June 30, 2022

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

August 10, 2022

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and six months ended June 30, 2022, is prepared as at August 10, 2022, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at June 30, 2022, and the audited consolidated financial statements of Pollard for the year ended December 31, 2021, and the notes therein. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("GAAP" or "IFRS").

Forward-Looking Statements

Certain statements in this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this document, such statements include such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

Use of Non-GAAP Financial Measures

Reference to "EBITDA" is to earnings before interest, income taxes, depreciation, amortization and purchase accounting amortization. Reference to "Adjusted EBITDA" is to EBITDA before unrealized foreign exchange gains and losses, and certain non-recurring items including acquisition costs, litigation settlement costs, contingent consideration fair value adjustments and insurance proceeds (net). Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to net income, Adjusted EBITDA is a useful supplementary measure.

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

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

Basis of Presentation

The results of operations in the following discussions encompass the unaudited consolidated results of Pollard for the three and six months ended June 30, 2022. 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 solutions to lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant-win scratch tickets ("instant tickets") based in Canada and the second largest producer of instant tickets in the world. In addition, management believes Pollard is also the second largest bingo paper and pull-tab supplier to the charitable gaming industry in North America and, through its 50% joint venture, the largest supplier of iLottery solutions to the U.S. lottery market.

Pollard produces and provides a comprehensive line of instant tickets and lottery products and services including: licensed products, distribution, SureTrack® lottery management system, marketing, iLottery, game content, 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 200 independent distributors with the majority of revenue generated from repeat business.

Reappointment of Independent Director

Pollard is pleased to announce the reappointment of Dr. Jerry Gray as an Independent Director of Pollard effective August 10, 2022.

Dr. Gray had previously served as a Director of Pollard and its preceding businesses from the time of the initial IPO in 2005 until his retirement in 2021. During that time, he was an integral part of the leadership team and provided significant counsel to Pollard's senior management.

He has agreed to be reappointed to the Board of Directors on an interim basis until a permanent Director will be elected, which is anticipated to occur at the May 2023 annual general meeting.

Dr. Gray's extensive experience and knowledge of Pollard will be extremely helpful in moving the business forward and he will also be joining the Audit, Compensation and Governance and Nominating Committees immediately.

In addition to his 16 years serving on the Board of Pollard, Jerry is Dean Emeritus of the I. H. Asper School of Business at the University of Manitoba where he also held the CA Manitoba Endowed Chair in

Business Leadership. He is Past Chair of the Winnipeg Regional Health Authority and a former director and Chairman of the Board of Directors of Gendis, Inc. He has consulted with many major corporations in the United States and Canada in the areas of motivation, organizational design, manpower planning, managing change, management development, incentive system design, customer service and strategic planning.

Acquisitions

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 €4.0 million ($5.9 million) will be paid upon the achievement of certain gross margin targets in 2021. Pollard has not accrued any amounts relating to these deferred cash considerations, as the contribution margin targets are currently not expected to be met. The purchase price was funded from existing Pollard cash resources and availability under the existing credit facilities, and the issuance of treasury shares of Pollard for approximately €5.2 million ($8.0 million).

COVID-19

In March 2020, the World Health Organization declared a global pandemic known as COVID-19. Our charitable and eGaming businesses were negatively impacted with a large reduction in sales in the second quarter of 2020 with the temporary closure of many retail outlets; however, these sales rebounded to pre-COVID levels in the third quarter of 2020 with the re-opening of retail outlets. In the later part of the fourth quarter of 2020, 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, to levels much higher than pre-pandemic, which have continued to date. In addition, Pollard's main lottery products and services have shown significant resilience with strong retail sales growth throughout the pandemic in many jurisdictions, including the U.S. 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. Our supply chains, while remaining functional, are facing pressure and we are seeing inflationary price increases on our instant ticket inputs. We are also experiencing staffing challenges in areas within our organization. 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.

Product line breakdown of revenue

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Lottery (1)	75.0%	78.8%	75.6%	79.5%
Charitable	14.4%	13.4%	14.3%	13.0%
eGaming systems	10.6%	7.8%	10.1%	7.5%

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

Geographic breakdown of revenue

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
United States	65%	62%	65%	62%
Canada	19%	17%	19%	17%
International	16%	21%	16%	21%

The following financial information should be read in conjunction with the accompanying unaudited consolidated financial statements of Pollard and the notes therein as at and for the three and six months ended June 30, 2022.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended June 30, 2022	Three months ended June 30, 2021[(1)]	Six months ended June 30, 2022	Six months ended June 30, 2021[(1)]
Sales	$115.9	$113.4	$229.8	$225.6
Cost of sales	94.7	90.5	186.6	177.9
Gross profit	21.2	22.9	43.2	47.7
Gross profit as a % of sales	*18.3%*	*20.2%*	*18.8%*	*21.1%*
Administration expenses	12.3	11.1	24.3	23.2
Administration expenses as a % of sales	*10.6%*	*9.8%*	*10.6%*	*10.3%*
Selling expenses	4.5	4.2	9.0	8.1
Selling expenses as a % of sales	*3.9%*	*3.7%*	*3.9%*	*3.6%*
NPi equity investment income	(5.1)	(2.5)	(9.0)	(6.5)
NPi equity investment income as a % of sales	*(4.4%)*	*(2.2%)*	*(3.9%)*	*(2.9%)*
Other (income) expenses	0.8	(2.0)	0.8	(1.5)
Other (income) expenses as a % of sales	*0.7%*	*(1.8%)*	*0.3%*	*(0.7%)*
Unrealized foreign exchange (gain) loss	2.4	(1.6)	1.7	(2.5)
Unrealized foreign exchange (gain) loss as a % of sales	*2.1%*	*(1.4%)*	*0.8%*	*(1.1%)*
Net income	2.5	7.7	8.9	15.1
Net income as a % of sales	*2.2%*	*6.8%*	*3.9%*	*6.7%*
Adjusted EBITDA	18.9	22.6	37.9	45.9
Adjusted EBITDA as a % of sales	*16.3%*	*19.9%*	*16.5%*	*20.3%*
Net income per share (basic and diluted)	$0.09	$0.29	$0.33	$0.56

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

	June 30, 2022	December 31, 2021
Total Assets	$471.4	$461.4
Total Non-Current Liabilities	$156.1	$163.5

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

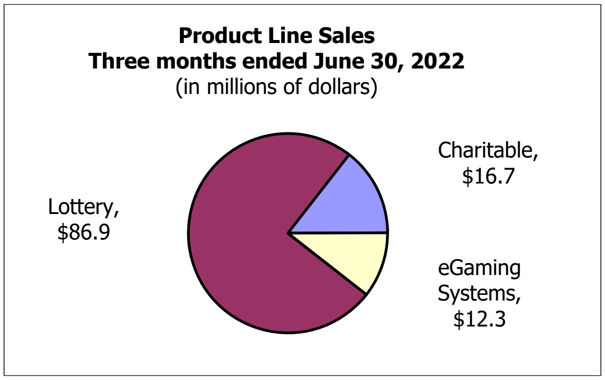
	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Net income	$2.5	$7.7	$8.9	$15.1
Adjustments:				
Amortization and depreciation	9.7	9.9	19.4	19.2
Interest	2.1	1.1	3.9	2.2
Income taxes	1.5	4.0	3.1	7.3
EBITDA	$15.8	$22.7	$35.3	$43.8
Unrealized foreign exchange (gain) loss	2.4	(1.6)	1.7	(2.5)
Acquisition costs	0.0	0.4	0.0	1.0
Contingent consideration fair value adjustment	0.7	1.1	0.9	1.1
Litigation settlement cost	0.0	0.0	0.0	2.5
Adjusted EBITDA	$18.9	$22.6	$37.9	$45.9
Lotteries and charitable gaming	$11.4	$18.5	$24.0	$38.3
eGaming systems	7.5	4.1	13.9	7.6
Adjusted EBITDA	$18.9	$22.6	$37.9	$45.9

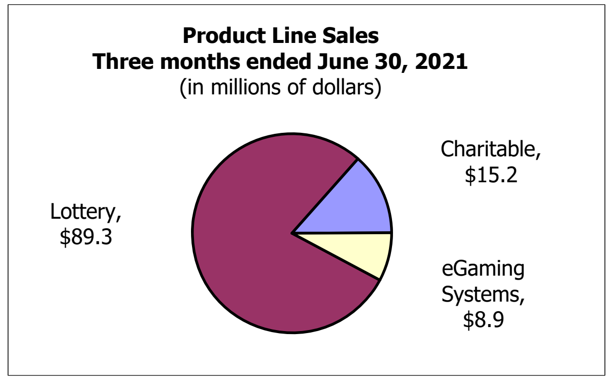
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2022

Sales





During the three months ended June 30, 2022, Pollard achieved sales of $115.9 million, compared to $113.4 million in the three months ended June 30, 2021. Factors impacting the $2.5 million sales increase were:

eGaming systems revenue increased sales by $3.0 million, largely due to a higher number of eGaming machines placed at charitable establishments as compared to 2021.

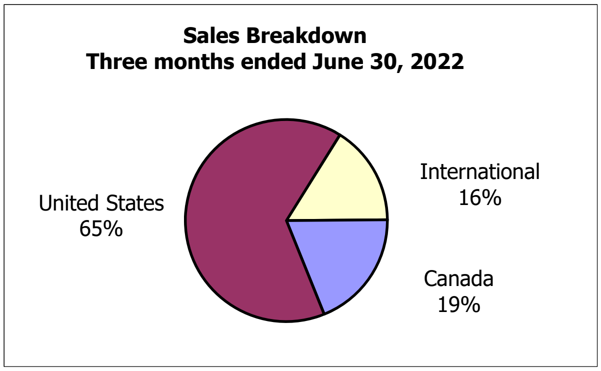
The higher average selling price of charitable games in 2022 also increased sales by $2.7 million, as we have been able to pass along inflationary cost increases to our charitable gaming customers.

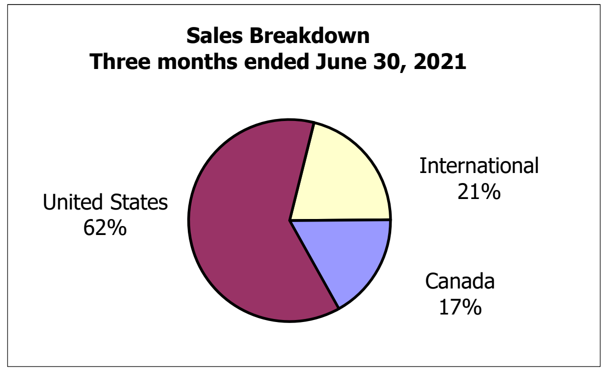
Charitable gaming sales volumes were lower in the second quarter of 2022 when compared to the record high pull-tab sales volumes achieved in the second quarter of 2021, decreasing sales by $1.7 million. Despite ongoing similar strong demand in 2022, 2021 sales volumes were boosted by additional sales from pre-existing inventory.

A higher instant ticket average selling price increased sales by $2.1 million as compared to 2021 due to increased proprietary product sales. This increase was partially offset by a decrease in instant ticket sales volumes in 2022, which decreased sales by $1.3 million.

Lower sales of ancillary lottery products and services decreased revenue by $3.8 million as compared to 2021. This decline was largely due to decreased sales of licensed products, partially offset by increased sales of digital products.

Lower sales from Michigan iLottery also decreased revenue in 2022 by $0.7 million as compared to 2021.





During the three months ended June 30, 2022, Pollard generated approximately 72.4% (2021 – 69.3%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the second quarter of 2022, the actual U.S. dollar value was converted to Canadian dollars at $1.269, compared to a rate of $1.226 during the second quarter of 2021. This 3.5% increase in the U.S. dollar value resulted in an approximate increase of $2.8 million in revenue relative to the second quarter of 2021. In addition, during the quarter the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $0.6 million in revenue relative to the second quarter of 2021.

Cost of sales and gross profit

Cost of sales was $94.7 million in the second quarter of 2022 compared to $90.5 million in the second quarter of 2021. The increase of $4.2 million in cost of sales was primarily the result of inflationary pressures on raw material costs, increases in certain manufacturing overhead costs and higher exchange rates on U.S. dollar denominated expenses in 2022. Partially offsetting these increases were decreases in instant ticket and licensed product sales volumes as compared to the second quarter of 2021.

Gross profit was $21.2 million (18.3% of sales) in the second quarter of 2022 compared to $22.9 million (20.2% of sales) in the second quarter of 2021. This decrease of $1.7 million in gross profit was primarily a result of lower instant ticket production volumes, lower instant ticket sales margins, due to a less profitable customer mix and increased manufacturing costs, including the impact of inflation, and lower Michigan iLottery sales as compared to 2021. These decreases were partially offset by the increases in eGaming systems, charitable gaming, and digital product sales as compared to 2021. The lower gross margin percentage was largely due to the impact of inflationary cost increases of instant ticket inputs and lower Michigan iLottery sales, partially offset by increases in eGaming systems, charitable gaming and digital product sales.

Administration expenses

Administration expenses were $12.3 million in the second quarter of 2022 and $11.1 million in the second quarter of 2021. Increased compensation and travel related costs incurred in the second quarter of 2022 were partially offset by a reduction in acquisition costs.

Selling expenses

Selling expenses increased to $4.5 million in the second quarter of 2022 from $4.2 million in the second quarter of 2021. The increase was primarily due to increased customer contract costs incurred in the second quarter of 2022.

Equity investment income

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to $5.1 million in the second quarter of 2022 from the $2.5 million achieved in the second quarter of 2021. Contracts held by NPi continued to experience organic growth throughout the second quarter of 2022, increasing NPi's revenue as compared to 2021.

Other (income) expenses

Other expenses were $0.8 million in the second quarter of 2022 compared to $2.0 million of other income achieved in the second quarter of 2021. This change of $2.8 million was primarily due to the reduction in the Canada Emergency Wage Subsidy ("CEWS"), as Pollard received $nil in the second quarter of 2022 as compared to $3.2 million received in the second quarter of 2021. Partially offsetting this reduction in other income was the decrease in the contingent consideration fair value adjustment expense, as part of our Compliant acquisition, of $0.4 million as compared to 2021.

Foreign exchange

The net foreign exchange loss was $2.6 million in the second quarter of 2022 compared to a net foreign exchange gain of $0.7 million in the second quarter of 2021. The 2022 net foreign exchange loss of $2.6 million consisted of an unrealized foreign exchange loss of $2.4 million, primarily a result of the increased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the weakening of the Canadian dollar relative to the U.S. dollar. In addition, Pollard incurred a realized foreign exchange loss of $0.2 million, primarily due to foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchanges rates.

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

Adjusted EBITDA

Adjusted EBITDA decreased to $18.9 million in the second quarter of 2022 compared to $22.6 million in the second quarter of 2021. The primary reasons for the $3.7 million decrease in Adjusted EBITDA include the reduction in other income (net of contingent consideration) of $3.2 million, largely due to the reduction in CEWS proceeds received as compared to 2021. Also contributing to this decrease is the reduction in gross profit of $1.9 million (net of amortization and depreciation), primarily due to lower instant ticket production volumes, lower instant ticket sales margins, including the impact of inflation, and lower Michigan iLottery sales, partially offset by the increases in eGaming systems, charitable gaming and digital product sales as compared to 2021. The increase in administration costs (net of acquisition costs) of $1.6 million and the increase in selling costs of $0.3 million also decreased Adjusted EBITDA in comparison to 2021. Partially offsetting these decreases to Adjusted EBITDA were an increase in equity investment income of $2.6 million and the lower realized foreign exchange loss of $0.7 million.

Interest expense

Interest expense increased to $2.1 million in the second quarter of 2022 from $1.1 million in the second quarter of 2021, primarily due to the increase in interest accretion on the discounted contingent consideration liability relating to the Compliant purchase of $0.5 million and an increase in interest rates, partially offset by a decrease in average long-term debt outstanding as compared to 2021.

Amortization and depreciation

Amortization and depreciation, including depreciation of property and equipment and the amortization of intangible assets, totaled $9.7 million during the second quarter of 2022 which decreased from $9.9 million during the second quarter of 2021. This decrease of $0.2 million was largely due to certain intangibles becoming fully amortized during 2021, which was partially offset by depreciation and amortization taken on newly acquired property, plant and equipment, and intangible assets.

Income taxes

Income tax expense was $1.5 million in the second quarter of 2022, an effective rate of 38.2%, which was higher than our domestic rate of 27.0% due primarily to the changes enacted with regards to the United Kingdom's corporation tax rates and the effect of non-taxable items related to foreign exchange, partially offset by the effect of the lower federal income tax rates in the United States.

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

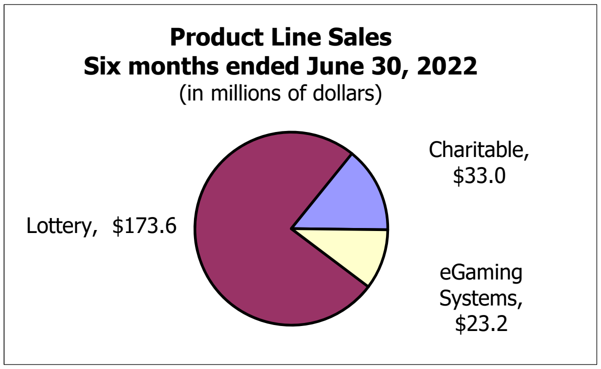
Net income

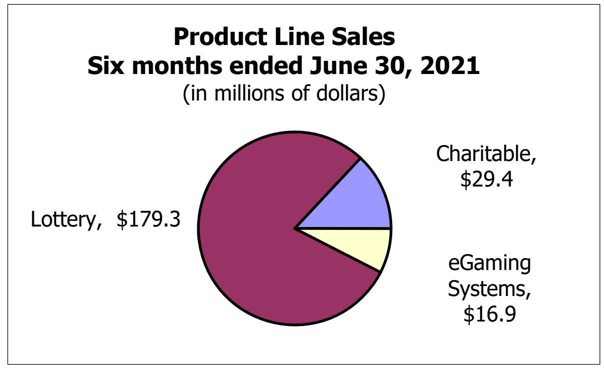
Net income was $2.5 million in the second quarter of 2022 compared to $7.7 million in the second quarter of 2021. The decrease in net income of $5.2 million was due primarily to the increase in other expenses of $2.8 million, largely due to the reduction in CEWS proceeds received as compared to 2021 of $3.2 million, and the increase in net foreign exchange loss of $3.3 million. The decrease in gross profit of $1.7 million also reduced net income as compared to 2021, primarily due to lower instant ticket production volumes, lower instant ticket sales margins, including the impact of inflation, and lower Michigan iLottery sales, but partially offset by the increases in eGaming systems, charitable gaming and digital product sales. Other factors contributing to the decrease in net income were the increase in administration expenses of $1.2 million, the increase in interest expense of $1.0 million and the increase in selling expenses of $0.3 million. Partially offsetting these decreases to net income were the increase in equity investment income of $2.6 million and a decrease in income tax expense of $2.5 million.

Net income per share (basic and diluted) decreased to $0.09 per share in the second quarter of 2022 from $0.29 per share in the second quarter of 2021.

ANALYSIS OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2022

Sales





During the six months ended June 30, 2022, Pollard achieved sales of $229.8 million, compared to $225.6 million in the six months ended June 30, 2021. Factors impacting the $4.2 million sales increase were:

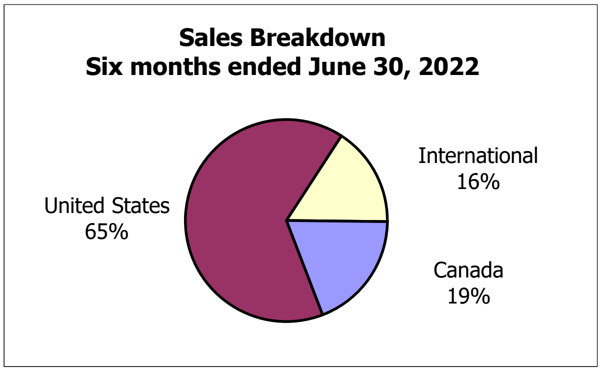
Higher eGaming systems revenue increased sales by $6.0 million due primarily to more retail establishments being open for the first two quarters of 2022 as compared to 2021, when a number of jurisdictions had closed retail establishments where eGaming machines are placed due to COVID-19, particularly during the first quarter of 2021. In addition, a higher number of eGaming machines placed at charitable establishments as compared to 2021 further contributed to the increase in eGaming systems sales.

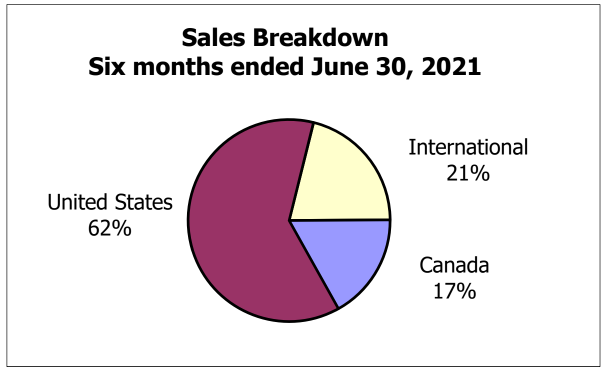
The higher average selling price of charitable games in the first two quarters of 2022 also increased sales by $5.5 million, as we have been able to pass along inflationary cost increases to our customers.

Charitable gaming sales volumes were lower in the first two quarters of 2022 when compared to the record high pull-tab sales volumes achieved in the first half of 2021, decreasing sales by $2.5 million. Despite ongoing similar strong demand in 2022, 2021 sales volumes were boosted by additional sales from pre-existing inventory.

Michigan iLottery sales were lower by $3.2 million as compared to 2021, when Michigan iLottery sales were higher as a result of a double jackpot run in the first quarter of 2021.

A lower instant ticket average selling price decreased sales by $1.6 million as compared to 2021 due to lower margin customer mix, partially offset by increased proprietary product sales. This decrease was partially offset by an increase in instant ticket sales volumes in 2022, which increased sales by $0.3 million. Lower sales of ancillary lottery products and services decreased revenue by $1.7 million, largely due to decreased sales of licensed products, partially offset by increased sales of digital and loyalty products.





During the six months ended June 30, 2022, Pollard generated approximately 71.5% (2021 – 69.7%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first six months of 2022 the actual U.S. dollar value was converted to Canadian dollars at $1.269, compared to a rate of $1.249 the first six months of 2021. This 1.6% increase in the U.S. dollar value resulted in an approximate increase of $2.6 million in revenue relative to the first six months of 2021. In addition, during the first six months of 2022, the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $1.2 million in revenue relative to the first six months of 2021.

Cost of sales and gross profit

Cost of sales was $186.6 million in the six months ended June 30, 2022, compared to $177.9 million in the six months ended June 30, 2021. This increase of $8.7 million was primarily a result of inflationary pressures on raw material costs, increases in certain manufacturing overhead costs and higher exchange rates on U.S. dollar denominated expenses in 2022. Partially offsetting these increases were decreases in ancillary lottery products and services sales, and charitable gaming sales volumes as compared to 2021.

Gross profit decreased to $43.2 million (18.8% of sales) in the six months ended June 30, 2022, from $47.7 million (21.1% of sales) in the six months ended June 30, 2021. This decrease in gross profit of $4.5 million was primarily the result of lower instant ticket sales margins, due to a less profitable customer mix, lower Michigan iLottery sales and increased manufacturing costs, including the impact of inflation, as compared to 2021. This decrease was partially offset by increases in eGaming systems, charitable gaming and digital product sales, which increased gross profit as compared to 2021. The lower gross margin percentage was largely due to the change in the mix of instant tickets sales to lower margin customers, lower Michigan iLottery sales and the impact of inflationary cost increases, partially offset by increases in eGaming systems, charitable gaming and digital product gross margins as compared to 2021.

Administration expenses

Administration expenses increased to $24.3 million in the first six months of 2022 from $23.2 million in the first six months of 2021. The increase of $1.1 million was primarily a result of increased compensation, professional fees and travel related costs, partially offset by a reduction in acquisition costs.

Selling expenses

Selling expenses increased to $9.0 million in the first six months of 2022 from $8.1 million in the first six months of 2021. The increase was primarily due to increased customer contract costs and higher compensation expenses.

Equity investment income

Pollard's share of income from NPi increased to $9.0 million in the first six months of 2022 from $6.5 million in 2021. This $2.5 million increase was primarily due to increased organic growth achieved on contracts held by NPi throughout the first two quarters of 2022, increasing NPi's revenue as compared to 2021.

Other (income) expenses

Other expenses were $0.8 million in the first six months of 2022 compared to $1.5 million of other income in 2021. This change of $2.3 million was partially due to Pollard receiving $nil CEWS in 2022 compared to $5.2 million received in 2021. However, in 2021, other income was partially offset by Pollard entering into an agreement for a one-time payment of $2.5 million to settle all aspects of certain litigation regarding a patent dispute relating to our instant ticket production. In addition, contingent consideration fair value adjustment expenses, as part of our Compliant acquisition, decreased by $0.2 million compared to 2021.

Foreign exchange

The net foreign exchange loss was $2.2 million in the first six months of 2022 compared to a net foreign exchange gain of $0.2 million in the first six months of 2021. The 2022 net foreign exchange loss of $2.2 million resulted from a net unrealized foreign exchange loss of $1.7 million, comprised predominately of an unrealized loss on U.S. dollar denominated accounts payable and long-term debt due to the weakening of the Canadian dollar. In addition, Pollard experienced a realized foreign exchange loss of $0.5 million as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

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

Adjusted EBITDA

Adjusted EBITDA decreased to $37.9 million in the first six months of 2022 compared to $45.9 million in the first six months of 2021. The primary reasons for the decrease of $8.0 million include the decrease in gross profit (net of amortization and depreciation) of $4.3 million, primarily the result of lower instant ticket sales margins, due to a less profitable customer mix, increased manufacturing costs, including the impact of inflation, and lower Michigan iLottery sales, partially offset by increases in eGaming systems, charitable gaming and digital product sales as compared to 2021. Other factors contributing to the decrease in Adjusted EBITDA include the reduction in other income (net of contingent consideration and litigation settlement) of $5.1 million, primarily due to the reduction in CEWS received of $5.2 million, higher administration expenses (net of acquisition costs) of $2.1 million and higher selling expenses of $0.9 million. These decreases were partially offset by the increase in equity investment income of $2.5 million and the reduction in realized foreign exchange loss of $1.9 million.

Interest expense

Interest expense increased to $3.9 million in the first six months of 2022 from $2.2 million in the first six months of 2021, primarily as a result of the increase in interest accretion on the discounted contingent consideration liability relating to the Compliant purchase of $1.3 million. Higher interest rates in 2022 also contributed to the increase in interest expense, partially offset by a decrease in average long-term debt outstanding as compared to 2021.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $19.4 million during the first six months of 2022 which increased from $19.2 million during the first six months of 2021. The increase of $0.2 million was primarily as a result of amortization and depreciation taken on newly acquired property, plant and equipment, and intangible assets, partially offset by the reduction in amortization expense due to certain intangibles becoming fully amortized during 2021.

Income taxes

Income tax expense was $3.1 million in the first six months of 2022, an effective rate of 26.0%, which was lower than our domestic rate of 27.0% due primarily to the effect of the lower federal income tax rates in the United States, partially offset by changes enacted with regards to the United Kingdom's corporation tax rates and the effect of non-taxable items related to foreign exchange.

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

Net income

Net income decreased to $8.9 million in the first six months of 2022 from $15.1 million in the first six months of 2021. The primary reasons for the decrease of $6.2 million include the decrease in gross profit of $4.5 million, primarily the result of lower Michigan iLottery sales and lower instant ticket sales margins, due to a less profitable customer mix and increased manufacturing costs, including the impact of inflation, as compared to 2021. This decrease in gross profit was partially offset by increases in eGaming systems, charitable gaming and digital product sales as compared to 2021. Other factors contributing to the decrease in net income include the increase in administration expenses of $1.1 million, the increase in selling expenses of $0.9 million, the increase in other expenses of $2.3 million, the increase in interest expense of $1.7 million and the increase in net foreign exchange loss of $2.4 million. Partially offsetting these decreases were the increase in equity investment income of $2.5 million and the decrease in income tax expense of $4.2 million.

Net income per share (basic and diluted) decreased to $0.33 per share in the six months ending June 30, 2022, as compared to $0.56 per share in the six months ending June 30, 2021.

iLottery

Pollard and its iLottery partner, Neogames US LLP ("Neogames"), provide iLottery services to the North American Lottery market. In 2013, Pollard was awarded an iLottery contract from the Michigan Lottery. As a result, Pollard entered into a contract with Neogames to provide its technology in return for a 50% financial interest in the operation. Under IFRS, Pollard recognizes its 50% share in the Michigan Lottery contract in its consolidated statements of income in sales and cost of sales.

In 2014 Pollard, in conjunction with Neogames, established NeoPollard Interactive LLC ("NPi"). All iLottery related customer contracts, excluding the Michigan Lottery iLottery contract, have been awarded to NPi. Under IFRS, Pollard accounts for its investment in its joint venture, NPi, as an equity investment. Under the equity method of accounting, Pollard recognizes its share of the income and expenses of NPi separately as equity investment income.

SELECT iLOTTERY RELATED FINANCIAL INFORMATION

(millions of dollars)

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Sales – Pollard's share										
Michigan iLottery	$6.2	$5.9	$5.6	$5.9	$6.8	$8.4	$8.6	$9.5	$10.3	$5.1
NPi	12.4	11.3	10.5	9.8	9.9	9.9	6.1	3.1	2.2	1.2
Combined iLottery sales	$18.6	$17.2	$16.1	$15.7	$16.7	$18.3	$14.7	$12.6	$12.5	$6.3
Income (loss) before income taxes – Pollard's share										
Michigan iLottery	$2.4	$2.0	$1.8	$2.0	$2.8	$4.0	$4.5	$5.4	$6.5	$2.1
NPi	5.1	3.9	3.2	2.6	2.5	4.0	1.6	0.8	(0.3)	(0.5)
Combined income before income taxes – Pollard's share	$7.5	$5.9	$5.0	$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, with additional gaming verticals launching throughout 2021. 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 and income before income taxes from our Michigan iLottery operation declined starting in the second quarter of 2021 due to reduced draw-based game sales after the double jackpots in the first quarter of 2021, increased online gaming competition and new pricing coming into effect with our four-year contract extension, starting at the beginning of 2021. In 2022, NPi continues to achieve strong organic growth, adding to sales and income before taxes.

Liquidity and Capital Resources

Cash provided by operating activities

For the six months ended June 30, 2022, cash flow provided by operating activities was $8.7 million compared to cash flow provided by operating activities of $30.0 million for the first six months of 2021. Changes in the non-cash working capital used $10.0 million in cash compared to $8.1 million provided in the first six months of 2021. For the six months ended June 30, 2022, changes in the non-cash working capital decreased cash flow from operations due primarily to increases to inventory and prepaid expenses and deposits, and a decrease to accounts payable and accrued liabilities, partially offset by a decrease in accounts receivable. For the six months ended June 30, 2021, changes in the non-cash working capital increased cash flow from operations due primarily an increase in accounts payable and accrued liabilities.

Cash used for interest decreased to $2.1 million in 2022 as compared to $2.3 million in 2021. Cash used for pension plan contributions increased to $4.3 million in 2022 as compared to $3.3 million used in 2021. Cash used for income tax payments decreased to $8.5 million in 2022 from $13.3 million in 2021. Income tax payments in 2021 included the final installments for the 2020 tax year and installments for 2021.

Cash used for investing activities

In the six months ended June 30, 2022, cash used for investing activities was $7.0 million compared to $42.3 million in the first six months of 2021. In the six months ended June 30, 2022, Pollard used $0.8 million relating to the purchase of NGL, $5.4 million on capital expenditures and $9.8 million on additions to intangible assets. Partially offsetting these uses of cash, Pollard received $9.1 million from our investment in our iLottery joint venture in the period.

In the six months ended June 30, 2021, cash used for investing activities was $42.3 million. In the six months ended June 30, 2021, Pollard used $33.9 million, net of cash acquired, to purchase NGL. In addition, Pollard used $9.2 million on capital expenditures and $6.0 million on additions to intangible assets. Partially offsetting these uses of cash was $6.7 million Pollard received from our investment in our iLottery joint venture in the period.

Cash provided for financing activities

Cash provided for financing activities was $8.0 million in the six months ended June 30, 2022, compared to cash provided by financing activities of $20.2 million in the six months ended June 30, 2021. During the first half of 2022, Pollard received net proceeds from long-term debt of $13.4 million. This receipt of cash was partially offset by $3.1 million of lease principal payments and $2.2 million of dividend payments.

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

As at June 30, 2022, Pollard had unused credit facility of $102.9 million and $13.1 million in available cash resources. These amounts, in addition to cash flow provided by operating activities, are available to be used for future working capital requirements, contractual obligations, capital expenditures, dividends and to assist in financing future acquisitions.

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

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Sales	$115.9	$113.9	$116.5	$116.9	$113.4	$112.2	$103.7	$116.7	$91.5
Adjusted EBITDA	18.9	19.0	18.7	19.4	22.6	23.3	20.3	24.5	19.7
Net income (loss)	2.5	6.4	5.2	(0.6)	7.7	7.5	12.2	13.2	9.2
Net income (loss) per share - basic	0.09	0.24	0.19	(0.02)	0.29	0.28	0.48	0.51	0.36

Working Capital

Net non-cash working capital varies throughout the year based on the timing of individual sales transactions and other investments. The nature of the lottery industry is few individual customers who generally order large dollar value transactions. As such, the change in timing of a few individual orders can significantly impact the amount required to be invested in inventory or receivables at a particular period end. The high value, low volume of transactions results in some significant volatility in non-cash working capital, particularly during a period of rising volumes. Similarly, the timing of the completion of the sales cycle through collection can significantly impact non-cash working capital.

Instant tickets are produced specifically for individual clients resulting in a limited investment in finished goods inventory. Customers are predominantly government agencies, which result in regular payments. There are a limited number of individual customers, and therefore the net investment in working capital is managed on an individual customer by customer basis, without the need for company-wide benchmarks.

The overall impact of seasonality does not have a material impact on the carrying amounts in working capital.

As at June 30, 2022, Pollard's investment in non-cash working capital increased $10.0 million compared to December 31, 2021, primarily as a result of increases to inventory and prepaid expenses and deposits, and a decrease to accounts payable and accrued liabilities, partially offset by a decrease to accounts receivables.

	June 30, 2022	December 31, 2021
Working Capital	$79.3	$62.2
Total Assets	$471.4	$461.4
Total Non-Current Liabilities	$156.1	$163.5

Credit Facility

Pollard's credit facility was renewed effective December 31, 2021. The credit facility provides loans of up to $215.0 million for its Canadian operations and US$14.0 million for its U.S. subsidiaries. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $215.0 million Canadian equivalent. The credit facility also includes an accordion feature which can increase the facility by $50.0 million. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At June 30, 2022, the outstanding letters of guarantee were $0.1 million. The remaining balance available for drawdown under the credit facility was $102.9 million.

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including debt to income before interest, income taxes, amortization, depreciation and certain other items ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at June 30, 2022, Pollard is in compliance with all financial covenants.

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

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

Economic Development Canada ("EDC") Facility

Effective February 28, 2020, Pollard entered into an agreement with EDC to provide a €15.0 million facility whereby Pollard can issue qualifying letters of credit against the EDC facility. This facility is guaranteed by a general indemnity from Pollard. As of June 30, 2022, the outstanding letters of credit drawn on this facility were $9.9 million (€7.4 million).

Outstanding Share Data

As at June 30, 2022, outstanding share data was as follows:

Common shares	26,917,669

Share Options

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares. As at June 30, 2022, 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, 2021, 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, 2021, 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, 2021.

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, 2021.

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the six months ended June 30, 2022, 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, 2021.

Outlook

Overall demand for our main products and solutions is strong and we expect this to continue. Consumer demand for charitable gaming, eGaming systems and instant ticket products sold at retail have remained high throughout 2022. While the growth in instant ticket retail sales volumes have steadied after significant increases experienced during the pandemic, sales remain at the high levels attained throughout the first quarter of 2022. This retail demand has translated into significant orders from lotteries.

Our iLottery business is showing strong organic growth, both sequentially and in comparison to historic quarters, and we anticipate this will continue going forward. Michigan iLottery has demonstrated resilient incremental growth over the last four quarters despite the competitive environment with private iGaming operations. All of our contracts within NPi have also shown strong organic growth and we expect this to carry on.

Our current instant ticket production schedule reflects significant order volumes; however, challenges in the second quarter negatively impacted our production. We have initiated a number of actions to mitigate these challenges. As a result, we anticipate improved production volumes in future quarters, capitalizing on this order volume which will lead to higher sales volumes.

Inflationary increases, particularly as it relates to key instant ticket inputs, will continue to be a challenge. A significant portion of these cost increases have been implemented already in the first and second quarters of 2022; however, their full impact is still being absorbed in our results. We are working diligently on a number of strategies to offset these increases, including investigating potential alternate sources for key inputs, increasing production output, expanding capacity and most important among these, bidding at higher selling prices on contract extensions and RFP's as they come available. We will continue to pursue this higher selling price strategy and are so far very encouraged at the acceptance by the market of this strategy in a number of jurisdictions. Higher selling prices are a critical component of recovering these significant cost increases and achieving appropriate gross margins.

Helping to mitigate margin pressure, our charitable and eGaming business is expected to produce strong financial results, due to high levels of consumer demand and our ability to pass along cost increases.

We continue to make great strides with investing in our business through increasing our resources, expanding our product portfolio and investing in the technological solutions our lottery and charitable gaming customers require. We remain very excited about the strength of demand for our products and solutions, and are confident our strategies will allow us to improve our instant ticket margins. This, combined with strong results in many other areas of our business, will allow us to return to levels of profitability reflective of the value of our company.

Disclosure Controls and Procedures

Under National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") for the interim period regarding the design of the disclosure controls and procedures. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the disclosure controls and procedures as defined in National Instrument 52-109 will provide reasonable assurance of achieving the disclosure objectives.

Internal Controls over Financial Reporting

Under National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Certifying Officers regarding the design of the internal controls over financial reporting. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) as the control framework in designing its internal controls over financial reporting. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the internal controls over financial reporting as defined in National Instrument 52-109 will provide reasonable assurance of achieving the financial reporting objectives.

No changes were made in Pollard's internal control over financial reporting during the six months ended June 30, 2022, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

Additional Information

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

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form for the year ended December 31, 2021, is available on SEDAR at www.sedar.com.

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