in the statements of cash flows.

(d) Revenue recognition:

Revenue is recognized when a customer obtains control of the goods or services. Pollard determines revenue recognition through the following steps: a) identification of the contract with a customer, b) identification of the performance obligations in the contract, c) determination of the transaction price, d) allocation of the transaction price to the performance obligations in the contract and e) recognition of revenue when Pollard satisfies a performance obligation.

Many of Pollard's contracts have a single performance obligation, including the sale of instant tickets and related products, pull-tab (or break-open) tickets, bingo paper, pull-tab vending machines and gaming machines. The single performance obligation in these contracts is the promise to transfer the individual goods. Revenue is recognized at a point in time when the customer obtains control of a product, which typically takes place when legal title and physical possession of the product is transferred to the customer. These conditions are usually fulfilled upon delivery. However, under certain contracts, Pollard is compensated for its products based on its customers' sales of those products at retail. Pollard has concluded that control transfers to its customers at delivery of the product to the customer. As such, recognition of sales under these contracts occurs upon receipt of shipment. Pollard's sales under these contracts could vary year over year depending on the timing of shipments.

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

3. Significant accounting policies (continued):

Certain Pollard contracts include multiple performance obligations, including license and royalty sales, iLottery services, loyalty programs, digital and lottery management services, training and consulting. Where such arrangements exist, the transaction price is allocated to the performance obligations based upon the relative fair value of the various elements. The fair values of each element are determined based on the current market price of each of the elements when sold separately. Revenue is then recognized upon satisfaction of each performance obligation.

Where Pollard provides software and related infrastructure, revenue is recognized over time based on the relevant measure of progress of the asset being transferred to the customer. Any amounts recognized as revenue, but not yet billed to the customer, are recorded as contract assets and included within accounts receivable.

Pollard earns revenue from gaming machines and other equipment, and capitalizes the costs of installing gaming equipment. Revenue from the provision of gaming services is generally recognized as a daily fee or as a percentage of revenue generated by the gaming machines. Product support services, maintenance and periodic upgrades revenue is recognized over time as the related services are performed. Labour costs associated with performing routine maintenance on participating gaming machines is expensed as incurred and included in cost of sales.

Contract liabilities consist of customer advances for products or services to be rendered in the future and is recognized as income in future periods.

Volume rebates are accrued and recorded as a reduction to sales based on historical experience and management's expectations regarding future sales volumes.

(e) Inventories:

Raw materials, work-in-process and finished goods are valued at the lower of cost and net realizable value. The cost of raw material inventory is based on its weighted average cost and includes all costs incurred to acquire the materials. In addition to the direct costs of conversion, the cost of work-in-process and finished goods, which Pollard manufactures, also includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion.

3. Significant accounting policies (continued):

(f) Goodwill:

Goodwill is comprised of the excess sale price over the underlying carrying amount of the net assets sold as at August 5, 2005, as part of the 26.7% of Pollard sold in conjunction with the Initial Public Offering ("IPO") and the excess fair value of the consideration transferred over the fair value of the identifiable net assets acquired of Pollard's subsidiaries.

(g) Intangible assets:

Expenditures related to internally generated intangible assets are recognized as intangible assets only if Pollard can demonstrate that the costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and Pollard has sufficient resources to complete development and to use or sell the asset.

Deferred development

Deferred development consists of the cost of materials, direct labour and related employee benefits that are directly attributable to preparing the asset for its intended use and applicable borrowing costs incurred in respect of qualifying assets. Other development expenditures are expensed as incurred.

Capitalized development expenditures are measured at cost less investment tax credits (including scientific research and experimental development ("SR&ED") credits), accumulated amortization and accumulated impairment losses.

Computer software and licenses

Computer software consists of the cost of acquiring, developing and implementing these systems. Development and implementation costs include third party costs as well as direct labour and related employee benefits attributable to the asset. Minimum license fees, incurred in connection with our licensing agreements for our use of third-party brands, are capitalized and amortized over the estimated life of the asset.

Capitalized computer software costs and licenses are measured at cost less investment tax credits (including SR&ED credits), accumulated amortization and accumulated impairment losses.

Customer assets and patents

Customer assets and patents that have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

3. Significant accounting policies (continued):

Intangible assets, with finite useful lives, are amortized, on a straight-line basis, over their estimated useful lives as follows:

Asset	Rate
Customer assets	7 to 20 years
Patents	Term of patent
Computer software and licenses	2 to 15 years or term of license
Deferred development	5 years

Amortization methods, estimated useful lives and residual values are reviewed each annual reporting date and adjusted prospectively, if appropriate.

The carrying value of finite useful life intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Trademarks, trade names and brands

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

(h) Property, plant and equipment:

Property, plant and equipment ("PP&E") are stated at cost less investment tax credits (including SR&ED credits), accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and related employee benefits, other costs directly attributable to bringing the assets to working condition for their intended use and borrowing costs incurred in respect to qualifying assets.

Major spare parts are treated as PP&E when they have a useful life greater than a year. Once major spare parts are put in service, they are transferred into equipment and amortized accordingly.

3. Significant accounting policies (continued):

An item of PP&E is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on disposal of an item of PP&E is determined by comparing the proceeds from disposal with the carrying value of the PP&E and is recognized in the statement of income on a net basis.

The cost of each component of an item of PP&E is depreciated over its estimated useful life on a straight-line basis, commencing the date it is ready for use. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Asset	Rate
Buildings	10 to 39 years
Leasehold improvements	Term of lease
Equipment	2 to 11 years
Furniture, fixtures and computers	3 to 9 years

Depreciation methods, useful lives and residual values are reviewed each annual reporting date and adjusted prospectively, if appropriate.

The carrying value of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(i) Investment in joint venture:

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, rather than rights to the assets and obligations for the liabilities. Joint control is the agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require consent of both parties.

The consolidated financial statements include Pollard's 50% share of the income and expenses and equity movements of the entity accounted for under the equity method of accounting.

(j) Investment in joint operation:

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require consent of both parties.

3. Significant accounting policies (continued):

The consolidated financial statements include Pollard's interest in the Michigan Lottery iLottery joint operations: its assets, including its 50% share of any assets held jointly; its liabilities, including its 50% share of any liabilities incurred jointly and its 50% share of revenue and expenses.

(k) Financial instruments:

Financial assets are initially measured at fair value. On initial recognition, Pollard classifies its financial assets at either amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"), depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, unless Pollard changes its business model for managing financial assets. Financial liabilities are classified at amortized cost or FVTPL.

A financial asset is classified as measured at amortized cost if it meets both of the following conditions: a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

A financial asset is classified as measured at FVOCI if it meets both of the following conditions: a) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI are measured at FVTPL. This includes all derivative financial assets. On initial recognition, Pollard may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

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

3. Significant accounting policies (continued):

Hedge accounting

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

From time to time, Pollard enters into hedging arrangements in order to mitigate this exposure to foreign exchange fluctuations. Pollard determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. An assessment is made whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

The fair value of each contract is included on the consolidated balance sheet as either a financial asset or liability. Changes in fair value are recorded in either other comprehensive income or the consolidated statement of income, depending on the nature of the hedged item.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to the consolidated statement of income in the same period or periods as the hedged expected future cash flows affects income or loss. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in the hedging reserve are immediately reclassified to the consolidated statement of income.

(l) Impairment:

Financial assets

Pollard applies the simplified approach to providing for expected credit losses, which requires the use of the lifetime expected credit loss provision for all accounts receivable. Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due under the contract and the cash flows that Pollard expects to receive. The expected cash flows reflect all available information, including Pollard's historical experience, the past due status, and forward-looking macroeconomic factors. Further details are provided in note 26 and note 27.

3. Significant accounting policies (continued):

Non-financial assets

The carrying amount of Pollard's non-financial assets, other than inventories and deferred income tax assets, are reviewed at each reporting date to determine whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, Pollard estimates the asset's recoverable amount. For goodwill the recoverable amount is estimated as of December 31 each year. An impairment loss is recognized if the carrying amount of an asset, or its related CGU, or group of CGUs, exceeds its estimated recoverable amount.

The recoverable amount of an asset, CGU, or group of CGUs is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, CGU, or group of CGUs. Pollard calculates fair values using appropriate valuation techniques, which are generally based on a forecast of expected future cash flows for intangible assets, and on a replacement cost approach, an income-based approach and/or a market-based approach for property, plant and equipment. These valuations are closely related to the assumptions made by management about the future return on the related assets and the discount rate applied.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or CGUs.

Impairment losses are recognized in net income. Impairment losses recognized in respect to CGUs or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated, and then to reduce the carrying amounts of the other assets in the CGU or group of CGUs on a pro rata basis. An impairment loss in respect to goodwill is not reversed.

In respect to other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss can only be reversed to the extent that the asset's carrying value that would have been determined, net of amortization, if no impairment had been recognized.

(m) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

3. Significant accounting policies (continued):

(n) Translation of foreign currencies:

The functional currency for each of Pollard's subsidiaries is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the respective functional currencies of each entity within the consolidated group using the exchange rates in effect at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates prevailing at the end of the reporting period. Non-monetary items measured at historical cost in a foreign currency are translated to the functional currency using the exchange rate prevalent at the date of acquisition. Non-monetary items denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate prevalent at the date that the fair value was determined.

Foreign currency differences arising from translation are recognized in net income, except for exchange differences arising on the translation of financial instruments qualifying as a cash flow hedge, which are recognized directly in other comprehensive income ("OCI").

The results and financial position of entities within the consolidated group that have a functional currency different from the presentation currency are translated into Canadian dollars as follows: assets and liabilities are translated at the exchange rate prevailing at the end of the reporting period; income and expenses are translated at the average rate for the reporting period; all resulting exchange differences are recognized in OCI.

On disposal of a foreign operation, the deferred cumulative amount recognized in OCI relating to that particular foreign operation is recognized in net income.

(o) Employee benefits:

Share based compensation

The grant date fair value of stock options granted to employees is recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards.

Deferred director compensation

Deferred director compensation is comprised of cash-settled share-based payments. Deferred share units ("DSU") are granted to eligible directors at the fair value of the common shares at the grant date. The DSUs earn notional dividends, equivalent to actual dividends declared on Pollard's shares. Right to payment of the outstanding DSUs is deferred until termination, retirement or death. The liability associated with the DSUs is recalculated at each reporting date

3. Significant accounting policies (continued):

and at settlement. Any change in the fair value of the liability is recognized as an expense within administration expenses in the consolidated statements of income.

Defined contribution plans

Pollard maintains three defined contribution plans. The obligation to contribute to these plans is recognized as an employee benefit expense as incurred.

Defined benefit plans

Pollard maintains four non-contributory defined benefit pension plans in Canada and the United States, three being final pay plans and one being a flat benefit plan. None of the plans have indexation features.

The costs of Pollard's defined benefit plans are recognized over the period in which employees render service to Pollard in return for the benefits. The defined benefit obligations associated with the plans are actuarially determined using the projected unit credit method pro-rated on service and management's best estimate of salary escalation and retirement ages of employees. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have maturity terms approximating the maturity terms of the related obligation and that are denominated in the currency in which the benefits will be paid. The expected return on pension plan assets is calculated utilizing the discount rate used to measure the defined benefit obligation at the beginning of the annual period.

Past service costs are recognized as an expense on a straight line basis over the average period until the benefits becomes vested. If the benefits have vested, past service costs are recognized in net income immediately.

Remeasurements that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in OCI.

Pollard's pension asset is limited to the total of any unrecognized past services costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to Pollard's plans. An economic benefit is available to Pollard if it is realizable during the life of the plan, or on settlement of the plan liabilities.

3. Significant accounting policies (continued):

(p) Income taxes:

Current income tax and deferred income tax are recognized in the statement of income except to the extent that the tax relates to items recognized directly in equity or in OCI. Current income tax is the expected tax payable or receivable on the taxable income or loss for the period and any adjustment to tax payable in respect to previous years. Current income tax expense includes withholding taxes and U.S. state franchise taxes.

Deferred income tax is recorded to reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Deferred income tax assets and liabilities are determined based on the enacted or substantively enacted tax rates, which are expected to be in effect when the underlying items of income and expense are expected to be realized.

Deferred income tax is not recognized for: temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future, taxable temporary differences arising on the initial recognition of goodwill or temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment, except if it relates to an item previously recognized in equity, in which case the adjustment is made to equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax liabilities and assets, and they are levied by the same taxation authority on the same taxable entity, or on different tax entities which intend to settle their current income tax assets and liabilities on a net basis.

(q) Provisions:

Provisions are recognized when Pollard has a present legal or constructive obligation as a result of a past event that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

3. Significant accounting policies (continued):

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. If Pollard has a contract that is onerous, the present obligation under the contract shall be recognized and measured as a provision.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(r) Finance costs and finance income:

Finance costs comprises interest expense on borrowings including amortization of deferred financing costs, interest expense on lease liabilities, accretion of contingent consideration, mark-to-market losses on foreign exchange contracts and net foreign exchange losses.

Borrowing costs that are not directly attributable to the acquisition, construction or production of an asset, that necessarily takes a substantial period of time to get ready for its intended use or sale, are expensed in the period incurred using the effective interest method.

Finance income comprises mark-to-market gains on foreign exchange contracts and net foreign exchange gains.

(s) Leases:

At inception of a contract, Pollard assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Pollard recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

3. Significant accounting policies (continued):

The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. The right-of-use asset is subsequently measured at cost less any accumulated depreciation and impairment losses.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Pollard's incremental borrowing rate. Generally, Pollard uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in Pollard's estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Pollard presents right-of-use assets in "property, plant and equipment" on the statement of financial position.

Pollard accounts for short-term and low value leases by applying the recognition exemption available under IFRS 16.

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

(t) Government grants and disclosure of government assistance:

Government subsidies are recognized on an accrual basis when there is reasonable assurance that Pollard will comply with the conditions required to qualify for the subsidy and that the collection of the subsidy is also reasonably assured. Government subsidies are recognized on the consolidated statements of income as an item included within other income over the periods in which the expense that the subsidy is intended to offset are recognized.

4. Future accounting standards:

(a) Amendments to IAS 1 – Classification of Liabilities as Current or Non-current:

In January 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to clarify the classification of liabilities as current or non-current. For the purposes of non-current classification, the amendments removed the requirement for a right to defer settlement or roll

4. Future accounting standards (continued):

over of a liability for at least twelve months to be unconditional. The 2020 amendments also clarify how a company classifies a liability that includes a counterparty conversion option.

In October 2022, the IASB issued *Non-current Liabilities with Covenants (Amendments to IAS 1)*, to improve the information a company provides about long-term debt with covenants. The Amendments reconfirmed that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which a company must comply after the reporting date do not affect liability classification as at that date.

The amendments are effective for annual periods beginning on or after January 1, 2024. Pollard is currently assessing the impact of the amendments on the consolidated financial statements.

(b) Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure Initiative – Accounting Policies:

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

(c) Amendments to IAS 12 – Deferred Tax Related to Assets and Liabilities arising from a Single Transaction:

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

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

4. Future accounting standards (continued):

(d) Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback:

In September 2022, the IASB issued *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).* The amendments introduce a new accounting model which impacts how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments clarify that on initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction and after initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognizes no gain or loss relating to the right of use it retains. The amendments need to be applied retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2024. Pollard is currently assessing the impact of the amendments on the consolidated financial statements.

5. Acquisitions:

Next Generation Lotteries AS:

On January 14, 2021, Pollard acquired 100% of the equity of Next Generation Lotteries AS ("NGL"), a leading provider of lottery management and iLottery technology. The purchase price was funded by proceeds from Pollard's credit facility, issuance of common shares and cash on hand. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities have been based on management's best estimates and valuation techniques as at January 14, 2021, the acquisition date.

Cash paid, net of cash acquired of $9,015 and debt assumed of $2,382	$	39,233
Purchase price payable		1,514
Issuance of common shares		7,998
Total consideration	$	48,745
Accounts receivable	$	6,145
Inventories		1,096
Prepaid expenses and deposits		896
Property, plant and equipment		5,116
Income taxes receivable		1,119
Deferred income taxes		(6,460)
Accounts payable and accrued liabilities		(3,342)
Lease liabilities		(1,835)
Net tangible assets acquired	$	2,735
Technology	$	22,653
Game library		2,984
Identifiable intangible assets acquired	$	25,637
Goodwill acquired	$	20,373

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

5. Acquisitions (continued):

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

Included in the purchase agreement is the opportunity for contingent consideration, based on achievement of certain contribution margin targets during 2021 and future utilization of certain income tax losses. At December 31, 2022, Pollard has not accrued any amounts relating to this contingent consideration as the requirements are currently not expected to be met.

At December 31, 2021, the acquisition accounting was finalized.

6. Inventories:

		December 31, 2022		December 31, 2021
Raw materials	$	28,261	$	21,678
Work-in-process		1,601		2,270
Finished goods		32,270		21,060
	$	62,132	$	45,008

During 2022, Pollard recorded inventory write-downs of $1,055 representing an increase in the obsolescence reserves, and reversals of previous write-downs of $414 due to changes in foreign exchange rates.

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

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

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

7. Property, plant and equipment:

Cost	Land	Buildings	Leasehold improve-ments	Equipment	Furniture, fixtures and computers	Assets in progress & spare parts	Total
Balance at January 1, 2021	$ 2,132	46,370	6,250	198,772	8,916	10,230	272,670
Acquisitions (note 5)	–	1,474	–	2,930	712	–	5,116
Additions/net transfers	–	4,783	57	14,120	839	6,720	26,519
Disposals	–	(547)	–	(1,614)	(20)	–	(2,181)
Effect of movements in exchange rates	(3)	(280)	(11)	(271)	(75)	(6)	(646)
Balance at December 31, 2021	$ 2,129	51,800	6,296	213,937	10,372	16,944	301,478
Additions/net transfers	–	1,777	45	16,190	379	(812)	17,579
Disposals	–	(1,083)	–	(849)	(20)	–	(1,952)
Effect of movements in exchange rates	56	1,143	98	2,674	83	274	4,328
Balance at December 31, 2022	$ 2,185	53,637	6,439	231,952	10,814	16,406	321,433

Accumulated depreciation	Land	Buildings	Leasehold improve-ments	Equipment	Furniture, fixtures and computers	Assets in progress & spare parts	Total
Balance at January 1, 2021	$ –	16,464	3,292	151,110	5,408	–	176,274
Depreciation for the year	–	6,845	476	14,842	705	–	22,868
Disposals	–	(503)	–	(1,614)	(17)	–	(2,134)
Effect of movements in exchange rates	–	(40)	(7)	(64)	(9)	–	(120)
Balance at December 31, 2021	$ –	22,766	3,761	164,274	6,087	–	196,888
Depreciation for the year	–	6,896	439	15,403	868	–	23,606
Disposals	–	(1,083)	–	(849)	(20)	–	(1,952)
Effect of movements in exchange rates	–	519	66	1,635	51	–	2,271
Balance at December 31, 2022	$ –	29,098	4,266	180,463	6,986	–	220,813

Carrying amounts	Land	Buildings	Leasehold improve-ments	Equipment	Furniture, fixture and computers	Assets in progress & spare parts	Total
At December 31, 2021	$ 2,129	29,034	2,535	49,663	4,285	16,944	104,590
At December 31, 2022	$ 2,185	24,539	2,173	51,489	3,828	16,406	100,620

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

8. Leases:

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

Pollard presents right-of-use assets in "property, plant and equipment" on the consolidated statement of financial position. The following tables present continuity schedules of Pollard's right-of-use assets by asset class:

		Buildings	Equipment	Total
Balance at January 1, 2021	$	16,109	178	16,287
Acquisitions (note 5)		1,225	610	1,835
Additions		4,245	–	4,245
Depreciation		(5,910)	(522)	(6,432)
Effect of movements in exchange rates		(179)	(28)	(207)
Balance at December 31, 2021	$	15,490	238	15,728
Additions		2,414	847	3,261
Depreciation		(5,891)	(723)	(6,614)
Effect of movements in exchange rates		218	(1)	217
Balance at December 31, 2022	$	12,231	361	12,592

Pollard's total cash outflows, principal and interest relating to its lease obligations classified under IFRS 16 *Leases* for the year ended December 31, 2022 were $6,946 (2021 – $6,792).

Pollard's interest expenses incurred relating to its lease obligations classified under IFRS 16 *Leases* for the year ended December 31, 2022 were $395 (2021 – $565).

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

2023	$	6,379
2024		3,124
2025		2,516
2026		1,502
2027 and thereafter		779
Total undiscounted cash flows	$	14,300
Discounting		(680)
Total discounted cash flows	$	13,620
Less: current portion lease liabilities		(6,081)
Lease liabilities	$	7,539

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

9. Equity investment:

NeoPollard Interactive, LLC ("NPi")

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

Investment in equity accounted entity		December 31, 2022		December 31, 2021
Balance, beginning of year	$	585	$	881
Investment distribution		(23,792)		(12,613)
Equity income		23,720		12,336
Effects of movements in exchange rates		36		(19)
Balance, end of year	$	549	$	585

Net Assets		December 31, 2022		December 31, 2021
Current assets	$	34,872	$	29,435
Non-current assets		1,762		1,932
Total	$	36,634	$	31,367
Current liabilities	$	35,400	$	29,835
Non-current liabilities		137		362
Total	$	35,537	$	30,197
Net assets – 100%	$	1,097	$	1,170
Attributable to Pollard – 50%	$	549	$	585

At December 31, 2022, included in the current assets of NPi is restricted cash relating to amounts held on behalf of iLottery customers of $16,040 (2021 – $11,512). There is an offsetting liability included in current liabilities.

Interest in equity accounted entity		2022		2021
Revenue – 100%	$	110,162	$	80,395
Revenue – attributable to Pollard – 50%	$	55,081	$	40,198
Comprehensive income – 100%	$	44,554	$	22,196
Comprehensive income – attributable to Pollard(1)	$	23,720	$	12,336

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

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

9. Equity investment (continued):

Michigan iLottery

Pollard and NeoGames US, LLP operate the iLottery operation for the Michigan Lottery under a separate joint operating agreement. Pollard recognizes its interest in the joint operation by including its assets, including its 50% share of any assets held jointly, its liabilities, including its 50% share of any liabilities incurred jointly and its 50% share of revenue and expenses.

10. Goodwill:

		December 31, 2022		December 31, 2021
Balance, beginning of year	$	108,175	$	89,276
Acquisition of Compliant		–		246
Acquisition of NGL (note 5)		–		20,373
Effects of movements in exchange rates		2,981		(1,720)
Balance, end of year	$	111,156	$	108,175

Impairment assessment methodology

Pollard performs its annual goodwill impairment test as at December 31. Goodwill has been allocated as follows to Pollard's CGUs and groups of CGUs:

		December 31, 2022		December 31, 2021
Lotteries(1)	$	57,563	$	57,802
Charitable gaming		13,444		12,581
eGaming systems		28,575		26,741
Retail		11,574		11,051
Total	$	111,156	$	108,175

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

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

For each CGU, or group of CGUs, the recoverable amounts have been determined based on a value in use calculation using cash flow projections from financial forecasts approved by senior management. These forecasts cover a period of five years and reflect an estimate of a terminal value. Included in these forecasts is an assumption of certain growth rates which was based on historical trends and expected future performance.

10. Goodwill (continued):

The calculation of value in use for the CGUs, or groups of CGUs described above are most sensitive to the following key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Revenue and related gross profit
- Foreign exchange rates
- Discount rates
- Growth rates

Revenue and related gross profit

Projected cash flows from revenue assumes the continuation of recent historical trends adjusted for expected new contract wins, anticipated contract renewal pricing pressures and the expected impact of sales initiatives in conjunction with certain production efficiencies that are being developed or are expected to be developed.

Foreign exchange rates

A significant portion of revenue is denominated in U.S. dollars and Euros, partially offset by U.S. dollar denominated costs. In addition, certain financial assets and liabilities are denominated in U.S. currency. Projected cash flows assume an estimated exchange rate between Canadian dollars to U.S. dollars and Euros based on expected exchange rates during the forecast period.

Discount rates

Discount rates were calculated based on the estimated cost of equity capital and debt capital considering data and factors relevant to the economy, the industry and the CGUs, and groups of CGUs. These costs were then weighted in terms of a typical industry capital structure to arrive at an estimated weighted average cost of capital. The after-tax discount rates applied to the cash flow projections for the CGUs and groups of CGUs described above were as follows:

Lotteries	12.0%
Charitable gaming	12.0%
eGaming systems	21.0%
Retail	14.7%

Growth rates

Growth rates are based on estimated sustainable long-term growth rates of the CGUs and groups of CGUs. A terminal value growth rate of 2% was applied in the value in use calculations for all of the above CGUs and groups of CGUs.

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

10. Goodwill (continued):

Management believes that any reasonable possible change in any of the key assumptions on which the recoverable amounts of the CGUs, or groups of CGUs, are based would not cause the unit's carrying amounts to exceed its recoverable amount.

11. Intangible assets:

Cost		Customer assets	Patents	Trademarks and brands	Deferred development	Computer software and licenses	Total
Balance at January 1, 2021	$	65,937	6,852	6,068	1,793	39,177	119,827
Acquisitions		53	–	–	–	25,637	25,690
Additions (net of investment tax credits)		–	128	17	–	36	181
Additions – internally developed (net of investment tax credits)		–	–	–	–	12,423	12,423
Disposals		–	–	(446)	–	–	(446)
Effect of movements in exchange rates		(299)	(10)	(42)	–	(2,056)	(2,407)
Balance at December 31, 2021	$	65,691	6,970	5,597	1,793	75,217	155,268
Additions (net of investment tax credits)		–	80	10	–	231	321
Additions – internally developed (net of investment tax credits)		–	–	–	–	18,581	18,581
Disposals		–	–	–	–	(53)	(53)
Effect of movements in exchange rates		2,292	29	232	–	2,368	4,921
Balance at December 31, 2022	$	67,983	7,079	5,839	1,793	96,344	179,038

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

11. Intangible assets (continued):

Accumulated amortization		Customer assets	Patents	Trademarks and brands	Deferred development	Computer software and licenses	Total
Balance at January 1, 2021	$	27,156	5,380	–	1,468	11,677	45,681
Amortization for the year		6,027	177	–	120	9,045	15,369
Effect of movements in exchange rates		(21)	(1)	–	–	(65)	(87)
Balance at December 31, 2021	$	33,162	5,556	–	1,588	20,657	60,963
Amortization for the year		5,689	180	–	120	10,722	16,711
Disposals		–	–	–	–	(53)	(53)
Effect of movements in exchange rates		969	25	–	–	961	1,955
Balance at December 31, 2022	$	39,820	5,761	–	1,708	32,287	79,576

Carrying amounts		Customer assets	Patents	Trademarks and brands	Deferred development	Computer software and licenses	Total
At December 31, 2021	$	32,529	1,414	5,597	205	54,560	94,305
At December 31, 2022	$	28,163	1,318	5,839	85	64,057	99,462

Amortization of intangible assets in 2022 of $16,711 (2021 – $15,369), was included in cost of sales.

As at December 31, 2022, the weighted average remaining useful life of customer assets was 6.6 years and the weighted average remaining useful life of computer software and licenses was 4.9 years.

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

12. Income taxes:

Income tax expense

		2022		2021
Current	$	9,584	$	14,247
Deferred (reduction)		(6,646)		(6,833)
Total	$	2,938	$	7,414

Income tax recognized in other comprehensive income

		Amount before tax	Tax expense	2022 Amount net of tax		Amount before tax	Tax benefit	2021 Amount net of tax
Defined benefit plans remeasurements gain	$	26,054	(6,883)	19,171	$	16,580	(4,469)	12,111

Reconciliation of effective tax rate

	2022		2022	2021		2021
Net income for the year		$	19,277		$	19,701
Total income tax expense			2,938			7,414
Income before income taxes		$	22,215		$	27,115
Income tax using Pollard's domestic tax rate	27.0%		5,998	27.0%		7,321
Effect of tax rates in foreign jurisdictions	(7.9%)		(1,759)	(3.8%)		(1,041)
Non-deductible (taxable) amounts	(2.8%)		(620)	1.1%		295
Non-deductible items relating to acquisitions	0.0%		–	0.9%		249
Change in enacted United Kingdom corporate tax rates	2.5%		549	0.0%		–
Other items	(5.5%)		(1,209)	1.2%		313
Effect of non-taxable items related to foreign exchange	(0.1%)		(21)	1.0%		277
	13.2%	$	2,938	27.4%	$	7,414

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

12. Income taxes (continued):

Deferred income tax assets and liabilities

Recognized deferred income tax assets and liabilities

Deferred income tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2022	2021	2022	2021	2022	2021
Property, plant and equipment	$ –	–	$ (16,395)	(14,935)	$ (16,395)	(14,935)
Intangible assets	5,981	3,826	(7,069)	(10,794)	(1,088)	(6,968)
Inventories	715	466	–	–	715	466
Employee benefits	1,419	7,411	(783)	(780)	636	6,631
Unrealized foreign exchange (gains) and losses	778	108	(106)	(488)	672	(380)
Unused tax losses	3,365	3,696	–	–	3,365	3,696
Contract liabilities	178	–	(386)	(270)	(208)	(270)
Other	777	698	(27)	(50)	750	648
Tax assets (liabilities)	$ 13,213	16,205	$ (24,766)	(27,317)	$ (11,553)	(11,112)

Movement in temporary differences during the year

	January 1, 2022	Recognized in net income	Acquisitions	Recognized in other comprehensive income	Balance December 31, 2022
Property, plant and equipment	$ (14,935)	(1,460)	–	–	(16,395)
Intangible assets	(6,968)	5,880	–	–	(1,088)
Inventories	466	249	–	–	715
Employee benefits	6,631	888	–	(6,883)	636
Unrealized foreign exchange (gains) and losses	(380)	1,052	–	–	672
Unused tax losses	3,696	(331)	–	–	3,365
Contract liabilities	(270)	62	–	–	(208)
Other	648	102	–	–	750
Tax assets (liabilities)	$ (11,112)	6,442	–	(6,883)	(11,553)

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

12. Income taxes (continued):

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

Recognized in the consolidated statements of comprehensive income as follows:

	2022	2021
Deferred (reduction)	$ (6,646)	$ (6,833)
Finance income	204	(33)
	$ (6,442)	$ (6,866)

Amounts included in finance income relate to unrealized foreign exchange.

As at December 31, 2022, Pollard had $96,919 in unused tax losses for which no deferred tax asset has been recognized, arising from the acquisition of NGL.

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

13. Long-term debt:

		December 31, 2022		December 31, 2021
Credit facility, interest of 5.8% to 6.7% payable monthly, maturing 2025	$	122,058	$	115,804
Deferred financing charges, net of amortization		(403)		(674)
	$	121,655	$	115,130

		Credit facility	Deferred financing	Total
Balance at January 1, 2022	$	115,804	(674)	115,130
Net proceeds		3,174	–	3,174
Payment of deferred financing charges		–	(152)	(152)
Total changes from financing cash flows		3,174	(152)	3,022
Effect of movements in exchange rates		3,080	–	3,080
Amortization of deferred financing charges		–	423	423
Total other changes		3,080	423	3,503
Balance at December 31, 2022	$	122,058	(403)	121,655

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

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

13. Long-term debt (continued):

(a) Credit facility:

Effective December 31, 2021, Pollard renewed its credit facility. The credit facility provides loans of up to $215,000 for its Canadian operations and US$14,000 for its U.S. subsidiaries. The credit facility also includes an accordion feature which can increase the facility by $50,000. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $215,000 Canadian equivalent. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At December 31, 2022, the outstanding letters of guarantee drawn under the credit facility were $88 (2021 – $126).

Included in the total credit facility balance is a U.S. dollar denominated balance of US$35,400 (2021 – US$35,400). As of December 31, 2022, Pollard had unused credit facility available of $111,824 (2021 – $116,822).

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.

(b) Economic Development Canada ("EDC") facility:

Effective February 28, 2020, Pollard entered into an agreement with EDC to provide a €15,000 facility whereby Pollard can issue qualifying letters of credit against the EDC facility. The facility is guaranteed by a general indemnity from Pollard. As of December 31, 2022, the outstanding letters of credit drawn on this facility were $13,549 (€9,344). As of December 31, 2021, the outstanding letters of credit drawn on this facility were $10,526 (€7,315).

14. Pension asset (liability):

		December 31, 2022		December 31, 2021
Fair value of benefit plan assets	$	79,526	$	88,324
Present value of benefit plan obligations		(78,538)		(110,865)
Net pension asset (liability)	$	988	$	(22,541)

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

14. Pension asset (liability) (continued):

Pollard sponsors non-contributory defined benefit plans providing pension benefits to its employees. Pollard has four defined benefit pension plans of which three are final pay plans and one is a flat benefit plan. None of the plans have indexation features. The measurement date for all the plans is December 31. Two of the plans of the U.S. subsidiaries require valuations annually with the last valuations being as of January 1, 2022. One of the Canadian plans of Pollard currently requires valuation every three years with the last valuation as of December 31, 2021. Pollard's other Canadian plan's valuation was as of January 1, 2021. Pollard's subsidiaries also maintain three defined contribution plans. The pension expense for these defined contribution plans is the annual funding contribution by the subsidiaries.

Pollard expects to contribute approximately $5,088 to its defined benefit plans in 2023.

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

	December 31, 2022	December 31, 2021
Equities	65.0%	67.5%
Bonds	33.4%	30.1%
Cash and cash equivalents	1.6%	2.4%
	100.0%	100.0%

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

	2022	2021
Benefit plan assets		
Fair value, beginning of year	$ 88,324	$ 77,351
Expected return on plan assets	2,665	1,978
Employer contributions	5,497	5,650
Benefits paid	(4,571)	(4,037)
Remeasurement gains (losses)	(13,292)	7,404
Effect of movements in exchange rates	903	(22)
Fair value, end of year	$ 79,526	$ 88,324

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

14. Pension asset (liability) (continued):

		2022		2021
Accrued benefit plan obligations				
Balance, beginning of year	$	110,865	$	113,721
Current service cost		7,266		7,563
Interest cost		3,269		2,837
Benefits paid		(4,571)		(4,037)
Remeasurement gains		(39,346)		(9,176)
Effect of movements in exchange rates		1,055		(43)
Balance, end of year	$	78,538	$	110,865
Net pension asset (liability)	$	988	$	(22,541)

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

		2022		2021
Net defined benefit plans expense				
Current service cost	$	7,266	$	7,563
Interest on plan obligations		3,269		2,837
Actual return (gain) loss on plan assets		10,627		(9,382)
Difference between expected return and actual return on plan assets		(12,810)		7,975
Net defined benefit plans expense		8,352		8,993
Defined contribution plans expense		1,101		954
Net pension plans expense	$	9,453	$	9,947

Actuarial assumptions

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

	2022	2021
Discount rate	5.1% to 5.6%	2.6% to 3.1%
Rate of compensation increase	0.0% to 3.0%	0.0% to 3.0%

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

14. Pension asset (liability) (continued):

Assumptions regarding future mortality have been based on published statistics and mortality tables. As of December 31, 2022, Pollard used CPM2014 Private Sector projected CPM-B mortality table for its Canadian subsidiary's pension plans and the Pri-2012 mortality tables using scale MP-2021 for its U.S. subsidiary's pension plans. As of December 31, 2021, Pollard used CPM2014 Private Sector projected CPM-B mortality table for its Canadian subsidiary's pension plans and the Pri-2012 mortality tables using scale MP-2021 for its U.S. subsidiary's pension plans.

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts show below:

	Increase	Decrease
Discount rate (1% movement)	$ (12,562)	$ 16,195
Rate of compensation (1% movement)	$ 1,707	$ (1,575)
Future mortality (one year)	$ 924	$ (938)

Remeasurements

	2022	2021
Remeasurement gains (losses) arising on plan assets	$ (13,292)	$ 7,404
Remeasurement gains (losses) arising on plan liabilities from:		
Demographic assumptions	$ (28)	$ (247)
Financial assumptions	39,470	11,515
Experience adjustments	(96)	(2,092)
Remeasurement gains arising on plan liabilities	$ 39,346	$ 9,176
Net remeasurement gains on defined benefit plans	$ 26,054	$ 16,580

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

14. Pension asset (liability) (continued):

Remeasurements recognized in other comprehensive income

		2022		2021
Losses accumulated in retained earnings, beginning of year	$	(17,620)	$	(29,731)
Remeasurement gain recognized during the year, net of income tax		19,171		12,111
Gains (losses) accumulated in retained earnings, end of year	$	1,551	$	(17,620)

15. Share capital:

	Shares		Amount
Authorized			
Unlimited common shares			
Unlimited preferred shares			
Issued			
Balance at January 1, 2021	25,706,908	$	109,007
Issue of common shares	933,800		32,405
Acquisition of NGL (note 5)	233,211		7,998
Stock options exercised	43,750		439
Balance at December 31, 2021 and December 31, 2022	26,917,669	$	149,849

Issue of common shares:

On February 9, 2021, Pollard announced that it had entered into an agreement with a syndicate of underwriters to purchase, on a bought deal basis, 812,000 common shares of Pollard at a price of $36.95 per share. Pollard also granted the underwriters an over-allotment option exercisable at any time up to 30 days following the closing of the offering, to purchase up to an additional 121,800 common shares. The offering, including the full over-allotment, closed on March 2, 2021. The total gross proceeds, prior to any commissions and offering expenses, from the sale of 933,800 common shares was approximately $34,504.

15. Share capital (continued):

Dividends:

Dividends are paid on the common shares within 15 days of the end of each quarter and are fully discretionary, as determined by the Board of Directors of Pollard.

On November 9, 2022, a dividend of $0.04 per share was declared, paid on January 13, 2023, to the shareholders of record on December 31, 2022.

Ownership restrictions:

The holders of the common shares are entitled to one vote in respect to each common share held, subject to the Board of Directors ability to take constraint actions when a person, or group of persons acting in concert acquires, agrees to acquire, holds, beneficially owns or controls, either directly or indirectly, a number of shares equal to or in excess of 5% of the common shares (on a non-diluted basis) issued and outstanding ("Ownership Threshold"). The Board of Directors, in its sole discretion, can take the following constraint actions:

- place a stop transfer on all or any of the common shares believed to be in excess of the Ownership Threshold;
- suspend all voting and/or dividend rights on all or any of common share held believed to be in excess of the Ownership Threshold;
- apply to a court seeking an injunction to prevent a person from acquiring, holding, owning, controlling and/or directing, directly or indirectly, common shares in excess of the Ownership Threshold; and/or
- make application to the relevant securities commission to effect a cease trading order or such similar restriction, until the person no longer controls common shares equal to or in excess of the Ownership Threshold.

In addition, if a Gaming Regulatory Authority has determined that ownership by a holder of common shares is inconsistent with its declared policies, the Board of Directors is entitled to take constraint action against such shareholder. Any person who controls common shares equal to or in excess of the Ownership Threshold, may be required to file an application, be investigated and have suitability as a shareholder determined by a Gaming Regulatory Authority, if such Gaming Regulatory Authority has reason to believe such ownership would otherwise be inconsistent with its declared policies.

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

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

15. Share capital (continued):

Capital management:

Pollard's objectives in managing capital are to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Pollard also strives to maintain an optimal capital structure to reduce the overall cost of capital.

In the management of capital, Pollard includes long-term debt, share capital and retained earnings, but excludes reserves. The Board of Directors regularly monitors the levels of debt, equity and dividends.

Pollard monitors capital on the basis of funded debt to Adjusted EBITDA, working capital ratio and debt service coverage. Pollard has externally imposed capital requirements as determined through its bank credit facility. As at December 31, 2022, Pollard is in compliance with all financial covenants.

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

Share based compensation:

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms.

The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares.

Changes in the number of options outstanding during the years ended December 31, 2022, and 2021 were as follows:

	2022			2021		
	Number		Weighted average exercise price	Number		Weighted average exercise price
Balance, beginning of year	312,500	$	19.98	331,250	$	15.31
Granted	–	$	–	25,000	$	61.13
Exercised	–	$	–	(43,750)	$	8.18
Balance, end of year	312,500	$	19.98	312,500	$	19.98

As of December 31, 2022, no share options had expired. Options have been granted on seven grant dates, with the exercise price being the common share price on the exercise price determination date. All of the outstanding options have seven year terms, vesting 25% per year over the first four years.

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

15. Share capital (continued):

	2022			2021		
Exercise price	Number outstanding	Remaining time to exercise	Number exercisable	Number outstanding	Remaining time to exercise	Number exercisable
$ 8.12	25,000	0.76 years	25,000	25,000	1.76 years	25,000
$ 10.00	87,500	1.32 years	87,500	87,500	2.32 years	87,500
$ 20.70	125,000	3.86 years	93,750	125,000	4.86 years	62,500
$ 18.31	25,000	4.21 years	12,500	25,000	5.21 years	6,250
$ 23.65	25,000	4.87 years	12,500	25,000	5.87 years	6,250
$ 61.13	25,000	5.42 years	6,250	25,000	6.42 years	–
	312,500		237,500	312,500		187,500

Subsequent to year end, on March 7, 2023, the Board of Directors approved the award of 225,000 options to purchase common shares of Pollard for key management personnel. The options will be granted on March 10, 2023, and have a seven-year term, vesting 25% per year over the first four years. The exercise price of the options will be equal to the closing price of the common shares on March 9, 2023.

16. Commitments and contingencies:

Pollard rents premises and equipment under long-term leases. The following is a schedule of undiscounted lease payment commitments outstanding relating to short-term and low value leases to which Pollard has applied the recognition exemption available under IFRS 16 *Leases*:

2023	$	626
2024		367
2025		82
2026		9
2027 and thereafter		–

Pollard is contingently liable for outstanding letters of guarantee in the amount of $13,637 at December 31, 2022 (2021 – $10,652). These letters of guarantee are secured as disclosed in note 13.

Pollard is involved in litigation and claims associated with operations, the aggregate amounts of which are not determinable. While it is not possible to estimate the outcome of the proceedings, management is of the opinion that any resulting settlements would not materially affect the financial position of Pollard. Should a loss occur on resolution of these claims, such loss would be accounted for as a charge to income in the period in which the settlement occurs.

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

16. Commitments and contingencies (continued):

Pollard has agreed to indemnify Pollard's current and former directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain usual limitations. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

17. Revenue and contract balances:

In the following tables, revenue from contracts with customers is disaggregated by geographical segment and product line:

Revenue – geographical segment		2022		2021
Canada	$	87,694	$	84,418
United States		304,243		272,984
International		90,341		101,612
Total	$	482,278	$	459,014

Revenue – product lines		2022		2021
Lottery	$	368,141	$	361,881
Charitable		66,512		59,338
eGaming systems		47,625		37,795
Total	$	482,278	$	459,014

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

Contract balances		December 31, 2022		December 31, 2021
Trade receivables, which are included in accounts receivable and long-term receivables	$	71,570	$	64,552
Contract assets, which are included in accounts receivable		4,994		4,467
Contract liabilities		2,159		2,242

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

17. Revenue and contract balances (continued):

Contract liabilities	Year ended December 31, 2022	Year ended December 31, 2021
Balance, beginning of year	$ 2,242	$ 379
Increases due to cash received	6,074	5,738
Revenue recognized during the year	(6,145)	(3,869)
Effect of movement in exchange rates	(12)	(6)
Balance, end of year	2,159	2,242
Less: current portion	(2,159)	(2,242)
	$ –	$ –

18. Other expenses:

	2022	2021
Contingent consideration fair value adjustment	$ 4,559	$ 9,550
Other income	(462)	(524)
Litigation settlement	–	2,520
Canada emergency wage subsidy (“CEWS”)	–	(5,425)
Insurance proceeds (net)	–	(952)
	$ 4,097	$ 5,169

Litigation Settlement

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

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

19. Finance costs and finance income:

Finance costs		2022		2021
Foreign exchange loss	$	7,320	$	2,254
Interest		8,259		4,980
	$	15,579	$	7,234

Finance income		2022		2021
Foreign exchange gain	$	3,600	$	832
	$	3,600	$	832

20. Net income per share:

		2022		2021
Net income attributable to shareholders	$	19,277	$	19,701
Weighted average number of shares – basic		26,917,669		26,743,919
Weighted average impact of share options		312,500		313,696
Weighted average number of shares – diluted		27,230,169		27,057,615

Net income per share – basic	$	0.72	$	0.74
Net income per share – diluted	$	0.71	$	0.73

21. Personnel expenses:

		2022		2021
Wages and salaries	$	151,863	$	140,548
Benefits and government payroll remittances		25,345		23,974
Profit share		4,755		5,202
Deferred director compensation		54		43
Expenses related to defined contribution plans		1,101		954
Expenses related to defined benefit plans		8,352		8,993
	$	191,470	$	179,714

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

22. Supplementary cash flow information:

		2022		2021
Change in non-cash operating working capital:				
Accounts receivable	$	(4,359)	$	(1,351)
Inventories		(15,691)		2,628
Prepaid expenses and deposits		505		(474)
Income taxes payable		(1,536)		(914)
Accounts payable and accrued liabilities		5,770		7,509
Contract liabilities		(71)		1,874
	$	(15,382)	$	9,272

23. Related party transactions:

Pollard Equities Limited and affiliates

During 2008, Pollard entered into a lease with an affiliate of Equities for a manufacturing facility in Winnipeg, Manitoba. The lease was for a 12 year 6 month period, ending March 31, 2021, at an annual base rate of approximately $2,453. In 2015, Pollard agreed to exercise its renewal clause. The renewal covers the period from April 2021 to September 2023 with an approximate annual lease rate of $2,400, including an annual amortization of a leasehold improvement allowance of approximately $1,000. The total leasehold allowance is $2,500. The base rental rate was based on current market value at the time of the lease as determined through an independent appraisal.

During 2019, Pollard entered into a lease with an affiliate of Equities for land and building in Council Bluffs, Iowa. The lease covers the period from January 2019 to December 2023. The annual base rental rate is approximately US$375, which was based on the current market value at the time of the lease as determined through an independent appraisal.

During 2021, Pollard entered into a lease with an affiliate of Equities for land and building in Winnipeg, Manitoba for a five-year term (with an option to renew for an additional five year term) for annual rent of $404 per year. The rental rates charged were based on current market value at the time of the leases and extension as determined through an independent appraisal.

During the year ended December 31, 2022, Pollard paid property rent of $3,319 (2021 – $3,326) and $227 (2021 – $139) in plane charter costs to affiliates of Equities.

During the year, Equities paid Pollard $72 (2021 – $72) for accounting and administration fees.

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

23. Related party transactions (continued):

At December 31, 2022, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, expenses and other items of $505 (2021 – $nil).

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 $3,545 (2021 - $6,601) and the present value of the lease liabilities was $3,681 (2021 - $6,770).

NeoGames US, LLP and affiliates

During the year ended December 31, 2022, Pollard reimbursed operating costs and paid software royalties of $13,798 (2021 – $13,368) to its iLottery partner, which are 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 $3,097 (2021 – $2,176) 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 $5,112 (2021 - $4,784) for funds relating to contractual performance guarantees.

Key management personnel

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

Key management personnel compensation comprised:

	2022	2021
Salaries, incentives and benefits	$ 3,958	$ 4,315
Deferred director compensation	54	43
Expenses related to defined benefit plans	828	869
	$ 4,840	$ 5,227

As at December 31, 2022, key management personnel of Pollard, as a group, beneficially owned or exercised control or direction over 17,390,538 common shares of Pollard.

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

24. Sales to major customers:

For the year ended December 31, 2022, sales to one customer amounted to 13.5 percent of consolidated sales. In 2021, sales to one customer amounted to 13.5 percent of consolidated sales.

25. Segmented information:

Pollard has one reportable segment, which comprises its four operating segments, Lotteries, Charitable gaming, eGaming systems and Retail. These operating segments have been aggregated together as they have similar economic characteristics, including similar customers and distribution methods. All operate in the highly regulated lottery and gaming industry.

Pollard's Co–CEO's review internal management reports of the combined reportable segment on a monthly basis.

The following table provides information on the property, plant and equipment, intangibles and goodwill by geographical location:

	December 31, 2022	December 31, 2021
Property, plant and equipment, intangibles and goodwill:		
Canada	$ 96,011	$ 93,935
United States	141,948	140,802
International	73,279	72,333
	$ 311,238	$ 307,070

26. Financial instruments:

The fair value of a financial instrument is the estimated amount that Pollard would receive or pay to terminate the instrument agreement at the reporting date.

The following methods and assumptions were used to estimate the fair value of each type of financial instrument by reference to various market value data and other valuation techniques as appropriate.

The fair values of accounts receivable, accounts payable and accrued liabilities and dividends payable approximate their carrying values given their short-term maturities.

The fair value of the long-term debt approximates the carrying value due to the variable interest rate of the debt.

26. Financial instruments (continued):

The fair value of the other non-current liabilities approximates the carrying value based on the expected settlement amount of these liabilities.

Certain financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on the quoted prices observed in active markets for identical assets or liabilities

Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 – valuation techniques with significant unobservable market inputs

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

As at December 31, 2022, the cash and restricted cash recorded at fair value was classified as level one of the fair value hierarchy and the contingent consideration recorded at fair value was classified as level three of the fair value hierarchy. The fair value of the contingent consideration is calculated as the present value of the expected future payments, discounted using a risk-adjusted discount rate. A change to the expected future payments or discount rate would impact the fair value of the contingent consideration.

27. Financial risk management:

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

Credit risk
Liquidity risk
Currency risk
Interest rate risk

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Audit Committee oversees how management monitors compliance with Pollard's risk management policies and procedures. The Audit Committee is assisted in its oversight role by Internal Audit, who undertakes regular reviews.

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

27. Financial risk management (continued):

of risk management controls and utilizes the annual risk assessment process as the basis for the annual internal audit plan.

Credit risk

The following table outlines the details of the aging of Pollard's receivables and the related allowance for losses:

	December 31, 2022	December 31, 2021
Current	$ 75,547	$ 67,766
Past due for 1 to 60 days	2,715	4,127
Past due for more than 60 days	1,947	2,452
Less: allowance for losses	(411)	(410)
	$ 79,798	$ 73,935
Less: long-term receivables	(488)	(584)
	$ 79,310	$ 73,351

Pollard has applied the expected credit loss model in evaluating the credit risk associated with its accounts receivable. As part of this analysis, Pollard has grouped its customers into two tranches: government lottery organizations and charitable gaming distribution networks. For sales to government lottery organizations, Pollard has assessed the loss allowance at zero based on the nature of the customer organizations, and no history of losses, collection issues, or significantly overdue receivables, as well as other customer-specific and forward-looking macroeconomic factors. Pollard has performed the same assessment for charitable gaming distribution network customers, resulting in the provision of a loss allowance, as shown in the table above.

Liquidity risk

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

The following table outlines Pollard's maturity analysis of the undiscounted cash flows, including related interest payments, of certain non-current financial liabilities and leases as of December 31, 2022:

	Total	2023	2024	2025	2026	2027 & thereafter
Long-term debt	$ 144,186	7,342	7,342	129,502	–	–
Leases	15,384	7,005	3,491	2,598	1,511	779
	$ 159,570	14,347	10,833	132,100	1,511	779

27. Financial risk management (continued):

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

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. As at December 31, 2022, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately $71,930 (2021 – $52,740). 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 $360 for the year ended December 31, 2022 (2021 – $264).

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

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At December 31, 2022, and at December 31, 2021, Pollard had no outstanding foreign currency contracts.

Interest rate risk

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

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately $610 for the year ended December 31, 2022 (2021 – $579).

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The Toronto Stock Exchange - PBL

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The Board of Directors of Pollard Banknote Limited

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

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

Senior Management

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Douglas Pollard
CO-CHIEF EXECUTIVE OFFICER

Steven Fingold
EXECUTIVE VICE PRESIDENT, CHARITABLE GAMING

Paul Franzmann
EXECUTIVE VICE PRESIDENT, CORPORATE DEVELOPMENT

Pedro Melo
EXECUTIVE VICE PRESIDENT, INFORMATION TECHNOLOGY

Margaret Proven
EXECUTIVE VICE PRESIDENT, HUMAN RESOURCES

Riva Richard
GENERAL COUNSEL AND EXECUTIVE VICE PRESIDENT, LEGAL AFFAIRS

Robert Rose
EXECUTIVE VICE PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

Jennifer Westbury
EXECUTIVE VICE PRESIDENT, SALES AND CUSTOMER DEVELOPMENT

Robert Young
EXECUTIVE VICE PRESIDENT, OPERATIONS

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2022 ANNUAL REPORT