

POLLARD **banknote limited**

March 31, 2023

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

FOR THE THREE MONTHS ENDED MARCH 31, 2023

May 11, 2023

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three months ended March 31, 2023, is prepared as at May 11, 2023, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at March 31, 2023, and the audited consolidated financial statements of Pollard for the year ended December 31, 2022, 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 NPI's sales, its iLottery joint venture operation.

EBITDA, Adjusted EBITDA, Combined sales and Combined iLottery sales are measures not recognized under GAAP and do not have a standardized meaning prescribed by GAAP. Therefore, these measures may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA, Adjusted EBITDA, Combined sales and Combined iLottery sales should not be construed as alternatives to net income or sales as determined in accordance with GAAP as an indicator of Pollard's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

Basis of Presentation

The results of operations in the following discussions encompass the unaudited consolidated results of Pollard for the three months ended March 31, 2023. All figures are in millions except for per share amounts.

POLLARD BANKNOTE LIMITED

Overview

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

Pollard produces and provides a comprehensive line of instant tickets and lottery products and services including: licensed products, distribution, SureTrack® lottery management system, marketing, iLottery platform and 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 unaudited consolidated financial statements of Pollard and the notes therein as at and for the three months ended March 31, 2023.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended March 31, 2023	Three months ended March 31, 2022 ⁽¹⁾
Sales	\$124.6	\$113.9
Cost of sales	107.5	92.3
Gross profit	17.1	21.6
<i>Gross profit as a % of sales</i>	<i>13.7%</i>	<i>19.0%</i>
Administration expenses	13.4	12.1
<i>Administration expenses as a % of sales</i>	<i>10.8%</i>	<i>10.6%</i>
Selling expenses	4.6	4.1
<i>Selling expenses as a % of sales</i>	<i>3.7%</i>	<i>3.6%</i>
NPi equity investment income	(8.6)	(3.9)
<i>NPi equity investment income as a % of sales</i>	<i>(6.9%)</i>	<i>(3.4%)</i>
Net income	4.8	6.4
<i>Net income as a % of sales</i>	<i>3.9%</i>	<i>5.6%</i>
Adjusted EBITDA	18.6	19.0
<i>Adjusted EBITDA as a % of sales</i>	<i>14.9%</i>	<i>16.7%</i>
Net income per share (basic and diluted)	\$0.18	\$0.24

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

	March 31, 2023	December 31, 2022
Total Assets	\$496.0	\$499.3
Total Non-Current Liabilities	\$140.6	\$142.3

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

	Three months ended March 31, 2023	Three months ended March 31, 2022
Net income	\$4.8	\$6.4
Adjustments:		
Amortization and depreciation	10.6	9.7
Interest	2.7	1.8
Income taxes	0.3	1.6
EBITDA	18.4	19.5
Unrealized foreign exchange gain	(0.2)	(0.7)
Contingent consideration fair value adjustment	0.4	0.2
Adjusted EBITDA	\$18.6	\$19.0

Product line breakdown of revenue

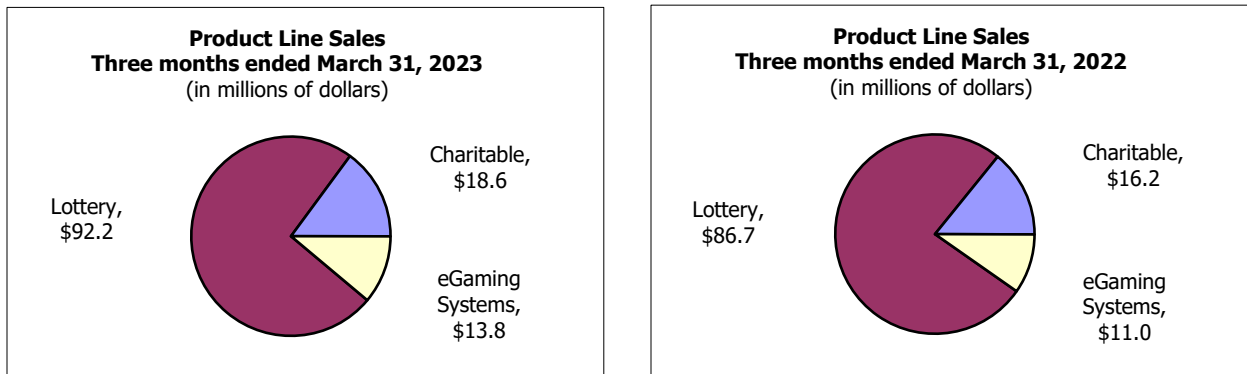
	Three months ended March 31, 2023	Three months ended March 31, 2022
Lottery	74.0%	76.1%
Charitable	14.9%	14.2%
eGaming systems	11.1%	9.7%

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 MARCH 31, 2023

Sales



During the three months ended March 31, 2023, Pollard achieved sales of \$124.6 million, compared to \$113.9 million in the three months ended March 31, 2022. Factors impacting the \$10.7 million sales increase were:

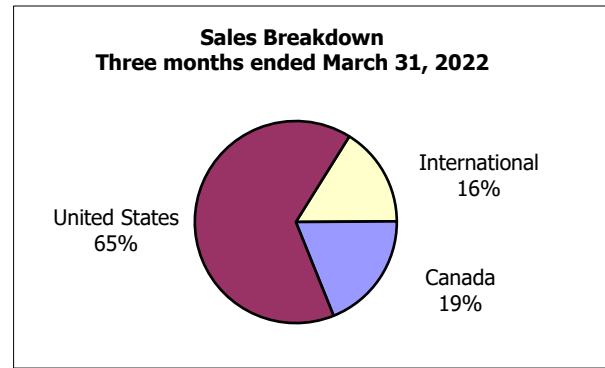
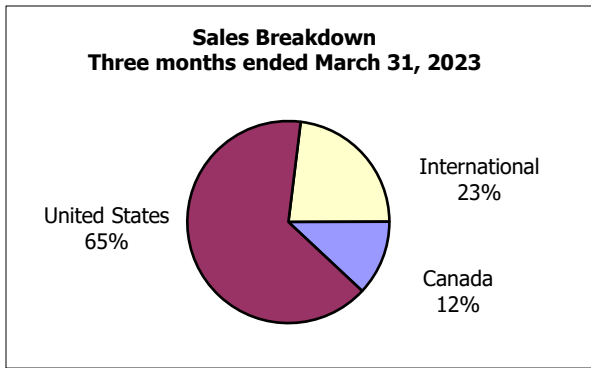
Higher sales of ancillary lottery products and services increased revenue in the first quarter of 2023 by \$3.5 million as compared to 2022. This growth was largely due to increased sales of distribution services, and digital and loyalty products, partially offset by lower sales of retail merchandising products.

eGaming systems revenue further increased sales by \$2.1 million in 2023, largely due to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2022.

The higher average selling price of charitable games in the first quarter of 2023 also increased sales by \$1.1 million as compared to the first quarter of 2022. In addition, higher charitable gaming volumes increased sales by \$0.2 million in the first quarter of 2023 as Pollard's sales of pull-tab tickets and related products remained high due to strong customer demand.

Higher Michigan iLottery sales increased revenue in the first quarter of 2023 by \$1.0 million as compared to 2022, partially due to substantial Mega Millions® and Powerball® jackpots awarded in the first quarter of 2023.

Partially offsetting these increases in sales was a lower instant ticket average selling price in the first quarter of 2023, which decreased sales by \$2.4 million as compared to 2022, primarily due to a change in customer sales mix. In addition, the slight decrease in instant ticket sales volumes in 2023 further decreased sales by \$0.4 million.



During the three months ended March 31, 2023, Pollard generated approximately 75.9% (2022 – 70.6%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first quarter of 2023, the actual U.S. dollar value was converted to Canadian dollars at \$1.350, compared to a rate of \$1.270 during the first quarter of 2022. This 6.3% increase in the U.S. dollar value resulted in an approximate increase of \$5.6 million in revenue relative to the first quarter of 2022. In addition, during the quarter the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of \$0.1 million in revenue relative to the first quarter of 2022.

Cost of sales and gross profit

Cost of sales was \$107.5 million in the first quarter of 2023 compared to \$92.3 million in the first quarter of 2022. The increase of \$15.2 million in cost of sales was primarily the result of the accumulated impact of significant inflationary cost increases incurred throughout 2022 on raw materials and other manufacturing inputs. In addition, higher exchange rates on U.S. dollar denominated expenses, increases in certain manufacturing overhead costs and higher expenses related to increased sales of charitable gaming products, and ancillary lottery products and services further contributed to the increase in cost of sales as compared to 2022.

Gross profit was \$17.1 million (13.7% of sales) in the first quarter of 2023 compared to \$21.6 million (19.0% of sales) in the first quarter of 2022. This decrease of \$4.5 million in gross profit and the decrease in gross profit percentage were primarily the result of lower instant ticket sales margins, due to increased manufacturing costs, caused by the significant impact of accumulated inflation on the costs of inputs to our instant ticket production. While we have been successful in raising our selling prices for a number of key long-term customer contracts that were renewed in 2022, contract terms are generally negotiated well in advance of their start date. Therefore, the impact of our contract repricing strategy will not be fully reflected in our financial results until the latter part of 2023 and into 2024. In addition, we sold a greater mix of lower valued instant tickets in the first quarter of 2023, resulting in a lower instant ticket average selling price. These decreases were partially offset by gross profit increases on eGaming systems, Michigan iLottery, and digital and loyalty product sales as compared to 2022.

Administration expenses

Administration expenses were \$13.4 million in the first quarter of 2023 compared to \$12.1 million in the first quarter of 2022. The increase of \$1.3 million was largely a result of increased compensation expenses, consulting costs and travel related costs.

Selling expenses

Selling expenses increased to \$4.6 million in the first quarter of 2023 from \$4.1 million in the first quarter of 2022. The increase was primarily due to higher compensation and travel related expenses.

Equity investment income

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to \$8.6 million in the first quarter of 2023 from \$3.9 million in the first quarter of 2022. This \$4.7 million increase in the first quarter of 2023 was primarily due to increased organic growth achieved on contracts held by NPi as compared to 2022, which was driven by greater gaming activity. In addition, substantial Mega Millions® and Powerball® jackpots awarded during the first quarter of 2023 further increased NPi's revenue.

Foreign exchange

The net foreign exchange gain was \$0.2 million in the first quarter of 2023 compared to a net gain of \$0.5 million in the first quarter of 2022. The 2023 net foreign exchange gain of \$0.2 million consisted of an unrealized foreign exchange gain of \$0.2 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.

The 2022 net foreign exchange gain of \$0.5 million consisted of an unrealized foreign exchange gain of \$0.7 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. The unrealized foreign exchange gain was partially offset by a realized foreign exchange loss of \$0.2 million, primarily due to foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchanges rates.

Adjusted EBITDA

Adjusted EBITDA decreased to \$18.6 million in the first quarter of 2023 compared to \$19.0 million in the first quarter of 2022. The primary reason for the \$0.4 million decrease in Adjusted EBITDA was the decrease in gross profit of \$3.6 million (net of amortization and depreciation), primarily due to lower instant ticket sales margins resulting from increased manufacturing costs, including the significant accumulated impact of inflation combined with a greater mix of lower valued instant tickets sold compared to 2022. This decrease in gross profit (net of amortization and depreciation) was partially offset by increases in eGaming systems, Michigan iLottery and digital and loyalty product sales. The increase in administration expenses of \$1.3 million and the increase in selling expenses of \$0.5 million further contributed to the decrease in Adjusted EBITDA as compared to the first quarter of 2022. Partially offsetting these decreases to Adjusted EBITDA were the increase in equity investment income of \$4.7 million and the decrease in realized foreign exchange loss of \$0.2 million.

Interest expense

Interest expense increased to \$2.7 million in the first quarter of 2023 from \$1.8 million in the first quarter of 2022, primarily as a result of higher interest rates in 2023 and the increase in average long-term debt outstanding as compared to 2022. Partially offsetting these increases to interest expense was the decrease in interest accretion of \$0.5 million on the discounted contingent consideration liability relating to the Compliant purchase.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$10.6 million during the first quarter of 2023 which increased from \$9.7 million during the first quarter of 2022. The increase of \$0.9 million was primarily the result of amortization and depreciation taken on newly acquired intangible assets and property, plant and equipment.

Income taxes

Income tax expense was \$0.3 million in the first quarter of 2023, an effective rate of 5.7%, which was lower than our domestic rate of 27.0% due primarily to the effect of lower income tax rates in foreign jurisdictions and the effect of non-taxable amounts.

Income tax expense was \$1.6 million in the first quarter of 2022, an effective rate of 19.9%, which was lower than our domestic rate of 27.0% due primarily to the effect of foreign exchange and lower federal tax rates in the United States.

Net income

Net income was \$4.8 million in the first quarter of 2023 compared to \$6.4 million in the first quarter of 2022. The decrease in net income of \$1.6 million was primarily due to the decrease in gross profit of \$4.5 million, primarily as a result of lower instant ticket sales margins resulting from increased manufacturing costs, due to the significant accumulated impact of inflationary cost increases on manufacturing inputs in 2022, combined with a greater mix of lower valued instant tickets sold compared to 2022. This decrease in gross profit was partially offset by increases in eGaming systems, Michigan iLottery and digital and loyalty product sales. Also decreasing net income were the increase in administration expenses of \$1.3 million, the increase in interest expense of \$0.9 million, the increase in selling expenses of \$0.5 million and the decrease in net foreign exchange gain of \$0.3 million. Partially offsetting these decreases to net income were the increase in equity investment income of \$4.7 million and the decrease in income tax expense of \$1.3 million as compared to 2022.

Net income per share (basic and diluted) decreased to \$0.18 per share in the first quarter of 2023 from \$0.24 per share in the first quarter of 2022.

iLottery

Pollard and its iLottery partner, Neogames US LLP ("Neogames"), provide iLottery services to the North American Lottery market. In 2013, Pollard was awarded an iLottery contract from the Michigan Lottery. As a result, Pollard entered into a contract with Neogames to provide its technology in return for a 50% financial interest in the operation. Under IFRS, Pollard recognizes its 50% share in the Michigan Lottery contract in its consolidated statements of income in sales and cost of sales.

In 2014 Pollard, in conjunction with Neogames, established NeoPollard Interactive LLC ("NPI"). 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)

	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Sales – Pollard's share									
Michigan iLottery	\$7.3	\$7.9	\$6.5	\$6.2	\$5.9	\$5.6	\$5.9	\$6.8	\$8.4
NPI	18.5	17.7	13.7	12.4	11.3	10.5	9.8	9.9	9.9
Combined iLottery sales	<u>\$25.8</u>	<u>\$25.6</u>	<u>\$20.2</u>	<u>\$18.6</u>	<u>\$17.2</u>	<u>\$16.1</u>	<u>\$15.7</u>	<u>\$16.7</u>	<u>\$18.3</u>
Income before income taxes – Pollard's share									
Michigan iLottery	\$2.9	\$2.9	\$2.2	\$2.4	\$2.0	\$1.8	\$2.0	\$2.8	\$4.0
NPI	8.6	8.7	6.0	5.1	3.9	3.2	2.6	2.5	4.0
Combined income before income taxes – Pollard's share	<u>\$11.5</u>	<u>\$11.6</u>	<u>\$8.2</u>	<u>\$7.5</u>	<u>\$5.9</u>	<u>\$5.0</u>	<u>\$4.6</u>	<u>\$5.3</u>	<u>\$8.0</u>

Substantial jackpots for Powerball® and Mega Millions® awarded in January 2021 increased our Michigan iLottery sales significantly in the first quarter of 2021.

In 2021, 2022 and the first quarter of 2023, NPI achieved strong organic growth in its jurisdictions, 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.

A substantial Mega Millions® jackpot awarded in January 2023 and a substantial Powerball® jackpot awarded in February 2023 each increased sales in the first quarter of 2023.

Liquidity and Capital Resources

Cash provided by operating activities

For the three months ended March 31, 2023, cash flow provided by operating activities was \$14.8 million compared to cash flow provided by operating activities of \$18.4 million for the first three months of 2022. Changes in the non-cash working capital provided \$3.6 million in cash compared to \$0.7 million provided in the first three months of 2022. For the three months ended March 31, 2023, changes in the non-cash working capital increased cash flow from operations due primarily to a decrease in accounts receivable, partially offset by increases to inventory and prepaid expenses, and a decrease in accounts payable and accrued liabilities. For the three months ended March 31, 2022, changes in the non-cash working capital increased cash flow from operations due primarily to a decrease in accounts receivable and an increase in accounts payable and accrued liabilities, partially offset by increases to inventory and prepaid expenses.

Cash used for interest increased to \$2.3 million in 2023 as compared to \$0.9 million in 2022. Cash used for pension plan contributions decreased to \$1.8 million in 2023 as compared to \$2.1 million used in 2022. Cash used for income tax payments increased to \$5.0 million in 2023 from \$0.7 million in 2022. Income tax payments in 2023 included the final installments for the 2022 tax year and installments for 2023. Partially offsetting these uses of cash, Pollard received \$8.7 million from our investment in our iLottery joint venture in 2023 as compared to \$4.0 million received in 2022.

Cash used for investing activities

In the three months ended March 31, 2023, cash used for investing activities was \$8.3 million compared to cash used for investing activities of \$8.2 million in the first three months of 2022. In the three months ended March 31, 2023, Pollard used \$2.6 million on capital expenditures and \$5.6 million on additions to intangible assets.

In the three months ended March 31, 2022, Pollard used \$2.4 million on capital expenditures, \$5.0 million on additions to intangible assets and \$0.8 million relating to the purchase of Next Generation Lotteries AS ("NGL").

Cash used for financing activities

Cash used for financing activities was \$4.9 million in the three months ended March 31, 2023, compared to cash used for financing activities of \$3.2 million in the three months ended March 31, 2022. During the first quarter of 2023, Pollard made long-term debt repayments of \$2.3 million, lease principal payments of \$1.7 million and \$1.1 million of dividend payments.

During the first quarter of 2022, Pollard made long-term debt repayments of \$0.4 million, lease principal payments of \$1.6 million and \$1.1 million of dividend payments.

As at March 31, 2023, Pollard had unused credit facility of \$114.2 million and \$3.0 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)

	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Sales	\$124.6	\$126.9	\$125.5	\$115.9	\$113.9	\$116.5	\$116.9	\$113.4	\$112.2
Adjusted EBITDA	18.6	22.4	20.2	18.9	19.0	18.7	19.4	22.6	23.3
Net income (loss)	4.8	10.5	(0.2)	2.5	6.4	5.2	(0.6)	7.7	7.5
Net income (loss) per share - basic	0.18	0.39	(0.01)	0.09	0.24	0.19	(0.02)	0.29	0.28

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 March 31, 2023, Pollard's investment in non-cash working capital decreased \$3.6 million compared to December 31, 2022, primarily as a result of a decrease in accounts receivable, partially offset by increases to inventory and prepaid expenses, and a decrease in accounts payable and accrued liabilities.

	March 31, 2023	December 31, 2022
Working Capital	\$79.6	\$79.9
Total Assets	\$496.0	\$499.3
Total Non-Current Liabilities	\$140.6	\$142.3

Credit Facility

Pollard's credit facility was renewed effective December 31, 2021. The credit facility provides loans of up to \$215.0 million for its Canadian operations and US\$14.0 million for its U.S. subsidiaries. The 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 March 31, 2023, the outstanding letters of guarantee drawn under the credit facility were \$0.1 million. The remaining balance available for drawdown under the credit facility was \$114.2 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 March 31, 2023, 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 March 31, 2023, the outstanding letters of credit drawn on this facility were \$13.7 million (€9.3 million). As of December 31, 2022, the outstanding letters of credit drawn on this facility were \$13.5 million (€9.3 million).

Outstanding Share Data

As at March 31, 2023, outstanding share data was as follows:

Common shares	26,917,669
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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 March 31, 2023, the total share options issued and outstanding were 537,500.

Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2022, 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, 2022, 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, 2022.

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, 2022.

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the three months ended March 31, 2023, 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, 2022.

Outlook

Retail dollar sales of instant tickets grew by low single digits during the first quarter of 2023 compared to 2022, a return to positive growth after a slight decline in 2022. This follows overall growth of approximately 25% over the 2020-2021 period. We believe solid consumer demand will continue to generate positive demand from lotteries for instant tickets from manufacturers such as Pollard.

Charitable gaming and eGaming businesses remain strong with high levels of consumer demand, continuing the positive trend since the pandemic. Selling prices have remained strong as we've been able to pass along the impact of inflationary cost increases on inputs. Current demand for our charitable gaming products continues to outpace our ability to produce, particularly in our pull-tab product line, and we are in the process of increasing capacity to address this demand, which requires additional personnel as well as expanded equipment capabilities.

The iLottery market continues to generate significant results, fueled by both organic growth with existing current contracts and the impact of high Powerball® and Mega Millions® jackpots during 2022 and 2023. Both of these draw-based games have had an unusual number of large jackpots recently.

It is difficult to project the timing of new iLottery opportunities, particularly in the United States. The last new iLottery startup was in 2020, and the overall expansion of jurisdictions in this 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.

Within our instant ticket business we have not seen any new significant inflationary cost increases on our major instant ticket manufacturing inputs such as paper, ink, packaging or freight during the first quarter of 2023, and do not anticipate any major new cost increases through the rest of the year. 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 2023 manufacturing costs will be higher than in 2022, reflecting these higher cost levels being in place for the entirety of the year. We have seen some small cost decreases in a couple of our inputs recently and while small in number and amount, the trend of moving from a period of significant cost increases to one with small cost decreases in such a short period of time leaves us hopeful that we are seeing the beginning of a reduction in input costs.

Our strategy for addressing the significant inflationary cost increases remains aggressively resetting our selling prices at every rebid or renewal of our long-term contracts. 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 pricing levels, 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 yet materially impacted our financial results. We expect to see the impact during 2023 and future years.

We remain selective in accepting instant ticket orders where the current terms would require us to produce the work at unacceptable margins due to our 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.

We remain 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 unprecedented inflationary input cost increases. We expect strong demand to continue in our various product lines and believe our repricing strategy for instant ticket contracts will allow us over time to return to historic instant ticket margins and therefore improved financial results overall.

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 three months ended March 31, 2023, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

Additional Information

Shares of Pollard Banknote Limited are traded on the Toronto Stock Exchange under the symbol PBL.

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form for the year ended December 31, 2022, is available on SEDAR at www.sedar.com.

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