POLLARD banknote limited

June 30, 2023

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023

August 10, 2023

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and six months ended June 30, 2023, is prepared as at August 10, 2023, 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, 2023, and the audited consolidated financial statements of Pollard for the year ended December 31, 2022, 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 NPi's sales, its iLottery joint venture operation.

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

Basis of Presentation

The results of operations in the following discussions encompass the unaudited consolidated results of Pollard for the three and six months ended June 30, 2023. All figures are in millions except for per share amounts.

POLLARD BANKNOTE LIMITED

Overview

Pollard is one of the leading providers of products and solutions to lottery and charitable gaming 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 platform and game content, interactive digital gaming, including mkodo's world class game apps and GeoLocs, PlayOn™ loyalty programs, retail management services, ScanACTIV™, EasyVEND™, lottery ticket dispensers and play stations, vending machines and eGaming systems marketed under the Diamond Game and Compliant Gaming trade names. 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 150 independent distributors with the majority of revenue generated from repeat business.

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, 2023.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended June 30, 2023	Three months ended June 30, 2022(1)	Six months ended June 30, 2023	Six months ended June 30, 2022(1)
Sales	$130.3	$115.9	$254.9	$229.8
Cost of sales	$110.2	95.0	217.7	187.3
Gross profit	$20.1	20.9	37.2	42.5
Gross profit as a % of sales	*15.4%*	*18.0%*	*14.6%*	*18.5%*
Administration expenses	14.3	12.3	27.7	24.3
Administration expenses as a % of sales	*11.0%*	*10.6%*	*10.9%*	*10.6%*
Selling expenses	5.0	4.2	9.6	8.3
Selling expenses as a % of sales	*3.8%*	*3.6%*	*3.8%*	*3.6%*
NPi equity investment income	(9.2)	(5.1)	(17.8)	(9.0)
NPi equity investment income as a % of sales	*(7.1%)*	*(4.4%)*	*(7.0%)*	*(3.9%)*
Unrealized foreign exchange (gain) loss	(1.7)	2.4	(1.9)	1.7
Unrealized foreign exchange (gain) loss as a % of sales	*(1.3%)*	*2.1%*	*(0.7%)*	*0.8%*
Net income	7.5	2.5	12.4	8.9
Net income as a % of sales	*5.8%*	*2.2%*	*4.9%*	*3.9%*
Adjusted EBITDA	22.1	18.9	40.7	37.9
Adjusted EBITDA as a % of sales	*17.0%*	*16.3%*	*16.0%*	*16.5%*
Net income per share (basic)	$0.28	$0.09	$0.46	$0.33
Net income per share (diluted)	$0.27	$0.09	$0.45	$0.33

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

	June 30, 2023	December 31, 2022
Total Assets	$493.0	$499.3
Total Non-Current Liabilities	$150.8	$142.3

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA
(millions of dollars)

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Net income	$7.5	$2.5	$12.4	$8.9
Adjustments:				
Amortization and depreciation	11.9	9.7	22.5	19.4
Interest	2.8	2.1	5.5	3.9
Income taxes	1.3	1.5	1.5	3.1
EBITDA	$23.5	$15.8	$41.9	$35.3
Unrealized foreign exchange (gain) loss	(1.7)	2.4	(1.9)	1.7
Contingent consideration fair value adjustment	0.3	0.7	0.7	0.9
Adjusted EBITDA	$22.1	$18.9	$40.7	$37.9

Product line breakdown of revenue

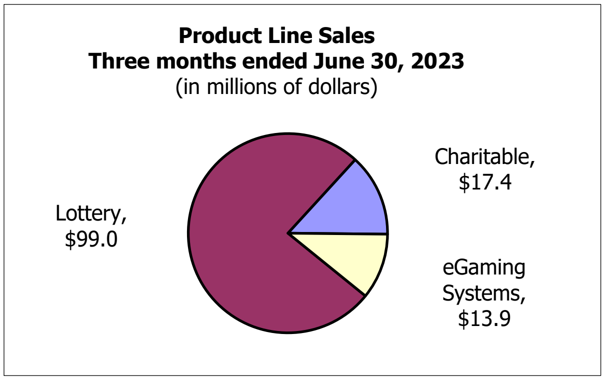
	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Lottery	76.0%	75.0%	75.0%	75.6%
Charitable	13.3%	14.4%	14.1%	14.3%
eGaming systems	10.7%	10.6%	10.9%	10.1%

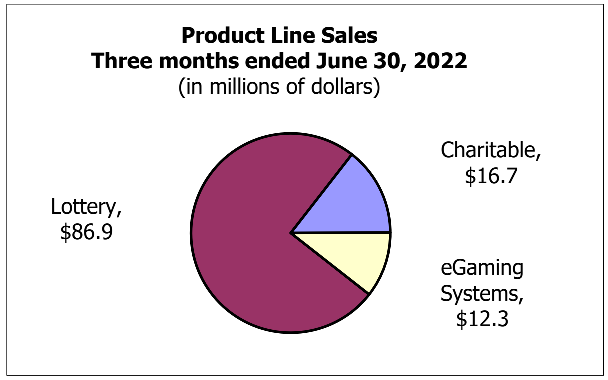
REVIEW OF OPERATIONS

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, 2023

Sales





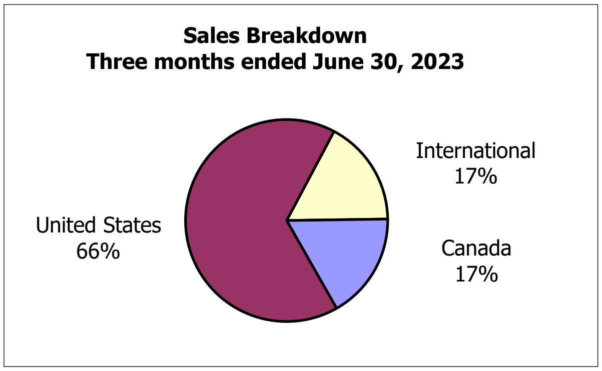
During the three months ended June 30, 2023, Pollard achieved sales of $130.3 million, compared to $115.9 million in the three months ended June 30, 2022. Factors impacting the $14.4 million sales increase were:

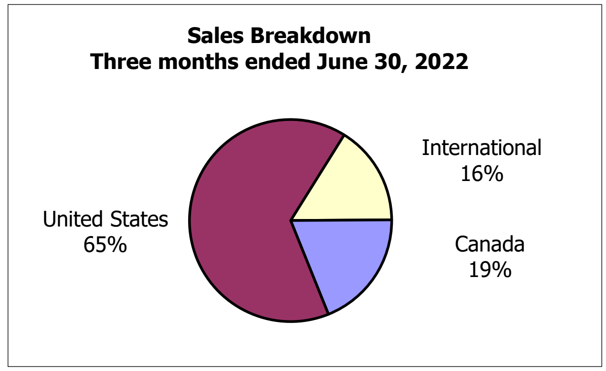
The higher instant ticket average selling price in the second quarter of 2023 increased sales by $6.9 million as compared to 2022, primarily due to higher proprietary product sales, a change in customer mix and the impact of repriced contracts. However, partially offsetting this increase was the decrease in instant ticket sales volumes of $3.6 million, in part as a result of declining certain less profitable work.

Higher sales of ancillary lottery products and services increased revenue in the second quarter of 2023 by $4.1 million as compared to 2022. This growth was largely due to increased sales of licensed products, digital and loyalty products, retail merchandising products and distribution services.

The higher average selling price of charitable games in the second quarter of 2023 also increased sales by $1.1 million as compared to the second quarter of 2022. However, lower charitable gaming volumes decreased sales by $1.7 million in the second quarter of 2023, largely as a result of certain production inefficiencies.

eGaming systems revenue further increased sales by $0.8 million in 2023, largely due to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2022.





During the three months ended June 30, 2023, Pollard generated approximately 72.2% (2022 – 72.4%) 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 2023, the actual U.S. dollar value was converted to Canadian dollars at $1.358, compared to a rate of $1.269 during the second quarter of 2022. This 7.0% increase in the U.S. dollar value resulted in an approximate increase of $6.2 million in revenue relative to the second quarter of 2022. In addition, during the quarter the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $0.8 million in revenue relative to the second quarter of 2022.

Cost of sales and gross profit

Cost of sales was $110.2 million in the second quarter of 2023 compared to $95.0 million in the second quarter of 2022. The increase of $15.2 million in cost of sales was primarily the result of the accumulated impact of significant inflationary cost increases incurred throughout 2022 on raw materials and other manufacturing inputs. In addition, higher exchange rates on U.S. dollar denominated expenses, increases in manufacturing overhead costs, certain instant ticket production inefficiencies and higher expenses related to increased sales of ancillary lottery products and services further contributed to the increase in cost of sales as compared to 2022.

Gross profit decreased to $20.1 million (15.4% of sales) in the second quarter of 2023 from $20.9 million (18.0% of sales) in the second quarter of 2022. This decrease of $0.8 million in gross profit and the decrease in gross profit percentage were primarily the result of lower instant ticket sales margins, despite a higher instant ticket average selling price compared to 2022. We continued to experience significantly higher manufacturing costs, caused by the impact of accumulated inflation on the costs of inputs to our instant ticket production. While we have been successful in raising our selling prices for a number of key long-term customer contracts that were renewed in 2022 and the first half of 2023, contract terms are generally negotiated well in advance of their start date. Therefore, the impact of our contracts that have been repriced will be reflected over time and not be fully reflected in our financial results until the latter part of 2024. In addition, lower charitable gaming sales margins in the second quarter of 2023 further contributed to the decrease in gross profit. These decreases were partially offset by gross profit increases on sales of eGaming systems, licensed products and retail merchandising products as compared to 2022.

Sequentially, the gross profit percentage increased this quarter to 15.4% from 13.7% in the first quarter of 2023, in part because of higher margin instant ticket sales.

Administration expenses

Administration expenses were $14.3 million in the second quarter of 2023 compared to $12.3 million in the second quarter of 2022. The increase of $2.0 million was largely a result of increased compensation expenses, software licensing costs and travel related costs.

Selling expenses

Selling expenses increased to $5.0 million in the second quarter of 2023 from $4.2 million in the second quarter of 2022. The increase was primarily due to higher compensation and travel related expenses.

Equity investment income

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to $9.2 million in the second quarter of 2023 from $5.1 million in the second quarter of 2022. This $4.1 million increase was primarily due to increased organic growth achieved on contracts held by NPi as compared to 2022, which was driven by greater gaming activity.

Other expenses

Other expenses were $0.1 million in the second quarter of 2023 compared to $0.8 million in the second quarter of 2022. This decrease of $0.7 million was primarily due to the decrease in the contingent consideration fair value adjustment expense, as part of our Compliant Gaming, LLC ("Compliant") acquisition, of $0.4 million as compared to 2022.

Foreign exchange

The net foreign exchange gain was $1.7 million in the second quarter of 2023 compared to a net loss of $2.6 million in the second quarter of 2022. The 2023 net foreign exchange gain of $1.7 million consisted of an unrealized foreign exchange gain of $1.7 million, primarily a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the strengthening of the Canadian dollar relative to the U.S. dollar, partially offset by an unrealized loss on U.S. dollar denominated accounts receivable.

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.

Adjusted EBITDA

Adjusted EBITDA increased to $22.1 million in the second quarter of 2023 compared to $18.9 million in the second quarter of 2022. The primary reasons for the $3.2 million increase in Adjusted EBITDA were the increase in equity investment income of $4.1 million, the increase in gross profit (net of amortization and depreciation) of $1.4 million, the decrease in other expenses (net of contingent consideration) of $0.3 million and the decrease in realized foreign exchange loss of $0.2 million. Partially offsetting these increases to Adjusted EBITDA were the increase in administration expenses of $2.0 million and the increase in selling expenses of $0.8 million.

Interest expense

Interest expense increased to $2.8 million in the second quarter of 2023 from $2.1 million in the second quarter of 2022, primarily as a result of higher interest rates in 2023 and the increase in average long-term debt outstanding as compared to 2022. Partially offsetting these increases to interest expense was the decrease in interest accretion of $0.7 million on the discounted contingent consideration liability relating to the Compliant purchase.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $11.9 million during the second quarter of 2023 which increased from $9.7 million during the second quarter of 2022. The increase of $2.2 million was primarily the result of amortization and depreciation taken on newly acquired intangible assets and property, plant and equipment.

Income taxes

Income tax expense was $1.3 million in the second quarter of 2023, an effective rate of 14.5%, which was lower than our domestic rate of 27.0% due primarily to the effect of lower income tax rates in foreign jurisdictions and the effect of non-taxable amounts.

Income tax expense was $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 income tax rates in foreign jurisdictions.

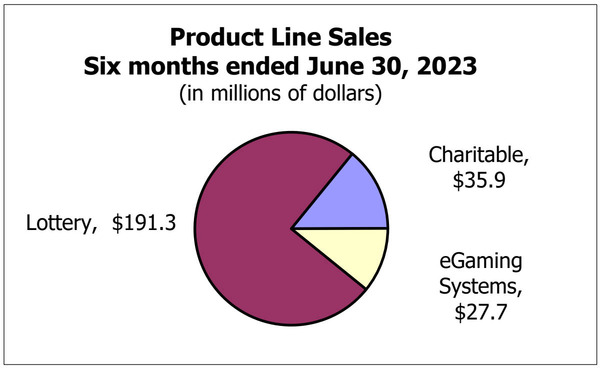
Net income

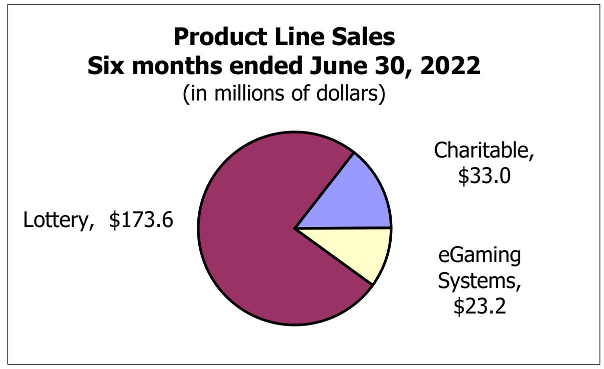
Net income was $7.5 million in the second quarter of 2023 compared to $2.5 million in the second quarter of 2022. The increase in net income of $5.0 million was primarily due to the increase in net foreign exchange gain of $4.3 million, the increase in equity investment income of $4.1 million, the decrease in other expenses of $0.7 million and the decrease in income tax expense of $0.2 million. Partially offsetting these increases to net income was the decrease in gross profit of $0.8 million, primarily the result of lower instant ticket sales margins due to significantly higher manufacturing costs, caused by the impact of accumulated inflation on the costs of inputs to our instant ticket production. In addition, lower charitable gaming sales margins in the second quarter of 2023 further contributed to the decrease in gross profit. These decreases to gross profit were partially offset by gross profit increases on sales of eGaming systems, licensed products and retail merchandising products as compared to 2022. Also partially offsetting the increases to net income were the increase in administration expenses of $2.0 million, the increase in selling expenses of $0.8 million and the increase in interest expense of $0.7 million.

Net income per share (basic and diluted) increased to $0.28 and $0.27 per share, respectively, in the second quarter of 2023 from $0.09 per share (basic and diluted) in the second quarter of 2022.

ANALYSIS OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2023

Sales





During the six months ended June 30, 2023, Pollard achieved sales of $254.9 million, compared to $229.8 million in the six months ended June 30, 2022. Factors impacting the $25.1 million sales increase were:

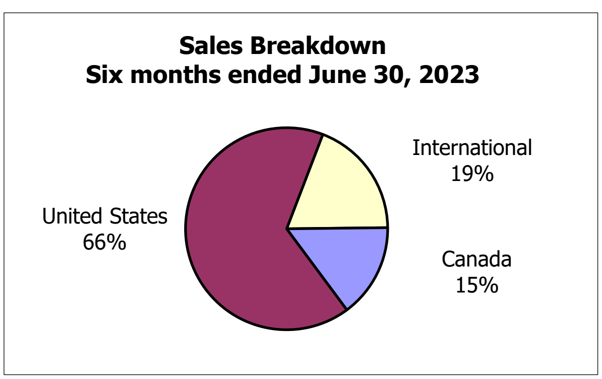
Higher sales of ancillary lottery products and services increased revenue by $7.6 million. This growth was largely due to increased sales of digital and loyalty products, distribution services and licensed products.

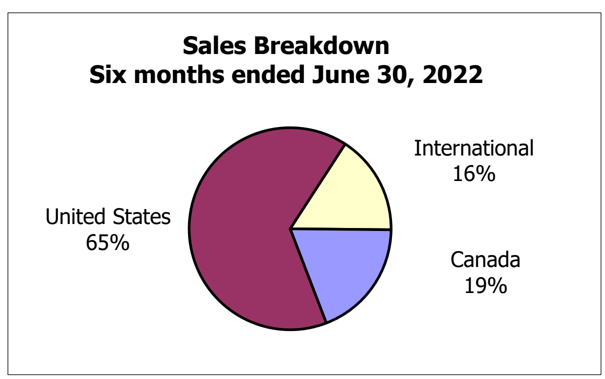
The higher instant ticket average selling price in the first six months of 2023 increased sales by $4.5 million as compared to 2022, primarily due to higher proprietary product sales, a change in customer mix and the impact of repriced contracts. However, this increase was largely offset by the decrease in instant ticket sales volumes of $4.1 million as compared to 2022, in part as a result of declining certain less profitable work.

Higher eGaming systems revenue increased sales by $2.9 million due primarily to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2022.

The higher average selling price of charitable games in the first six months of 2023 also increased sales by $2.2 million as compared to 2022. This increase was partially offset by lower charitable gaming volumes, which decreased sales by $1.5 million, largely as a result of certain production inefficiencies.

Higher Michigan iLottery sales further increased revenue in the first six months of 2023 by $0.8 million as compared to 2022.





During the six months ended June 30, 2023, Pollard generated approximately 74.0% (2022 – 71.5%) 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 2023, the actual U.S. dollar value was converted to Canadian dollars at $1.354, compared to a rate of $1.269 the first six months of 2022. This 6.6% increase in the U.S. dollar value resulted in an approximate increase of $11.8 million in revenue relative to the first six months of 2022. In addition, during the first six months of 2023, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $0.9 million in revenue relative to the first six months of 2022.

Cost of sales and gross profit

Cost of sales was $217.7 million in the first six months of 2023 compared to $187.3 million in the first six months of 2022. The increase of $30.4 million in cost of sales was primarily the result of the accumulated impact of significant inflationary cost increases incurred throughout 2022 on raw materials and other manufacturing inputs. In addition, higher exchange rates on U.S. dollar denominated expenses, increases in manufacturing overhead costs, certain instant ticket production inefficiencies and higher expenses related to increased sales of ancillary lottery products and services further contributed to the increase in cost of sales as compared to 2022.

Gross profit decreased to $37.2 million (14.6% of sales) in the six months ended June 30, 2023, from $42.5 million (18.5% of sales) in the six months ended June 30, 2022. This decrease of $5.3 million in gross profit and the decrease in gross profit percentage were primarily the result of lower instant ticket sales margins, despite a higher instant ticket average selling price compared to 2022. During the first half of 2023, we have experienced significantly higher manufacturing costs, caused by the impact of accumulated inflation on the costs of inputs to our instant ticket production. While we have been successful in raising our selling prices for a number of key long-term customer contracts that were renewed in 2022 and the first half of 2023, contract terms are generally negotiated well in advance of their start date. Therefore, the impact of our contracts that have been repriced will be reflected over time and not be fully reflected in our financial results until the latter part of 2024.

In addition, lower charitable gaming sales margins in the first half of 2023 further contributed to the decrease in gross profit. These decreases were partially offset by gross profit increases on eGaming systems, licensed products, and digital and loyalty product sales as compared to 2022.

Administration expenses

Administration expenses increased to $27.7 million in the first six months of 2023 from $24.3 million in 2022. The increase of $3.4 million was largely a result of increased compensation expenses, software licensing costs and travel related costs.

Selling expenses

Selling expenses increased to $9.6 million in the first six months of 2023 from $8.3 million in the first six months of 2022. The increase was primarily due to higher compensation and travel related expenses.

Equity investment income

Pollard's share of income from NPi increased to $17.8 million in the first six months of 2023 from $9.0 million in 2022. This $8.8 million increase was primarily due to increased organic growth achieved on contracts held by NPi as compared to 2022, which was driven by greater gaming activity. In addition, higher revenues from substantial Mega Millions® and Powerball® jackpots awarded during the first quarter of 2023 further increased NPi's income.

Other expenses

Other expenses were $0.3 million in the first six months of 2023 compared to $0.8 million in 2022. This decrease of $0.5 million included the decrease in the contingent consideration fair value adjustment expense, as part of our Compliant acquisition, of $0.2 million as compared to 2022.

Foreign exchange

The net foreign exchange gain was $2.0 million in the first six months of 2023 compared to a net foreign exchange loss of $2.2 million in the first six months of 2022. The 2023 net foreign exchange gain of $2.0 million resulted from a net unrealized foreign exchange gain of $1.9 million, primarily a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the strengthening of the Canadian dollar relative to the U.S. dollar, partially offset by an unrealized loss on U.S. dollar denominated cash and accounts receivable. In addition, Pollard experienced a realized foreign exchange gain of $0.1 million which was primarily due to foreign currency denominated accounts receivable being converted into Canadian dollars at favorable foreign exchange rates, partially offset by foreign currency denominated accounts payable paid at unfavorable exchange rates.

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 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 experienced a realized foreign exchange loss of $0.5 million as a result of foreign currency denominated accounts receivable being converted into Canadian dollars at unfavorable foreign exchange rates.

Adjusted EBITDA

Adjusted EBITDA increased to $40.7 million in the first six months of 2023 compared to $37.9 million in the first six months of 2022. The primary reason for the increase of $2.8 million was the increase in equity investment income of $8.8 million. Further contributing to the increase in Adjusted EBITDA as compared to 2022 were the increase in realized foreign exchange gain of $0.6 million and the decrease in other expenses (net of contingent consideration) of $0.3 million. Partially offsetting these increases to Adjusted EBITDA were the increase in administration expenses of $3.4 million, the increase in selling expenses of $1.3 million and the decrease in gross profit (net of amortization and depreciation) of $2.2 million.

The decrease in gross profit (net of amortization and depreciation) was primarily the result of lower instant ticket sales margins due to significantly higher manufacturing costs, caused by the impact of accumulated inflation on the costs of inputs to our instant ticket production. In addition, lower charitable gaming sales margins in the first half of 2023 further contributed to the decrease in gross profit. These decreases were partially offset by gross profit increases on eGaming systems, licensed products, and digital and loyalty product sales as compared to 2022.

Interest expense

Interest expense increased to $5.5 million in the first six months of 2023 from $3.9 million in the first six months of 2022, primarily as a result of higher interest rates in 2023 and the increase in average long-term debt outstanding as compared to 2022. Partially offsetting these increases to interest expense was the decrease in interest accretion of $1.2 million on the discounted contingent consideration liability relating to the Compliant purchase.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $22.5 million during the first six months of 2023 which increased from $19.4 million during the first six months of 2022. The increase of $3.1 million was primarily the result of amortization and depreciation taken on newly acquired intangible assets and property, plant and equipment.

Income taxes

Income tax expense was $1.5 million in the first six months of 2023, an effective rate of 11.3%, which was lower than our domestic rate of 27.0% due primarily to the effect of lower income tax rates in foreign jurisdictions and the effect of non-taxable amounts.

Income tax expense was $3.1 million in the first 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 income tax rates in foreign jurisdictions, 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.

Net income

Net income increased to $12.4 million in the first six months of 2023 from $8.9 million in the first six months of 2022. The primary reasons for the increase of $3.5 million include the increase in equity investment income of $8.8 million, the increase in net foreign exchange gain of $4.2 million, the decrease in income tax expense of $1.6 million and the decrease in other expenses of $0.5 million. Partially offsetting these increases to net income was the decrease in gross profit of $5.3 million, primarily the result of lower instant ticket sales margins due to significantly higher manufacturing costs, caused by the impact of accumulated inflation on the costs of inputs to our instant ticket production. In addition, lower charitable gaming sales margins in the first half of 2023 further contributed to the decrease in gross profit. These decreases in gross profit were partially offset by gross profit increases on eGaming systems, licensed products, and digital and loyalty product sales as compared to 2022. Also partially offsetting the increases to net income were the increase in administration expenses of $3.4 million, the increase in interest expense of $1.6 million and the increase in selling expenses of $1.3 million.

Net income per share (basic and diluted) increased to $0.46 and $0.45 per share, respectively, in the six months ending June 30, 2023, as compared to $0.33 per share (basic and diluted) in the six months ending June 30, 2022.

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 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Sales – Pollard's share									
Michigan iLottery	$6.5	$7.3	$7.9	$6.5	$6.2	$5.9	$5.6	$5.9	$6.8
NPi	18.5	18.5	17.7	13.7	12.4	11.3	10.5	9.8	9.9
Combined iLottery sales	$25.0	$25.8	$25.6	$20.2	$18.6	$17.2	$16.1	$15.7	$16.7
Income before income taxes – Pollard's share									
Michigan iLottery	$1.8	$2.9	$2.9	$2.2	$2.4	$2.0	$1.8	$2.0	$2.8
NPi	9.2	8.6	8.7	6.0	5.1	3.9	3.2	2.6	2.5
Combined income before income taxes – Pollard's share	$11.0	$11.5	$11.6	$8.2	$7.5	$5.9	$5.0	$4.6	$5.3

In 2021, 2022 and the first half of 2023, NPi achieved strong organic growth in its jurisdictions, adding to sales and income before taxes.

In July 2022, a substantial Mega Millions® jackpot was awarded which increased sales in the third quarter of 2022. In November 2022, a record Powerball® jackpot was awarded which increased sales in the fourth quarter of 2022.

A large Mega Millions® jackpot awarded in January 2023 and a substantial Powerball® jackpot awarded in February 2023 each increased sales in the first quarter of 2023.

Liquidity and Capital Resources

Cash provided by operating activities

For the six months ended June 30, 2023, cash flow provided by operating activities was $33.8 million compared to cash flow provided by operating activities of $17.8 million for the first six months of 2022. Changes in the non-cash working capital provided $16.4 million in cash compared to $10.0 million used in the first six months of 2022. For the six months ended June 30, 2023, changes in the non-cash working capital increased cash flow from operations due primarily to a decrease in accounts receivable and an increase to accounts payable and accrued liabilities, partially offset by increases to inventory and prepaid expenses. 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.

Cash used for interest increased to $4.7 million in 2023 as compared to $2.1 million in 2022. Cash used for pension plan contributions decreased to $3.1 million in 2023 as compared to $4.3 million used in 2022. Cash used for income tax payments increased to $18.9 million in 2023 from $8.5 million in 2022. Income tax payments in 2023 included the final installments for the 2022 tax year and installments for 2023. Partially offsetting these uses of cash, Pollard received $17.8 million from our investment in our iLottery joint venture in 2023 as compared to $9.1 million received in 2022.

Cash used for investing activities

In the six months ended June 30, 2023, cash used for investing activities was $31.1 million compared to cash used for investing activities of $16.1 million in the first six months of 2022. In the six months ended June 30, 2023, Pollard used $11.8 million for contingent consideration paid for the acquisition of Compliant, $11.3 million on additions to intangible assets and $7.9 million on capital expenditures.

In the six months ended June 30, 2022, Pollard used $5.4 million on capital expenditures, $9.8 million on additions to intangible assets and $0.8 million relating to the purchase of Next Generation Lotteries AS ("NGL").

Cash provided by financing activities

Cash provided by financing activities was $9.4 million in the six months ended June 30, 2023, compared to cash provided by financing activities of $8.0 million in the six months ended June 30, 2022. During the first six months of 2023, Pollard received net proceeds from long-term debt of $15.0 million. This receipt of cash was partially offset by lease principal payments of $3.5 million and $2.2 million of dividend payments made during the period.

During the first six months of 2022, Pollard received net proceeds from long-term debt of $13.4 million. This receipt of cash was partially offset by lease principal payments of $3.1 million and $2.2 million of dividend payments made during the period.

As at June 30, 2023, Pollard had unused credit facility of $97.6 million and $13.6 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 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Sales	$130.3	$124.6	$126.9	$125.5	$115.9	$113.9	$116.5	$116.9	$113.4
Adjusted EBITDA	22.1	18.6	22.4	20.2	18.9	19.0	18.7	19.4	22.6
Net income (loss)	7.5	4.8	10.5	(0.2)	2.5	6.4	5.2	(0.6)	7.7
Net income (loss) per share - basic	0.28	0.18	0.39	(0.01)	0.09	0.24	0.19	(0.02)	0.29

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, 2023, Pollard's investment in non-cash working capital decreased $16.4 million compared to December 31, 2022, primarily as a result of a decrease in accounts receivable and an increase in accounts payable and accrued liabilities, partially offset by increases to inventory and prepaid expenses.

	June 30, 2023	December 31, 2022
Working Capital	$94.3	$79.9
Total Assets	$493.0	$499.3
Total Non-Current Liabilities	$150.8	$142.3

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 credit facility also includes an accordion feature which can increase the facility by $50.0 million. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $215.0 million Canadian equivalent. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or Secured Overnight Financing Rate ("SOFR"). At June 30, 2023, the outstanding letters of guarantee drawn under the credit facility were $0.1 million. The remaining balance available for drawdown under the credit facility was $97.6 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, 2023, 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 November 22, 2022, Pollard renewed its agreement with EDC. This agreement provides a €15,000 facility whereby Pollard can issue qualifying letters of credit against the EDC facility. The facility is guaranteed by a general indemnity from Pollard. As of June 30, 2023, the outstanding letters of credit drawn on this facility were $13.7 million (€9.5 million). As of December 31, 2022, the outstanding letters of credit drawn on this facility were $13.5 million (€9.3 million).

Outstanding Share Data

As at June 30, 2023, outstanding share data was as follows:

Common shares	26,923,919

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, 2023, the total share options issued and outstanding were 531,250.

Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2022, 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, 2022, 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, 2022.

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, 2022.

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the six months ended June 30, 2023, 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, 2022.

Outlook

Demand for our lottery and charitable gaming products and services continues to be strong. Retail dollar sales of instant tickets continue to generate positive growth relative to 2022, which followed very strong retail growth over the 2020-2021 period. Consumer purchases of instant tickets at retail have historically been very resilient through different economic cycles so we anticipate growth to continue.

Strong demand continues for our charitable gaming and eGaming systems solutions. We are investing resources in additional equipment capacity and increased personnel in order to produce additional printed products like pull-tabs and bingo paper to meet the demand. Additional investment in game content is a critical success factor in eGaming systems and we are focused on developing unique content.

Existing iLottery contracts continue to produce strong results, through both organic growth as contracts mature and large draw-based games jackpots driving new players to the sites. We are engaging with a number of lotteries around the world interested in adding iLottery or upgrading their existing system. The sales cycle for iLottery is extremely long, however we believe in the long term this solution will be an important part of a successful lottery and presents significant opportunities for our recently redeveloped iLottery platform and library of game content.

We have not experienced any additional significant cost increases in our product inputs during 2023. Although we have seen a few specific instances of small cost decreases, we have yet to see any evidence of significant cost reductions.

We will continue to follow our strategy of repricing our instant ticket contracts when the contracts allow, and we will use discretion in accepting work where the margins are low due to a mismatch of low pricing and higher costs. As a result, our instant ticket production volumes for the remainder of the year are expected to be lower than our historical volumes.

Our conversion of earnings to cash remains high, allowing us to invest in CAPEX, including ongoing investments in our iLottery technology and game content, as well as support our dividend policy while ensuring our debt levels remain conservative. Significant funds remain available for other opportunities that develop including investments in working capital and financing any future acquisitions.

We remain confident in our positive expectations for Pollard for the remainder of 2023 and future years given the strong demand for our products and services. Focusing singularly on the lottery and charitable gaming industries has allowed us to develop the relationships and excellence required to be successful in these highly regulated and competitive markets. Our repricing strategy for the instant ticket segment of our product portfolio continues to be successful and is expected to provide improving financial results over the next 12-18 months as the new pricing terms come into effect.

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, 2023, 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, 2022, is available on SEDAR at www.sedarplus.ca.

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