June 30, 2021

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021

August 11, 2021

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and six months ended June 30, 2021, is prepared as at August 11, 2021, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at June 30, 2021, and the audited consolidated financial statements of Pollard for the year ended December 31, 2020, and the notes therein. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP").

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, litigation settlement costs and contingent consideration fair value adjustments. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to net income, Adjusted EBITDA is a useful supplementary measure.

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

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

Basis of Presentation

The results of operations in the following discussions encompass the unaudited consolidated results of Pollard for the three and six months ended June 30, 2021. All figures are in millions except for per share amounts.

POLLARD BANKNOTE LIMITED

Overview

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

Pollard's lottery products are sold extensively throughout Canada, the United States and the rest of the world, wherever applicable laws and regulations authorize their use. Pollard serves over 60 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Acquisitions

On December 30, 2020, Pollard signed and closed a definitive agreement to purchase 100% of the equity of Compliant Gaming, LLC ("Compliant") for a purchase price of $19.0 million U.S. dollars ($24.3 million) prior to standard working capital adjustments and potential future earn-out payments based on certain EBITDA targets. Compliant is a leading provider of electronic pull-tab gaming systems and products to the charitable gaming market.

On January 14, 2021, Pollard completed the acquisition of Next Generation Lotteries AS ("NGL"). On December 31, 2020, Pollard signed a definitive agreement to acquire 100% of the equity of NGL for a purchase price of €36.0 million ($56.5 million), prior to standard working capital adjustments and certain deferred cash considerations, of which €32.0 million ($50.2 million) was paid at the time of closing and the remaining €4.0 million ($6.3 million) will be paid upon the achievement of certain gross margin targets in 2021. The purchase price was funded from existing Pollard cash resources and availability under the existing credit facilities for approximately €27.4 million ($43.0 million) and the issuance of treasury shares of Pollard for approximately €4.6 million ($7.2 million).

Share offering

On February 9, 2021, Pollard announced that it had entered into an agreement with a syndicate of underwriters to purchase, on a bought deal basis, 812,000 common shares of Pollard at a price of $36.95 per share. Pollard also granted the underwriters an over-allotment option exercisable at any time up to 30 days following the closing of the offering, to purchase up to an additional 121,800 common shares. The offering, including the full over-allotment, closed on March 2, 2021. The total gross proceeds, prior to any commissions and offering expenses, from the sale of 933,800 common shares was approximately $34.5 million.

Pollard used the net proceeds to repay indebtedness under Pollard's credit facility incurred in the recent acquisitions of Compliant and NGL.

COVID-19

In March 2020, the World Health Organization declared a global pandemic known as COVID-19. Our charitable and Diamond Game ("eGaming") businesses were negatively impacted with a large reduction in sales in the second quarter of 2020 with the temporary closure of many retail outlets; however, these sales rebounded to pre-COVID levels in the third quarter of 2020 with the re-opening of retail outlets. In the later part of the fourth quarter a number of jurisdictions reenacted temporary retail closures, reducing our revenues again. Many of these jurisdictions reopened in early 2021, with consumer demand once again returning strongly. In addition, Pollard's main lottery products and services have shown significant resilience throughout the pandemic, generating substantial cash flows from operating activities during the year ended December 31, 2020 and the first half of 2021. The extent of the pandemic's effect on Pollard's operational and financial performance will depend on future developments, including the extent and duration of the pandemic, both of which are uncertain and difficult to predict. As a result, it is not currently possible to ascertain the overall financial impact on Pollard's business. Pollard has significant cash resources and unused credit facility available, which management believes will allow Pollard to support its operations during the pandemic.

All Pollard facilities continue to follow at a minimum their applicable provincial/state and local public health authority measures and guidance. Wherever a shelter-in-place order or state of emergency has been declared, local and federal authorities have identified, under specific acts, which essential industries remain open and active until further notice. In all affected jurisdictions, Pollard is classified as an essential government supplier, which has allowed Pollard to continue to operate throughout the pandemic. As of the date of this MD&A, all Pollard facilities are operational and our supply chains have remained functional. Pollard is extremely dedicated to providing a safe workplace in all facilities and is working to curb the spread of the virus through implementation of extensive safety measures at all locations, including daily temperature checks and health screening, extensive social distancing, restriction of visitors, work from home policies for employees capable of doing so, encouragement of obtaining vaccines and use of electronic monitoring to ensure social distancing.

Product line breakdown of revenue

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Lottery (1) (3)	78.8%	91.7%	79.5%	86.4%
Charitable	13.4%	6.0%	13.0%	9.2%
Gaming Systems (2)	7.8%	2.3%	7.5%	4.4%

(1) Includes mkodo Limited ("mkodo") which was acquired on February 3, 2020.

(2) Includes Compliant Gaming, LLC ("Compliant") which was acquired on December 30, 2020.

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

Geographic breakdown of revenue

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
United States	62%	59%	62%	58%
Canada	17%	18%	17%	20%
International	21%	23%	21%	22%

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 six months ended June 30, 2021.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Sales	$113.4	$91.5	$225.6	$193.8
Cost of sales	90.8	72.7	178.5	153.3
Gross profit	22.6	18.8	47.1	40.5
Gross profit as a % of sales	*19.9%*	*20.5%*	*20.9%*	*20.9%*
Administration expenses	11.1	9.5	23.1	19.7
Administration expenses as a % of sales	*9.8%*	*10.4%*	*10.2%*	*10.2%*
Selling expenses	3.9	3.4	7.5	7.1
Selling expenses as a % of sales	*3.4%*	*3.7%*	*3.3%*	*3.7%*
(Gain) loss on NPi equity investment	(2.5)	0.3	(6.5)	0.8
(Gain) loss on NPi as a % of sales	*(2.2%)*	*0.3%*	*(2.9%)*	*0.4%*
Other income	(2.0)	(6.0)	(1.4)	(6.4)
Other income as a % of sales	*(1.8%)*	*(6.6%)*	*(0.6%)*	*(3.3%)*
Unrealized foreign exchange (gain) loss	(1.6)	(1.8)	(2.5)	4.4
Unrealized foreign exchange (gain) loss as a % of sales	*(1.4%)*	*(2.0%)*	*(1.1%)*	*2.3%*
Net income	7.7	9.2	15.1	8.0
Net income as a % of sales	*6.8%*	*10.1%*	*6.7%*	*4.1%*
Adjusted EBITDA	22.6	19.8	45.9	35.8
Adjusted EBITDA as a % of sales	*19.9%*	*21.6%*	*20.3%*	*18.5%*
Net income per share (basic and diluted)	$0.29	$0.36	$0.56	$0.31

	June 30, 2021	December 31, 2020
Total Assets	$459.5	$404.6
Total Non-Current Liabilities	$171.2	$191.3

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

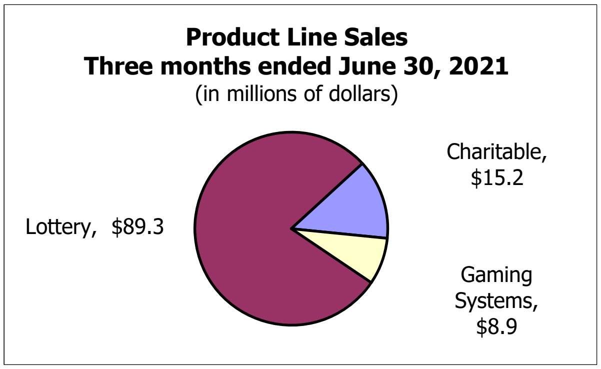
	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Net income	$7.7	$9.2	$15.1	$8.0
Adjustments:				
Amortization and depreciation	9.9	7.8	19.2	15.4
Interest	1.1	1.2	2.2	2.9
Income taxes	4.0	3.2	7.3	4.3
EBITDA	$22.7	$21.4	$43.8	$30.6
Unrealized foreign exchange (gain) loss	(1.6)	(1.8)	(2.5)	4.4
Acquisition costs	0.4	0.2	1.0	0.8
Contingent consideration adjustment	1.1	0.0	1.1	0.0
Litigation settlement cost	0.0	0.0	2.5	0.0
Adjusted EBITDA	$22.6	$19.8	$45.9	$35.8
Lotteries and charitable gaming	$18.5	$20.2	$38.3	$34.1
Diamond Game and Compliant	4.1	(0.4)	7.6	1.7
Adjusted EBITDA	$22.6	$19.8	$45.9	$35.8

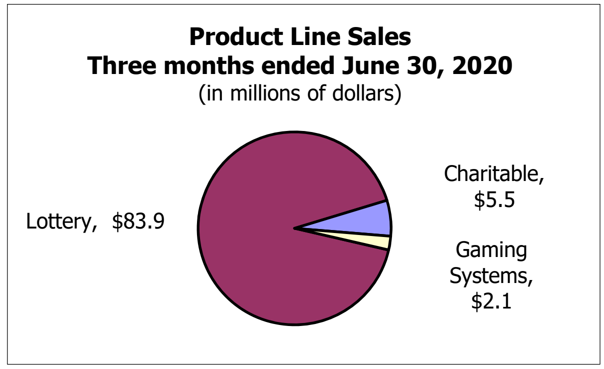
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2021

Sales



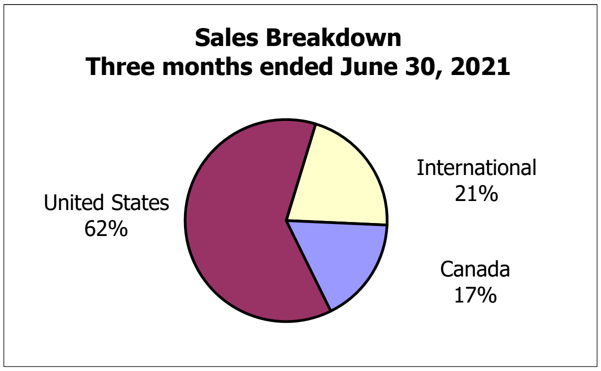


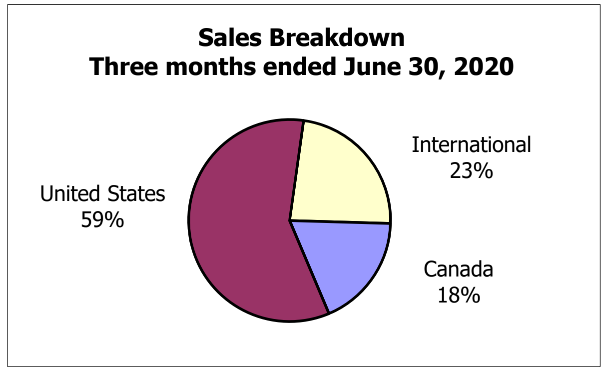
During the three months ended June 30, 2021, Pollard achieved sales of $113.4 million, compared to $91.5 million in the three months ended June 30, 2020. Factors impacting the $21.9 million sales increase were:

Since the end of the first quarter of 2021, most retail establishments where our charitable gaming products are sold and Diamond Game eGaming machines are placed have remained open, and sales of pull-tab tickets have reached record highs. The increase in charitable gaming volumes increased sales by $11.4 million in the second quarter of 2021, as compared to the second quarter of 2020 when most retail establishments were closed for periods of time in response to the onset of COVID-19. Diamond Game revenue increased $8.0 million as compared to 2020 as a result of the acquisition of Compliant and having significantly more retail establishments open in 2021 compared to the retail shutdowns experienced in 2020. In addition, the higher average selling price of charitable games in 2021 further increased sales by $0.2 million.

Higher sales of ancillary lottery products and services increased revenue in the second quarter of 2021 by $12.5 million. This increase was primarily from increased sales of licensed products, as well as an increase in retail merchandising product sales. The addition of NGL and increased sales of digital and loyalty products further increased ancillary lottery sales in the quarter. As well, higher instant ticket sales volumes increased sales by a further $6.3 million in the second quarter of 2021. Partially offsetting these increases was a lower instant ticket average selling price, due primarily to the customer sales mix and slightly lower proprietary product sales in the quarter, which reduced sales by $2.6 million as compared to the second quarter of 2020.

Lower sales from Michigan iLottery decreased revenue in the second quarter of 2021 by $2.7 million as compared to 2020, when Michigan iLottery sales reached record quarterly levels at the start of the pandemic.





During the three months ended June 30, 2021, Pollard generated approximately 69.3% (2020 – 72.5%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the second quarter of 2021 the actual U.S. dollar value was converted to Canadian dollars at $1.226, compared to a rate of $1.393 during the second quarter of 2020. This 12.0% decrease in the U.S. dollar value resulted in an approximate decrease of $10.7 million in revenue relative to the second quarter of 2020. During the quarter the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $0.5 million in revenue relative to the second quarter of 2020.

Cost of sales and gross profit

Cost of sales was $90.8 million in the second quarter of 2021 compared to $72.7 million in the second quarter of 2020. The increase of $18.1 million was primarily a result of the substantial increase in charitable gaming sales volumes as compared to the second quarter of 2020, and the addition of NGL and Compliant. Higher sales of ancillary lottery products and services further added to the increase in cost of sales in 2021. Partially offsetting these increases were lower exchange rates on U.S. dollar denominated expenses in the second quarter of 2021 which decreased cost of sales.

Gross profit was $22.6 million (19.9% of sales) in the second quarter of 2021 compared to $18.8 million (20.5% of sales) in the second quarter of 2020. This increase in gross profit of $3.8 million was primarily the result of the significant increase in the quarter in charitable and Diamond Game sales, including the addition of Compliant. These increases were partially offset by the decrease in gross profit from lower Michigan iLottery sales. The lower gross profit percentage was due to the reduction in Michigan iLottery sales and the inclusion of NGL having a negative impact on our overall margin percentage.

Administration expenses

Administration expenses increased to $11.1 million in the second quarter of 2021 from $9.5 million in the second quarter of 2020. The increase of $1.6 million was primarily a result of the additions of NGL and Compliant, in addition to increased compensation expenses to support Pollard's growth strategies and higher acquisition costs. Partially offsetting these increases was a reduction in professional fees in 2021.

Selling expenses

Selling expenses increased to $3.9 million in the second quarter of 2021 from $3.4 million in the second quarter of 2020 primarily due to increased compensation costs and the addition of NGL.

(Gain) loss on equity investment

Pollard's share of income from its 50% owned iLottery joint venture, NeoPollard Interactive LLC ("NPi"), increased to $2.5 million in the second quarter of 2021 from a loss of $0.3 in the second quarter of 2020. This $2.8 million increase was primarily due to the increase in revenue in 2021, as compared to 2020. Contracts held by NPi experienced significant organic growth, in addition to the added sales increase from the Virginia Lottery operation which added e-Instants on July 1, 2020. As well, NPi's contract with Alberta Gaming, Liquor & Cannabis ("AGLC"), went live with a select product launch on September 30, 2020.

Other income

Other income decreased to $2.0 million in the second quarter of 2021 compared to $6.0 million in the second quarter of 2020. This decrease of $4.0 million was primarily due to the reduction in Canada emergency wage subsidy ("CEWS") recognized in the second quarter of 2021 as compared to 2020, of $2.3 million. In addition, the contingent consideration accrual adjustment, as part of our Compliant acquisition, further decreased other income by $1.1 million. Also, the elimination of the EBITDA support agreement, which expired on June 30, 2020, further decreased other income by $0.5 million in 2021.

Foreign exchange

The net foreign exchange gain was $0.7 million in the second quarter of 2021 compared to a net gain of $2.0 million in the second quarter of 2020. The 2021 net foreign exchange gain of $0.7 million resulted in part from a $1.6 million unrealized foreign exchange gain, comprised predominately of an unrealized gain on U.S. dollar denominated accounts payable and long-term debt due to the strengthening of the Canadian dollar. This unrealized gain was partially offset by an unrealized loss on U.S. dollar denominated accounts receivable. Partially offsetting this unrealized gain was a $0.9 million realized foreign exchange loss as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2020 net foreign exchange gain of $2.0 million resulted in part from a $1.8 million unrealized foreign exchange gain, comprised predominately of an unrealized gain on U.S. dollar denominated accounts payable and long-term debt due to the strengthening of the Canadian dollar. This unrealized gain was partially offset by an unrealized loss on U.S. dollar denominated accounts receivable. In addition, a $0.2 million realized foreign exchange gain as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at favorable foreign exchange rates increased the net foreign exchange gain.

Adjusted EBITDA

Adjusted EBITDA increased to $22.6 million in the second quarter of 2021 compared to $19.8 million in the second quarter of 2020. The primary reasons for the $2.8 million increase were the increase in gross profit (net of amortization and depreciation) of $5.9 million, primarily from increased charitable gaming and Diamond Game sales, and the increase in our share of income from our joint venture, NPi, of $2.8 million in the second quarter of 2021. Partially offsetting these increases were the decrease in other income (net of contingent consideration) of $2.9 million, higher administration expenses (net of acquisition costs) of $1.4 million, an increase in realized foreign exchange loss of $1.1 million and an increase in selling expenses of $0.5 million.

Interest expense

Interest expense decreased to $1.1 million in the second quarter of 2021 from $1.2 million in the second quarter of 2020 primarily as a result of lower interest rates and a decrease in long-term debt.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $9.9 million during the second quarter of 2021 which increased from $7.8 million during the second quarter of 2020. The increase of $2.1 million was primarily as a result of the addition of Compliant and NGL, including the amortization and depreciation relating to the identifiable assets acquired, including intangible assets and property, plant and equipment.

Income taxes

Income tax expense was $4.0 million in the second quarter of 2021, an effective rate of 34.2%, higher than our domestic rate of 27.0% due primarily to the tax effect of unrecognized non-capital losses and non-deductible expenses. Partially offsetting these increases in effective rate were the lower federal income tax rates in the United States.

Income tax expense was $3.2 million in the second quarter of 2020, an effective rate of 25.4%, lower than our domestic rate of 27.0% due primarily to the effect of foreign exchange and lower tax rates in foreign jurisdictions.

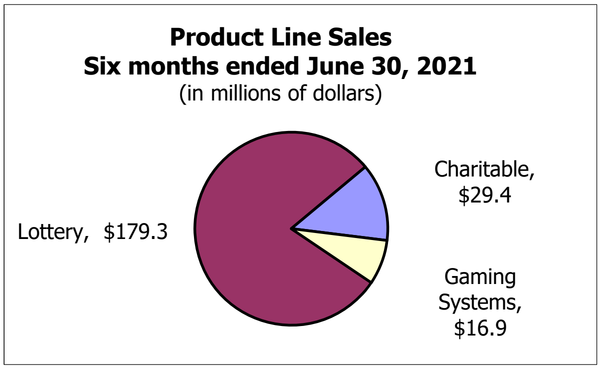
Net income

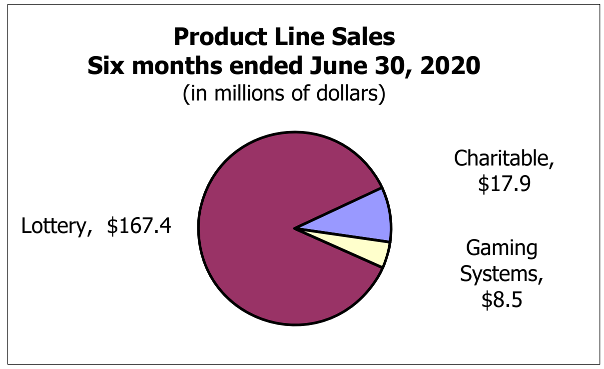
Net income decreased to $7.7 million in the second quarter of 2021 from $9.2 million earned in the second quarter of 2020. The primary reasons for the decrease in net income of $1.5 million were the decrease in other income of $4.0 million, higher administration expenses of $1.6 million, an increase in selling expenses of $0.5 million, a decrease in the net foreign exchange gain of $1.3 million and an increase in income taxes of $0.8 million. These decreases to net income were partially offset by the increase in gross profit of $3.8 million and the increase in our share of income from our joint venture, NPi, of $2.8 million.

Net income per share (basic and diluted) decreased to $0.29 per share in the second quarter of 2021 from $0.36 per share in the second quarter of 2020.

ANALYSIS OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2021

Sales



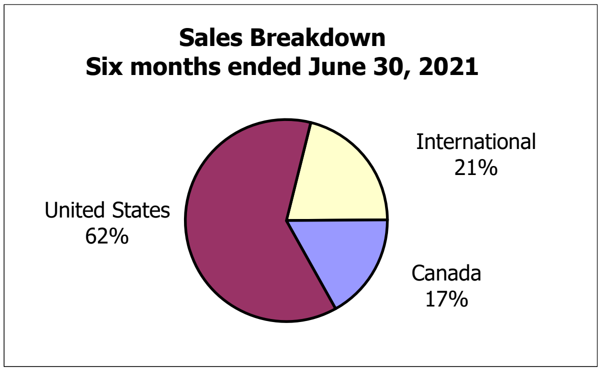


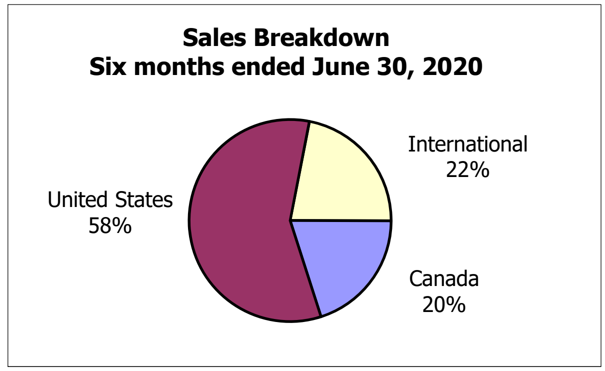
During the six months ended June 30, 2021, Pollard achieved sales of $225.6 million, compared to $193.8 million in the six months ended June 30, 2020. Factors impacting the $31.8 million sales increase were:

For the majority of the first half of 2021, most retail establishments where our charitable gaming products are sold and Diamond Game eGaming machines are placed have remained open, and sales of pull-tab tickets have reached record highs. The increase in charitable gaming volumes increased sales by $13.3 million in the first half of 2021, as compared to 2020 when many retail establishments were closed for periods of time in response to the onset of COVID-19. Diamond Game revenue increased $9.8 million as compared to 2020 as a result of the acquisition of Compliant and having more retail establishments open in 2021. In addition, the higher average selling price of charitable games in 2021 further increased sales by $0.6 million.

Higher sales of ancillary lottery products and services increased revenue by $9.4 million in the first half of 2021. This increase was primarily as a result of the addition of NGL and increased sales of digital and loyalty products in 2021. In addition, an increase in retail merchandising product sales also contributed to the increase in ancillary lottery product sales. Higher instant ticket sales volumes increased sales by $7.2 million in 2021 and an increase in the instant ticket average selling further increased sales by $3.6 million as compared to the first half of 2020, primarily due to a positive customer sales mix.

Higher sales from Michigan iLottery increased revenue in the first half of 2021 by $1.0 million, excluding the negative impact of foreign exchange rates of $1.3 million, as compared to 2020, when Michigan iLottery sales were lower in the first quarter of 2020 prior to the dramatic increase at the start of the pandemic in the second quarter 2020.





During the six months ended June 30, 2021, Pollard generated approximately 69.7% (2020 – 70.4%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first six months of 2021 the actual U.S. dollar value was converted to Canadian dollars at $1.249, compared to a rate of $1.353 the first six months of 2020. This 7.7% decrease in the U.S. dollar value resulted in an approximate decrease of $13.1 million in revenue relative to the first six months of 2020.

Cost of sales and gross profit

Cost of sales was $178.5 million in the six months ended June 30, 2021, compared to $153.3 million in the six months ended June 30, 2020. This increase of $25.2 million was primarily a result of the substantial increase in charitable gaming sales volumes, as compared to the second quarter of 2020, and the addition NGL and Compliant. In addition, the higher sales of instant tickets and ancillary lottery products and services further added to the increase in cost of sales in 2021. Partially offsetting these increases were lower exchange rates on U.S. dollar denominated expenses in 2021 which decreased cost of sales.

Gross profit increased to $47.1 million (20.9% of sales) in the six months ended June 30, 2021, from $40.5 million (20.9% of sales) in the six months ended June 30, 2020. This increase in gross profit of $6.6 million was primarily the result of the significant increase in charitable and Diamond Game sales, including the addition of Compliant, in the first half of 2021. In addition, the favourable increases in instant ticket volumes and pricing further added to the increase in gross profit in 2021. These increases were partially offset by the decrease in Michigan iLottery gross profit, lower margin from license product sales and the addition of NGL. The gross profit percentage achieved in 2021 was consistent with the gross profit percentage in 2020.

Administration expenses

Administration expenses increased to $23.1 million in the first six months of 2021 from $19.7 million in the first six months of 2020. The increase of $3.4 million was primarily a result of the additions of NGL and Compliant, in addition to increased compensation, including higher incentive costs, to support Pollard's growth strategies. Partially offsetting these increases was a reduction in professional fees in 2021.

Selling expenses

Selling expenses increased to $7.5 million in the first six months of 2021 from $7.1 million in the first six months of 2020 primarily due to the increased compensation costs and the addition of NGL. These increases were partially offset by the reduction in travel related costs due to COVID-19.

(Gain) loss on equity investment

Pollard's share of income from NPi increased to $6.5 million in the first six months of 2021 from a loss of $0.8 million in 2020. This $7.3 million increase was primarily due to the increase in revenue in 2021. Contracts held by NPi experienced significant organic growth, in addition to the added sales increase from the Virginia Lottery operation which added e-Instants on July 1, 2020. As well, NPi's contract with AGLC went live with a select product launch on September 30, 2020. Additionally, the unusual simultaneous significant jackpot runs for POWERBALL® and Mega Millions® which were won in the latter half of January 2021, further added significantly to the increase in sales in the first half of 2021 as compared to 2020.

Other income

Other income decreased to $1.4 million in the first six months of 2021 compared to $6.4 million in 2020. This decrease of $5.0 million was due, in part, to Pollard entering into an agreement for a one-time payment of $2.5 million to settle all aspects of certain litigation regarding a patent dispute relating to our instant ticket production. Further reducing other income in 2021 were the elimination of the EBITDA support agreement of $1.0 million, which expired on June 30, 2020, the contingent consideration accrual adjustment, as part of our Compliant acquisition, which decreased other income by $1.1 million and the $0.3 million reduction in CEWS recognized in the first half of 2021 as compared to 2020.

Foreign exchange

The net foreign exchange gain was $0.2 million in the first six months of 2021 compared to a net foreign exchange loss of $4.1 million in the first six months of 2020. The 2021 net foreign exchange gain of $0.2 million resulted from a net unrealized foreign exchange gain of $2.5 million, comprised predominately of an unrealized gain on U.S. dollar denominated accounts payable and long-term debt due to the strengthening of the Canadian dollar. Partially offsetting the unrealized gain was a $2.3 million realized foreign exchange loss as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2020 net foreign exchange loss of $4.1 million resulted from a net unrealized foreign exchange loss of $4.4 million, comprised predominately of an unrealized loss on U.S. dollar denominated accounts payable and long-term debt due to the weakening of the Canadian dollar. Partially offsetting the unrealized loss was a $0.3 million realized foreign exchange gain as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at favorable foreign exchange rates.

Adjusted EBITDA

Adjusted EBITDA increased to $45.9 million in the first six months of 2021 compared to $35.8 million in the first six months of 2020. The primary reasons for the increase of $10.1 million were the increase in gross profit (net of amortization and depreciation) of $10.4 million, primarily from increased charitable gaming and Diamond Game sales, and the increase in our share of income from our joint venture, NPi, of $7.3 million in the first half of 2021. Partially offsetting these increases were the higher administration expenses (net of acquisition costs) of $3.2 million, an increase in realized foreign exchange loss of $2.6 million, the decrease in other income (net of contingent consideration and legal settlement) of $1.4 million and an increase in selling expenses of $0.4 million.

Interest expense

Interest expense decreased to $2.2 million in the first six months of 2021 from $2.9 million in the first six months of 2020 primarily as a result lower interest rates and a decrease in long-term debt.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $19.2 million during the first six months of 2021 which increased from $15.4 million during the first six months of 2020. The increase of $3.8 million was primarily as a result of the addition of Compliant and NGL, including the amortization and depreciation relating to the identifiable assets acquired, including intangible assets and property, plant and equipment.

Income taxes

Income tax expense was $7.3 million in the first six months of 2021, an effective rate of 32.4%, which was higher than our domestic rate of 27.0% due primarily to the tax effect of unrecognized non-capital losses and non-deductible expenses. Partially offsetting these increases in effective rate were the lower federal income tax rates in the United States.

Income tax expense was $4.3 million in the first six months of 2020, an effective rate of 35.5%, which was higher than our domestic rate of 27.0% due primarily to the effect of foreign exchange and non-deductible expenses.

Net income

Net income increased to $15.1 million in the first six months of 2021 from $8.0 million in the first six months of 2020. The primary reasons for the increase of $7.1 million were the increase in gross profit of $6.6 million, the increase in our share of income from our joint venture, NPi, of $7.3 million, the increase in net foreign exchange gain of $4.3 million and the decrease in interest expense of $0.7 million. Partially offsetting these increases were the decrease in other income of $5.0 million, the higher administration expenses of $3.4 million, an increase in selling expenses of $0.4 million and an increase in income tax expense of $3.0 million.

Net income per share (basic and diluted) increased to $0.56 per share in the six months ending June 30, 2021, as compared to $0.31 per share in the six months ending June 30, 2020.

iLottery

Pollard and its iLottery partner, Neogames S.A. ("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 (gain) loss on equity investment.

SELECT iLOTTERY RELATED FINANCIAL INFORMATION

(millions of dollars)

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Sales – Pollard's share						
Michigan iLottery	$6.8	$8.4	$8.6	$9.5	$10.3	$5.1
NPi	9.9	9.9	6.1	3.1	2.2	1.2
Combined iLottery sales	$16.7	$18.3	$14.7	$12.6	$12.5	$6.3
Income (loss) before income taxes – Pollard's share						
Michigan iLottery	$2.8	$4.0	$4.5	$5.4	$6.5	$2.1
NPi	2.5	4.0	1.6	0.8	(0.3)	(0.5)
Combined income before income taxes – Pollard's share	$5.3	$8.0	$6.1	$6.2	$6.2	$1.6

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

Sales declined in the second quarter of 2021, in our combined iLottery operations, due to the reduction in draw-based games sales after the jackpot runs that significantly impacted the previous two quarters. Also, the lower exchange rate on U.S. dollar denominated sales, further significantly reduced sales in the second quarter of 2021. Income before income taxes from Michigan iLottery declined in the second quarter 2021, directly as a result of the decrease in sales, while income in NPi decreased as a result of revenue moving to other new lower margin gaming verticals and the added player acquisition and development costs in these new verticals.

Liquidity and Capital Resources

Cash provided by operating activities

For the six months ended June 30, 2021, cash flow provided by operating activities was $36.9 million compared to cash flow provided by operating activities of $37.6 million for the first six months of 2020.

For the six months ended June 30, 2021, decreases in non-cash working capital provided $14.8 million compared to 2020 which provided $4.2 million in cash, a $9.4 million difference. For the six months ended June 30, 2021, changes in the non-cash working capital increased cash flow from operations due primarily an increase in accounts payable and accrued liabilities. For the six months ended June 30, 2020, changes in the non-cash working capital increased cash flow from operations due primarily to a decrease in accounts receivable and prepaid expenses and deposits, as well as an increase in accounts payable and accrued liabilities. These reductions in non-cash working capital were partially offset by an increase in inventory.

Higher income before income taxes after non-cash adjustments in the first half of 2021 contributed $41.0 million to the cash provided by operating activities compared to $39.7 million in the first half of 2020. Cash used for interest decreased to $2.3 million in 2021 as compared to $2.7 million in 2020. Cash used for pension plan contributions was $3.3 million in 2021, unchanged from $3.3 million in 2020. Cash used for income tax payments increased to $13.3 million in 2021 from $0.3 million in 2020. Income tax payments in 2021 included the final installments for the 2020 tax year and initial installments for 2021.

Cash used for investing activities

In the six months ended June 30, 2021, cash used for investing activities was $49.2 million compared to cash used of $31.6 million in the first half of 2020. In the six months ended June 30, 2021, Pollard used $40.7 million, net of cash acquired, to purchase NGL. In addition, Pollard used $9.2 million on capital expenditures and $6.0 million on additions to intangible assets. Partially offsetting these uses of cash was $6.7 million Pollard received from our investment in our iLottery joint venture in the period.

In the six months ended June 30, 2020, Pollard used $17.4 million, net of cash acquired and debt assumed, to purchase mkodo. In addition, Pollard invested $5.3 million on capital expenditures, $4.9 million to purchase certain charitable gaming assets, $0.7 million on its investment in its iLottery joint venture and $3.2 million on additions to intangible assets.

Cash provided by financing activities

Cash provided by financing activities was $20.2 million in the six months ended June 30, 2021, compared to cash used for financing activities of $2.0 million in the six months ended June 30, 2020.

During the first half of 2021, Pollard received net proceeds from a share issuance of $32.8 million. This receipt of cash was partially offset by $6.4 million of long-term debt repayments, $3.1 million of lease principal payments and $2.1 million of dividends.

During the first half of 2020 cash was used to pay $2.5 million of lease principal payments and $2.1 million of dividends. These payments were partially offset by increased borrowings from our long-term debt facility of $2.6 million.

As at June 30, 2021, Pollard had unused credit facility capacity of $83.7 million and $9.1 million in available cash resources. These amounts, in addition to cash flow provided by operating activities, are available to be used for future working capital requirements, contractual obligations, capital expenditures, dividends and to assist in financing future acquisitions.

Quarterly Information
(unaudited)
(millions of dollars)

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Sales	$113.4	$112.2	$103.7	$116.7	$91.5	$102.2	$100.0	$103.2	$97.1
Adjusted EBITDA	22.6	23.3	20.3	24.5	19.8	16.1	14.2	16.1	13.6
Net income (loss)	7.7	7.5	12.2	13.2	9.2	(1.3)	4.6	4.4	5.0
Net income (loss) per share (basic)	0.29	0.28	0.48	0.51	0.36	(0.05)	0.18	0.17	0.20

Sales were higher in the first quarter of 2021 as a result of higher instant ticket selling price and increased Michigan iLottery sales. Adjusted EBITDA was higher as a result of higher Michigan iLottery and NPi related earnings.

Adjusted EBITDA and net income were higher in the fourth quarter of 2020 as a result of higher ancillary lottery sales, including iLottery.

Sales, Adjusted EBITDA and net income were higher in the third quarter of 2020 as a result of higher ancillary lottery sales, including iLottery.

Sales were lower in the second quarter of 2020 as a result of reduced charitable and Diamond Game's sales due to the impact of COVID-19 shutdowns.

Net loss for the first quarter of 2020 included a $6.2 million unrealized foreign exchange loss due to the significant weakening of the Canadian dollar.

Working Capital

Net non-cash working capital varies significantly 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 nature 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 mitigates collection risk. There are a limited number of individual customers, and therefore net investment in working capital is managed on an individual customer by customer basis, without the need for company wide benchmarks.

Seasonality does not have a material impact on the carrying amounts in working capital.

As at June 30, 2021, Pollard's investment in non-cash working capital decreased $14.8 million compared to December 31, 2020, primarily as a result of an increase accounts payable and accrued liabilities.

	June 30, 2021	December 31, 2020
Working Capital	$72.0	$69.8
Total Assets	$459.5	$404.6
Total Non-Current Liabilities	$171.2	$191.3

Credit Facility

Pollard's credit facility was renewed effective December 31, 2019. The credit facility provides loans of up to $190.0 million for its Canadian operations and US$14.0 million for its U.S. subsidiaries. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $190.0 million Canadian equivalent. The credit facility also includes an accordion feature which can increase the facility by $35.0 million. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At June 30, 2021, the outstanding letters of guarantee were $0.1 million. The remaining balance available for drawdown under the credit facility was $83.7 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 and depreciation, and certain other items ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at June 30, 2021, 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 three-year period, renewable December 31, 2022. Principal payments are not required until maturity. The facility can be prepaid without penalties.

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

Economic Development Canada ("EDC") Facility

Effective February 28, 2020, Pollard entered into an agreement with EDC to provide a €15 million facility whereby Pollard can issue qualifying letters of credit against the EDC facility. This facility is guaranteed by a general indemnity from Pollard. As of June 30, 2021, the outstanding letters of credit drawn on this facility were $11.2 million (€7.6 million).

Outstanding Share Data

As at June 30, 2021 and August 11, 2021, outstanding share data was as follows:

Common shares	26,917,669

On January 14, 2021, 233,211 common shares were issued as a portion of the consideration of Pollard's purchase of NGL.

On March 2, 2021, 933,800 common shares were issued as a result of a share offering.

In the six months ended June 30, 2021, 43,750 commons shares were issued through the exercise of stock options.

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 June 30, 2021, the total share options issued and outstanding were 312,500.

Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2020, 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, 2020, 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, 2020.

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, 2020.

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the six months ended June 30, 2021, 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, 2020.

Outlook

Robust retail sales of instant tickets in the United States continued throughout the second quarter and we anticipate no change in this trend in the immediate future. During 2020 many U.S. based lotteries experienced significant growth at the retail sales level on average in the 20-30% range relative to the same periods in 2019. During the first six months of this year lotteries have been able to maintain these high sales levels achieved in 2020, and in some jurisdictions even generate single digit growth in addition to the high growth realized last year. Sales growth outside of North America has continued to be mixed, and we anticipate continuing to produce higher levels of North American based work while strategically monitoring our international customer portfolio. As discussed previously, some of the lotteries' retail growth is generated from higher price points and other factors which don't necessarily translate into the same growth rate at the manufacturing level. However, this does allow us to offer greater value-added products like our Scratch FX® and other options which provide opportunities to generate higher average selling prices and margins for Pollard.

Traditionally the third quarter tends to be slightly busier for our instant ticket production and involves more high-value option-based products in preparation for the holiday retail selling season in the fall, and we anticipate that to still be the case in 2021.

iLottery is an important opportunity for lotteries to expand their revenue and increase their player base, and we continue to see significant interest throughout the market, particularly involving lotteries in the United States. As noted, the development of iLottery in new jurisdictions is a slow process involving many stakeholders and requiring government authorization which varies extensively from state to state and country to country. Our joint venture, NeoPollard Interactive, continues to be the market leader in the United States and we are working with a number of potential customers to expand the iLottery footprint. Second quarter results within our iLottery operations reflect a number of factors including the reduction in sales from the high levels achieved in the first quarter due to the draw-based games jackpot runs and additional acquisition and development costs associated with introducing new gaming verticals. We remain very confident that this product line will continue to grow significantly over the long term.

As we have seen very recently, COVID-19 continues to be an issue in our world and something that businesses, including Pollard, must always factor in our risk management process. Our second quarter financial results were still impacted negatively in some areas by the pandemic. While the start of the third quarter environment appears to show most of the direct issues associated with COVID-19 being mitigated in our business, we remain very wary of setbacks resulting in additional negative repercussions through further retail shutdowns, problems in our supply chains or other impacts that may negatively affect our financial results. We continue to focus on a healthy and safe environment for our team including a number of programs offering encouragement for all employees to be vaccinated.

Our charitable gaming markets have shown record levels of demand during the past number of months and this shows no sign of lessening in the immediate future. Despite a challenging environment for hiring, we will continue to focus on expanding our production capabilities and investing in both the people and technological resources to efficiently meet this opportunity. With the gradual reopening of the bingo and entertainment centers in Ontario in late July, our only remaining closed jurisdiction hosting Diamond

Game machines is now open, and we have so far seen strong initial consumer uptake in that market, similar to what we have seen with our other customers. We are hopeful this trend will continue.

Our cashflow and available liquidity remains very strong and provides us with available resources to invest in our existing businesses organically as well as continue to review strategic opportunities to grow through acquisitions.

We remain extremely positive in the many opportunities in the medium and long term across the broad spectrum of our customers. Both the lottery and charitable sectors are showing significant strength from the ultimate consumer demand for our products and services, and in many areas we are seeing orders levels and related revenue well above what was being achieved prior to COVID-19. iLottery continues to be an exciting growth opportunity for lotteries in the future and we will remain actively engaged with the development of this market. Our strategy of being the partner of choice by addressing as many of the critical needs as possible for lotteries and charities around the world has been the foundation of our success and will continue to drive our growth in the future.

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 Compliant and NGL, as they were 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 Compliant and NGL, as they were 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 three and six months ended June 30, 2021, 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 of Pollard for the year ended December 31, 2020, is available on SEDAR at www.sedar.com.

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