POLLARD banknote limited

*September 30, 2018*

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

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018**

November 6, 2018

*This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard", "Company") for the three and nine months ended September 30, 2018, is prepared as at November 6, 2018, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at September 30, 2018, and the audited consolidated financial statements of Pollard for the year ended December 31, 2017, and the notes therein. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP").*

### *Forward-Looking Statements*

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

### Use of Non-GAAP Financial Measures

Reference to "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.

### Basis of Presentation

The results of operations in the following discussions encompass the unaudited consolidated results of Pollard for the three and nine months ended September 30, 2018. All figures are in millions except for per share amounts.

# POLLARD BANKNOTE LIMITED

## Overview

Pollard Banknote Limited ("Pollard") is one of the leading providers of products and services to lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant-win scratch tickets ("instant tickets") based in Canada and the second largest producer of instant tickets in the world. 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.

Pollard produces and provides a comprehensive line of instant tickets and lottery services including: licensed products, distribution, SureTrack® lottery management system, retail telephone selling ("tel-sell"), marketing, iLottery, interactive digital gaming, Playon™ VIP lottery program, Social Instants™, retail management services and vending machines including charitable game systems marketed under the Diamond Game and Oasis 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 also markets products to the commercial gaming and security sector including such items as promotional scratch and win tickets, transit tickets and parking passes.

Pollard's lottery products are sold extensively throughout Canada, the United States and the rest of the world, wherever applicable laws and regulations authorize their use. Pollard serves over 60 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

### Product line breakdown of revenue

| | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|---|---|---|---|
| Instant Tickets | 76.6% | 84.7% | 76.9% | 87.8% |
| Charitable Gaming Products (1) | 16.6% | 9.9% | 15.7% | 10.4% |
| Diamond Game Products (2) | 6.8% | 5.4% | 7.4% | 1.8% |

(1) Includes International Gamco, Inc. which was acquired on February 1, 2018.

(2) INNOVA Gaming Group Inc. ("INNOVA", "Diamond Game") was acquired on August 3, 2017.

### Geographic breakdown of revenue

| | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|---|---|---|---|
| United States | 54% | 55% | 54% | 57% |
| Canada | 26% | 25% | 26% | 21% |
| International | 20% | 20% | 20% | 22% |

## Acquisition of International Gamco, Inc.

On February 1, 2018, Pollard Holdings Inc., a wholly-owned subsidiary of Pollard, acquired 100% of the common shares of International Gamco, Inc.. The purchase price was funded by proceeds from Pollard's credit facility and cash on hand. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities have been based on management's best estimates and valuation techniques as at February 1, 2018, the acquisition date. As per the sales agreement, the purchase price was decreased by the amount of other current liabilities assumed, which were specified in the agreement. The majority of these other current liabilities were paid in March 2018.

During the period between the February 1, 2018 and September 30, 2018, Gamco generated revenues of $20.2 million and net income of $0.8 million, after depreciation and amortization of the purchase price allocation, which have been recorded in the consolidated financial statements. If Gamco had been acquired on January 1, 2018, incremental revenue of $2.2 million and net loss of $4.8 million (which includes $4.8 million of transaction related expenditures, net of income tax) would have been included in the nine months ended September 30, 2018.

## Share offering

On February 1, 2018, Pollard announced that it had entered into an agreement with a syndicate of underwriters led by Canaccord Genuity Corp. (together, the "Underwriters") to purchase on a bought deal basis 1,800,000 common shares of Pollard at a price of $18.45 per share. Pollard also granted the Underwriters an over-allotment option exercisable at any time up to 30 days following the closing of the offering, to purchase up to an additional 270,000 common shares.

The offering, including the full over-allotment, closed on February 21, 2018. The total gross proceeds, prior to any commissions and offering expenses, from the sale of 2,070,000 common shares was approximately $38.2 million.

Pollard used the net proceeds to repay indebtedness under the Company's credit facility and subordinated debt.

## Acquisition of Schafer Systems

On October 31, 2018, Pollard Systems Inc., a wholly-owned indirect subsidiary of Pollard, acquired substantially all of the operating assets and business of Schafer Systems Inc. ("Schafer") for a purchase price of US$23.5 million, subject to a working capital adjustment. Schafer is a leading global provider of lottery ticket dispensers and play stations.

The following financial information should be read in conjunction with the accompanying unaudited consolidated financial statements of Pollard and the notes therein as at and for the three and nine months ended September 30, 2018.

**SELECTED FINANCIAL INFORMATION**

(millions of dollars, except per share information)

| | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|---|---|---|---|
| Sales | $94.5 | $70.7 | $261.6 | $206.1 |
| Cost of sales | 72.0 | 52.5 | 199.2 | 157.9 |
| Gross profit | 22.5 | 18.2 | 62.4 | 48.2 |
| *Gross profit as a % of sales* | *23.8%* | *25.7%* | *23.9%* | *23.4%* |
| Administration expenses | 8.8 | 9.1 | 24.2 | 21.1 |
| *Administration expenses as a % of sales* | *9.3%* | *12.9%* | *9.3%* | *10.2%* |
| Selling expenses | 3.6 | 2.7 | 9.8 | 6.8 |
| *Selling expenses as a % of sales* | *3.8%* | *3.8%* | *3.7%* | *3.3%* |
| Net income | 7.2 | 4.6 | 16.8 | 12.4 |
| *Net income as a % of sales* | *7.6%* | *6.5%* | *6.4%* | *6.0%* |
| Adjusted EBITDA | 14.2 | 11.6 | 41.3 | 31.0 |
| *Adjusted EBITDA as a % of sales* | *15.0%* | *16.4%* | *15.8%* | *15.0%* |
| Net income per share (basic and diluted) | $0.28 | $0.20 | $0.66 | $0.53 |

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Total Assets | $255.5 | $228.3 |
| Total Non-Current Liabilities | $97.5 | $124.8 |

**RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA**

(millions of dollars)

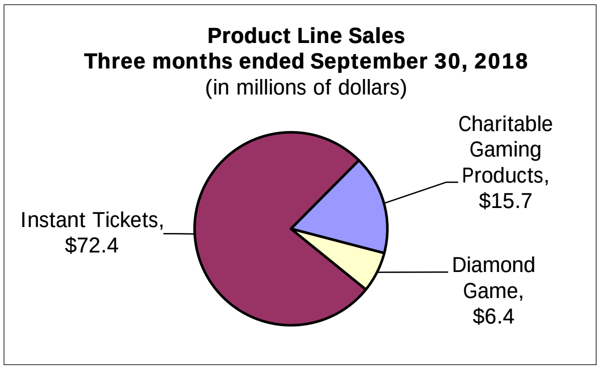
| | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|---|---|---|---|
| Net income | $7.2 | $4.6 | $16.8 | $12.4 |
| Adjustments: | | | | |
| Amortization and depreciation | 4.3 | 3.5 | 12.7 | 8.6 |
| Interest | 0.9 | 1.2 | 3.1 | 2.7 |
| Severance costs | - | 1.3 | 0.4 | 1.3 |
| Acquisition costs | 0.4 | 1.4 | 0.6 | 2.4 |
| Unrealized foreign exchange (gain) loss | (1.0) | (2.3) | 1.4 | (1.9) |
| Income taxes | 2.4 | 1.9 | 6.3 | 5.5 |
| Adjusted EBITDA | $14.2 | $11.6 | $41.3 | $31.0 |
| Pollard Banknote Limited | $11.6 | $10.5 | $33.5 | $29.9 |
| Diamond Game | 2.6 | 1.1 | 7.8 | 1.1 |
| Adjusted EBITDA | $14.2 | $11.6 | $41.3 | $31.0 |

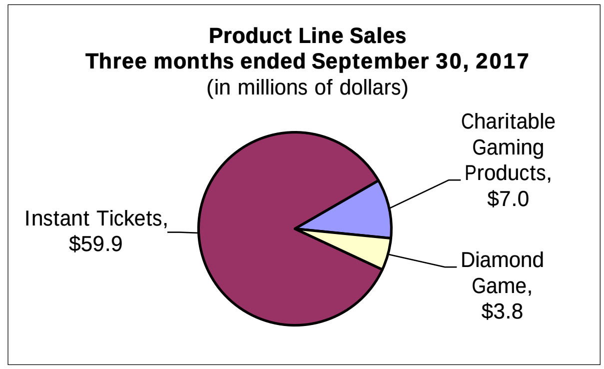
## REVIEW OF OPERATIONS

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

## ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018

### Sales

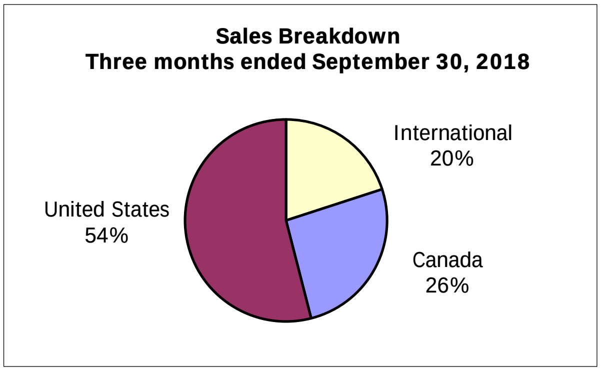


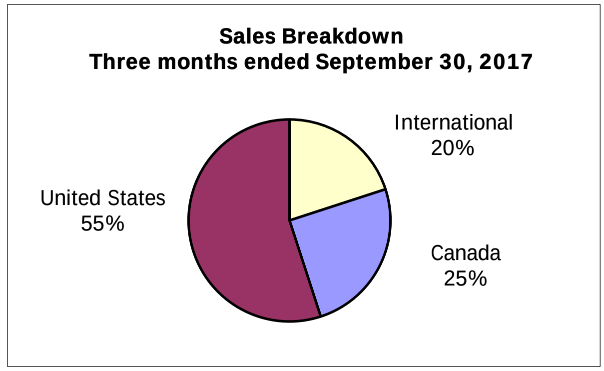




During the three months ended September 30, 2018, Pollard achieved sales of $94.5 million, compared to $70.7 million in the three months ended September 30, 2017. Factors impacting the $23.8 million sales increase were:

Instant ticket sales volume in the quarter increased when compared to the prior year, increasing sales by $9.6 million. Sales in the third quarter of 2018 were higher than the third quarter of 2017, in part, as a result of increased production volumes from existing customers as well as timing of shipments. Also an increase in the instant ticket average selling price in the third quarter of 2018 compared to the third quarter of 2017 increased sales by $0.9 million. Sales of ancillary instant ticket products and services increased in 2018, due primarily to higher sales of licensed products, increasing sales by $0.5 million.

The acquisition of Diamond Game on August 3, 2017, resulted in a $2.5 million sales increase due to the inclusion of a full three months of results in 2018. In addition, the increase in charitable gaming volumes, primarily as a result of the addition of Gamco, increased sales by $8.0 million from 2017, including Gamco's Oasis division's sale of electronic pull-tab machines into the North Dakota market. A higher average selling price for charitable games in 2018 further increased sales by $0.5 million.




During the three months ended September 30, 2018, Pollard generated approximately 66.0% (2017 – 65.1%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the third quarter of 2018 the actual U.S. dollar value was converted to Canadian dollars at $1.302, compared to a rate of $1.266 during the third quarter of 2017. This 2.9% increase in the U.S. dollar value resulted in an approximate increase of $1.6 million in revenue relative to the third quarter of 2017. In addition, during the quarter the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.2 million in revenue relative to the third quarter of 2017.

### Cost of sales and gross profit

Cost of sales was $72.0 million in the third quarter of 2018 compared to $52.5 million in the third quarter of 2017. Cost of sales were higher in the quarter relative to 2017 as a result of the higher instant ticket volumes as well as the inclusion of Gamco and Diamond Game. Additionally, the impact of higher exchange rates on U.S. dollar transactions increased cost of sales in the third quarter of 2018.

Gross profit was $22.5 million (23.8% of sales) in the third quarter of 2018 compared to $18.2 million (25.7% of sales) in the third quarter of 2017. This increase in gross profit was primarily the result of the additions of Diamond Game and Gamco, and the increased instant ticket sales volume. The lower gross profit percentage was due to the sales mix of instant tickets.

### Administration expenses

Administration expenses decreased to $8.8 million in the third quarter of 2018 from $9.1 million in the third quarter of 2017. The decrease was primarily a result of the $1.0 million reduction in acquisition costs in the third quarter of 2018 and the decrease in severance costs, related to the departure of a former executive of Diamond Game in 2017, of $1.3 million. This decrease was partially offset by the addition of Gamco in 2018 and a full quarter for Diamond Game, as well as higher compensation costs in 2018 to support Pollard's acquisition and digital innovation growth strategies.

### Selling expenses

Selling expenses increased to $3.6 million in the third quarter of 2018 from $2.7 million in the third quarter of 2017 due to the addition of Gamco in 2018 and a full quarter for Diamond Game, as well as higher compensation costs in 2018 to support Pollard's growth initiatives.

### Interest expense

Interest expense decreased to $0.9 million in the third quarter of 2018 from $1.2 million in the third quarter of 2017 primarily as a result of the repayment of the outstanding subordinated debt balance at June 30, 2018.

### Foreign exchange (gain) loss

The net foreign exchange gain was $0.9 million in the third quarter of 2018 compared to a net gain of $1.0 million in the third quarter of 2017. The 2018 net foreign exchange gain of $0.9 million consisted of a $1.0 million unrealized foreign exchange gain, comprised predominately of an unrealized gain on U.S. dollar denominated liabilities, due to the strengthening of the Canadian dollar at the end of the quarter, which was partially offset by an unrealized loss on U.S. dollar denominated cash and receivables. Partially offsetting the unrealized gain was a $0.1 million realized foreign exchange loss predominately a result of foreign currency denominated account receivables collected in the quarter being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2017 net foreign exchange gain of $1.0 million consisted of an unrealized foreign exchange gain of $2.3 million primarily as a result of the decreased Canadian equivalent value of U.S. denominated debt due to the strengthening of the Canadian dollar relative to the U.S. dollar. This unrealized gain was partially offset by a realized foreign exchange loss of $1.3 million, predominately a result of foreign currency denominated account receivables collected in the quarter being converted into Canadian dollars at unfavorable foreign exchange rates.

### Adjusted EBITDA

Adjusted EBITDA increased to $14.2 million in the third quarter of 2018 compared to $11.6 million in the third quarter of 2017 primarily as a result of the acquisitions of Diamond Game and Gamco, and higher instant ticket volumes. The increase in Adjusted EBITDA of $2.6 million includes the increase in gross profit (net of amortization and depreciation) of $5.1 million and the decrease in the realized foreign exchange loss of $1.2 million. These increases in Adjusted EBITDA were partially offset by the increase in administration costs (net of acquisition costs) of $2.0 million, the increase in selling costs of $0.9 million and an increase in other expenses of $0.8 million.

### Income taxes

Income tax expense was $2.4 million in the third quarter of 2018, an effective rate of 24.7%, lower than our expected effective rate of 27.0% due primarily to the impact of lower tax rates in the United States and the effect of foreign exchange.

Income tax expense was $1.9 million in the third quarter of 2017, an effective rate of 28.3%, which was similar to our expected effective rate of 27.0%.

### Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $4.3 million during the third quarter of 2018 which increased from $3.5 million during the third 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.

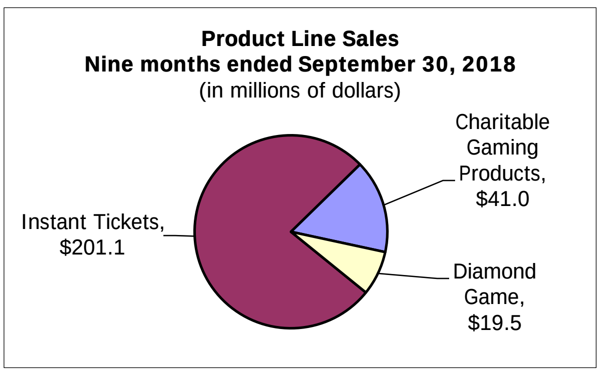
### Net income

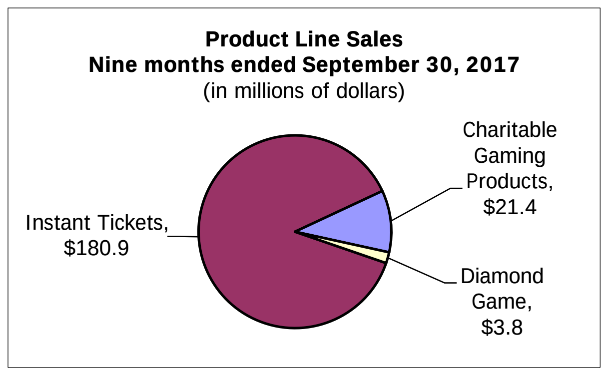
Net income increased to $7.2 million in the third quarter of 2018 from $4.6 million in the third quarter of 2017. The primary reasons for the increase of $2.6 million in net income were the increase in gross profit of $4.3 million, the decrease in administration expenses of $0.3 million and the decrease in interest expense of $0.3 million. These increases in net income were partially offset by the increase in selling costs of $0.9 million, the increase in other expenses of $0.8 million, the decrease in foreign exchange gain of $0.1 million and the increase in income tax expense of $0.5 million.

Net income per share (basic and diluted) increased to $0.28 per share in the third quarter of 2018 from $0.20 per share in the third quarter of 2017.

## ANALYSIS OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

### Sales

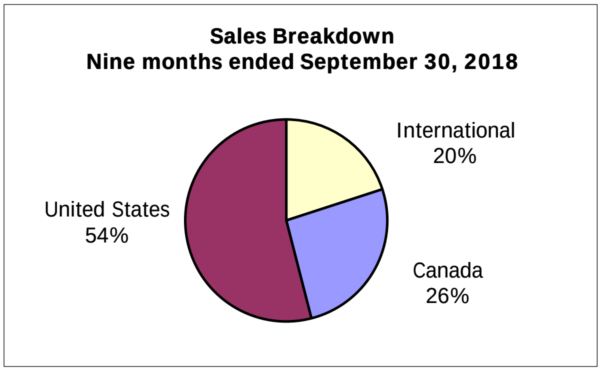


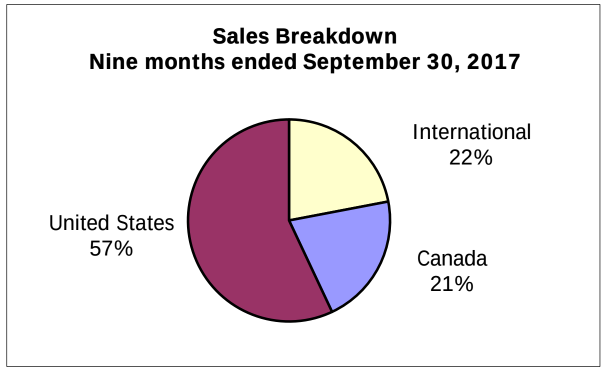




During the nine months ended September 30, 2018, Pollard achieved sales of $261.6 million, compared to $206.1 million in the nine months ended September 30, 2017. Factors impacting the $55.5 million sales increase were:

Higher instant ticket sales volume increased revenue by $22.5 million in the first nine months of 2018 compared to the first nine months of 2017 due to a record amount of production, based on increased orders from existing customers. Additionally, a higher instant ticket average selling price in the first nine months of 2018 increased sales by $0.9 million when compared to 2017. Lower sales of ancillary instant ticket products and services decreased sales by $1.1 million compared to 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 $15.7 million in sales to the first nine 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 $19.5 million from 2017. A higher average selling price for charitable games in 2018 further increased sales by $0.7 million.




During the nine months ended September 30, 2018, Pollard generated approximately 67.0% (2017 – 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 nine months of 2018 the actual U.S. dollar value was converted to Canadian dollars at $1.283, compared to a rate of $1.315 the first nine months of 2017. This 2.4% decrease in the U.S. dollar value resulted in an approximate decrease of $3.6 million in revenue relative to the first nine months of 2017. Also during the first nine months of 2018, the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.9 million in revenue relative to the first nine months of 2017.

### Cost of sales and gross profit

Cost of sales was $199.2 million in the nine months ended September 30, 2018, compared to $157.9 million in the nine months ended September 30, 2017. In addition to the increase in instant ticket sales volume, the inclusion of Gamco and Diamond Game 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 $62.4 million (23.9% of sales) in the nine months ended September 30, 2018, from $48.2 million (23.4% of sales) in the nine months ended September 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, partially offset by the effect of the weakening of the U.S. dollar.

### Administration expenses

Administration expenses increased to $24.2 million in the first nine months of 2018 from $21.1 million in the first nine months of 2017. The increase was partially a result of the inclusion of Diamond Game and Gamco. Additional reasons for the increase were higher compensation expenses to support Pollard's growth strategies of acquisition and digital innovation, as well as increased professional fees and IT infrastructure related expenses. This increase was partially offset by a $1.8 million reduction in acquisition costs as compared to the first nine months of 2017.

### Selling expenses

Selling expenses increased to $9.8 million in the first nine months of 2018 from $6.8 million in the first nine months of 2017 primarily due to the addition of Diamond Game and Gamco.

### Interest expense

Interest expense increased to $3.1 million in the first nine months of 2018 from $2.7 million in the first nine 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.

### Foreign exchange (gain) loss

The net foreign exchange loss was $1.6 million in the first nine months of 2018 compared to net foreign exchange gain of $0.9 million in the first nine months of 2017. The 2018 net foreign exchange loss resulted in part from a net unrealized foreign exchange loss of $1.4 million, comprised predominately of an unrealized loss on U.S. denominated liabilities, due to the weakening of the Canadian dollar, which was partially offset by an unrealized gain on U.S. denominated receivables. Additionally, included in the net foreign exchange loss was a realized loss of $0.2 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2017 net foreign exchange gain consisted of an unrealized foreign exchange gain of $1.9 million primarily as a result of the decreased Canadian equivalent value of U.S. denominated debt and accounts payable with the strengthening of the Canadian dollar relative to the U.S. dollar. This gain was partially offset by the realized foreign exchange loss of $1.0 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

### Adjusted EBITDA

Adjusted EBITDA increased to $41.3 million in the first nine months of 2018 compared to $31.0 million in the first nine 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 $10.3 million include the increase in gross profit (net of amortization and depreciation) of $18.3 million and the decrease in the realized foreign exchange loss 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 $5.8 million and the increase in selling costs of $3.0 million.

### Income taxes

Income tax expense was $6.3 million in the first nine months of 2018, an effective rate of 27.3%, which was similar to our expected effective rate of 27.0%.

Income tax expense was $5.5 million in the first nine months of 2017, an effective rate of 30.4%, which was higher than our expected effective rate of 27.0% due primarily to the impact of higher tax rates in the United States and non-deductible amounts, partially offset by the effect of foreign exchange.

### Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $12.7 million during the first nine months of 2018 which increased from $8.6 million during the first nine 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

Net income increased to $16.8 million in the first nine months of 2018 from $12.4 million in the first nine months of 2017 primarily as a result of the acquisitions of Diamond Game and Gamco as well as increased instant ticket volumes. The reason for the increase in net income of $4.4 million was the increase in gross profit of $14.2 million. This increase was partially offset by the increase in administration expenses of $3.1 million, the increase in selling costs of $3.0 million, the increase in interest expense of $0.4 million, the increase in foreign exchange loss of $2.5 million and the increase in income tax expense of $0.8 million.

Net income per share (basic and diluted) increased to $0.66 per share in the nine months ending September 30, 2018, as compared to $0.53 per share in the nine months ending September 30, 2017.

## Liquidity and Capital Resources

*Cash provided by operating activities*

For the nine months ended September 30, 2018, cash flow provided by operating activities was $29.5 million compared to cash flow provided by operating activities of $20.3 million for the first nine months of 2017. Higher net income before income taxes after non-cash adjustments in the first nine months of 2018 contributed an additional $12.5 million to the increase in cash provided by operating activities in 2018 as compared to 2017.

For the nine months ended September 30, 2018, changes in the non-cash component of working capital decreased cash by $0.4 million. The decrease was due primarily to the increased investment in accounts receivables, partially offset by a decrease in inventories. For the nine months ended September 30, 2017, changes in the non-cash component of working capital decreased cash by $1.5 million. The decrease was due primarily to the increase in inventories, partially offset by decrease in accounts receivable and an increase in accounts payable.

Cash used for interest increased to $3.2 million in 2018 as compared to $2.4 million in 2017. Cash used for pension plan contributions increased to $4.1 million in 2018 as compared to $2.7 million in 2017. Cash used for income tax payments increased to $9.2 million in 2018 from $5.2 million in 2017. Cash payments in 2018 included the final installments for the 2017 tax year and initial installments for 2018. Increasing income in 2017 resulted in a higher installment requirement.

*Cash used for investing activities*

In the nine months ended September 30, 2018, cash used for investing activities was $38.2 million compared to cash used of $47.2 million in the first nine months of 2017. In the nine months ended September 30, 2018, Pollard used $21.6 million, net of cash acquired, to purchase Gamco. In addition, Pollard expended $10.2 million in capital expenditures, $2.4 million on its investment in its iLottery joint venture and $4.2 million on additions to intangible assets.

In the nine months ended September 30, 2017, Pollard used $39.3 million, net of cash acquired, to purchase Diamond Game. In addition, capital expenditures were $5.1 million. Pollard expended $1.4 million on its investment in its iLottery joint venture and $1.3 million on additions to intangible assets.

*Cash provided by financing activities*

Cash provided by financing activities was $7.9 million in the nine months ended September 30, 2018, compared to cash provided by financing activities of $24.5 million in the nine months ended September 30, 2017.

During the first nine months of 2018 Pollard raised $35.4 million, net of expenses, from the issuance of common shares. The proceeds were used, in part, to repay $7.7 million of long-term debt and $16.7 million of subordinated debt. Pollard also expended $0.2 million on long-term liabilities, $0.5 million of deferred financing charges and paid dividends of $2.2 million.

During the first nine months of 2017 Pollard received net proceeds from long-term debt of $15.0 million and $11.5 million from subordinated debt. These receipts of cash were partially offset by $0.6 million of deferred financing charges and dividends paid of $2.1 million.

As at September 30, 2018, Pollard had unused credit facility of $96.6 million, in addition to $4.7 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, including the purchase of the assets and business of Schafer Systems.

**Quarterly Information**
(unaudited)
(millions of dollars)

| | Q3 2018 | Q2 2018 | Q1 2018 | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 | Q4 2016 | Q3 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Sales | $94.5 | $86.7 | $80.4 | $79.6 | $70.7 | $77.9 | $57.4 | $65.7 | $62.7 |
| Adjusted EBITDA | 14.2 | 14.1 | 13.0 | 13.0 | 11.6 | 13.1 | 6.3 | 9.1 | 7.8 |
| Net Income | 7.2 | 5.0 | 4.6 | 4.3 | 4.6 | 6.0 | 1.8 | 3.8 | 2.8 |

The trend of increased sales, Adjusted EBITDA and net income, starting the fourth quarter of 2017, is primarily as a result of higher instant ticket volumes and the addition of Diamond Game and Gamco.

***Working Capital***

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

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

Seasonality does not have a material impact on the carrying amounts in working capital.

As at September 30, 2018, Pollard's investment in non-cash working capital increased $0.4 million compared to December 31, 2017, primarily as a result of increased investment in accounts receivables, partially offset by a decrease in inventories.

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Working Capital | $57.4 | $44.6 |
| Total Assets | $255.5 | $228.3 |
| Total Non-Current Liabilities | $97.5 | $124.8 |

### *Credit Facility*

Pollard's credit facility was renewed effective June 22, 2018. The credit facility provides loans of up to $160.0 million for its Canadian operations and US$12.0 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 $160.0 million Canadian equivalent. The credit facility also includes an accordion feature which can increase the facility by $25.0 million. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At September 30, 2018, the outstanding letters of guarantee were $1.3 million. The remaining balance available for drawdown under the credit facility was $96.6 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 and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at September 30, 2018, 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. The facility can be prepaid without penalties. Under the terms of the agreement the facility was committed for a three year period, renewable June 22, 2021.

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.

### *Subordinated Loan*

On June 23, 2017, Pollard entered into a loan agreement with Pollard Equities Limited for a subordinated term loan with a seven year term, repayable at any time (subject to meeting certain financial covenants under the secured credit facility). The loan was provided to assist with the purchase of Diamond Game.

A total of $25.1 million was drawn in the third quarter of 2017. Interest on the subordinated debt commenced with the first draw at a rate of 8%. Quarterly principal payments on the loan facility commenced the month following the first draw, which occurred August 4, 2017.

In addition to the mandatory quarterly payments, Pollard has made three lump sum prepayments. On September 20, 2017, Pollard repaid $7.5 million in outstanding principal and on February 23, 2018, Pollard repaid an additional $7.5 million in outstanding principal. On June 29, 2018, Pollard repaid in full the remainder of the outstanding principal in the amount of $7.5 million.

### *Outstanding Share Data*

As at September 30, 2018, outstanding share data was as follows:

| | |
|---|---|
| Common shares | 25,613,158 |

As at November 6, 2018, outstanding share data was as follows:

| | |
|---|---|
| Common shares | 25,625,658 |

On October 17, 2018, 12,500 common shares were issued through the exercise of stock options.

### *Share Options*

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares. As at September 30, 2018, the total share options issued and outstanding were 250,000. On October 17, 2018, 12,500 stock options were exercised, leaving 212,500 remaining issued and outstanding stock options.

## Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2017, 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, 2017, 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, 2017.

## Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management of Pollard regularly reviews its estimates and assumptions based on historical experience and various other assumptions that it believes would result in reasonable estimates given the circumstances. Actual results could differ from those estimates under different assumptions. The following is a discussion of accounting policies which require significant management judgment and estimation.

### *Impairment of goodwill*

Pollard determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units ("CGUs") to which goodwill is allocated. Estimating a value in use requires Pollard to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Judgment is required in determining the level at which to test goodwill, including the grouping of assets that generate cash inflows.

### *Employee future benefits*

Accounting for defined benefit plans requires Pollard to use actuarial assumptions. These assumptions include the discount rate and the rate of compensation increases. These assumptions depend on underlying factors such as economic conditions, government regulations, investment performance, employee demographics and mortality rates.

### *Income taxes*

Pollard is required to evaluate the recoverability of deferred income tax assets. This requires an estimate of Pollard's ability to utilize the underlying future income tax deductions against future taxable income before they expire. In order to evaluate the recoverability of these deferred income tax assets, Pollard must estimate future taxable income.

### *Acquisition accounting*

For acquisition accounting purposes, all identifiable assets, liabilities and contingent liabilities acquired in a business combination are recognized at fair value at the date of acquisition. Estimates are used to calculate the fair value of these assets and liabilities.

## Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the nine months ended September 30, 2018, 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, 2017.

## Outlook

The lottery industry continues to be healthy and growing, with ongoing consumer demand providing a foundation for expected long-term expansion of the instant ticket market. Lotteries remain focused on looking at various ways to expand their sales including providing ancillary products and services to support and grow their main lottery offering of instant tickets and draw based games. This in turn provides opportunities for suppliers like Pollard to grow their businesses through addressing these needs.

The digital world is a key focus of our investments, both in the development of new products and services for our lottery and charitable gaming customers, such as new point of sale products, sales force automation tools, loyalty platforms and expanded lottery management services, and in driving efficiencies in our core instant ticket products, for example implementation of expanded ERP systems and updated IT infrastructure. While not generating significant revenue currently, these leading-edge services continue to support Pollard's position as the thought leader in the industry.

We have had strong production and sales volumes of instant tickets during the first nine months of 2018, we anticipate slightly lower volumes in the fourth quarter. Timing of client orders vary considerably and our projected fourth quarter volume levels, while well within our normal expectations, will be slightly lower than experienced so far in 2018. Our contract portfolio remains strong and current opportunities include a number of new instant ticket contracts coming up for bid, including expected requests for proposal from the Florida and Pennsylvania lotteries. We were recently awarded the instant ticket contract for the Norwegian Lottery and we look forward to beginning production shortly. In addition, our iLottery contract with the Michigan Lottery was renewed for four years, reflecting our success in this growing sector.

Our business, by its nature, generates significant positive cash flows which, coupled with our solid capital structure, will allow us to invest in the needed organic initiatives as well as providing resources to fund our acquisition strategies. Capital expenditures in 2018 are on pace to exceed those in 2017 partially due to our recent acquisitions and we will continue to invest in critical projects to both maintain our businesses and seed important growth programs.

Prudent acquisitions remain an important component of our strategic vision and we are continuing to investigate actionable opportunities that are both strategically important to expanding our leadership position in the lottery and charitable gaming industry and meet our conservative financial benchmarks. Over the past fifteen months we have consummated three important transactions that have met all of our criteria, and while it is unlikely we will maintain that frequency of transactions going forward, we remain focused on expanding our expertise and offerings.

The acquisition of the operating assets and business of Schafer Systems closed on October 31, 2018, which will result in two months of operations being included in our fourth quarter results. Schafer's results will be reported as part of our instant ticket segment going forward.

Diamond Game and International Gamco continue to exceed our expectations established when we first acquired these businesses. The integration process continues and our focus remains on long-term business development and maximizing revenue opportunities within the Pollard umbrella of companies.

The charitable gaming market remains stable and the combination of International Gamco and American Games continues to generate positive market reaction. Of note recently was the opening up of the North Dakota market for electronic pull-tab gaming machines, which allowed our Oasis gaming division to install a number of machines starting in August of 2018. Early results are encouraging and we are hopeful that as the market develops there will be more opportunity to install additional machines.

ILottery is on the forefront of key lottery decision makers' agendas and we are seeing more jurisdictions investigating and gathering information. We anticipate that more iLottery opportunities will develop in the future and we are positioning Pollard to be the key player in this area. The New Hampshire Lottery recently initiated its iLottery venture making it the third iLottery operation currently run by Pollard through our NeoPollard joint venture and we are actively looking to continue to expand this business.

### Disclosure Controls and Procedures

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

Pollard has limited its design of disclosure controls and procedures to exclude controls, policies and procedures of Gamco, as they were acquired not more than 365 days before the end of the financial period to which this MD&A relates.

### Internal Controls over Financial Reporting

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

Pollard has limited its design of ICFR to exclude controls, policies and procedures of Gamco, as they were acquired not more than 365 days before the end of the financial period to which this MD&A relates.

No changes were made in Pollard's internal control over financial reporting during the three and nine months ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

## Additional Information

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

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form of Pollard for the year ended December 31, 2017, is available on SEDAR at www.sedar.com.

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