

**POLLARD BANKNOTE ANNOUNCES
2ND QUARTER RESULTS**

WINNIPEG, Manitoba, August 8, 2018 /CNW/ — Pollard Banknote Limited (TSX: PBL) (“Pollard”) today released its financial results for the three and six months ended June 30, 2018, achieving strong levels of revenue, net income and Adjusted EBITDA.

“Our second quarter results reflected the success we are achieving in pursuing our strategic plan,” stated John Pollard, Co-Chief Executive Officer, “as both our core instant lottery ticket business and recent acquisitions are performing very well. Our instant ticket production volumes remained very strong, surpassing the high levels achieved in the second quarter of 2017 and driving revenue levels to almost \$87 million for the three months ended June 30, 2018. We achieved a solid gross margin percentage consistent with what was attained in the first quarter of the year and continued to generate significant levels of operating cash flow.”

“As noted last year and in previous communications, the stand alone second quarter results of 2017 were positively impacted by a significant amount of product in transit to international customers at the end of the first quarter. This had the effect of considerably boosting the revenue and earnings of the second quarter while negatively impacting the first quarter. A more appropriate benchmark for 2018 is to look at the first six months of 2017 compared to the first six months of 2018 to normalize for the quarterly impact of that unusual in transit activity.”

“Revenue for the first half of 2018 is up over 23% reflecting the impact of our two acquisitions as well as approximately 5% growth in our underlying instant ticket volumes. Our gross margin percentage during the first half of 2018 reached 23.9%, up over 170 basis points from the prior year because of improved efficiencies and the impact of our acquired companies. Adjusted EBITDA has increased from \$19.4 million to \$27.1 million in the same six month period of 2018, a noteworthy achievement combining organic growth of our existing instant ticket business with the additional incremental earnings generated from Diamond Game and International Gamco.”

“The integrations of both Diamond Game and International Gamco are proceeding smoothly and we remain very excited about the long-term prospects of expanding our charitable electronic gaming machine product line and building upon our new leadership position in the charitable gaming market. We continue to look at further expanding our

organization through the use of selective, accretive acquisitions as a key part of our strategic plan. During the second quarter we renewed our bank facility for a 3-year term, including increasing the amount of capital available to fund our future business needs and providing additional flexibility to grow through acquisitions. We also repaid the remaining principal of the subordinated debt during the quarter."

"In addition to growing instant ticket volumes, we continue to invest in additional products to support our lottery partners as they expand and grow their businesses," commented Doug Pollard, Co-Chief Executive Officer. "Particularly in areas of digital engagement, we remain focused on developing tools and expertise to help guide lotteries along a successful digital road map, through the use of effective loyalty programs, appealing digital game apps and, of course, fully developed iLottery solutions. We are excited to be launching our third state jurisdiction iLottery offering later this fall in New Hampshire and are responding to increased lottery interest across the broad spectrum of internet based gaming."

"We are very pleased with our operational and financial results for the first half of 2018," summarized John Pollard, "and we expect these trends will continue going forward for the remainder of 2018 and beyond. We believe the foundation we are building through organic growth and strategic acquisitions will support our vision to be the partner of choice for the lottery and charitable gaming markets."

POLLARD BANKNOTE LIMITED

Pollard is one of the leading providers of products and services to lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant tickets based in Canada and the second largest producer of instant tickets in the world. With the acquisition of International Gamco, Inc. ("Gamco"), on February 1, 2018, management believes Pollard has also become the second largest bingo paper and pull-tab supplier to the charitable gaming industry in North America.

The selected financial and operating information has been derived from, and should be read in conjunction with, the condensed consolidated unaudited interim financial statements of Pollard as at and for the three and six months ended June 30, 2018. These financial statements have been prepared in accordance with the International Financial Accounting Standards ("IFRS" or "GAAP").

On February 1, 2018, Pollard acquired International Gamco, Inc. ("Gamco"). Therefore, Gamco's financial results have been included in Pollard's consolidated financial statements since acquisition. Also included in the consolidated financial statements are the results from INNOVA Gaming Group Inc. ("INNOVA", "Diamond Game"), which Pollard acquired on August 3, 2017.

HIGHLIGHTS

	Three months ended <u>June 30, 2018</u>	Three months ended <u>June 30, 2017</u>
Sales	\$ 86.8 million	\$ 77.9 million
Gross Profit	\$ 20.5 million	\$ 18.6 million
<i>Gross Profit % of sales</i>	<i>23.6%</i>	<i>23.9%</i>
Administration expenses	\$ 7.4 million	\$ 6.6 million
Selling expenses	\$ 3.4 million	\$ 2.1 million
Net Income	\$ 5.0 million	\$ 6.0 million
Adjusted EBITDA:		
Pollard Banknote Limited	\$ 11.2 million	\$ 13.1 million
Diamond Game	2.9 million	-
Adjusted EBITDA	<u>\$ 14.1 million</u>	<u>\$ 13.1 million</u>
	Six months ended <u>June 30, 2018</u>	Six months ended <u>June 30, 2017</u>
Sales	\$ 167.2 million	\$ 135.3 million
Gross Profit	\$ 39.9 million	\$ 30.0 million
<i>Gross Profit % of sales</i>	<i>23.9 %</i>	<i>22.2%</i>
Administration expenses	\$ 15.4 million	\$ 12.0 million
Selling expenses	\$ 6.2 million	\$ 4.1 million
Net Income	\$ 9.6 million	\$ 7.8 million
Adjusted EBITDA:		
Pollard Banknote Limited	\$ 21.9 million	\$ 19.4 million
Diamond Game	5.2 million	-
Adjusted EBITDA	<u>\$ 27.1 million</u>	<u>\$ 19.4 million</u>

SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	\$86.8	\$77.9	\$167.2	\$135.3
Cost of sales	66.3	59.3	127.3	105.3
Gross profit	20.5	18.6	39.9	30.0
Administration expenses	7.4	6.6	15.4	12.0
Selling expenses	3.4	2.1	6.2	4.1
Other expenses	0.1	0.6	0.1	0.9
Income from operations	9.6	9.3	18.2	13.0
Finance costs	2.4	0.8	4.7	1.7
Finance income	-	(0.1)	-	(0.1)
Income before income taxes	7.2	8.6	13.5	11.4
Income taxes:				
Current	0.4	2.8	3.5	4.1
Deferred (reduction)	1.8	(0.2)	0.4	(0.5)
	2.2	2.6	3.9	3.6
Net income	\$5.0	\$6.0	\$9.6	\$7.8
Adjustments:				
Amortization and depreciation	4.3	2.5	8.4	5.1
Interest	1.0	0.8	2.2	1.6
Severance costs	-	-	0.4	-
Acquisition costs	0.1	0.7	0.2	1.0
Unrealized foreign exchange loss	1.5	0.5	2.4	0.3
Income taxes	2.2	2.6	3.9	3.6
Adjusted EBITDA	\$14.1	\$13.1	\$27.1	\$19.4
Pollard Banknote Limited	\$11.2	\$13.1	\$21.9	\$19.4
Diamond Game	2.9	-	5.2	-
Total adjusted EBITDA	\$14.1	\$13.1	\$27.1	\$19.4

	June 30, 2018	December 31, 2017
Total Assets	\$252.7	\$228.3
Total Non-Current Liabilities	\$108.0	\$124.8

Results of Operations – Three months ended June 30, 2018

During the three months ended June 30, 2018, Pollard achieved sales of \$86.8 million, compared to \$77.9 million in the three months ended June 30, 2017. Factors impacting the \$8.9 million sales increase were:

- Instant ticket sales volumes in the quarter decreased slightly when compared to the prior year, reducing sales by \$0.3 million. The second quarter of 2017 saw record sales volume achieved partially as a result of a significant amount of goods in transit to international customers at March 31, 2017, being recognized in sales in the second quarter of 2017. However, while sales volumes were slightly lower in comparison in 2018, the second quarter of 2018 instant tickets sales volume was the second highest in Pollard's history. A decrease in the instant ticket average selling price in the second quarter of 2018 compared to the second quarter of 2017 decreased sales by \$0.4 million. Sales of ancillary instant ticket products and services decreased in 2018, due primarily to lower sales of licensed products, reducing sales by \$2.9 million.
- The addition of Diamond Game added \$6.7 million in sales when compared to 2017. In addition, the increase in charitable gaming volumes, primarily as a result of the addition of Gamco, increased sales by \$7.4 million from 2017. A higher average selling price for charitable games in 2018 further increased sales by \$0.5 million.
- During the three months ended June 30, 2018, Pollard generated approximately 67.7% (2017 – 75.0%) 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 2018 the actual U.S. dollar value was converted to Canadian dollars at \$1.288, compared to a rate of \$1.347 during the second quarter of 2017. This 4.4% decrease in the U.S. dollar value resulted in an approximate decrease of \$2.4 million in revenue relative to the second quarter of 2017. In addition, during the quarter the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of \$0.3 million in revenue relative to the second quarter of 2017.

Cost of sales was \$66.3 million in the second quarter of 2018 compared to \$59.3 million in the second quarter of 2017. Cost of sales were higher in the quarter relative to 2017 as a result of the inclusion of Diamond Game financial results which amounted to \$4.6 million, as well as the inclusion of Gamco. Partially offsetting these increases were decreased costs related to lower ancillary instant ticket products and services sales and the impact of lower exchange rates on U.S. dollar transactions reducing cost of sales in the second quarter of 2018.

Gross profit was \$20.5 million (23.6% of sales) in the second quarter of 2018 compared to \$18.6 million (23.9% of sales) in the second quarter of 2017. This increase in gross profit was primarily the result of the additions of Diamond Game and Gamco, partially offset by lower ancillary instant ticket products and services sales and lower exchange rates on net U.S. dollar transactions. The lower gross profit percentage was due to lower sales of ancillary instant ticket products and services and the effect of the weakening of the U.S. dollar, which were partially offset by improved manufacturing efficiencies.

Administration expenses increased to \$7.4 million in the second quarter of 2018 from \$6.6 million in the second quarter of 2017. The increase was primarily a result of the inclusion of Diamond Game and Gamco of \$1.3 million. This increase was partially offset by a \$0.5 million reduction in acquisition costs as compared to the second quarter of 2017.

Selling expenses increased to \$3.4 million in the second quarter of 2018 from \$2.1 million in the second quarter of 2017 due to the addition of Diamond Game and Gamco.

Interest expense increased to \$1.0 million in the second quarter of 2018 from \$0.8 million in the second quarter of 2017 primarily as a result of the additional interest expense related to increased long-term and subordinated debt incurred with the acquisitions of Diamond Game and Gamco.

The net foreign exchange loss was \$1.4 million in the second quarter of 2018 compared to a net gain was \$0.1 million in the second quarter of 2017. The 2018 net foreign exchange loss of \$1.4 million resulted from a \$1.5 million unrealized foreign exchange loss, comprised predominately of an unrealized loss on U.S. dollar denominated liabilities, due to the weakening of the Canadian dollar at the end of the quarter. This loss was partially offset by an unrealized gain on U.S. dollar denominated cash and receivables. Partially offsetting the unrealized loss was a \$0.1 million realized foreign exchange gain relating to the increased value on the collections of U.S. dollar denominated receivables.

The 2017 net foreign exchange gain of \$0.1 million resulted from a \$0.6 million realized foreign exchange gain relating to the increased value on the collections of U.S. dollar denominated receivables. Partially offsetting the realized gain was the unrealized foreign exchange loss of \$0.5 million, comprised predominately of an unrealized loss on U.S. dollar denominated receivables, partially offset by an unrealized gain on U.S. dollar denominated liabilities.

Adjusted EBITDA increased to \$14.1 million in the second quarter of 2018 compared to \$13.1 million in the second quarter of 2017 primarily as a result of the acquisitions of Diamond Game and Gamco. The reasons for the increase in Adjusted EBITDA of \$1.0 million include the increase in gross profit (net of amortization and depreciation) of \$3.7 million and a decrease in other expenses of \$0.5 million. These increases in Adjusted EBITDA were partially offset by the increase in administration costs (net of acquisition

costs) of \$1.4 million, the increase in selling costs of \$1.3 million and the decrease in the realized foreign exchange gain of \$0.5 million.

Income tax expense was \$2.2 million in the second quarter of 2018, an effective rate of 30.7%, higher than our expected effective rate of 27.0% due primarily to the impact of the effect of foreign exchange and non-deductible amounts.

Income tax expense was \$2.6 million in the second quarter of 2017, an effective rate of 30.1%, higher than our expected effective rate of 27.0% due primarily effect of higher tax rates in the United States, partially offset by the effect of foreign exchange.

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$4.3 million during the second quarter of 2018 which increased from \$2.5 million during the second quarter of 2017. The increase was a result of the addition of Diamond Game and Gamco including the amortization and depreciation relating to the purchase price allocations to intangible assets and property, plant and equipment.

Net income decreased to \$5.0 million in the second quarter of 2018 from \$6.0 million in the second quarter of 2017. The primary reasons for the decrease of \$1.0 million in net income were the increase in administration expenses of \$0.8 million, the increase in selling costs of \$1.3 million, the increase in interest expense of \$0.2 million and the increase in foreign exchange loss of \$1.5 million. These decreases in net income were partially offset by the increase in gross profit of \$1.9 million, the decrease in other expenses of \$0.5 million and the decrease in income tax expense of \$0.4 million.

Net income per share (basic and diluted) decreased to \$0.20 per share in the second quarter of 2018 from \$0.25 per share in the second quarter of 2017 primarily due to the higher unrealized foreign exchange loss and the lower instant ticket sales volume in 2018, partially offset by the addition of Diamond Game's and Gamco's net income.

Results of Operations – Six months ended June 30, 2018

During the six months ended June 30, 2018, Pollard achieved sales of \$167.2 million, compared to \$135.3 million in the six months ended June 30, 2017. Factors impacting the \$31.9 million sales increase were:

- Higher instant ticket sales volumes increased sales by \$13.1 million in the first six months of 2018 compared to the first six months of 2017 due to a record amount of production, based on increased orders from existing customers. Partially offsetting this increase, the lower instant ticket average selling price in the first half of 2018 decreased sales by \$0.3 million when compared to 2017. Lower sales of ancillary instant ticket products and services decreased sales by \$1.6 million

from the first half of 2017. The decrease in ancillary sales was due primarily to lower sales of licensed products, partially offset by greater revenues from iLottery.

- The addition of Diamond Game added \$13.1 million in sales to the first six months of 2018 when compared to 2017. An increase in charitable gaming volumes, primarily as a result of the addition of Gamco, increased sales by \$11.4 million from 2017. A higher average selling price for charitable games in 2018 further increased sales by \$0.8 million.
- During the six months ended June 30, 2018, Pollard generated approximately 67.5% (2017 – 72.1%) 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 2018 the actual U.S. dollar value was converted to Canadian dollars at \$1.272, compared to a rate of \$1.339 the first six months of 2017. This 5.0% decrease in the U.S. dollar value resulted in an approximate decrease of \$5.3 million in revenue relative to the first six months of 2017. Also during the first half of 2018, the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of \$0.7 million in revenue relative to the first half of 2017.

Cost of sales was \$127.3 million in the six months ended June 30, 2018, compared to \$105.3 million in the six months ended June 30, 2017. In addition to the increase in instant ticket sales volumes, the inclusion of Diamond Game, which amounted to \$8.9 million, and Gamco were the primary reasons for the increase in cost of goods sold. These increases were partially offset by lower exchange rates on U.S. dollar transactions in 2018.

Gross profit increased to \$39.9 million (23.9% of sales) in the six months ended June 30, 2018, from \$30.0 million (22.2% of sales) in the six months ended June 30, 2017. This increase in gross profit was primarily the result of the increase in instant ticket volumes and the additions of Diamond Game and Gamco. The higher gross profit percentage was primarily due to the larger volumes of instant tickets and improved manufacturing efficiencies, partially offset by the effect of the weakening of the U.S. dollar.

Administration expenses increased to \$15.4 million in the first six months of 2018 from \$12.0 million in the first six months of 2017. The increase was partly a result of the inclusion of Diamond Game and Gamco of \$3.2 million (which included \$0.4 million in severance costs related to the departure of two former Diamond Game executives). Additional reasons for the increase were higher compensation expenses (which primarily related to expansion of our ancillary lottery product and services sales) compared to 2017 and increased professional fees and IT infrastructure related expenses. This increase was partially offset by a \$0.8 million reduction in acquisition costs as compared to the first six months of 2017.

Selling expenses increased to \$6.2 million in the first six months of 2018 from \$4.1 million in the first six months of 2017 due to the addition of Diamond Game and Gamco.

Interest expense increased to \$2.2 million in the first six months of 2018 from \$1.6 million in the first six months of 2017 primarily as a result of the additional interest expense related to increased long-term and subordinated debt incurred with the acquisitions of Diamond Game and Gamco.

The net foreign exchange loss was \$2.5 million in the first six months of 2018 compared to \$nil in the first six months of 2017. The 2018 net foreign exchange loss resulted in part from a net unrealized foreign exchange loss of \$2.4 million, comprised predominately of an unrealized loss on U.S. denominated liabilities, due to the weakening of the Canadian dollar at the end of the quarter. This loss was partially offset by an unrealized gain on U.S. denominated receivables.

The 2017 \$nil foreign exchange impact resulted from a net unrealized foreign exchange loss of \$0.3 million, comprised predominately of an unrealized loss on U.S. denominated receivables, partially offset by an unrealized gain on U.S. denominated liabilities. The unrealized loss was fully offset by a realized gain of \$0.3 million, relating to the increased value on the collections of U.S. dollar denominated receivables.

Adjusted EBITDA increased to \$27.1 million in the first six months of 2018 compared to \$19.4 million in the first six months of 2017 primarily as a result of the acquisitions of Diamond Game and Gamco as well as increased instant ticket volumes. The reasons for the increase in Adjusted EBITDA of \$7.7 million include the increase in gross profit (net of amortization and depreciation) of \$13.2 million and a decrease in other expenses of \$0.8 million. These increases in Adjusted EBITDA were partially offset by the increase in administration costs (net of acquisition and severance costs) of \$3.8 million, the increase in selling costs of \$2.1 million and the decrease in realized foreign exchange gain of \$0.4 million.

Income tax expense was \$3.9 million in the first six months of 2018, an effective rate of 29.1%, which was higher than our expected effective rate of 27.0% due primarily to the impact of the effect of foreign exchange.

Income tax expense was \$3.6 million in the first six months of 2017, an effective rate of 31.6%, which was higher than our expected effective rate of 27.0% due primarily to the effect of higher tax rates in the United States and non-deductible amounts primarily relating to expenses incurred in the acquisition of INNOVA, partially offset by the effect of foreign exchange.

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$8.4 million during the first six months of 2018 which increased from \$5.1 million during the first six months of 2017. The increase was a result of the addition of Diamond Game and Gamco including the amortization and depreciation relating to the purchase price allocations to intangible assets and property, plant and equipment.

Net income increased to \$9.6 million in the first six months of 2018 from \$7.8 million in the first six months of 2017 primarily as a result of the acquisitions of Diamond Game and Gamco as well as increased instant ticket volumes. The reasons for the increase in net income of \$1.8 million include the increase in gross profit of \$9.9 million and the decrease in other expenses of \$0.8 million. These increases in net income were partially offset by the increase in administration expenses of \$3.4 million, the increase in selling costs of \$2.1 million, the increase in interest expense of \$0.6 million, the increase in foreign exchange loss of \$2.5 million and the increase in income tax expense of \$0.3 million.

Net income per share (basic and diluted) increased to \$0.38 per share in the six months ending June 30, 2018, as compared to \$0.33 per share in the six months ending June 30, 2017.

Use of Non-GAAP Financial Measures

Reference to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and amortization, unrealized foreign exchange gains and losses and certain non-recurring items including severance costs and acquisition costs. 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.

Adjusted EBITDA is a measure not recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, this measure may not be comparable to similar measures presented by other entities. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to net income 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.

Outlook

Consumer demand for lottery products continues to be strong and, in particular, demand for instant tickets and related support products remains high and supportive of increased order levels compared to recent history. Greater variety of play formats, increased retail price points, higher prize payouts, improved designs and a number of other factors have allowed lotteries to generate these high levels of consumer demand and we expect these trends to continue. All our significant contract renewals have been exercised and our existing contract portfolio supports our current levels of higher volumes.

At the end of the first quarter we recommissioned our existing original press in Ypsilanti to expand capacity and improve scheduling efficiencies. During the second quarter we initiated additional upgrades to this press to further expand and add incremental capacity, which we expected to come on stream during the first quarter of 2019.

We are devoting significant resources to develop and expand the range of our digital offerings including game related apps, lottery infrastructure support products, such as lottery management systems and sales force management tools, and loyalty programs. Lottery opportunities are increasing as jurisdictions continue to explore additional platforms to grow their gaming operations. Our newest iLottery operation for the New Hampshire Lottery will be operational later this fall and we will continue to actively respond to new prospects.

We are also seeing a positive market in the charitable gaming sector, with a stabilization in sales of pull-tabs and bingo products at the retail level and, in some jurisdictions, small positive growth after years of slightly declining sales due to demographic factors and competition from regional casinos.

The financial results of Diamond Game and International Gamco have met our expectations. Our integration of these recent acquisitions is proceeding as anticipated, with coordination of resources, procurement and support services being our focus in the short term. Long term opportunities such as combined product R&D are also being investigated.

As previously disclosed the development of the Diamond Game machine market is a long sales cycle due to the unique nature of this gaming product and we continue to focus our resources on future expansion opportunities. We anticipate some existing customers of our Diamond Game machines increasing the number of machines in their markets over the next few quarters.

North Dakota has recently allowed the introduction of electronic charitable gaming machines in the state and, while a small market, it is an important incremental opportunity to expand our machine footprint. These machines are expected to be deployed in the fall of 2018. We are utilizing the combined resources of both Diamond Game and the Oasis division of Gamco to address this new market, uniting the Oasis machine platform with leading edge software development and project management from our Diamond Game personnel, to provide a market leading solution in North Dakota.

Our capital structure is in strong shape, capable of providing the necessary resources to support our strategic initiatives. In the first quarter of 2018 our successful equity raise provided an important equity component to our capital base, which combined with our recently renewed, larger bank facility, in addition to our continuing strong operational cash flow, provides ample funds to finance both our organic growth and future acquisitions.

Our acquisition strategy is an important component of our growth plan and we continue to actively identify and review opportunities to augment and grow our position as partner of choice in the lottery and charitable gaming markets.

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.

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