POLLARD banknote limited

September 30, 2024

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024

November 13, 2024

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and nine months ended September 30, 2024, is prepared as at November 13, 2024, 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, 2024, and the audited consolidated financial statements of Pollard for the year ended December 31, 2023, 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 severance costs, acquisition costs, contingent consideration fair value adjustments and net insurance proceeds. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to net income, Adjusted EBITDA is a useful supplementary measure.

Reference to "Combined sales" is to sales recognized under GAAP plus Pollard's 50% proportionate share of NeoPollard Interactive LLC's ("NPi") sales, its iLottery joint venture operation. Reference to "Combined iLottery sales" is to sales recognized under GAAP for Pollard's 50% proportionate share of its Michigan Lottery joint iLottery operation plus Pollard's 50% proportionate share of NPi's sales, its iLottery joint venture operation.

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

Basis of Presentation

The results of operations in the following discussions encompass the unaudited consolidated results of Pollard for the three and nine months ended September 30, 2024. 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 markets 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.

Pollard produces and provides a comprehensive line of instant tickets and lottery products and services including: licensed products, distribution, SureTrack® lottery management system, marketing, 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. Pollard also offers its state-of-the-art iLottery solution, Catalyst™, as well as eInstant games from its digital games studio. In addition, Pollard's charitable gaming product line includes pull-tab (or break-open) tickets, bingo paper, pull-tab vending machines, ancillary products such as pull-tab counting machines and bingo daubers.

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.

Acquisition

On July 31, 2024, Pollard acquired 100% of the business of Clarence J. Venne, LLC ("Venne") for a purchase price of $12.6 million U.S. dollars ($17.4 million) prior to standard working capital adjustments. Venne is the leading manufacturer of bingo daubers utilized primarily in the charitable gaming bingo market. The purchase price was funded from Pollard's credit facility and cash on hand.

Kansas iLottery contract

On August 26, 2024, Pollard announced it had been awarded its first contract in the United States to provide a full turnkey iLottery solution for the Kansas Lottery, powered by its proprietary, omnichannel Pollard Catalyst™ iLottery Platform, with an anticipated go live date of early 2025.

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, 2024.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended September 30, 2024	Three months ended September 30, 2023(1)	Nine months ended September 30, 2024	Nine months ended September 30, 2023(1)
Sales	$153.2	$129.1	$416.8	$385.0
Cost of sales	122.2	106.3	335.3	323.7
Gross profit	31.0	22.8	81.5	61.3
Gross profit as a % of sales	*20.2%*	*17.7%*	*19.6%*	*15.9%*
Administration expenses	17.0	14.8	48.9	42.7
Administration expenses as a % of sales	*11.1%*	*11.5%*	*11.7%*	*11.1%*
Selling expenses	5.9	5.2	17.0	15.0
Selling expenses as a % of sales	*3.9%*	*4.0%*	*4.1%*	*3.9%*
NPi equity investment income	(13.6)	(11.1)	(39.9)	(28.0)
NPi equity investment income as a % of sales	*(8.9%)*	*(8.6%)*	*(9.6%)*	*(7.3%)*
Unrealized foreign exchange (gain) loss	(2.7)	2.5	2.5	0.7
Unrealized foreign exchange (gain) loss as a % of sales	*(1.8%)*	*1.9%*	*0.6%*	*0.2%*
Net income	18.2	7.7	37.0	20.1
Net income as a % of sales	*11.9%*	*6.0%*	*8.9%*	*5.2%*
Adjusted EBITDA	33.3	24.8	89.3	65.6
Adjusted EBITDA as a % of sales	*21.7%*	*19.2%*	*21.4%*	*17.1%*
Net income per share (basic)	$0.67	$0.29	$1.37	$0.75
Net income per share (diluted)	$0.66	$0.28	$1.35	$0.73

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

	September 30, 2024	December 31, 2023
Total Assets	$605.5	$515.7
Total Non-Current Liabilities	$166.1	$139.5

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Net income	$18.2	$7.7	$37.0	$20.1
Adjustments:				
Amortization and depreciation	10.7	11.1	32.6	33.6
Interest	2.7	2.4	7.7	7.9
Income taxes	4.1	1.6	8.1	3.1
EBITDA	$35.7	$22.8	$85.4	$64.7
Unrealized foreign exchange (gain) loss	(2.7)	2.5	2.5	0.7
Acquisition costs	0.3	0.0	0.3	0.0
Severance costs	0.0	0.0	1.1	0.0
Insurance proceeds (net)	0.0	(0.3)	0.0	(0.3)
Contingent consideration fair value adjustment	0.0	(0.2)	0.0	0.5
Adjusted EBITDA	$33.3	$24.8	$89.3	$65.6

Product line breakdown of revenue

	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Lottery	78.9%	76.1%	76.4%	75.4%
Charitable (1)	11.8%	13.7%	12.8%	14.0%
eGaming systems	9.3%	10.2%	10.8%	10.6%

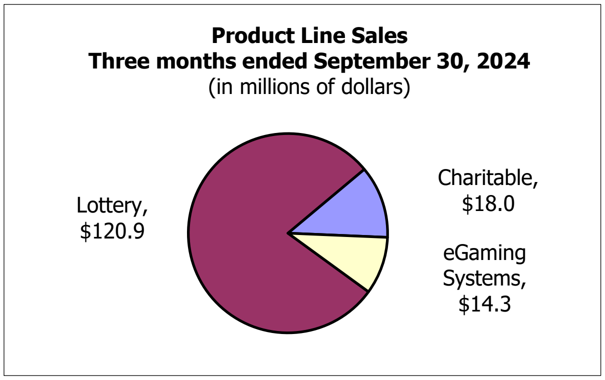
(1) Includes Clarence J. Venne ("Venne") which was acquired on July 31, 2024.

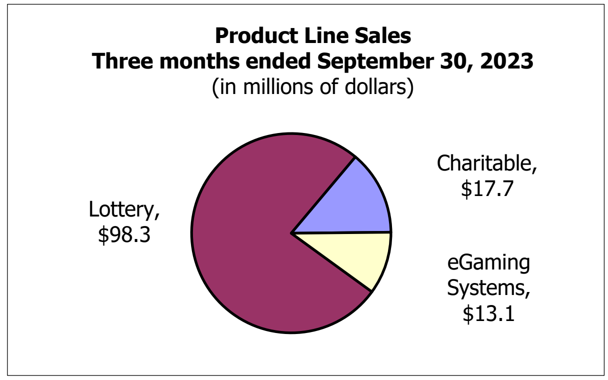
REVIEW OF OPERATIONS

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, 2024

Sales





During the three months ended September 30, 2024, Pollard achieved sales of $153.2 million, compared to $129.1 million in the three months ended September 30, 2023. Factors impacting the $24.1 million sales increase were:

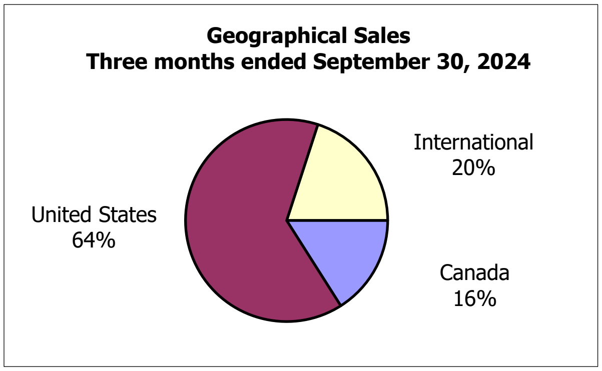
An increase in instant ticket sales volumes in the third quarter of 2024 increased sales by $11.8 million. In addition, the higher instant ticket average selling price in 2024 increased sales by $5.9 million as compared to 2023, mainly as a result of the impact of repriced contracts and increased proprietary product sales.

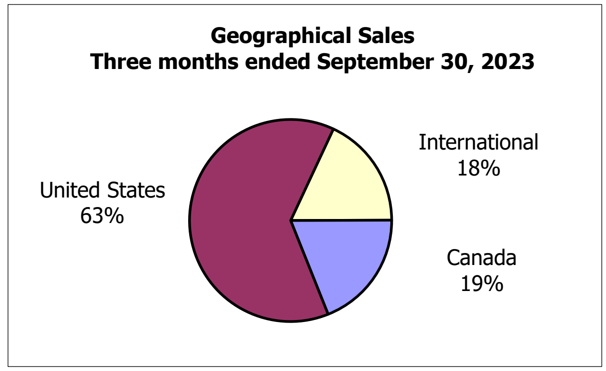
Higher sales of ancillary lottery products and services increased revenue in the third quarter of 2024 by $1.2 million as compared to 2023. This growth was largely due to increased sales of licensed products.

Higher charitable gaming volumes increased sales by $2.8 million in the third quarter of 2024 as compared to the third quarter of 2023. This increase is predominately as a result of the acquisition of Venne in the quarter.

Higher charitable eGaming systems revenue further increased sales by $0.8 million in 2024, largely due to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2023.

These increases in revenue were partly offset by lower Michigan iLottery sales of $1.3 million in the third quarter of 2024 as compared to 2023.





During the three months ended September 30, 2024, Pollard generated approximately 70.1% (2023 – 69.1%) 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 2024, the actual U.S. dollar value was converted to Canadian dollars at $1.362, compared to a rate of $1.329 during the third quarter of 2023. This 2.5% increase in the U.S. dollar value resulted in an approximate increase of $2.6 million in revenue relative to the third quarter of 2023. In addition, during the quarter the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $0.3 million in revenue relative to the third quarter of 2023.

Cost of sales and gross profit

Cost of sales was $122.2 million in the third quarter of 2024 compared to $106.3 million in the third quarter of 2023. The increase of $15.9 million in cost of sales was primarily the result of higher instant ticket sales volumes as compared to 2023. In addition, higher expenses related to increased sales of eGaming systems and ancillary lottery products and services, as well as the Venne acquisition, further increased cost of sales in the quarter.

Gross profit increased to $31.0 million (20.2% of sales) in the third quarter of 2024 from $22.8 million (17.7% of sales) in the third quarter of 2023. This increase of $8.2 million in gross profit and the increase in gross profit percentage were primarily the result of higher instant ticket sales margins, largely as a result of the higher instant ticket average selling price and increased margin from the charitable gaming group. Partially offsetting these increases were the reduction in Michigan iLottery gross profit in 2024.

Administration expenses

Administration expenses were $17.0 million in the third quarter of 2024 compared to $14.8 million in the third quarter of 2023. The increase of $2.2 million was largely a result of increased compensation expenses, consulting costs, software licensing costs and acquisition costs. Partially offsetting these increases was a decrease in professional fees.

Selling expenses

Selling expenses increased to $5.9 million in the third quarter of 2024 from $5.2 million in the third quarter of 2023. The increase was primarily due to higher compensation costs as well as the expansion of our charitable gaming distribution business and the acquisition of Venne.

Equity investment income

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to $13.6 million in the third quarter of 2024 from $11.1 million in the third quarter of 2023. This $2.5 million increase was primarily due to increased organic growth achieved on contracts held by NPi as compared to 2023, which was driven by greater gaming activity including the continued strong eInstants sales in North Carolina following their launch in the fourth quarter of 2023.

Other income

Other income was $0.8 million in the third quarter of 2024 similar to $0.7 million in the third quarter of 2023.

Foreign exchange

The net foreign exchange gain was $2.5 million in the third quarter of 2024 compared to a net loss of $2.9 million in the third quarter of 2023. The 2024 net foreign exchange gain of $2.5 million consisted of an unrealized foreign exchange gain of $2.7 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, partially offset by an unrealized loss on U.S. dollar denominated cash and accounts receivable. Partially offsetting the unrealized gain, 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, partially offset by foreign currency denominated accounts payable paid at favorable exchange rates.

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.

Adjusted EBITDA

Adjusted EBITDA increased to $33.3 million in the third quarter of 2024 compared to $24.8 million in the third quarter of 2023. The primary reasons for the $8.5 million increase in Adjusted EBITDA were the increase in gross profit (net of amortization and depreciation) of $7.8 million, primarily as result of increased instant ticket margins. Additional increases to Adjusted EBITDA were the increase in equity investment income of $2.5 million and the increase in other income (net of severance expense and contingent consideration adjustment) of $0.6 million. Partially offsetting these increases to Adjusted EBITDA were the increase in administration expenses (net of acquisition costs) of $1.9 million and the increase in selling expenses of $0.7 million.

Interest expense

Interest expense increased to $2.7 million in the third quarter of 2024 from $2.4 million in the third quarter of 2023, primarily as a result of the increase in average long-term debt outstanding as compared to 2023.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $10.7 million during the third quarter of 2024 which decreased from $11.1 million during the third quarter of 2023. The decrease of $0.4 million was primarily the result of certain property, plant and equipment becoming fully depreciated.

Income taxes

Income tax expense was $4.1 million in the third quarter of 2024, an effective rate of 18.4%, which was lower than our domestic rate of 27.0% due primarily to the effect of lower income tax rates in foreign jurisdictions.

Income tax expense was $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.

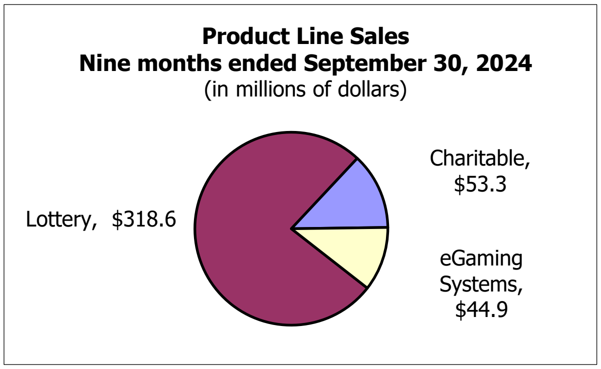
Net income

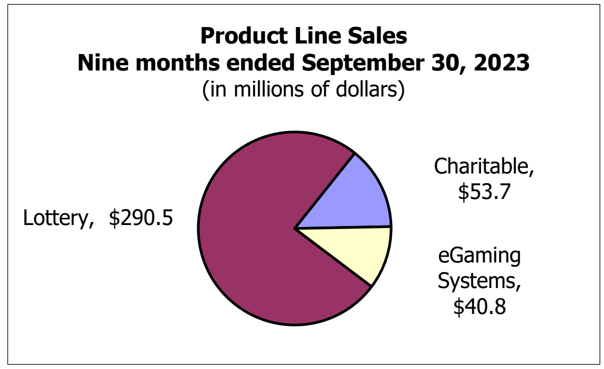
Net income increased to $18.2 million in the third quarter of 2024 from $7.7 million in the third quarter of 2023. The primary reasons for the $10.5 million increase were the increase in gross profit of $8.2 million, principally as a result of the increased instant ticket margin, the increase in net foreign exchange gain of $5.4 million and the increase in equity investment income of $2.5 million. Partially offsetting these increases to net income were the increase in income tax expense of $2.5 million, the increase in administration expenses of $2.2 million, the increase in selling expenses of $0.7 million and the increase in interest expense of $0.3 million.

Net income per share (basic and diluted) increased to $0.67 and $0.66 per share, respectively, in the third quarter of 2024 from $0.29 and $0.28 per share (basic and diluted) in the third quarter of 2023.

ANALYSIS OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024

Sales





During the nine months ended September 30, 2024, Pollard achieved sales of $416.8 million, compared to $385.0 million in the nine months ended September 30, 2023. Factors impacting the $31.8 million sales increase were:

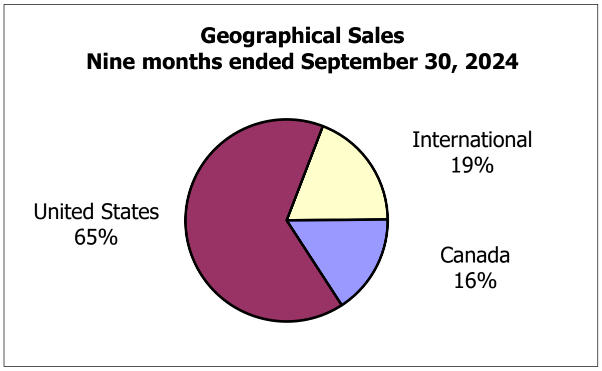
The higher instant ticket average selling price in the first nine months of 2024 increased sales by $23.3 million as compared to 2023, primarily due to increased proprietary product sales, the change in customer mix and the impact of repriced contracts. This increase was partially offset by the decrease in instant ticket sales volumes of $10.5 million as compared to 2023, partly as a result of Pollard declining to produce certain lower margin work.

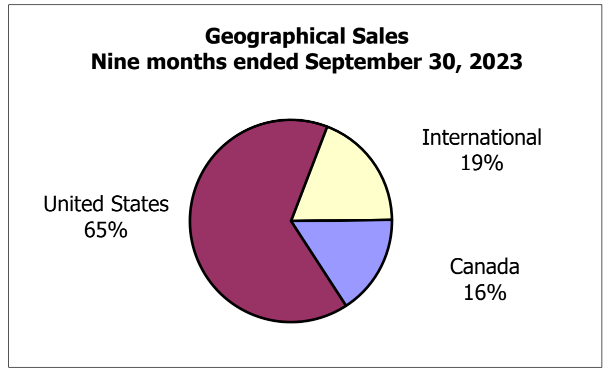
Higher sales of ancillary lottery products and services increased revenue by $12.1 million in the first nine months of 2024. This growth was largely due to increased sales of digital and loyalty products, retail merchandising products, distribution services and licensed products as compared to 2023.

Higher charitable eGaming systems revenue increased sales by $3.9 million in the first nine months of 2024 primarily due to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2023.

Higher charitable gaming volumes increased sales by $2.7 million in the first nine months of 2024 predominately as a result of the acquisition of Venne in the third quarter of 2024.

Lower Michigan iLottery sales in the first nine months of 2024 decreased revenue by $1.2 million as compared to 2023.





During the nine months ended September 30, 2024, Pollard generated approximately 70.8% (2023 – 72.3%) 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 2024, the actual U.S. dollar value was converted to Canadian dollars at $1.352, compared to a rate of $1.346 the first nine months of 2023. This 0.5% increase in the U.S. dollar value resulted in an approximate increase of $1.4 million in revenue relative to the first nine months of 2023. In addition, during the first nine months of 2024, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $0.4 million in revenue relative to the first nine months of 2023.

Cost of sales and gross profit

Cost of sales was $335.3 million in the first nine months of 2024 compared to $323.7 million in the first nine months of 2023. The increase of $11.6 million in cost of sales was primarily due to increased sales of eGaming systems and ancillary lottery products and services. Partially offsetting these increases in cost of sales were the lower expenses related to lower instant ticket sales volumes as compared to 2023.

Gross profit increased to $81.5 million (19.6% of sales) in the nine months ended September 30, 2024, from $61.3 million (15.9% of sales) in the nine months ended September 30, 2023. This increase of $20.2 million in gross profit and the increase in gross profit percentage were primarily the result of higher instant ticket sales margins, largely as a result of the higher instant ticket average selling price, as well as increased licensed products, retail merchandising products and eGaming systems sales. Partially offsetting these increases was the reduction in Michigan iLottery gross profit in 2024.

Administration expenses

Administration expenses increased to $48.9 million in the first nine months of 2024 from $42.7 million in 2023. The increase of $6.2 million was largely a result of increased compensation expenses, consulting costs, software licensing costs and acquisition costs. Partially offsetting these increases was a decrease in professional fees.

Selling expenses

Selling expenses increased to $17.0 million in the first nine months of 2024 from $15.0 million in the first nine months of 2023. This $2.0 million increase was primarily due to higher compensation costs as well as the expansion of our charitable gaming distribution business and the acquisition of Venne.

Equity investment income

Pollard's share of income from NPi increased to $39.9 million in the first nine months of 2024 from $28.0 million in 2023. This $11.9 million increase was primarily due to increased organic growth achieved on contracts held by NPi as compared to 2023. This growth was driven by greater gaming activity, in addition to the continued strong eInstants sales in North Carolina following their launch in the fourth quarter of 2023.

Other income

Other income was $0.2 million in the first nine months of 2024 compared to $0.4 million in 2023. The 2024 other income of $0.2 million was comprised of $1.3 million of other income, partially offset by severance related costs of $1.1 million related to downsizing a portion of our operational workforce as a result of the expiry of a lottery service contract in Europe. The 2023 other income of $0.4 million was comprised of $0.7 million of other income, plus $0.3 million from an insurance settlement, partially offset by a $0.3 million contingent consideration fair value adjustment expense.

Foreign exchange

The net foreign exchange loss was $2.9 million in the first nine months of 2024 compared to a net foreign exchange loss of $0.9 million in the first nine months of 2023. The 2024 net foreign exchange loss of $2.9 million resulted from a net unrealized foreign exchange loss of $2.5 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, partially offset by an unrealized gain on U.S. dollar denominated 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 and foreign currency denominated accounts payable paid at unfavorable exchange rates.

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.

Adjusted EBITDA

Adjusted EBITDA increased to $89.3 million in the first nine months of 2024 compared to $65.6 million in the first nine months of 2023. The primary reason for the increase of $23.7 million was the increase in gross profit (net of amortization and depreciation) of $19.2 million, primarily as result of increased instant ticket margins, as well as increased licensed products, retail merchandising products and eGaming systems sales. In addition, the increase in equity investment income of $11.9 million and the increase in other income (net of severance expense) of $0.7 million further increased Adjusted EBITDA. Partially offsetting these increases were the increase in administration expenses (net of acquisition costs) of $5.9 million and the increase in selling expenses of $2.0 million.

Interest expense

Interest expense decreased to $7.7 million in the first nine months of 2024 from $7.9 million in the first nine months of 2023, primarily as a result of the decrease in interest accretion of $0.8 million on the discounted contingent consideration liability relating to a previous acquisition, and the decrease in average long-term debt outstanding as compared to 2023. Partially offsetting these decreases to interest expense was the impact of more lease related interest expense in 2024.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $32.6 million during the first nine months of 2024 which decreased from $33.6 million during the first nine months of 2023. The decrease of $1.0 million was primarily the result of certain property, plant and equipment becoming fully depreciated.

Income taxes

Income tax expense was $8.1 million in the first nine months of 2024, an effective rate of 18.1%, 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 $3.1 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.

Net income

Net income increased to $37.0 million in the first nine months of 2024 from $20.1 million in the first nine months of 2023. The primary reasons for the increase of $16.9 million were the increase in gross profit of $20.2 million, principally as a result of the increased instant ticket margin, and the increase in equity investment income of $11.9 million. Partially offsetting these increases to net income were the increase in administration expenses of $6.2 million, the increase in income tax expense of $5.0 million, the increase in selling expenses of $2.0 and the increase in net foreign exchange loss of $2.0 million.

Net income per share (basic and diluted) increased to $1.37 and $1.35 per share, respectively, in the nine months ending September 30, 2024, as compared to $0.75 and $0.73 per share (basic and diluted) in the nine months ending September 30, 2023.

Joint Venture iLottery

Pollard and Neogames US LLP ("Neogames") together provide iLottery services to certain North American lotteries. 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") to provide iLottery services for certain joint customer contracts, excluding the Michigan Lottery iLottery contract. 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.

(millions of dollars)

	Q3 2024	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022
Sales – Pollard's share									
Michigan iLottery	$ 6.0	$ 6.8	$ 7.1	$ 7.0	$ 7.2	$ 6.5	$ 7.3	$ 7.9	$ 6.5
NPi	27.2	28.2	25.5	21.8	21.5	18.5	18.5	17.7	13.7
Combined iLottery sales	$ 33.2	$ 35.0	$ 32.6	$ 28.8	$ 28.7	$ 25.0	$ 25.8	$ 25.6	$ 20.2
Income before income taxes – Pollard's share(1)									
Michigan iLottery	$ 0.7	$ 2.1	$ 2.7	$ 2.5	$ 2.8	$ 1.8	$ 2.9	$ 2.9	$ 2.2
NPi	13.6	14.1	12.2	11.0	11.1	8.8	8.2	8.3	5.7
Combined income before income taxes – Pollard's share	$ 14.3	$ 16.2	$ 14.9	$ 13.5	$ 13.9	$ 10.6	$ 11.1	$ 11.2	$ 7.9

Throughout 2022, 2023 and the first half of 2024, NPi's contracts achieved strong organic growth, adding to sales and income before taxes. In addition, quarterly sales and income before taxes are positively impacted during quarters where substantial draw-based game (Powerball® and Mega Millions®) jackpots are awarded. In the third quarter of 2024 income before income taxes from the Michigan iLottery was negatively impacted by lower sales and certain one-time higher processing costs.

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

Liquidity and Capital Resources

Cash provided by operating activities

For the nine months ended September 30, 2024, cash flow provided by operating activities was $44.0 million compared to cash flow provided by operating activities of $44.1 million for the first nine months of 2023. Changes in the non-cash working capital used $20.7 million in cash compared to $2.5 million provided in the first nine months of 2023. For the nine months ended September 30, 2024, changes in the non-cash working capital decreased cash flow from operations due primarily to an increase in accounts receivable, inventory and prepaid expenses, which were partially offset by an increase to accounts payable and accrued liabilities. The increase in accounts receivable was primarily a result of higher sales at the end of the third quarter. 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.

Cash used for interest payments decreased to $7.1 million in 2024 as compared to $7.3 million in 2023. Cash used for pension plan contributions was $4.2 million in 2024 unchanged from the $4.2 million used in 2023. Cash used for income tax payments decreased to $17.0 million in 2024 from $17.7 million in 2023. Partially offsetting these uses of cash, Pollard received $40.0 million in distributions from our iLottery joint venture in 2024 as compared to $28.0 million received in 2023.

Cash used for investing activities

In the nine months ended September 30, 2024, cash used for investing activities was $63.5 million compared to cash used for investing activities of $42.5 million in the first nine months of 2023. In the nine months ended September 30, 2024, Pollard used $19.7 million on additions to intangible assets, $20.4 million on capital expenditures and $23.4 million related to acquisitions.

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.

Cash provided by financing activities

Cash provided by financing activities was $22.0 million in the nine months ended September 30, 2024, compared to cash used for financing activities of $3.1 million in the nine months ended September 30, 2023. In the first nine months of 2024, cash was provided by net proceeds from long-term debt received of $29.0 million. This cash inflow was partially offset by lease principal payments of $4.1 million and dividend payments of $3.8 million made during the period.

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.

As at September 30, 2024, Pollard had unused credit facility of $84.8 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 2024	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022
Sales(1)	$153.2	$137.8	$125.7	$135.5	$129.1	$130.8	$125.1	$127.3	$125.9
Adjusted EBITDA	33.3	32.3	23.7	25.7	24.8	22.1	18.6	22.4	20.2
Net income (loss)	17.4	11.9	6.9	11.3	7.7	7.5	4.8	10.5	(0.2)
Net income (loss) per share - basic	0.67	0.44	0.26	0.42	0.29	0.28	0.18	0.39	(0.01)

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

Working Capital

Net non-cash working capital varies throughout the year based on the timing of individual sales transactions and other investments. The nature of the lottery industry is few individual customers who generally order large dollar value transactions. As such, the change in timing of a few individual orders can significantly impact the amount required to be invested in inventory or receivables at a particular period end. The high value, low volume of transactions results in some significant volatility in non-cash working capital, particularly during a period of 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, 2024, Pollard's investment in non-cash working capital increased $20.7 million compared to December 31, 2023, primarily as a result of increases in accounts receivable, inventory and prepaid expenses, which were partially offset by an increase to accounts payable and accrued liabilities. The increase in accounts receivable was primarily a result of higher sales at the end of the third quarter of 2024.

	September 30, 2024	December 31, 2023
Working Capital	$100.3	$81.8
Total Assets	$605.5	$515.7
Total Non-Current Liabilities	$166.1	$139.5

Credit Facility

The credit facility provides loans of up to $155.0 million for its Canadian operations and US$59.0 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 $155.0 million Canadian equivalent. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, Canadian Dollar Offered Rate ("CDOR") or Secured Overnight Financing Rate ("SOFR"). At September 30, 2024, 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 $84.8 million.

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including debt to income before interest, income taxes, amortization, depreciation and certain other items ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at September 30, 2024, 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 matures December 31, 2025. Principal payments are not required until maturity. The facility can be prepaid without penalties.

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

Economic Development Canada ("EDC") Facility

Effective November 29, 2023, Pollard renewed its agreement with EDC. This agreement provides a €15.0 million facility whereby Pollard can issue qualifying letters of credit against the EDC facility. The facility is guaranteed by a general indemnity from Pollard. As of September 30, 2024, the outstanding letters of credit drawn on this facility were $16.6 million (€11.0 million). As of December 31, 2023, the outstanding letters of credit drawn on this facility were $14.7 million (€10.1 million).

Outstanding Share Data

As at September 30, 2024, outstanding share data was as follows:

Common shares	27,055,169

As at November 13, 2024, outstanding share data was as follows:

Common shares	27,061,419

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, 2024, the total share options issued and outstanding were 387,500.

Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2023, 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, 2023, 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, 2023.

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, 2023.

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the nine months ended September 30, 2024, 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, 2023.

Outlook

The overall demand for our products and solutions in both the lottery and charitable gaming markets remains strong and this trend is expected to continue. We are very confident in the outlook for the remainder of 2024 and 2025 as our strategies for growth in revenue and margins generate improving results.

The positive financial impact of repriced instant ticket contracts will continue to improve our revenue and gross margins as these new agreements commence. A continued focus on high value proprietary products will generate opportunities to provide innovative solutions to our lottery clients. As is typical, our instant ticket volumes are expected to be slightly lower in the fourth quarter, following the strong levels achieved in the pre-holiday third quarter.

Demand in the charitable gaming market is expected to generate growth in printed product volumes as well as eGaming opportunities. Jurisdictions in North America are looking at initiating or expanding regulated eGaming which will provide our charitable gaming group additional growth prospects. During the third quarter we completed the acquisition of Venne, a leading manufacturer in the charitable bingo market and an important addition to our product portfolio.

Our ancillary solutions such as our proprietary PlayOn® loyalty platform and our GeoLocs™ geolocation services are increasingly recognized as market leaders in the lottery and gaming market. Our focus on the importance of innovation at retail is gaining more interest as lotteries and charitable gaming organizations recognize the need for leading edge connections to their retail customers. These trends highlight the significance of providing an expansive portfolio to meet the needs of our clients and we anticipate revenue of our ancillary products will continue to increase.

Interest and opportunities in iLottery continue to grow, both in North America and Europe. The ten-year West Virginia iLottery contract operated by our iLottery joint venture went live on October 31, 2024, with a successful launch of both eInstants and draw-based games, including the use of Pollard's proprietary lottery mobile app and PlayOn® loyalty solution.

We will continue to work with lotteries across the globe in demonstrating the industry leading features of our Catalyst™ iLottery platform and strong eInstants gaming content produced by our internal game studio. Our significant investment in developing our proprietary omni-channel technology and experience in implementing and running successful iLottery operations provides us a unique opportunity to address the increased interest expressed by a number of lottery organizations around the world. Pollard is also responding to a number of formal requests for information and proposals.

Implementation of our Catalyst™ iLottery platform for the Kansas Lottery, and related operational support, is proceeding well and we look forward to a successful go-live in early 2025.

A critical foundation of our successful acquisitions is our strong internal cash flow, which allows us to be both financially prudent and very responsive in our execution. Our cash flows remain very robust and provide us a steady flow of capital which enables us to be extremely flexible in our investments in critical acquisitions and internal capital projects. We continue to review a number of strategic and financially accretive opportunities in both the charitable gaming market and the digital gaming content area. Our disciplined approach to acquisitions has been a hallmark of our growth over the years and will continue to be an important means in expanding our business. Our debt facility has significant available unused capacity and combined with our operating cash flows ensures our focus on internal and external innovation and growth will have the necessary resources.

We are extremely pleased that our focused commitment to our strategy of being the partner of choice for lotteries and charities in helping grow funds for their good causes is succeeding in generating significantly improved financial results. We are confident our products and solutions will help lotteries and charities succeed and enable Pollard to continue our positive growth trends.

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.

Pollard has limited its design of disclosure controls and procedures to exclude controls, policies and procedures of Venne, as it was acquired not more than 365 days before the end of the financial period to which this MD&A relates.

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.

Pollard has limited its design of ICFR to exclude controls, policies and procedures of Venne, as it was acquired not more than 365 days before the end of the financial period to which this MD&A relates.

No changes were made in Pollard's internal control over financial reporting during the nine months ended September 30, 2024, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

Additional Information

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

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form for the year ended December 31, 2023, is available on SEDAR+ at www.sedarplus.ca.

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