News Release

POLLARD BANKNOTE REPORTS 3RD QUARTER FINANCIAL RESULTS

WINNIPEG, Manitoba, November 10, 2021 /CNW/ - Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three and nine months ended September 30, 2021.

Results and Highlights for the Third Quarter ended September 30, 2021

- Sales attained $116.9 million, similar to $116.7 million achieved in the 3rd quarter last year. Combined sales(1) in the quarter, including our share of our NeoPollard Interactive ("NPi") joint venture's sales, attained $126.7 million, up 5.8% from $119.8 million in 2020
- Income from operations was $4.4 million, compared to $16.7 million in the third quarter last year primarily due to a number of unusual factors:
  - Included in the Q3 2021 results is a $4.9 million expense related to the increase in expected contingent consideration relating to the earnout for our acquisition of Compliant Gaming, due to continued success of that operation
  - Canadian Emergency Wage Subsidy ("CEWS") declined from $2.1 million in Q3 2020 to $0.7 million in 2021
  - Q3 2020 income from operations reflected the contribution of a very large licensed product sale which was not replicated in 2021
  - Our average selling price for instant tickets was approximately 6% lower in 2021 compared to 2020 due to the customer mix in the quarter and timing delays for some of our higher value production, which was pushed into the first part of the fourth quarter
- Combined sales(1) from our share of iLottery operations for Q3 increased to $15.7 million from $12.6 million in Q3 2020. Combined iLottery margin(1) decreased from $6.2 million last year to $4.6 million in Q3 2021 primarily due to a shift in sales to lower margin gaming verticals
- Adjusted EBITDA(1) reached $19.4 million, compared to $24.5 million in the same quarter in 2020
- Core instant ticket business remained strong, driven by continuing high sales of instant tickets at retail, particularly in North America, generating higher order volumes for Pollard

- Charitable gaming revenue continued to reflect very strong consumer demand, exceeding pre-COVID-19 levels for the second quarter in a row
- Our largest market for Diamond Game eGaming machines, Ontario, re-opened its retail bingo halls allowing our machines to generate revenue for the first time in 2021

(1) See Non-GAAP financial measures for explanation

"Pollard Banknote's third quarter results reflect the ongoing investment and growth in a number of our business lines and, despite some non-routine negative impacts on our financial numbers, we continue to be satisfied with the progress all of our businesses have achieved," stated John Pollard, Co-Chief Executive Officer. "The lottery market for instant tickets continues to see strong levels of retail sales especially in the United States and shows no signs of returning to the lower levels seen prior to COVID-19."

"A number of unusual transactions impacted negatively the Q3 2021 results compared with those of last year. Our Compliant Gaming business has performed at record levels throughout 2021 including the most recent three months and, as a result, we have increased our contingent consideration accrual relating to the earnout provision in the acquisition by $4.9 million. Our accounting rules require this increased liability to be expensed in the income statement, reducing our income from operations, net income and earnings per share accordingly. Increasing the earnout liability of course is a very positive reflection of the strong results generated by Compliant since our acquisition."

"The third quarter of 2020 also reflected a very large sale in our licensed products operation which was not replicated in 2021. Sales of this nature are very lumpy and result in some variability in our earnings trend. Changes in the value of the Canadian dollar resulted in an unrealized foreign exchange loss of $2.2 million in the third quarter related to our U.S. dollar debt, compared to an unrealized foreign exchange gain of $2.8 million record in the comparable period last year, generating a $5.0 million negative swing on our third quarter income before income taxes."

"In addition to the above matters, despite a strong level of orders for our instant tickets, our volumes were negatively impacted by a number of factors:

- Our production processes were impacted somewhat by delays in the supply chains for certain inputs, which resulted in scheduling inefficiencies and some production delays

- Similar to the timing of supply inputs, transportation of our finished goods to lotteries has also been hit with both delays, and increased costs, due to the worldwide transportation backlogs, which is delaying some revenue recognition

- Increased difficulty in recruiting new staff, common to many companies currently, has hampered our ability to increase production volumes

- During the quarter we incurred some instant ticket production inefficiencies which negatively impacted our margins"

"Our operations in certain of our digital and lottery management areas including mkodo and Next Generation Lotteries ("NGL") generated lower than expected results during the third quarter of 2021. NGL traditionally generates significantly higher sales and contribution in the fourth quarter and we also anticipate new projects to commence in the fourth quarter for mkodo."

"iLottery reached a combined level of revenue among all of our iLottery operations of $15.7 million, up approximately 25% from the same period last year, as revenue from some of our newer lotteries continued to increase. Our margin contribution from the third quarter was lower than the comparable period last year due to lower sales in Michigan and the impact of increased sales of lower margin gaming verticals."

"Our charitable gaming and Diamond Game operations continued the trend of very high consumer demand for all of our products: pull-tabs, bingo and eGaming machines. Capacity limits in the production of our paper-based products remain a challenge in trying to meet these demands and we continue to focus on increasing our production through accelerated hiring and expanding machine capacity, with improved results in these areas starting to come to fruition."

"At the beginning of the third quarter, the province of Ontario allowed the re-opening of various retail sites including bingo halls which house our Diamond Game eGaming machines. This market is the largest single jurisdiction hosting our eGaming machines and while not quite back to pre-COVID levels of operation, its return has made a very significant positive impact to our operations."

"We are very excited to see all of our products and services generating significant engagement with lotteries and the retail consumers around the world," commented Doug Pollard, Co-Chief Executive Officer. "Our focused strategy of being the partner of choice for the lottery and charitable gaming industry allows us to provide solutions across the spectrum of needs and opportunities for these important organizations."

"While our third quarter financial results were negatively impacted by a number of unusual items, the longer term positive trends of all of our product offerings is very evident and we remain very excited about both the short and long-term expectations for our organization," concluded John Pollard. "Indeed, we expect a number of the issues discussed today to lead to much stronger financial results in the fourth quarter and continue to generate positive results throughout 2022. We are very thankful for our entire team's dedication and hard work throughout this past quarter and look forward to continued success in the future."

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.

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.

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 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.

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 our existing senior 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).

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.

The selected financial and operating information has been derived from, and should be read in conjunction with, the unaudited condensed consolidated interim financial statements of Pollard as at and for the three and nine months ended September 30, 2021. These financial statements have been prepared in accordance with the International Financial Accounting Standards ("IFRS" or "GAAP").

HIGHLIGHTS	Three months ended September 30, 2021	Three months ended September 30, 2020
Sales	$ 116.9 million	$ 116.7 million
Gross Profit	$ 21.5 million	$ 27.8 million
Gross Profit % of sales	*18.4%*	*23.8%*
Administration expenses	$ 11.2 million	$ 10.3 million
Selling expenses	$ 4.2 million	$ 3.8 million
(Gain) loss on NPi equity investment	($ 2.6 million)	($ 0.8 million)
Other (income) expenses	$ 4.3 million	($ 2.2 million)
Unrealized foreign exchange (gain) loss	$ 2.2 million	($ 2.8 million)
Net income (loss)	($ 0.6 million)	$ 13.2 million
Net income (loss) per share (basic and diluted)	($ 0.02)	$ 0.51
Adjusted EBITDA:		
Lotteries and charitable gaming	$ 13.7 million	$ 21.9 million
Diamond Game and Compliant	5.7 million	2.6 million
Total adjusted EBITDA	$ 19.4 million	$ 24.5 million

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Sales	$ 342.5 million	$ 310.4 million
Gross Profit	$ 68.6 million	$ 68.2 million
Gross Profit % of sales	*20.0 %*	*22.0%*
Administration expenses	$ 34.3 million	$ 30.0 million
Selling expenses	$ 11.7 million	$ 10.9 million
(Gain) loss on NPi equity investment	($ 9.1 million)	$ 0.0 million
Other (income) expenses	$ 2.9 million	($ 8.7 million)
Unrealized foreign exchange loss (gain)	($ 0.3 million)	$ 1.6 million
Net income	$ 14.5 million	$ 21.1 million
Net income per share (basic and diluted)	$ 0.54	$ 0.82
Adjusted EBITDA:		
Lotteries and charitable gaming	$ 52.0 million	$ 56.0 million
Diamond Game and Compliant	13.3 million	4.3 million
Total adjusted EBITDA	$ 65.3 million	$ 60.3 million

SELECTED FINANCIAL INFORMATION

(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
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
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
Administration expenses	11.2	10.3	34.3	30.0
Selling expenses	4.2	3.8	11.7	10.9
Gain on NPi equity investment	(2.6)	(0.8)	(9.1)	0.0
Other (income) expenses	4.3	(2.2)	2.9	(8.7)
Income from operations	4.4	16.7	28.8	36.0
Foreign exchange (gain) loss	1.7	(1.8)	1.5	2.3
Interest expense	1.2	1.0	3.4	3.9
Income before income taxes	1.5	17.5	23.9	29.8
Income taxes:				
Current	4.2	3.9	13.3	8.0
Deferred (reduction)	(2.1)	0.4	(3.9)	0.7
	2.1	4.3	9.4	8.7
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

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

Results of Operations – Three months ended September 30, 2021

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 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 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 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.

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 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.

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 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 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, 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 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 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.

Results of Operations – Nine months ended September 30, 2021

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 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 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 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.

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 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.

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 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 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, 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 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 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.

Sales declined in the third quarter of 2021, from our Michigan iLottery operation due to new pricing coming into effect with our four-year contract extension, starting at the beginning of 2021, increased online gaming competition and the lower exchange rate on U.S. dollar denominated sales. Income before income taxes from Michigan iLottery declined in the second quarter 2021, directly as a result of the decrease in sales.

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.

For Further Information Please Contact:

John Pollard
Co-Chief Executive Officer
E-mail: jpollard@pbl.ca

Doug Pollard
Co-Chief Executive Officer
E-mail: dpollard@pbl.ca

Rob Rose
Chief Financial Officer
E-mail: rrose@pbl.ca

Pollard Banknote Limited
Telephone: (204) 474-2323

SEDAR: 00029950
(PBL)

CO: Pollard Banknote Limited