September 30, 2021

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

November 10, 2021

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and nine months ended September 30, 2021, is prepared as at November 10, 2021, 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, 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 nine months ended September 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 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 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 re-opened 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 nine months 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 while challenged, our supply chains have remained functional but are at times less efficient than pre-COVID. 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 September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Lottery (1) (3)	78.2%	81.6%	79.0%	84.6%
Charitable	13.2%	11.8%	13.1%	10.2%
eGaming Systems (2)	8.6%	6.6%	7.9%	5.2%

(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 September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
United States	60%	66%	61%	61%
Canada	18%	16%	18%	19%
International	22%	18%	21%	20%

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, 2021.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Sales	$116.9	$116.7	$342.5	$310.4
Cost of sales	95.4	88.9	273.9	242.2
Gross profit	21.5	27.8	68.6	68.2
Gross profit as a % of sales	*18.4%*	*23.8%*	*20.0%*	*22.0%*
Administration expenses	11.2	10.3	34.3	30.0
Administration expenses as a % of sales	*9.6%*	*8.8%*	*10.0%*	*9.7%*
Selling expenses	4.2	3.8	11.7	10.9
Selling expenses as a % of sales	*3.6%*	*3.3%*	*3.4%*	*3.5%*
Gain on NPi equity investment	(2.6)	(0.8)	(9.1)	0.0
Gain on NPi as a % of sales	*(2.2%)*	*(0.7%)*	*(2.7%)*	*0.0%*
Other (income) expenses	4.3	(2.2)	2.9	(8.7)
Other (income) expenses as a % of sales	*3.7%*	*(1.9%)*	*0.8%*	*(2.8%)*
Unrealized foreign exchange (gain) loss	2.2	(2.8)	(0.3)	1.6
Unrealized foreign exchange (gain) loss as a % of sales	*1.9%*	*(2.4%)*	*(0.1%)*	*0.5%*
Net income (loss)	(0.6)	13.2	14.5	21.1
Net income (loss) as a % of sales	*(0.5%)*	*11.3%*	*4.2%*	*6.8%*
Adjusted EBITDA	19.4	24.5	65.3	60.3
Adjusted EBITDA as a % of sales	*16.6%*	*21.0%*	*19.1%*	*19.4%*
Net income (loss) per share (basic and diluted)	($0.02)	$0.51	$0.54	$0.82

	September 30, 2021	December 31, 2020
Total Assets	$462.0	$404.6
Total Non-Current Liabilities	$161.5	$191.3

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

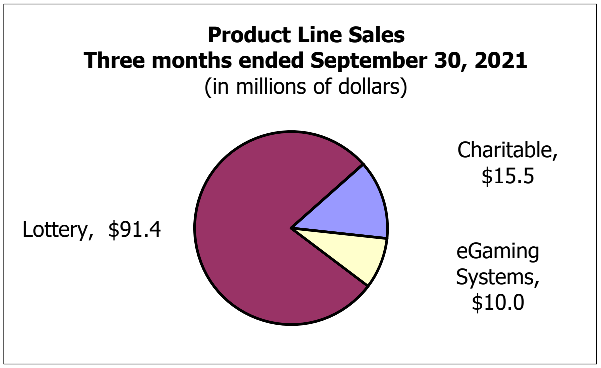
	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Net income (loss)	($0.6)	$13.2	$14.5	$21.1
Adjustments:				
Amortization and depreciation	9.6	8.3	28.8	23.7
Interest	1.2	1.0	3.4	3.9
Income taxes	2.1	4.3	9.4	8.7
EBITDA	$12.3	$26.8	$56.1	$57.4
Unrealized foreign exchange (gain) loss	2.2	(2.8)	(0.3)	1.6
Acquisition costs	0.0	0.5	1.0	1.3
Contingent consideration adjustment	4.9	0.0	6.0	0.0
Litigation settlement cost	0.0	0.0	2.5	0.0
Adjusted EBITDA	$19.4	$24.5	$65.3	$60.3
Lotteries and charitable gaming	$13.7	$21.9	$52.0	$56.0
Diamond Game and Compliant	5.7	2.6	13.3	4.3
Adjusted EBITDA	$19.4	$24.5	$65.3	$60.3

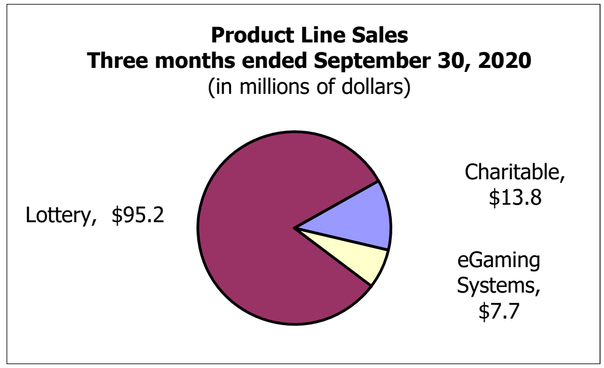
REVIEW OF OPERATIONS

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 SEPTEMBER 30, 2021

Sales



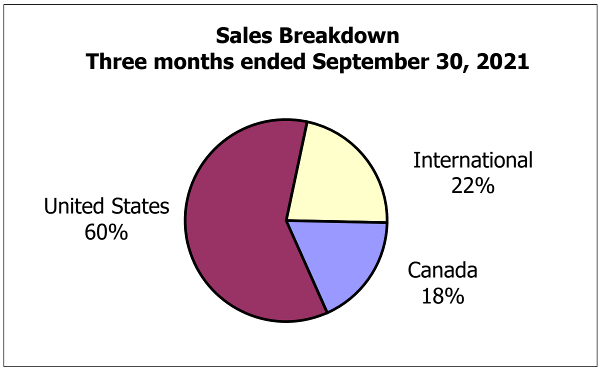


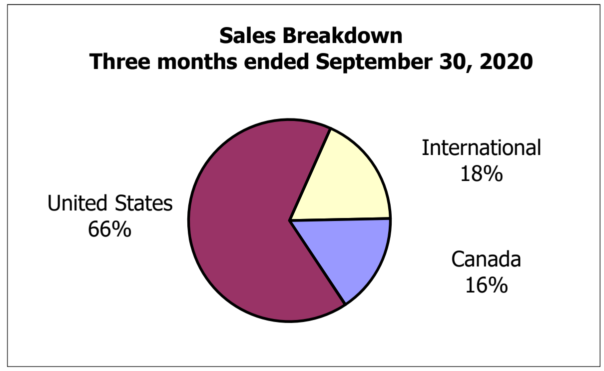
During the three months ended September 30, 2021, Pollard achieved sales of $116.9 million, compared to $116.7 million in the three months ended September 30, 2020. Factors impacting the $0.2 million sales increase were:

Higher charitable gaming volumes increased sales by $2.0 million in the third quarter of 2021, as compared to the third quarter of 2020, as sales of pull-tab tickets maintained the strong, record high volumes achieved in the second quarter of 2021, due to strong demand. eGaming systems revenue increased $2.9 million as compared to 2020 predominately as a result of the acquisition of Compliant and the impact of the Ontario market re-opening bingo halls. In addition, the higher average selling price of charitable games in 2021 further increased sales by $0.7 million.

Higher sales of ancillary lottery products and services increased revenue in the third quarter of 2021 by $4.3 million. This increase was primarily from increased sales of retail merchandising products and the addition of NGL. As well, higher instant ticket sales volumes increased sales by a further $3.7 million in the quarter. Partially offsetting these increases was the lower instant ticket average selling price, which reduced sales by $4.5 million, due primarily to the customer sales mix and slightly lower proprietary product sales due to the timing of some games being pushed into the fourth quarter.

Lower sales from Michigan iLottery decreased revenue in the third quarter of 2021 by $3.2 million excluding the negative impact of foreign exchange rates of $0.4 million, as compared to 2020 when Michigan iLottery sales reached near record quarterly levels.





During the three months ended September 30, 2021, Pollard generated approximately 68.3% (2020 – 73.9%) 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 2021 the actual U.S. dollar value was converted to Canadian dollars at $1.250, compared to a rate of $1.331 during the third quarter of 2020. This 6.1% decrease in the U.S. dollar value resulted in an approximate decrease of $5.2 million in revenue relative to the third quarter of 2020. In addition, 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 third quarter of 2020.

Cost of sales and gross profit

Cost of sales was $95.4 million in the third quarter of 2021 compared to $88.9 million in the third quarter of 2020. The increase of $6.5 million was primarily a result of the addition of NGL. In addition, higher sales of retail merchandising products, and some instant ticket production inefficiencies, further added to the increase in cost of sales in 2021. Partially offsetting these increases was the impact of lower exchange rates on U.S. dollar denominated expenses in the third quarter of 2021 which decreased cost of sales.

Gross profit was $21.5 million (18.4% of sales) in the third quarter of 2021 compared to $27.8 million (23.8% of sales) in the third quarter of 2020. The gross profit in the third quarter 2020 was at a record high due, in part, to a significant licensed product sale, higher average instant ticket selling price and higher Michigan iLottery sales. This decrease in gross profit was primarily due to reduced gross profit on instant tickets sales, as a result of an unfavorable customer mix, resulting in lower average selling prices, and production inefficiencies. A further decrease in gross profit was as a result of lower Michigan iLottery sales and the addition of NGL. These decreases were partially offset by the increases in gross profit from higher charitable and eGaming systems sales. The lower gross profit percentage was due to the reduction in Michigan iLottery sales, lower licensed product sales and the mix of instant ticket sales, as well as the inclusion of NGL having a negative impact on our overall margin percentage.

Administration expenses

Administration expenses increased to $11.2 million in the third quarter of 2021 from $10.3 million in the third quarter of 2020. The increase of $0.9 million was a result of the additions of NGL, in addition to increased compensation to support Pollard's growth strategies. Partially offsetting these increases was a reduction in professional fees, including acquisition costs, in 2021.

Selling expenses

Selling expenses increased to $4.2 million in the third quarter of 2021 from $3.8 million in the third quarter of 2020 primarily due to the addition of NGL.

Gain on equity investment

Pollard's share of income from its 50% owned iLottery joint venture, NeoPollard Interactive LLC ("NPi"), increased to $2.6 million in the third quarter of 2021 from $0.8 in the third quarter of 2020. This $1.8 million increase was primarily due to the increase in revenue in 2021, as compared to 2020. Contracts held by NPi experienced organic growth, in addition to the added sales increase from the launch of the Alberta Gaming, Liquor & Cannabis ("AGLC") iLottery platform, which went live with a select product launch on September 30, 2020.

Other (income) expenses

Other expenses were $4.3 million in the third quarter of 2021 compared to other income of $2.2 million in the third quarter of 2020. This change of $6.5 million was primarily due to the contingent consideration accrual adjustment, as part of our Compliant acquisition, which increased other expenses by $4.9 million, as well as the reduction in Canada emergency wage subsidy ("CEWS") recognized in the third quarter of 2021, as compared to 2020, of $1.4 million.

Foreign exchange

The net foreign exchange loss was $1.7 million in the third quarter of 2021 compared to a net gain of $1.8 million in the third quarter of 2020. The 2021 net foreign exchange loss of $1.7 million consisted of a $2.2 million unrealized foreign exchange loss, comprised predominately of an unrealized loss on U.S. dollar denominated liabilities, due to the weakening of the Canadian dollar at the end of the quarter, which was partially offset by an unrealized gain on U.S. dollar denominated cash and receivables. Partially offsetting the unrealized loss was a realized gain of $0.5 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchange rates.

The 2020 net foreign exchange gain of $1.8 million consisted of a $2.8 million unrealized foreign exchange gain, comprised predominately of an unrealized gain on U.S. dollar denominated liabilities, due to the strengthening of the Canadian dollar at the end of the quarter, which was partially offset by an unrealized loss on U.S. dollar denominated cash and receivables. Partially offsetting the unrealized gain was a realized loss of $1.0 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

Adjusted EBITDA

Adjusted EBITDA decreased to $19.4 million in the third quarter of 2021 compared to $24.5 million in the third quarter of 2020. The primary reasons for the $5.1 million decrease were the decrease in gross profit of $5.0 million (net of amortization and depreciation), higher administration expenses (net of acquisition costs) of $1.4 million, an increase in selling expenses of $0.4 million and a decrease in other income of $1.4 million of lower CEWS support in 2021. These decreases were partially offset by the increase in our share of income from our 50% owned iLottery joint venture, NPi, of $1.8 million and the increase in the realized foreign exchange gain of $1.5 million.

Interest expense

Interest expense increased to $1.2 million in the third quarter of 2021 from $1.0 million in the third quarter of 2020 primarily as a result of the interest accretion on the discounted contingent consideration, related to the Compliant purchase, in 2021.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $9.6 million during the third quarter of 2021 which increased from $8.3 million during the third quarter of 2020. The increase of $1.3 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 $2.1 million in the third quarter of 2021, which was higher than the expense expected based on Pollard's domestic rate of 27.0%. This increased expense was due primarily to the tax effect of unrecognized non-capital losses and non-deductible expenses.

Income tax expense was $4.3 million in the third quarter of 2020, an effective rate of 24.7%, lower than our domestic rate of 27.0% due primarily to the effect of foreign exchange and lower tax rates in foreign jurisdictions.

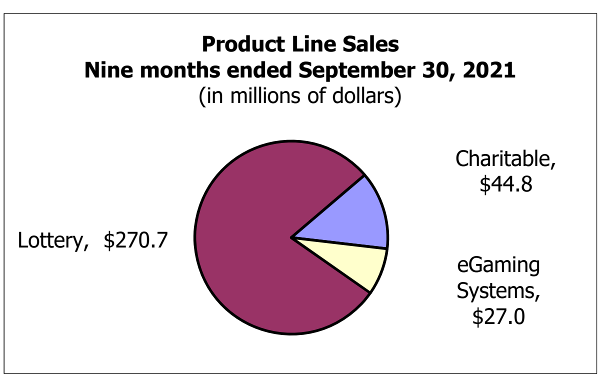
Net income (loss)

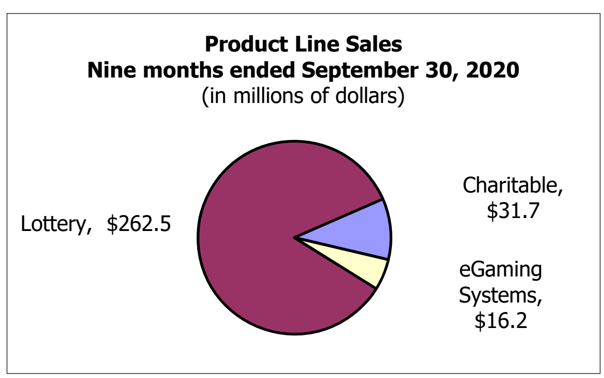
Net loss was $0.6 million in the third quarter of 2021 compared to net income of $13.2 million in the third quarter of 2020. The primary reasons for the change of $13.8 million were the increase in other expenses of $6.5 million, primarily due to the inclusion of $4.9 million contingent consideration adjustment, a decrease in gross profit of $6.3 million, the increase in the net foreign exchange loss of $3.5 million, the increase in administration expenses of $0.9 million and the increase in selling expense of $0.4 million. These losses were partially offset by the increase in our share of income from our joint venture, NPi, of $2.8 million and a decrease in income taxes of $2.2 million.

Net loss per share (basic and diluted) was $0.02 per share in the third quarter of 2021 as compared to net income per share of $0.51 per share in the third quarter of 2020.

ANALYSIS OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

Sales



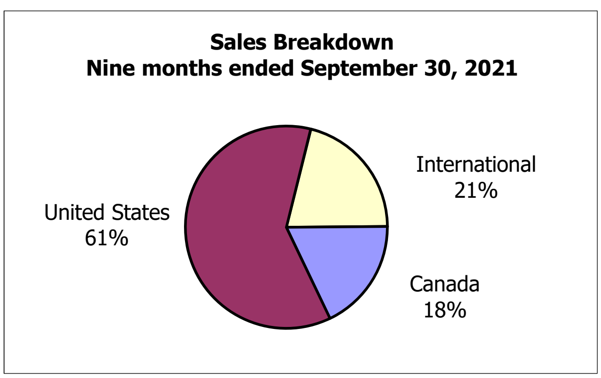


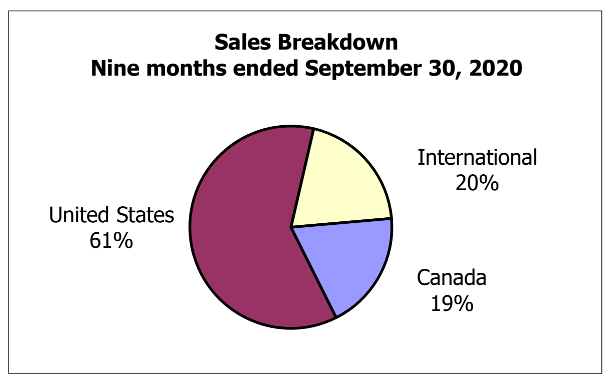
During the nine months ended September 30, 2021, Pollard achieved sales of $342.5 million, compared to $310.4 million in the nine months ended September 30, 2020. Factors impacting the $32.1 million sales increase were:

For the majority of the first nine months of 2021, most retail establishments where our charitable gaming products are sold were open, and sales of pull-tab tickets have reached record highs. The growth in charitable gaming volumes increased sales by $15.7 million in the first nine months of 2021, as compared to 2020 when many retail establishments were closed for periods of time in response to the onset of COVID-19. eGaming systems revenue increased $12.6 million as compared to 2020 as a result of the acquisition of Compliant and having more retail establishments open in 2021 including the re-opening of bingo halls in Ontario in the third quarter. In addition, the higher average selling price of charitable games in 2021 further increased sales by $0.8 million.

Higher sales of ancillary lottery products and services increased revenue by $13.6 million in the first nine months of 2021. This growth 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 higher sales. Higher instant ticket sales volumes increased sales by $11.0 million in 2021. Partially offsetting these increases was a slight decrease in the instant ticket average selling price which reduced sales by $1.1 million as compared to 2020, primarily due to a less favourable customer sales mix.

Lower sales from Michigan iLottery decreased revenue in the first nine months of 2021 by $2.3 million, excluding the negative impact of foreign exchange rates of $1.6 million, as compared to 2020, when Michigan iLottery sales were at record quarterly highs in the second and third quarters, after the start of the pandemic.





During the nine months ended September 30, 2021, Pollard generated approximately 69.2% (2020 – 71.7%) 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 2021 the actual U.S. dollar value was converted to Canadian dollars at $1.251, compared to a rate of $1.344 the first nine months of 2020. This 7.0% decrease in the U.S. dollar value resulted in an approximate decrease of $17.7 million in revenue relative to the first nine months of 2020. In addition, during the first nine months of 2021, the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $0.5 million in revenue relative to the first nine months of 2020.

Cost of sales and gross profit

Cost of sales was $273.9 million in the nine months ended September 30, 2021, compared to $242.2 million in the nine months ended September 30, 2020. The increase of $31.7 million was primarily a result of the increase in charitable gaming sales volumes, as compared to 2020, and the addition of NGL. In addition, the higher sales of ancillary lottery products and services, and instant tickets, as well as some instant ticket production inefficiencies, further added to the increase in cost of sales in 2021. Partially offsetting these increases was the impact of lower exchange rates on U.S. dollar denominated expenses in 2021 which decreased cost of sales.

Gross profit was $68.6 million (20.0% of sales) in the nine months ended September 30, 2021, similar to $68.2 million (22.0% of sales) in the nine months ended September 30, 2020. This increase in gross profit was primarily the result of the significant increase in charitable and eGaming sales, including the addition of Compliant, in the first nine months of 2021. In addition, an increase in merchandising product sales further increased gross profit in the first nine months of 2021. These increases were mostly offset by the decrease in Michigan iLottery gross profit, lower margin from licensed product sales and the addition of NGL. The lower gross profit percentage was due to the reduction in Michigan iLottery sales and the mix of instant ticket sales, as well as the inclusion of NGL having a negative impact on our overall margin percentage.

Administration expenses

Administration expenses increased to $34.3 million in the first nine months of 2021 from $30.0 million in the first nine months of 2020. The increase of $4.3 million was a result of the addition of NGL, in addition to increased compensation expenses, including higher incentive costs, to support Pollard's growth strategies. Partially offsetting these increases was a reduction in professional fees, including acquisition costs, in 2021.

Selling expenses

Selling expenses increased to $11.7 million in the first nine months of 2021 from $10.9 million in the first nine months of 2020 primarily due to higher compensation costs and the addition of NGL. These increases were partially offset by the reduction in travel related costs due to COVID-19.

Gain on equity investment

Pollard's share of income from NPi increased to $9.1 million in the first nine months of 2021 from $nil in 2020. This $9.1 million increase was primarily due to the increase in revenue in 2021. Contracts held by NPi experienced 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 to the increase in sales in early 2021.

Other (income) expenses

Other expenses were $2.9 million in the first nine months of 2021 compared to $8.7 million of other income in the nine months ended September 30, 2020. The change of $11.6 million was due, in part, to the contingent consideration accrual adjustment, as part of our Compliant acquisition, which decreased other income by $6.0 million. Further reducing other income in 2021, Pollard entered into an agreement for a one-time payment of $2.5 million to settle all aspects of certain litigation regarding a patent dispute relating to our instant ticket production. . In addition, the elimination of the EBITDA support agreement of $1.0 million, which expired on June 30, 2020, and the $1.7 million reduction in CEWS recognized in the first nine months of 2021 as compared to 2020, further reduced other income.

Foreign exchange

The net foreign exchange loss was $1.5 million in the first nine months of 2021 compared to net foreign exchange loss of $2.3 million in the first nine months of 2020. The 2021 net foreign exchange loss of $1.5 million consisted of $1.8 million realized foreign exchange loss predominately a result of foreign currency denominated currencies and account receivables collected in the first nine months of 2021 being converted into Canadian dollars at unfavorable foreign exchange rates. Offsetting the realized foreign exchange loss was an unrealized foreign exchange gain of $0.3 million, comprised predominately of an unrealized gain on U.S. denominated liabilities, due to the strengthening of the Canadian dollar, which was partially offset by an unrealized loss on U.S. denominated receivables.

The 2020 net foreign exchange loss of $2.3 million consisted of a net unrealized foreign exchange loss of $1.6 million, comprised predominately of an unrealized loss on U.S. denominated liabilities, due to the weakening of the Canadian dollar, which was partially offset by an unrealized gain on U.S. denominated receivables. Also included in the net foreign exchange loss was a $0.7 million realized foreign exchange loss predominately a result of foreign currency denominated currencies and account receivables collected in the first nine months of 2020 being converted into Canadian dollars at unfavorable foreign exchange rates.

Adjusted EBITDA

Adjusted EBITDA increased to $65.3 million in the first nine months of 2021 compared to $60.3 million in the first nine months of 2020. The primary reasons for the increase of $5.0 million were the increase in our share of income from our joint venture, NPi, of $9.1 million in the nine months of 2021 and the increase in gross profit (net of amortization and depreciation) of $5.5 million. Partially offsetting these increases were the higher administration expenses (net of acquisition costs) of $4.6 million, an increase in realized foreign exchange loss of $1.1 million, the decrease in other income (net of contingent consideration and legal settlement) of $3.1 million and an increase in selling expenses of $0.8 million.

Interest expense

Interest expense decreased to $3.4 million in the first nine months of 2021 from $3.9 million in the first nine months of 2020 primarily as a result of the lower interest rates, partially offset by an increase in average long-term debt in 2021 and the interest accretion on the discounted contingent consideration, related to the Compliant purchase, in 2021.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $28.8 million during the first nine months of 2021 which increased from $23.7 million during the first nine months of 2020. The increase of $5.1 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 $9.4 million in the first nine months of 2021, an effective rate of 39.2%, higher than our domestic rate of 27.0% due primarily to the tax effect of unrecognized non-capital losses and non-deductible expenses. Partially offsetting these increases in effective rate were the lower federal income tax rates in the United States.

Income tax expense was $8.7 million in the first nine months of 2020, an effective rate of 29.2%, higher than our domestic rate of 27.0% due primarily to the impact of non-deductible expenses and the effect of foreign exchange, which were partially offset by the impact of lower foreign tax rates.

Net income

Net income decreased to $14.5 million in the first nine months of 2021 from $21.1 million in the first nine months of 2020. The reason for the decrease in net income of $6.6 million was the increase in other expenses of $11.6 million, including the contingent consideration expense of $6.0 million, the increase in administration expenses of $4.3 million, higher selling costs of $0.8 million and the increase in income tax expense of $0.7 million. These decreases in net income were partially offset by the increased share of income from our 50% owned iLottery joint venture, NPi, of $9.1 million, the increase in gross profit of $0.4 million, the reduced interest expense of $0.5 million and the decrease in the net foreign exchange loss of $0.8 million.

Net income per share (basic and diluted) decreased to $0.54 per share in the nine months ending September 30, 2021, from $0.82 in the nine months ending September 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)

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Sales – Pollard's share							
Michigan iLottery	$5.9	$6.8	$8.4	$8.6	$9.5	$10.3	$5.1
NPi	9.8	9.9	9.9	6.1	3.1	2.2	1.2
Combined iLottery sales	$15.7	$16.7	$18.3	$14.7	$12.6	$12.5	$6.3
Income (loss) before income taxes – Pollard's share							
Michigan iLottery	$2.0	$2.8	$4.0	$4.5	$5.4	$6.5	$2.1
NPi	2.6	2.5	4.0	1.6	0.8	(0.3)	(0.5)
Combined income before income taxes – Pollard's share	$4.6	$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 from our Michigan iLottery operation declined in the third quarter of 2021 due to new pricing coming into effect with our four-year contract extension, starting at the beginning of 2021, the lower exchange rate on U.S. dollar denominated sales and increased online gaming competition. Income before income taxes from Michigan iLottery declined in the second quarter 2021, directly as a result of the decrease in sales.

Liquidity and Capital Resources

Cash provided by operating activities

For the nine months ended September 30, 2021, cash flow provided by operating activities was $53.3 million compared to cash flow provided by operating activities of $58.2 million for the first nine months of 2020.

For the first nine months of 2021, changes in the non-cash working capital increased cash flow from operations due primarily to an increase in accounts payable and accrued liabilities, and a decrease in inventories. These increases in cash flow from operations were partially offset by an increase in accounts receivable. For the first nine months of 2020, changes in the non-cash working capital increased cash flow from operations due primarily to an increase in accounts payable and accrued liabilities, and a decrease in prepaid expenses and deposits. These increases in cash flow from operations were partially offset by an increase in inventories.

Net income before income taxes after non-cash adjustments in the first nine months of 2021 contributed $60.2 million to the cash provided by operating activities compared to $64.9 million in first nine months of 2020. Cash used for interest decreased to $3.5 million in 2021 as compared to $3.8 million in 2020. Cash used for pension plan contributions increased to $5.9 million in 2021 as compared to $5.6 million in 2020. Cash used for income tax payments increased to $17.1 million in 2021 from $4.0 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 nine months ended September 30, 2021, cash used for investing activities was $54.3 million compared to cash used of $36.9 million in the first nine months of 2020. In the nine months ended September 30, 2021, Pollard used $40.7 million, net of cash acquired, to purchase NGL. In addition, Pollard used $14.5 million on capital expenditures and $8.4 million on additions to intangible assets. Partially offsetting these uses of cash was $9.3 million Pollard received from our investment in our iLottery joint venture in the period.

In the nine months ended September 30, 2020, Pollard used $17.4 million, net of cash acquired and debt assumed, to purchase mkodo. In addition, Pollard expended $9.9 million on capital expenditures, $4.9 million to purchase certain charitable gaming assets and $4.8 million on additions to intangible assets.

Cash provided by financing activities

Cash provided by financing activities was $10.1 million in the nine months ended September 30, 2021, compared to cash used for financing activities of $17.9 million in the nine months ended September 30, 2020.

During the first nine months of 2021, Pollard received net proceeds from a share issuance of $32.8 million. This receipt of cash was partially offset by $15.0 million of long-term debt repayments, $4.7 million of lease principal payments and $3.2 million of dividends.

During the first nine months of 2020 Pollard used cash to repay $11.0 million of long-term debt and pay $3.8 million of lease principal payments and $3.1 million of dividends.

As at September 30, 2021, Pollard had unused credit facility of $91.7 million, in addition to $10.3 million in available cash resources. These amounts, in addition to cash flow provided by operating activities, are available to be used for future working capital requirements, contractual obligations, capital expenditures, dividends and to assist in financing future acquisitions.

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

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Sales	$116.9	$113.4	$112.2	$103.7	$116.7	$91.5	$102.2	$100.0	$103.2
Adjusted EBITDA	19.4	22.6	23.3	20.3	24.5	19.8	16.0	14.2	16.1
Net income (loss)	(0.6)	7.7	7.5	12.2	13.2	9.2	(1.3)	4.6	4.4
Net income (loss) per share (basic)	(0.02)	0.29	0.28	0.48	0.51	0.36	(0.05)	0.18	0.17

Net income (loss) and Adjusted EBITDA were lower in the third quarter of 2021 as a result of reduced gross profit (net of amortization and depreciation). The net loss in the quarter included a $4.9 million contingent consideration adjustment expense.

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.

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 September 30, 2021, Pollard's investment in non-cash working capital decreased $19.5 million compared to December 31, 2020, primarily as a result of the increase in accounts payable and accrued liabilities and a decrease in inventories. These increases in cash flow from operations were partially offset by an increase in accounts receivable.

	September 30, 2021	December 31, 2020
Working Capital	$62.5	$69.8
Total Assets	$462.0	$404.6
Total Non-Current Liabilities	$161.5	$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 September 30, 2021, the outstanding letters of guarantee were $0.1 million. The remaining balance available for drawdown under the credit facility was $91.7 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 September 30, 2021, 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 September 30, 2021, the outstanding letters of credit drawn on this facility were $11.1 million (€7.5 million).

Outstanding Share Data

As at September 30, 2021 and November 10, 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 nine months ended September 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 September 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 nine months ended September 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

Retail sales of instant tickets continue to be very strong particularly in the United States and we expect this trend to continue. Levels of retail dollar sales remain higher than those witnessed during 2020 and significantly higher than pre-COVID. While higher retail dollar sales do not directly translate into higher volumes at the manufacturing level, we are seeing high order levels from a number of our customers, particularly those based in North America. Sales growth outside of North America has continued to be mixed, but overall our order book for the next few months has never been stronger.

Despite this increase in demand, timing of production and recognition of sales can be impacted by a number of factors including more recently transportation and logistical delays. Revenue recognition of some of our third quarter production has been delayed into the fourth quarter, and we anticipate larger production and sales volumes of instant tickets to be attained in the fourth quarter. Similarly our average selling price was lower than expected in the third quarter as higher value work was delayed into the fourth quarter, resulting in a higher average selling price anticipated in the fourth quarter.

Transportation challenges in our supply chains and in shipping product to our customers appear likely to continue, which may delay revenue recognition and have some impact on our instant ticket operations, however currently we don’t expect these operational impacts to be very significant.

iLottery operations remain a focal point of interest for the lottery sector, particularly in the United States, and we continue to see this as an important long-term growth opportunity for the industry. Specific prospects for new contracts remain limited, however, as the various stakeholders in conjunction with their state governments work through the assessment and approval process, resulting in a slow development cycle. We continue to support the industry and provide extensive information and discussions to assist them in increasing their understanding of the benefits of iLottery. Our current iLottery operations continue to be the market leader in the United States, despite the slowdown experienced in the financial results in the third quarter. We expect these headwinds to continue through the fourth quarter as operations settle into more sustainable post-COVID-19 levels of demand.

COVID-19 remains a significant part of our society and we continue to see effects throughout all aspects of our personal and business lives. While direct impacts on our business operations are being addressed, and reducing, the risk of future retail closures and possible impacts on our workforce continue, requiring a focused approach on our risk management and resources throughout our businesses. We remained resolute on ensuring a healthy and safe environment for our team including a number of programs offering encouragement for all employees to be vaccinated.

Our charitable gaming and Diamond Game businesses, including Compliant, remains very strong with record levels of consumer demand still evident throughout most of these markets. We remain focused on increasing our production capacity in order to meet these needs and have seen recent success in increasing our hiring as well as increasing the efficiency of our manufacturing capacity. All of our markets were finally re-opened from various COVID closures during the third quarter and we anticipate positive results in this segment during the fourth quarter as well as into the future.

Cashflow and available liquidity remained very strong through the third quarter and we anticipate this trend to continue, providing the internal resources to invest in the growth of our current business, devote capital to new opportunities, including acquisition prospects, as well as maintaining our very conservative debt management philosophy.

The lottery and charitable gaming industry continues to show very strong growth fundamentals for both the near and long term, driven by strong underlying consumer demand. We are confident in the opportunities available to our organization and in particular the positive trends for our fourth quarter. We expect to provide stronger financial results relative to the third quarter due to improved results across a number of our business segments. Longer term the investments we are making to strengthen and broaden our product offerings will provide lotteries significant prospects to expand their proceeds available to support good causes and allow Pollard Banknote to continue to be their partner of choice.

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 nine months ended September 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