September 30, 2023

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

November 7, 2023

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and nine months ended September 30, 2023, is prepared as at November 7, 2023, 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, 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 and nine months ended September 30, 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, PollardEdge™ iLottery platform, 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 and nine months ended September 30, 2023.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended September 30, 2023	Three months ended September 30, 2022(1)	Nine months ended September 30, 2023	Nine months ended September 30, 2022(1)
Sales	$128.7	$125.5	$383.7	$355.3
Cost of sales	$106.1	105.0	323.8	292.3
Gross profit	$22.6	20.5	59.9	63.0
Gross profit as a % of sales	*17.6%*	*16.3%*	*15.6%*	*17.7%*
Administration expenses	14.9	12.6	42.6	36.9
Administration expenses as a % of sales	*11.6%*	*10.0%*	*11.1%*	*10.4%*
Selling expenses	5.3	4.3	15.0	12.6
Selling expenses as a % of sales	*4.1%*	*3.4%*	*3.9%*	*3.5%*
NPi equity investment income	(11.5)	(6.0)	(29.3)	(15.0)
NPi equity investment income as a % of sales	*(8.9%)*	*(4.8%)*	*(7.6%)*	*(4.2%)*
Other (income) expenses	(0.7)	2.9	(0.4)	3.7
Other (income) expenses as a % of sales	*(0.5%)*	*2.3%*	*(0.1%)*	*1.0%*
Unrealized foreign exchange loss	2.5	4.9	0.7	6.6
Unrealized foreign exchange loss as a % of sales	*1.9%*	*3.9%*	*0.2%*	*1.9%*
Net income (loss)	7.7	(0.2)	20.1	8.7
Net income (loss) as a % of sales	*6.0%*	*(0.2%)*	*5.2%*	*2.4%*
Adjusted EBITDA	24.8	20.2	65.6	58.1
Adjusted EBITDA as a % of sales	*19.3%*	*16.1%*	*17.1%*	*16.4%*
Net income (loss) per share (basic)	$0.29	($0.01)	$0.75	$0.32
Net income (loss) per share (diluted)	$0.28	($0.01)	$0.73	$0.32

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

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

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Net income (loss)	$7.7	($0.2)	$20.1	$8.7
Adjustments:				
Amortization and depreciation	11.1	10.1	33.6	29.5
Interest	2.4	2.0	7.9	5.9
Income taxes	1.6	0.2	3.1	3.3
EBITDA	$22.8	$12.1	$64.7	$47.4
Unrealized foreign exchange loss	2.5	4.9	0.7	6.6
Insurance proceeds (net)	(0.3)	–	(0.3)	–
Contingent consideration fair value adjustment	(0.2)	3.2	0.5	4.1
Adjusted EBITDA	$24.8	$20.2	$65.6	$58.1

Product line breakdown of revenue

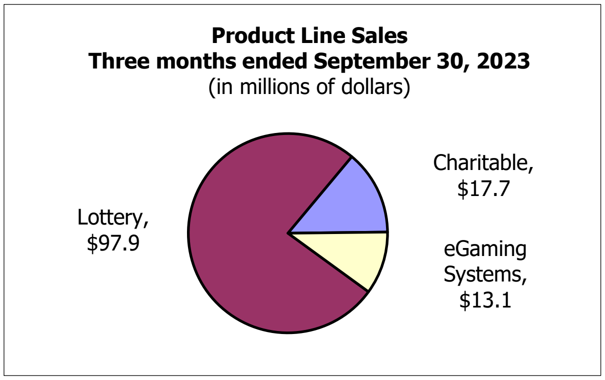
	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Lottery	76.1%	77.5%	75.4%	76.2%
Charitable	13.7%	13.2%	14.0%	14.0%
eGaming systems	10.2%	9.3%	10.6%	9.8%

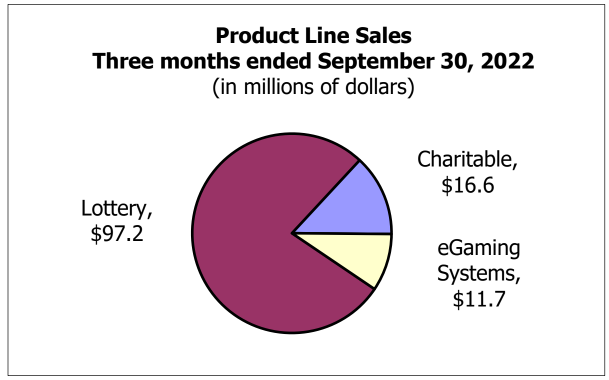
REVIEW OF OPERATIONS

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, 2023

Sales





During the three months ended September 30, 2023, Pollard achieved sales of $128.7 million, compared to $125.5 million in the three months ended September 30, 2022. Factors impacting the $3.2 million sales increase were:

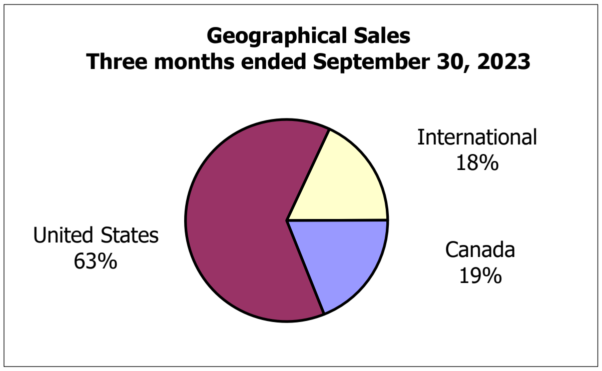
The higher instant ticket average selling price in the third quarter of 2023 increased sales by $13.8 million as compared to 2022, primarily due to the change in customer mix, in part as a result of not accepting certain lower margin work, as well as the early impact of repriced contracts. However, offsetting this increase was the decrease of $22.5 million due to lower instant ticket sales volumes, in part as a result of the timing of orders and Pollard declining to produce certain lower margin work.

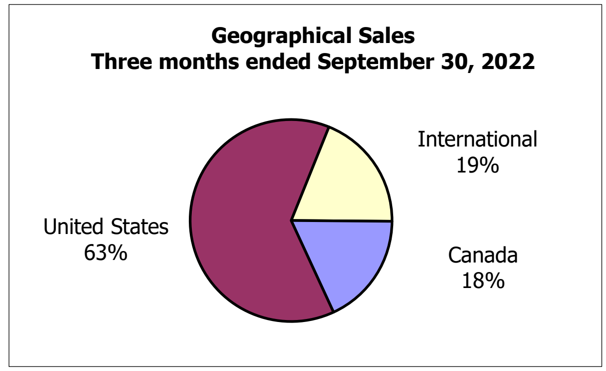
Higher sales of ancillary lottery products and services increased revenue in the third quarter of 2023 by $6.2 million as compared to 2022. This growth was largely due to increased sales of retail merchandising products, licensed products, digital and loyalty products, and distribution services.

eGaming systems revenue further increased sales by $1.1 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 third quarter of 2023 also increased sales by $1.0 million as compared to the third quarter of 2022. However, lower charitable gaming volumes decreased sales by $0.3 million in the third quarter of 2023, largely as a result of certain production inefficiencies.

Higher Michigan iLottery sales further increased revenue in the third quarter of 2023 by $0.5 million as compared to 2022.





During the three months ended September 30, 2023, Pollard generated approximately 69.1% (2022 – 71.4%) 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 2023, the actual U.S. dollar value was converted to Canadian dollars at $1.329, compared to a rate of $1.293 during the third quarter of 2022. This 2.8% increase in the U.S. dollar value resulted in an approximate increase of $2.4 million in revenue relative to the third quarter of 2022. In addition, during the quarter the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $1.0 million in revenue relative to the third quarter of 2022.

Cost of sales and gross profit

Cost of sales was $106.1 million in the third quarter of 2023 compared to $105.0 million in the third quarter of 2022. The increase of $1.1 million in cost of sales was primarily the result of the accumulated impact of significant inflationary cost increases incurred throughout 2022 on raw materials and other manufacturing inputs. In addition, higher exchange rates on U.S. dollar denominated expenses, increases in manufacturing overhead costs and higher expenses related to increased sales of ancillary lottery products and services further contributed to the increase in cost of sales as compared to 2022. Partially offsetting these increases were the lower costs related to the decrease in instant ticket sales volumes as compared to 2022.

Gross profit increased to $22.6 million (17.6% of sales) in the third quarter of 2023 from $20.5 million (16.3% of sales) in the third quarter of 2022. This increase of $2.1 million in gross profit and the increase in gross profit percentage were primarily the result of gross profit increases on sales of retail merchandising products, eGaming systems, loyalty products, licensed products and distribution services as compared to 2022. These increases were partially offset by lower margins achieved on charitable gaming sales in the third quarter of 2023 as compared to 2022.

Gross profit on sales of instant tickets was relatively flat compared to the third quarter of 2022, with the impact of significantly higher instant ticket average selling price in the third quarter of 2023 being offset by lower sales volumes. We continued to experience significantly higher manufacturing costs compared to 2022, caused by the 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 customer contracts that were renewed in 2022 and the first nine months of 2023, contract terms are generally negotiated well in advance of their start date.

Administration expenses

Administration expenses were $14.9 million in the third quarter of 2023 compared to $12.6 million in the third quarter of 2022. The increase of $2.3 million was largely a result of increased compensation expenses and software licensing costs.

Selling expenses

Selling expenses increased to $5.3 million in the third quarter of 2023 from $4.3 million in the third quarter of 2022. The increase was primarily due to higher compensation expenses.

Equity investment income

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to $11.5 million in the third quarter of 2023 from $6.0 million in the third quarter of 2022. This $5.5 million increase was primarily due to higher revenues from substantial Mega Millions® and Powerball® jackpots awarded during the third quarter of 2023. In addition, increased organic growth achieved on contracts held by NPi generated greater gaming activity which further increased NPi's income.

Other (income) expenses

Other income was $0.7 million in the third quarter of 2023 compared to other expenses of $2.9 million in the third quarter of 2022. This change of $3.6 million was primarily due to the decrease in the contingent consideration fair value adjustment expense, as part of our Compliant Gaming, LLC ("Compliant") and Next Generation Lotteries AS ("NGL") acquisitions, of $3.4 million as compared to 2022. In addition, the receipt of insurance proceeds, net of expenses recovered, of $0.3 million for the final settlement of a previous insurance claim further contributed to the change from 2022.

Foreign exchange

The net foreign exchange loss was $2.9 million in the third quarter of 2023 compared to a net loss of $4.7 million in the third quarter of 2022. The 2023 net foreign exchange loss of $2.9 million consisted of an unrealized foreign exchange loss of $2.5 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, 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 $0.4 million which was primarily due to foreign currency denominated accounts receivable being converted into Canadian dollars at unfavorable foreign exchange rates, partially offset by foreign currency denominated accounts payable paid at favorable exchange rates.

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 exchange rates.

Adjusted EBITDA

Adjusted EBITDA increased to $24.8 million in the third quarter of 2023 compared to $20.2 million in the third quarter of 2022. The primary reasons for the $4.6 million increase in Adjusted EBITDA were the increase in equity investment income of $5.5 million and the increase in gross profit (net of amortization and depreciation) of $3.1 million. Partially offsetting these increases to Adjusted EBITDA were the increase in administration expenses of $2.3 million, the increase in selling expenses of $1.0 million and the increase in realized foreign exchange loss of $0.6 million.

Interest expense

Interest expense increased to $2.4 million in the third quarter of 2023 from $2.0 million in the third 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 $0.3 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 $11.1 million during the third quarter of 2023 which increased from $10.1 million during the third quarter of 2022. The increase of $1.0 million was primarily the result of amortization and depreciation taken on newly acquired intangible assets and property, plant and equipment.

Income taxes

Income tax expense was $1.6 million in the third quarter of 2023, an effective rate of 16.4%, 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 $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 income tax rates in foreign jurisdictions.

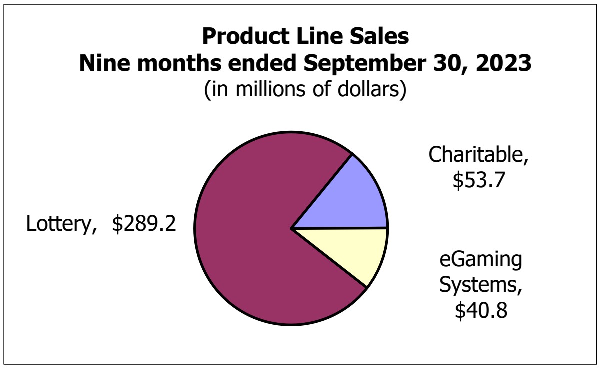
Net income (loss)

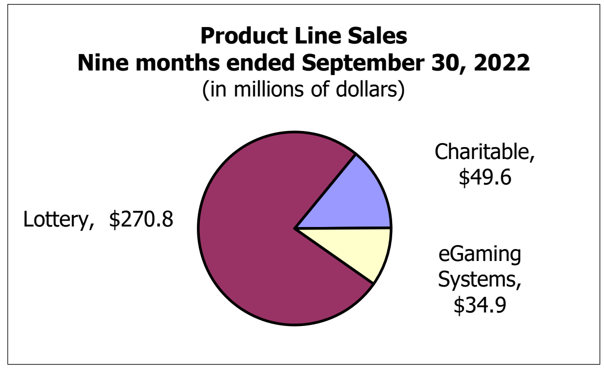
Net income was $7.7 million in the third quarter of 2023 compared to a net loss of $0.2 million in the third quarter of 2022. This change of $7.9 million was primarily due to the increase in equity investment income of $5.5 million, the increase in other income of $3.6 million, the increase in gross profit of $2.1 million and the decrease in net foreign exchange loss of $1.8 million. Partially offsetting these increases to net income were the increase in administration expenses of $2.3 million, the increase in income tax expense of $1.4 million, the increase in selling expenses of $1.0 million and the increase in interest expense of $0.4 million.

Net income (loss) per share (basic and diluted) increased to $0.29 and $0.28 per share, respectively, in the third quarter of 2023 from ($0.01) per share (basic and diluted) in the third quarter of 2022.

ANALYSIS OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023

Sales





During the nine months ended September 30, 2023, Pollard achieved sales of $383.7 million, compared to $355.3 million in the nine months ended September 30, 2022. Factors impacting the $28.4 million sales increase were:

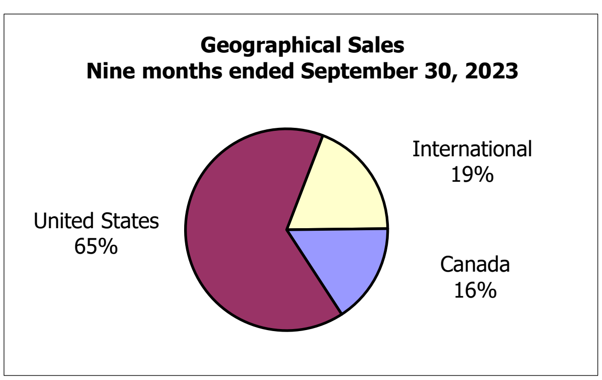
The higher instant ticket average selling price in the first nine months of 2023 increased sales by $17.6 million as compared to 2022, primarily due to the change in customer mix, in part as a result of not accepting certain low margin work, as well as the early impact of repriced contracts. However, this increase was offset by the decrease in instant ticket sales volumes of $25.8 million as compared to 2022, in part as a result of Pollard declining to produce certain lower margin work.

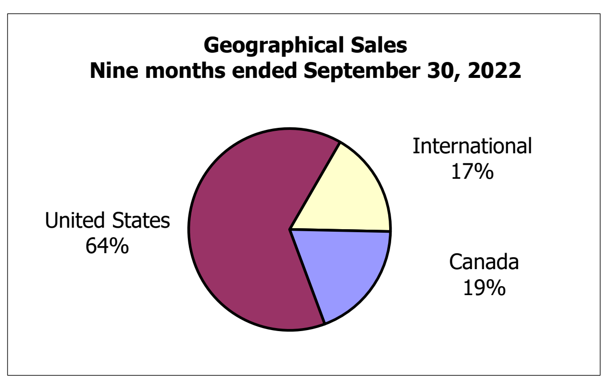
Higher sales of ancillary lottery products and services increased revenue by $13.6 million. This growth was largely due to increased sales of digital and loyalty products, retail merchandising products, distribution services and licensed products.

Higher eGaming systems revenue increased sales by $4.1 million due primarily to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2022.

The higher average selling price of charitable games in the first nine months of 2023 also increased sales by $3.2 million as compared to 2022. This increase was partially offset by lower charitable gaming volumes, which decreased sales by $1.8 million, largely as a result of certain production inefficiencies.

Higher Michigan iLottery sales further increased revenue in the first nine months of 2023 by $1.3 million as compared to 2022.





During the nine months ended September 30, 2023, Pollard generated approximately 72.3% (2022 – 71.5%) 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 2023, the actual U.S. dollar value was converted to Canadian dollars at $1.346, compared to a rate of $1.278 the first nine months of 2022. This 5.3% increase in the U.S. dollar value resulted in an approximate increase of $14.1 million in revenue relative to the first nine months of 2022. In addition, during the first nine months of 2023, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $2.1 million in revenue relative to the first nine months of 2022.

Cost of sales and gross profit

Cost of sales was $323.8 million in the first nine months of 2023 compared to $292.3 million in the first nine months of 2022. The increase of $31.5 million in cost of sales was primarily the result of the accumulated impact of significant inflationary cost increases incurred throughout 2022 on raw materials and other manufacturing inputs. In addition, higher exchange rates on U.S. dollar denominated expenses, increases in manufacturing overhead costs, certain instant ticket production inefficiencies and higher expenses related to increased sales of ancillary lottery products and services further contributed to the increase in cost of sales as compared to 2022. Partially offsetting these increases in cost of sales were the lower costs related to the decrease in instant ticket sales volumes as compared to 2022.

Gross profit decreased to $59.9 million (15.6% of sales) in the nine months ended September 30, 2023, from $63.0 million (17.7% of sales) in the nine months ended September 30, 2022. This decrease of $3.1 million in gross profit and the decrease in gross profit percentage were primarily the result of lower instant ticket sales margins, with the impact of higher instant ticket average selling price compared to 2022 being more than offset by lower sales volumes. During the first nine months of 2023, we have experienced significantly higher manufacturing costs compared to 2022, caused by the 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 customer contracts that were renewed in 2022 and the first nine months of 2023, contract terms are generally negotiated well in advance of their start date.

In addition, lower charitable gaming sales margins in the first nine months of 2023 further contributed to the decrease in gross profit. These decreases were partially offset by gross profit increases on sales of eGaming systems, retail merchandising products, loyalty products, licensed products and distribution services as compared to 2022.

Administration expenses

Administration expenses increased to $42.6 million in the first nine months of 2023 from $36.9 million in 2022. The increase of $5.7 million was largely a result of increased compensation expenses, software licensing costs and travel related costs.

Selling expenses

Selling expenses increased to $15.0 million in the first nine months of 2023 from $12.6 million in the first nine months of 2022. The increase was primarily due to higher compensation and travel related expenses.

Equity investment income

Pollard's share of income from NPi increased to $29.3 million in the first nine months of 2023 from $15.0 million in 2022. This $14.3 million increase was primarily due to organic growth achieved on contracts held by NPi which generated greater gaming activity, further increasing NPi's income. In addition, higher revenues from substantial Mega Millions® and Powerball® jackpots awarded during the first and third quarters of 2023 further increased NPi's income.

Other (income) expenses

Other income was $0.4 million in the first nine months of 2023 compared to other expenses of $3.7 million in 2022. This change of $4.1 million was largely due to the decrease in the contingent consideration fair value adjustment expense, as part of our Compliant and NGL acquisitions, of $3.6 million as compared to 2022. In addition, the receipt of insurance proceeds, net of expenses recovered, of $0.3 million for the final settlement of a previous insurance claim further contributed to the change from 2022.

Foreign exchange

The net foreign exchange loss was $0.9 million in the first nine months of 2023 compared to a net foreign exchange loss of $6.9 million in the first nine months of 2022. The 2023 net foreign exchange loss of $0.9 million resulted from a net unrealized foreign exchange loss of $0.7 million, primarily due to 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, and an unrealized loss on U.S. dollar denominated accounts receivable. In addition, Pollard experienced a realized foreign exchange loss of $0.2 million which was primarily due to foreign currency denominated accounts receivable being converted into Canadian dollars at unfavorable foreign exchange rates and foreign currency denominated accounts payable paid at unfavorable exchange rates.

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 relative to the U.S. 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.

Adjusted EBITDA

Adjusted EBITDA increased to $65.6 million in the first nine months of 2023 compared to $58.1 million in the first nine months of 2022. The primary reason for the increase of $7.5 million was the increase in equity investment income of $14.3 million. The increase in gross profit (net of amortization and depreciation) of $1.0 million and the increase in other income (net of contingent consideration and insurance proceeds (net)) of $0.2 million also contributed to the increase in Adjusted EBITDA. Partially offsetting these increases were the increase in administration expenses of $5.7 million and the increase in selling expenses of $2.4 million.

Interest expense

Interest expense increased to $7.9 million in the first nine months of 2023 from $5.9 million in the first nine months of 2022. Higher interest rates in 2023 and the increase in average long-term debt outstanding increased interest expense by $3.5 million as compared to 2022. Partially offsetting these increases to interest expense was the decrease in interest accretion of $1.5 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 $33.6 million during the first nine months of 2023 which increased from $29.5 million during the first nine months of 2022. The increase of $4.1 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 $3.1 million in the first nine months of 2023, an effective rate of 13.4%, 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 $3.3 million in the first nine months of 2022, an effective rate of 27.3%, which was slightly 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 income tax rates in foreign jurisdictions.

Net income

Net income increased to $20.1 million in the first nine months of 2023 from $8.7 million in the first nine months of 2022. The primary reasons for the increase of $11.4 million include the increase in equity investment income of $14.3 million, the decrease in net foreign exchange loss of $6.0 million, the increase in other income of $4.1 million and the decrease in income tax expense of $0.2 million. Partially offsetting these increases to net income were the increase in administration expenses of $5.7 million, the decrease in gross profit of $3.1 million, the increase in selling expenses of $2.4 million and the increase in interest expense of $2.0 million.

Net income per share (basic and diluted) increased to $0.75 and $0.73 per share, respectively, in the nine months ending September 30, 2023, as compared to $0.32 per share (basic and diluted) in the nine months ending September 30, 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)

	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Sales – Pollard's share									
Michigan iLottery	$7.2	$6.5	$7.3	$7.9	$6.5	$6.2	$5.9	$5.6	$5.9
NPi	21.5	18.5	18.5	17.7	13.7	12.4	11.3	10.5	9.8
Combined iLottery sales	$28.7	$25.0	$25.8	$25.6	$20.2	$18.6	$17.2	$16.1	$15.7
Income before income taxes – Pollard's share									
Michigan iLottery	$2.8	$1.8	$2.9	$2.9	$2.2	$2.4	$2.0	$1.8	$2.0
NPi	11.5	9.2	8.6	8.7	6.0	5.1	3.9	3.2	2.6
Combined income before income taxes – Pollard's share	$14.3	$11.0	$11.5	$11.6	$8.2	$7.5	$5.9	$5.0	$4.6

In 2021, 2022 and the first three quarters 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.

Large jackpots for Powerball® and Mega Millions® awarded during the first quarter of 2023 increased sales during that quarter.

In July 2023, a substantial Powerball® jackpot was awarded which increased sales in the third quarter of 2023. In August 2023, a record Mega Millions® jackpot was awarded which increased sales in the third quarter of 2023. In early October 2023, the second largest Powerball® jackpot was awarded which also increased sales in the third quarter of 2023.

Liquidity and Capital Resources

Cash provided by operating activities

For the nine months ended September 30, 2023, cash flow provided by operating activities was $44.1 million compared to cash flow provided by operating activities of $28.4 million for the first nine months of 2022. Changes in the non-cash working capital provided $2.3 million in cash compared to $19.0 million used in the first nine months of 2022. For the nine months ended September 30, 2023, changes in the non-cash working capital increased cash flow from operations due primarily to a decrease in accounts receivable, partially offset by a decrease to accounts payable and accrued liabilities and increases to inventory and prepaid expenses. 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.

Cash used for interest payments increased to $7.3 million in 2023 as compared to $3.8 million in 2022. Cash used for pension plan contributions decreased to $4.2 million in 2023 as compared to $5.6 million used in 2022. Cash used for income tax payments increased to $17.7 million in 2023 from $8.4 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 $29.3 million from our investment in our iLottery joint venture in 2023 as compared to $15.1 million received in 2022.

Cash used for investing activities

In the nine months ended September 30, 2023, cash used for investing activities was $42.5 million compared to cash used for investing activities of $39.2 million in the first nine months of 2022. In the nine months ended September 30, 2023, Pollard used $16.9 million on additions to intangible assets, $12.0 million on capital expenditures and $13.7 million for acquisitions, primarily relating to contingent consideration paid for the acquisition of Compliant.

In the nine months ended September 30, 2022, Pollard used $14.6 million on additions to intangible assets, $9.4 million on capital expenditures and $15.1 million for acquisitions, primarily relating to contingent consideration paid for the acquisition of Compliant.

Cash used for financing activities

Cash used for financing activities was $3.1 million in the nine months ended September 30, 2023, compared to cash provided by financing activities of $9.2 million in the nine months ended September 30, 2022. In the first nine months of 2023, lease principal payments of $5.3 million and dividend payments of $3.2 million were made during the period. These cash outflows were partially offset by net proceeds from long-term debt received of $5.0 million.

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 lease principal payments of $4.8 million and $3.2 million of dividend payments made during the period.

As at September 30, 2023, Pollard had unused credit facility of $106.8 million. 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 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Sales	$128.7	$130.3	$124.6	$126.9	$125.5	$115.9	$113.9	$116.5	$116.9
Adjusted EBITDA	24.8	22.1	18.6	22.4	20.2	18.9	19.0	18.7	19.4
Net income (loss)	7.7	7.5	4.8	10.5	(0.2)	2.5	6.4	5.2	(0.6)
Net income (loss) per share - basic	0.29	0.28	0.18	0.39	(0.01)	0.09	0.24	0.19	(0.02)

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, 2023, Pollard's investment in non-cash working capital decreased $1.9 million compared to December 31, 2022, primarily as a result of a decrease in accounts receivable, partially offset by a decrease to accounts payable and accrued liabilities and increases to inventory and prepaid expenses.

	September 30, 2023	December 31, 2022
Working Capital	$86.0	$79.9
Total Assets	$500.8	$499.3
Total Non-Current Liabilities	$140.4	$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 Secured Overnight Financing Rate (“SOFR”). At September 30, 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 $106.8 million.

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including our debt service coverage ratio and debt to income before interest, income taxes, amortization, depreciation and certain other items ratio. As at September 30, 2023, Pollard was in compliance with all financial covenants.

Pollard’s credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. Under the terms of the agreement the facility is committed for a four-year period, renewable December 31, 2025. Principal payments are not required until maturity. The facility can be prepaid without penalties.

Pollard believes that its credit facility and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital, dividends and acquisitions.

Economic Development Canada (“EDC”) Facility

Effective November 22, 2022, Pollard renewed its agreement with EDC. This agreement provides 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 September 30, 2023, the outstanding letters of credit drawn on this facility were $13.7 million (€9.6 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 September 30, 2023, outstanding share data was as follows:

Common shares	26,955,169

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, 2023, the total share options issued and outstanding were 500,000.

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 nine months ended September 30, 2023, which are not disclosed in the unaudited condensed consolidated interim financial statements. Subsequent to September 30, 2023, Pollard has agreed to the terms of a new lease for one of its Winnipeg properties leased from an affiliate of Equities. The new lease is for 5 years with the option to extend for 5 additional years and has an approximate annual lease rate of $1.1 million, which was based on the current market value as determined through an independent appraisal.

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

Overall demand for our products and solutions remains strong across both lottery and charitable gaming customers. Despite ongoing demand, our instant ticket volume is expected to remain low relative to volumes in previous quarters as we continue to be very disciplined in accepting discretionary work where the margins do not meet our minimum hurdle rates. Over the long term, as these remaining instant ticket contracts are repriced when they come up for renewal or rebid, opportunities to increase our volumes profitably will develop.

iLottery sales attained record levels during the third quarter driven by a number of very high jackpot runs involving both Powerball® and Mega Millions®. In the long term iLottery is expected to continue to grow, however in the short term, iLottery results may be impacted by fewer major jackpot runs in the fourth quarter.

Our NeoPollard joint venture was awarded a new greenfield iLottery contract with the West Virginia Lottery, expected to be operational in the latter part of 2024. In addition, discussions and solution demonstrations of our state-of-the-art PollardEdge™ iLottery technology continue with a number of lottery organizations.

Profitable growth is continuing in all of our digital solutions, including eGaming via kiosks and tablets in charitable gaming settings such as bars, fraternals and other social gaming environments.

Our repricing of instant ticket contracts will continue and going forward through 2024 the financial impact of pricing increases already attained will be increasingly realized as these new contract terms come into effect.

Supplier prices for our key instant ticket inputs, including paper and ink, have remained stable during 2023. Some very small price decreases have been received recently and we are hopeful that additional input cost decreases will be realized through 2024.

Our operations generate strong cashflow which enables us to continue to reinvest capital in new technologies enhancing our production capabilities as well as advancing our iLottery technology and expanding our game content. Important investment initiatives will continue including strategic acquisitions to complement our strong portfolio of lottery and charitable gaming solutions.

We are very excited about the future of Pollard Banknote. Strong demand across our main product lines, increasing opportunities in iLottery and a proven strategy to return to historic margins in our instant ticket business provides an expectation for financial growth going forward.

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, 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.sedarplus.ca.

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