September 30, 2022

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022

November 9, 2022

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and nine months ended September 30, 2022, is prepared as at November 9, 2022, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at September 30, 2022, and the audited consolidated financial statements of Pollard for the year ended December 31, 2021, and the notes therein. 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 unaudited consolidated results of Pollard for the three and nine months ended September 30, 2022. All figures are in millions except for per share amounts.

POLLARD BANKNOTE LIMITED

Overview

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

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

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

COVID-19

In March 2020, the World Health Organization declared a global pandemic known as COVID-19. Our charitable and eGaming businesses were negatively impacted with a large reduction in sales in the second quarter of 2020 with the temporary closure of many retail outlets; however, these sales rebounded to pre-COVID levels in the third quarter of 2020 with the re-opening of retail outlets. In the later part of the fourth quarter of 2020, a number of jurisdictions reenacted temporary retail closures, reducing our revenues again. Many of these jurisdictions re-opened in early 2021, with consumer demand once again returning strongly, to levels much higher than pre-pandemic, which have continued to date. In addition, Pollard's main lottery products and services have shown significant resilience with strong retail sales growth throughout the pandemic in many jurisdictions, including the U.S. The extent of the pandemic's effect on Pollard's operational and financial performance will depend on future developments, including the extent and duration of the pandemic, both of which are uncertain and difficult to predict. As a result, it is not currently possible to ascertain the overall financial impact on Pollard's business. Pollard has significant cash resources and unused credit facility available, which management believes will allow Pollard to support its operations during the pandemic.

As of the date of this MD&A, all Pollard facilities are operational. Our supply chains, while remaining functional, are facing pressure and we are seeing inflationary price increases on our instant ticket inputs. We are also experiencing staffing challenges in areas within our organization. Pollard is extremely dedicated to providing a safe workplace in all facilities and is working to curb the spread of the virus through implementation of extensive safety measures at all locations.

Product line breakdown of revenue

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Lottery (1)	77.5%	78.2%	76.2%	79.0%
Charitable	13.2%	13.2%	14.0%	13.1%
eGaming systems	9.3%	8.6%	9.8%	7.9%

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

Geographic breakdown of revenue

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
United States	63%	60%	64%	61%
Canada	18%	18%	19%	18%
International	19%	22%	17%	21%

The following financial information should be read in conjunction with the accompanying unaudited consolidated financial statements of Pollard and the notes therein as at and for the three and nine months ended September 30, 2022.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended September 30, 2022	Three months ended September 30, 2021(1)	Nine months ended September 30, 2022	Nine months ended September 30, 2021(1)
Sales	$125.5	$116.9	$355.3	$342.5
Cost of sales	104.9	94.2	291.5	272.1
Gross profit	20.6	22.7	63.8	70.4
Gross profit as a % of sales	*16.4%*	*19.4%*	*18.0%*	*20.6%*
Administration expenses	12.5	12.1	36.9	35.3
Administration expenses as a % of sales	*10.0%*	*10.4%*	*10.4%*	*10.3%*
Selling expenses	4.5	4.5	13.4	12.6
Selling expenses as a % of sales	*3.6%*	*3.8%*	*3.8%*	*3.7%*
NPi equity investment income	(6.0)	(2.6)	(15.0)	(9.1)
NPi equity investment income as a % of sales	*(4.8%)*	*(2.2%)*	*(4.2%)*	*(2.7%)*
Other expenses	2.9	4.3	3.7	2.8
Other expenses as a % of sales	*2.3%*	*3.7%*	*1.0%*	*0.8%*
Unrealized foreign exchange (gain) loss	4.9	2.2	6.6	(0.3)
Unrealized foreign exchange (gain) loss as a % of sales	*3.9%*	*1.9%*	*1.9%*	*(0.1%)*
Net income (loss)	(0.2)	(0.6)	8.7	14.5
Net income (loss) as a % of sales	*(0.2%)*	*(0.5%)*	*2.4%*	*4.2%*
Adjusted EBITDA	20.2	19.4	58.1	65.3
Adjusted EBITDA as a % of sales	*16.1%*	*16.6%*	*16.4%*	*19.1%*
Net income (loss) per share (basic and diluted)	($0.01)	($0.02)	$0.32	$0.54

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

	September 30, 2022	December 31, 2021
Total Assets	$481.4	$461.4
Total Non-Current Liabilities	$161.3	$163.5

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

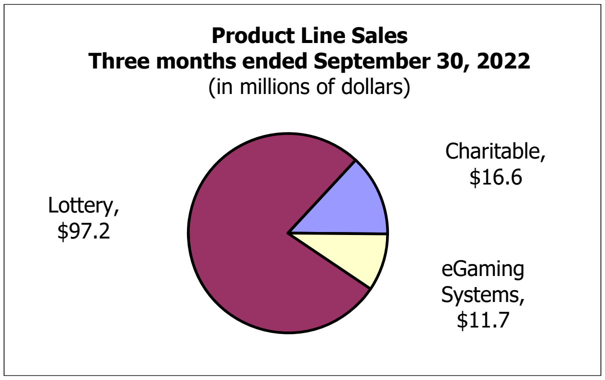
	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Net income (loss)	($0.2)	($0.6)	$8.7	$14.5
Adjustments:				
Amortization and depreciation	10.1	9.6	29.5	28.8
Interest	2.0	1.2	5.9	3.4
Income taxes	0.2	2.1	3.3	9.4
EBITDA	$12.1	$12.3	$47.4	$56.1
Unrealized foreign exchange (gain) loss	4.9	2.2	6.6	(0.3)
Contingent consideration fair value adjustment	3.2	4.9	4.1	6.0
Litigation settlement cost	0.0	0.0	0.0	2.5
Acquisition costs	0.0	0.0	0.0	1.0
Adjusted EBITDA	$20.2	$19.4	$58.1	$65.3

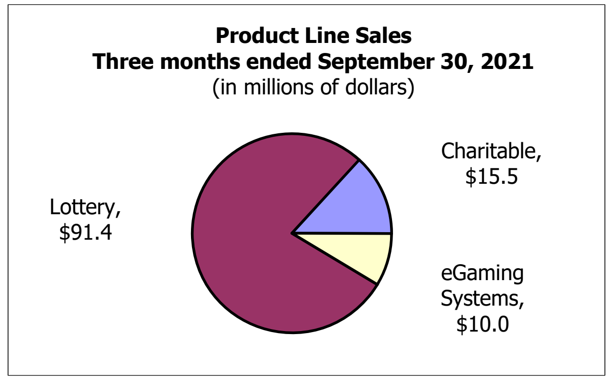
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2022

Sales





During the three months ended September 30, 2022, Pollard achieved sales of $125.5 million, compared to $116.9 million in the three months ended September 30, 2021. Factors impacting the $8.6 million sales increase were:

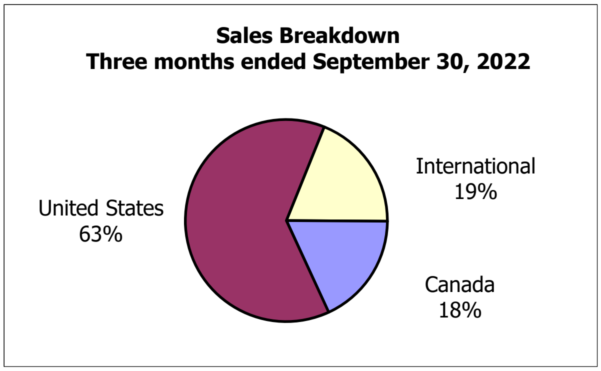
A higher instant ticket average selling price increased sales by $2.7 million as compared to 2021 due to increased proprietary product sales. Higher instant ticket sales volumes in 2022 further increased sales by $0.3 million.

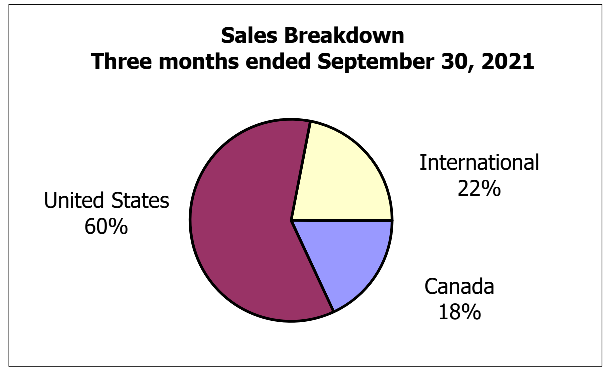
The higher average selling price of charitable games in 2022 also increased sales by $1.5 million, as we have been able to pass along inflationary cost increases to our charitable gaming customers. Charitable gaming sales volumes were lower in the third quarter of 2022 when compared to the record high pull-tab sales volumes achieved in the third quarter of 2021, decreasing sales by $0.9 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 $1.4 million as compared to 2021. This increase was largely due to increased sales of digital and loyalty products, partially offset by lower retail merchandising product sales.

eGaming systems revenue increased sales by $1.3 million, largely due to a higher number of eGaming machines placed at charitable establishments as compared to 2021.

Higher sales from Michigan iLottery also increased revenue in 2022 by $0.4 million as compared to 2021.





During the three months ended September 30, 2022, Pollard generated approximately 71.4% (2021 – 68.3%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the third quarter of 2022, the actual U.S. dollar value was converted to Canadian dollars at $1.293, compared to a rate of $1.250 during the third quarter of 2021. This 3.4% increase in the U.S. dollar value resulted in an approximate increase of $3.0 million in revenue relative to the third quarter of 2021. In addition, during the quarter the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $1.1 million in revenue relative to the third quarter of 2021.

Cost of sales and gross profit

Cost of sales was $104.9 million in the third quarter of 2022 compared to $94.2 million in the third quarter of 2021. The increase of $10.7 million in cost of sales was primarily the result of inflationary pressures on raw material costs and higher exchange rates on U.S. dollar denominated expenses in 2022. In addition, increases in certain manufacturing overhead costs and increased sales of ancillary lottery products and services, including licensed product sales, further contributed to the increase in cost of sales as compared to 2021.

Gross profit was $20.6 million (16.4% of sales) in the third quarter of 2022 compared to $22.7 million (19.4% of sales) in the third quarter of 2021. This decrease of $2.1 million in gross profit was primarily a result of lower instant ticket sales margins, largely due to increased manufacturing costs, including the impact of inflation, and lower licensed product sales margins as compared to 2021. This decrease was partially offset by the increases in eGaming systems, charitable gaming, digital product and loyalty sales as compared to 2021. The lower gross margin percentage was largely due to the impact of inflationary cost increases on instant ticket inputs and lower licensed product sales margins, partially offset by increases in eGaming systems, charitable gaming, digital product and loyalty sales.

Administration expenses

Administration expenses were $12.5 million in the third quarter of 2022 and $12.1 million in the third quarter of 2021. This increase was primarily due to higher travel related costs and professional fees in the third quarter of 2022.

Selling expenses

Selling expenses were $4.5 million in both the third quarter of 2022 and the third quarter of 2021. Higher travel expenses were offset by lower customer contract costs in the third quarter of 2022 compared to 2021.

Equity investment income

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to $6.0 million in the third quarter of 2022 from the $2.6 million achieved in the third quarter of 2021. Contracts held by NPi continued to experience organic growth throughout the third quarter of 2022, increasing NPi's revenue as compared to 2021. In addition, in July 2022, there was a substantial Mega Millions® jackpot run which increased sales significantly in the beginning of the third quarter of 2022.

Other expenses

Other expenses were $2.9 million in the third quarter of 2022 compared to $4.3 million in the third quarter of 2021. This decrease of $1.4 million was primarily due to the decrease in contingent consideration fair value adjustment expense, as part of our Compliant Gaming, LLC ("Compliant") acquisition, of $1.7 million as compared to 2021. Partially offsetting this change in other expenses was the reduction in the Canada Emergency Wage Subsidy ("CEWS"), as Pollard received $nil in the third quarter of 2022 as compared to $0.7 million received in the third quarter of 2021.

Foreign exchange

The net foreign exchange loss was $4.7 million in the third quarter of 2022 compared to a net foreign exchange loss of $1.7 million in the third quarter of 2021. The 2022 net foreign exchange loss of $4.7 million consisted of an unrealized foreign exchange loss of $4.9 million, primarily a result of the increased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the weakening of the Canadian dollar relative to the U.S. dollar, which was partially offset by an unrealized gain on U.S. dollar denominated cash and accounts receivable. Partially offsetting this unrealized foreign exchange loss was a realized foreign exchange gain of $0.2 million, primarily due to foreign currency denominated accounts receivable collected being converted into Canadian dollars at favorable foreign exchanges rates.

The 2021 net foreign exchange loss of $1.7 million consisted of a $2.2 million unrealized foreign exchange loss, 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 at the end of the quarter, which was partially offset by an unrealized gain on U.S. dollar denominated cash and receivables. Partially offsetting the unrealized loss was a realized gain of $0.5 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchange rates.

Adjusted EBITDA

Adjusted EBITDA increased to $20.2 million in the third quarter of 2022 compared to $19.4 million in the third quarter of 2021. The primary reasons for the $0.8 million increase in Adjusted EBITDA include the increase in equity investment income of $3.4 million, partially offset by the reduction in gross profit of $1.6 million (net of amortization and depreciation), as a result of lower instant ticket sales margins, due to increased manufacturing costs, including the impact of inflation, and lower licensed product sales margins, partially offset by the increases in eGaming systems, charitable gaming, digital product and loyalty sales as compared to 2021. The increase in administration costs of $0.4 million, the reduction in other income (net of contingent consideration) of $0.3 million, and lower realized foreign exchange gain of $0.3 million also decreased Adjusted EBITDA in comparison to 2021.

Interest expense

Interest expense increased to $2.0 million in the third quarter of 2022 from $1.2 million in the third quarter of 2021, primarily due an increase in interest rates and an increase in average long-term debt outstanding as compared to 2021.

Amortization and depreciation

Amortization and depreciation totaled $10.1 million during the third quarter of 2022 which increased from $9.6 million during the third quarter of 2021. This increase of $0.5 million was largely due to 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 intangibles becoming fully amortized during 2021.

Income taxes

Income tax expense was $0.2 million in the third quarter of 2022, which was higher than the expense expected based on Pollard's domestic rate of 27.0%. This increased expense was due primarily to the effect of non-taxable items related to foreign exchange, partially offset by the effect of the lower federal income tax rates in the United States.

Income tax expense was $2.1 million in the third quarter of 2021, which was higher than the expense expected based on Pollard's domestic rate of 27.0%. This increased expense was due primarily to the tax effect of unrecognized non-capital losses and non-deductible expenses.

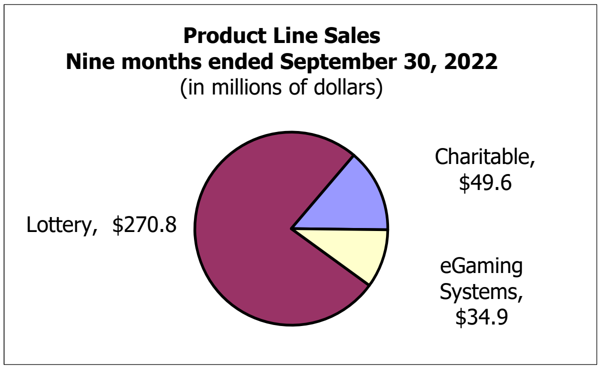
Net loss

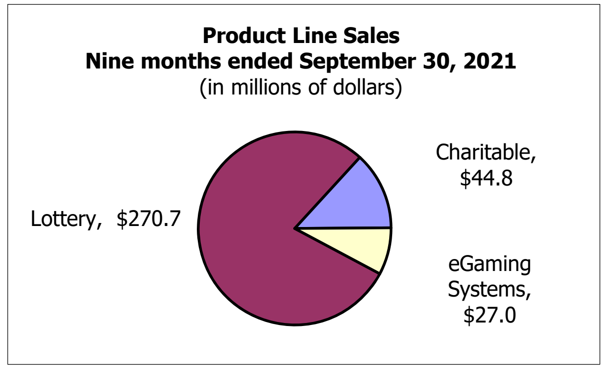
Net loss was $0.2 million in the third quarter of 2022 compared to a net loss of $0.6 million in the third quarter of 2021. The decrease in net loss of $0.4 million was due primarily to the increase in equity investment income of $3.4 million, the decrease in income tax expense of $1.9 million and the reduction in other expenses of $1.4 million. Partially offsetting these reductions in net loss were the increase in net foreign exchange loss of $3.0 million, the decrease in gross profit of $2.1 million, primarily as a result of lower instant ticket sales margins, largely due to increased manufacturing costs, including the impact of inflation, and lower licensed product sales margins, partially offset by the increases in eGaming systems, charitable gaming, digital product and loyalty sales as compared to 2021, the increase in interest expense of $0.8 million and the increase in administration expenses of $0.4 million.

Net loss per share (basic and diluted) decreased to ($0.01) per share in the third quarter of 2022 from ($0.02) per share in the third quarter of 2021.

ANALYSIS OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

Sales





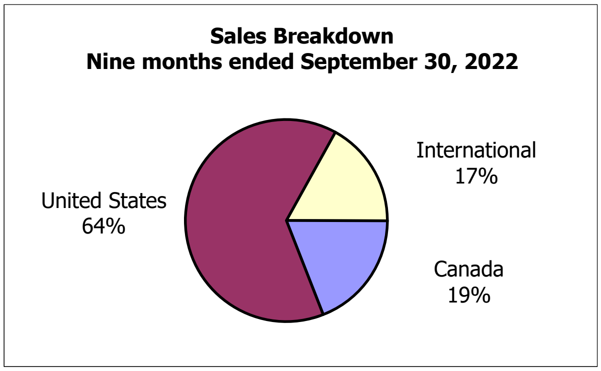
During the nine months ended September 30, 2022, Pollard achieved sales of $355.3 million, compared to $342.5 million in the nine months ended September 30, 2021. Factors impacting the $12.8 million sales increase were:

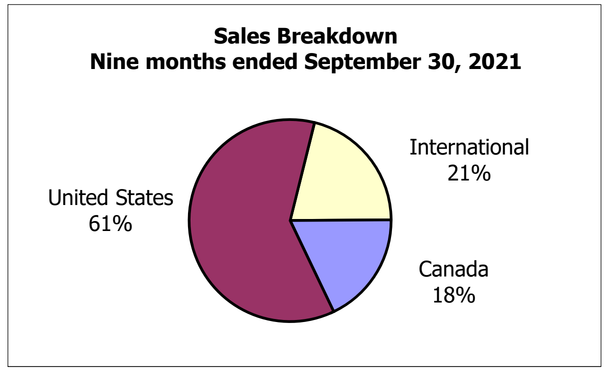
Higher eGaming systems revenue increased sales by $7.3 million, largely due to a higher number of eGaming machines placed at charitable establishments as compared to 2021. In addition, more retail establishments were open for the first three quarters of 2022 as compared to 2021, further contributing to the increase in eGaming systems sales.

The higher average selling price of charitable games in the first three quarters of 2022 also increased sales by $7.1 million, as we have been able to pass along inflationary cost increases to our customers. Charitable gaming sales volumes were lower in the first three quarters of 2022 when compared to the record high pull-tab sales volumes achieved in the first three quarters of 2021, decreasing sales by $3.4 million. In 2021, sales volumes were boosted by additional sales from pre-existing inventory.

The higher instant ticket average selling price increased sales by $1.3 million as compared to 2021 due largely to increased proprietary product sales. Higher instant ticket sales volumes in 2022 further increased sales by $0.6 million. These increases were partially offset by lower sales of ancillary lottery products and services, which decreased revenue by $0.3 million, largely due to decreased sales of licensed products and retail merchandising products, partially offset by increased sales of digital and loyalty products.

Michigan iLottery sales were lower by $2.8 million as compared to 2021, when Michigan iLottery sales were higher as a result of a double jackpot run in the first quarter of 2021.





During the nine months ended September 30, 2022, Pollard generated approximately 71.5% (2021 – 69.2%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first nine months of 2022 the actual U.S. dollar value was converted to Canadian dollars at $1.278, compared to a rate of $1.251 the first nine months of 2021. This 2.1% increase in the U.S. dollar value resulted in an approximate increase of $5.3 million in revenue relative to the first nine months of 2021. In addition, during the first nine months of 2022, the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $2.3 million in revenue relative to the first nine months of 2021.

Cost of sales and gross profit

Cost of sales was $291.5 million in the nine months ended September 30, 2022, compared to $272.1 million in the nine months ended September 30, 2021. This increase of $19.4 million was primarily a result of inflationary pressures on raw material costs, higher exchange rates on U.S. dollar denominated expenses, increases in certain manufacturing overhead costs and the increase in digital product sales in 2022. Partially offsetting these increases was the decrease in charitable gaming and licensed product sales volumes as compared to 2021.

Gross profit decreased to $63.8 million (18.0% of sales) in the nine months ended September 30, 2022, from $70.4 million (20.6% of sales) in the nine months ended September 30, 2021. This decrease in gross profit of $6.6 million was primarily the result of lower instant ticket sales margins, due to increased manufacturing costs, including the impact of inflation, as well as lower Michigan iLottery sales as compared to 2021. This decrease was 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 impact of inflationary cost increases and lower Michigan iLottery sales, partially offset by increases in eGaming systems, charitable gaming and digital product gross margins as compared to 2021.

Administration expenses

Administration expenses increased to $36.9 million in the first nine months of 2022 from $35.3 million in the first nine months of 2021. The increase of $1.6 million was primarily a result of increased compensation expenses, consulting costs, professional fees and travel related costs, partially offset by a reduction in acquisition costs.

Selling expenses

Selling expenses increased to $13.4 million in the first nine months of 2022 from $12.6 million in the first nine months of 2021. The increase was primarily due to increased customer contract costs, and higher compensation and travel related expenses.

Equity investment income

Pollard's share of income from NPi increased to $15.0 million in the first nine months of 2022 from $9.1 million in 2021. This $5.9 million increase was primarily due to increased organic growth achieved on contracts held by NPi throughout the first three quarters of 2022, increasing NPi's revenue as compared to 2021.

Other expenses

Other expenses were $3.7 million in the first nine months of 2022 compared to $2.8 million in 2021. This increase of $0.9 million was partially due to Pollard receiving $nil CEWS in 2022 compared to $5.9 million received in 2021. This was partially offset by Pollard entering into an agreement for a one-time payment of $2.5 million to settle all aspects of certain litigation regarding a patent dispute relating to our instant ticket production in 2021. In addition, lower contingent consideration fair value adjustment expenses, as part of our Compliant acquisition, further decreased other expenses by $1.9 million as compared to 2021.

Foreign exchange

The net foreign exchange loss was $6.9 million in the first nine months of 2022 compared to a net foreign exchange loss of $1.5 million in the first nine months of 2021. The 2022 net foreign exchange loss of $6.9 million resulted from a net unrealized foreign exchange loss of $6.6 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. In addition, Pollard experienced a realized foreign exchange loss of $0.3 million as a result of foreign currency denominated accounts payable paid at unfavorable foreign exchange rates.

The 2021 net foreign exchange loss of $1.5 million consisted of a $1.8 million realized foreign exchange loss, which was predominately a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates. Partially offsetting the realized foreign exchange loss was an unrealized foreign exchange gain of $0.3 million. This unrealized gain largely resulted from the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the strengthening of the Canadian dollar, partially offset by an unrealized loss on U.S. dollar denominated accounts receivable.

Adjusted EBITDA

Adjusted EBITDA decreased to $58.1 million in the first nine months of 2022 compared to $65.3 million in the first nine months of 2021. The primary reasons for the decrease of $7.2 million include the decrease in gross profit (net of amortization and depreciation) of $5.9 million, primarily the result of lower instant ticket sales margins, due to increased manufacturing costs, including the impact of inflation, and lower Michigan iLottery sales as compared to 2021. This decrease in gross profit (net of amortization and depreciation) was partially offset by increases in 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 and litigation settlement) of $5.3 million, primarily due to the reduction in CEWS received of $5.9 million, higher administration expenses (net of acquisition costs) of $2.6 million and higher selling expenses of $0.8 million. These decreases were partially offset by the increase in equity investment income of $5.9 million and the reduction in the realized foreign exchange loss of $1.5 million.

Interest expense

Interest expense increased to $5.9 million in the first nine months of 2022 from $3.4 million in the first nine months of 2021, primarily as a result of the increase in interest accretion on the discounted contingent consideration liability relating to the Compliant purchase of $1.5 million and higher interest rates in 2022. 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 $29.5 million during the first nine months of 2022 which increased from $28.8 million during the first nine months of 2021. The increase of $0.7 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 intangibles becoming fully amortized during 2021.

Income taxes

Income tax expense was $3.3 million in the first nine months of 2022, an effective rate of 27.3%, which was higher than our domestic rate of 27.0% due primarily to the changes enacted with regards to the United Kingdom’s corporation tax rates and the effect of non-taxable items related to foreign exchange, partially offset by the effect of the lower federal income tax rates in the United States.

Income tax expense was $9.4 million in the first nine months of 2021, an effective rate of 39.2%, higher than our domestic rate of 27.0% due primarily to the tax effect of unrecognized non-capital losses and non-deductible expenses. Partially offsetting these increases in effective rate were the lower federal income tax rates in the United States.

Net income

Net income decreased to $8.7 million in the first nine months of 2022 from $14.5 million in the first nine months of 2021. The main reasons for the decrease of $5.8 million include the decrease in gross profit of $6.6 million, primarily the result of lower instant ticket sales margins, due to increased manufacturing costs, including the impact of inflation, and lower Michigan iLottery sales as compared to 2021. This decrease in gross profit was partially offset by increases in eGaming systems, charitable gaming and digital product sales, which increased gross profit as compared to 2021. Other factors contributing to the decrease in net income include the increase in net foreign exchange loss of $5.4 million, the increase in interest expense of $2.5 million, the increase in administration expenses of $1.6 million, the increase in other expenses of $0.9 million and the increase in selling costs of $0.8 million. Partially offsetting these decreases were the lower income tax expense of $6.1 million and the increase in equity investment income of $5.9 million as compared to 2021.

Net income per share (basic and diluted) decreased to $0.32 per share in the nine months ending September 30, 2022, as compared to $0.54 per share in the nine months ending September 30, 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)

	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Sales – Pollard's share									
Michigan iLottery	$6.5	$6.2	$5.9	$5.6	$5.9	$6.8	$8.4	$8.6	$9.5
NPi	13.7	12.4	11.3	10.5	9.8	9.9	9.9	6.1	3.1
Combined iLottery sales	$20.2	$18.6	$17.2	$16.1	$15.7	$16.7	$18.3	$14.7	$12.6
Income before income taxes – Pollard's share									
Michigan iLottery	$2.2	$2.4	$2.0	$1.8	$2.0	$2.8	$4.0	$4.5	$5.4
NPi	6.0	5.1	3.9	3.2	2.6	2.5	4.0	1.6	0.8
Combined income before income taxes – Pollard's share	$8.2	$7.5	$5.9	$5.0	$4.6	$5.3	$8.0	$6.1	$6.2

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

Sales and income before income taxes from our Michigan iLottery operation declined starting in the second quarter of 2021 due to 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. In 2022, NPi continues to achieve strong organic growth, adding to sales and income before taxes. In July 2022, there was another substantial Mega Millions® jackpot awarded which increased sales in the third quarter of 2022.

Liquidity and Capital Resources

Cash provided by operating activities

For the nine months ended September 30, 2022, cash flow provided by operating activities was $13.3 million compared to cash flow provided by operating activities of $46.4 million for the first nine months of 2021. Changes in the non-cash working capital used $19.0 million in cash compared to $12.7 million provided in the first nine months of 2021. For the nine months ended September 30, 2022, changes in the non-cash working capital decreased cash flow from operations due primarily to an increase to inventory and a decrease to accounts payable and accrued liabilities. For the nine months ended September 30, 2021, changes in the non-cash working capital increased cash flow from operations due primarily to an increase in accounts payable and accrued liabilities and a decrease in inventories, partially offset by an increase in accounts receivable.

Cash used for interest increased to $3.8 million in 2022 as compared to $3.5 million in 2021. Cash used for pension plan contributions decreased to $5.6 million in 2022 as compared to $5.9 million used in 2021. Cash used for income tax payments decreased to $8.4 million in 2022 from $17.1 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

In the nine months ended September 30, 2022, cash used for investing activities was $24.1 million compared to $47.4 million in the first nine months of 2021. In the nine months ended September 30, 2022, Pollard used $14.0 million for contingent consideration paid for the acquisition of Compliant, $9.4 million on capital expenditures, $14.6 million on additions to intangible assets and $1.1 million relating to the purchase of NGL. Partially offsetting these uses of cash, Pollard received $15.1 million from our investment in our iLottery joint venture in the period.

In the nine months ended September 30, 2021, Pollard used $33.9 million, net of cash acquired, to purchase NGL. In addition, Pollard used $14.5 million on capital expenditures and $8.4 million on additions to intangible assets. Partially offsetting these uses of cash was $9.3 million Pollard received from our investment in our iLottery joint venture in the period.

Cash provided by financing activities

Cash provided by financing activities was $9.2 million in the nine months ended September 30, 2022, compared to $10.1 million in the nine months ended September 30, 2021. During the first nine months of 2022, Pollard received net proceeds from long-term debt of $17.4 million. This receipt of cash was partially offset by $4.8 million of lease principal payments and $3.2 million of dividend payments. During the first nine months of 2021, Pollard received net proceeds from a share issuance of $32.8 million. This receipt of cash was partially offset by $15.0 million of long-term debt repayments, $4.7 million of lease principal payments and $3.2 million of dividends.

As at September 30, 2022, Pollard had unused credit facility of $97.1 million and $1.9 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.

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

	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Sales	$125.5	$115.9	$113.9	$116.5	$116.9	$113.4	$112.2	$103.7	$116.7
Adjusted EBITDA	20.2	18.9	19.0	18.7	19.4	22.6	23.3	20.3	24.5
Net income (loss)	(0.2)	2.5	6.4	5.2	(0.6)	7.7	7.5	12.2	13.2
Net income (loss) per share - basic	(0.01)	0.09	0.24	0.19	(0.02)	0.29	0.28	0.48	0.51

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 September 30, 2022, Pollard's investment in non-cash working capital increased $19.0 million compared to December 31, 2021, primarily as a result of an increase to inventory and a decrease to accounts payable and accrued liabilities.

	September 30, 2022	December 31, 2021
Working Capital	$87.0	$62.2
Total Assets	$481.4	$461.4
Total Non-Current Liabilities	$161.3	$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 borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $215.0 million Canadian equivalent. The credit facility also includes an accordion feature which can increase the facility by $50.0 million. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At September 30, 2022, the outstanding letters of guarantee were $0.1 million. The remaining balance available for drawdown under the credit facility was $97.1 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 September 30, 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 September 30, 2022, the outstanding letters of credit drawn on this facility were $10.0 million (€7.4 million).

Outstanding Share Data

As at September 30, 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 September 30, 2022, the total share options issued and outstanding were 312,500.

Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2021, that are outside the normal course of business.

Off-Balance Sheet Arrangements

There have been no material changes to Pollard's off-balance sheet arrangements since December 31, 2021, that are outside the normal course of business.

Financial Instruments

The financial instruments of Pollard remain substantially unchanged from those identified in the MD&A for Pollard for the year ended December 31, 2021.

Critical Accounting Policies and Estimates

The critical accounting policies and estimates of Pollard remain substantially unchanged from those identified in Pollard's consolidated financial statements for the year ended December 31, 2021.

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the nine months ended September 30, 2022, which are not disclosed in the unaudited condensed consolidated interim financial statements.

Industry Risks and Uncertainties

The risk factors affecting Pollard remain substantially unchanged from those identified in the MD&A for Pollard for the year ended December 31, 2021.

Outlook

Our main business lines continue to experience strong demand, including both our instant ticket and charitable gaming segments. Retail dollar sales of instant tickets have remained at the higher levels achieved over the past year, and charitable gaming demand also remains very strong, in both printed products and eGaming systems. We anticipate this strong consumer demand will continue, which translates into positive demand from lotteries and charitable gaming organizations to Pollard.

Historically, demand for our offerings has been very resilient during challenging economic environments such as we are experiencing now, and we believe this will remain the case in our current retail atmosphere.

Our third quarter instant ticket sales reflected a greater proportion of higher value product in preparation for the holiday selling season. Instant ticket sales mix will continue to vary quarter to quarter going forward, consistent with our historical selling pattern, with these higher value sales expected to be reduced in the next few quarters.

Inflationary cost increases absorbed in our instant ticket cost structure will continue to be a strong negative headwind on our margins. Significant new additional cost increases do not appear imminent; however, some previously announced increases will not come into effect until the fourth quarter and these will continue to put further pressure on our margins. We are working diligently on a number of strategies to manage these cost increases, including investigating potential alternate sources for key inputs, increasing production output and expanding capacity.

We remain focused on our strategy of increasing our instant ticket pricing as contracts come up for extension or rebid. It remains early in the cycle of repricing our contracts, given many of our contracts are multiple years in length, however, the industry and lotteries worldwide appear to recognize the need to properly compensate suppliers in light of these inflationary cost increases. Repricing our entire contract portfolio will take three to four years. We have already achieved higher pricing for some contracts during 2022, although very little financial impact has been reflected in our financial results so far, as most of the new contract pricing does not come into effect until 2023. We also continue to diligently review our customer profiles to identify opportunities to focus our efforts on more profitable clients, which may result in lower volumes as we reduce sales to lower margin clients.

Our iLottery operations continue to show strong organic growth assisted by the occasional draw-based jackpot run as experienced in July. While still limited, interest in new iLottery opportunities are increasing with greater activity in formal requests for information, informal discussions, as well as increased interest in RFP's, which reflects the desire for this solution amongst lotteries. We will remain engaged with the industry in developing concrete opportunities, for both iLottery platform and game content.

Our cash flows remain strong, supported by positive demand in our main product lines and solutions, allowing us to continue to make the necessary investments in innovation and growing our businesses. We anticipate demand for our lottery and charitable gaming products and solutions will continue at these strong levels and believe over time our strategy of increasing our selling prices to offset the inflationary margin pressures on instant tickets will ultimately allow us to return to more historical 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") for the interim period regarding the design of the disclosure controls and procedures. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the disclosure controls and procedures as defined in National Instrument 52-109 will provide reasonable assurance of achieving the disclosure objectives.

Internal Controls over Financial Reporting

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

No changes were made in Pollard's internal control over financial reporting during the nine months ended September 30, 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, 2021, is available on SEDAR at www.sedar.com.

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