



June 30, 2019

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

August 6, 2019

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and six months ended June 30, 2019, is prepared as at August 6, 2019, 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, 2019, and the audited consolidated financial statements of Pollard for the year ended December 31, 2018, 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, purchase accounting 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 six months ended June 30, 2019. 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. In addition, management believes Pollard is also 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, ScanACTIV™, lottery ticket dispensers and play stations, 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 275 independent distributors with the majority of revenue generated from repeat business.

On May 1, 2019, Pollard acquired 100% of the common shares of Fastrak Retail (UK) Limited ("Fastrak") for a purchase price of £4.0 million, subject to standard working capital adjustments and potential future earn-out payments. Fastrak, based in the United Kingdom, is a leading provider of lottery ticket dispensers, lottery play points and other retail merchandising products.

Product line breakdown of revenue

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Lottery ⁽¹⁾ ⁽²⁾	75.5%	76.0%	76.7%	77.0%
Charitable ⁽³⁾	16.9%	16.2%	16.0%	15.2%
Gaming Systems	7.6%	7.8%	7.3%	7.8%

(1) Includes Fastrak Retail (UK) Limited ("Fastrak") which was acquired on May 1, 2019.

(2) Includes the business of Schafer Systems Inc. ("Schafer") which was acquired on October 31, 2018.

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

Geographic breakdown of revenue

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
United States	59%	55%	61%	55%
Canada	19%	26%	20%	26%
International	22%	19%	19%	19%

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, 2019.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Sales	\$97.1	\$86.8	\$194.7	\$167.2
Cost of sales	75.5	66.3	150.2	127.3
Gross profit	21.6	20.5	44.5	39.9
<i>Gross profit as a % of sales</i>	<i>22.2%</i>	<i>23.6%</i>	<i>22.9%</i>	<i>23.9%</i>
Administration expenses	10.5	7.4	19.2	15.4
<i>Administration expenses as a % of sales</i>	<i>10.8%</i>	<i>8.5%</i>	<i>9.9%</i>	<i>9.2%</i>
Selling expenses	4.1	3.4	7.6	6.2
<i>Selling expenses as a % of sales</i>	<i>4.2%</i>	<i>3.9%</i>	<i>3.9%</i>	<i>3.7%</i>
Net income	5.0	5.0	13.0	9.6
<i>Net income as a % of sales</i>	<i>5.1%</i>	<i>5.8%</i>	<i>6.7%</i>	<i>5.7%</i>
Adjusted EBITDA	13.6	14.1	30.0	27.1
<i>Adjusted EBITDA as a % of sales</i>	<i>14.0%</i>	<i>16.2%</i>	<i>15.4%</i>	<i>16.2%</i>
Adjusted EBITDA without IFRS 16*	12.3	14.1	27.4	27.1
<i>Adjusted EBITDA as a % of sales</i>	<i>12.7%</i>	<i>16.2%</i>	<i>14.1%</i>	<i>16.2%</i>
Net income per share (basic and diluted)	\$0.20	\$0.20	\$0.51	\$0.38

	June 30, 2019	December 31, 2018
Total Assets	\$337.2	\$305.6
Total Non-Current Liabilities	\$178.4	\$142.9

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Net income	\$5.0	\$5.0	\$13.0	\$9.6
Adjustments:				
Amortization and depreciation	6.7	4.3	13.0	8.4
Interest	1.6	1.0	3.1	2.2
Unrealized foreign exchange (gain) loss	(1.2)	1.5	(3.0)	2.4
Acquisition costs	0.4	0.1	0.4	0.2
Severance costs	-	-	-	0.4
Income taxes	1.1	2.2	3.5	3.9
Adjusted EBITDA	\$13.6	\$14.1	\$30.0	\$27.1
Less impact of implementation of IFRS 16 Leases*:				
IFRS 16 related depreciation	1.2	-	2.3	-
IFRS 16 related interest	0.1	-	0.3	-
Adjusted EBITDA without IFRS 16 impact	\$12.3	\$14.1	\$27.4	\$27.1
Lotteries and charitable gaming	\$10.5	\$11.2	\$24.2	\$21.9
Diamond Game	3.1	2.9	5.8	5.2
Adjusted EBITDA	\$13.6	\$14.1	\$30.0	\$27.1
Lotteries and charitable gaming	\$9.4	\$11.2	\$21.9	\$21.9
Diamond Game	2.9	2.9	5.5	5.2
Adjusted EBITDA without IFRS 16 impact	\$12.3	\$14.1	\$27.4	\$27.1

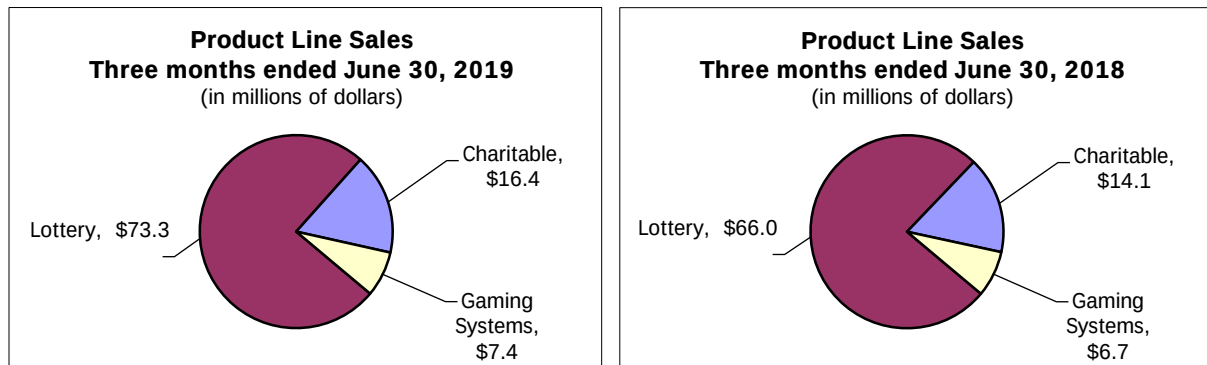
* IFRS 16 Leases was implemented effective January 1, 2019. Qualifying leases are now capitalized and an offsetting liability is recorded. The right-of-use asset is depreciated over the term of the lease and interest expense related to the liability is expensed over the term of the lease. As a result, Adjusted EBITDA has been increased by the conversion of operating lease expenses into depreciation and interest.

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 JUNE 30, 2019

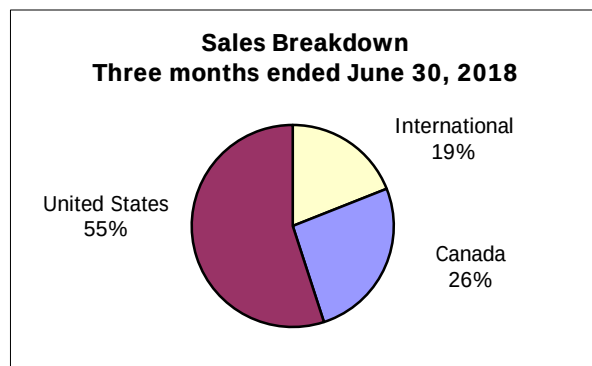
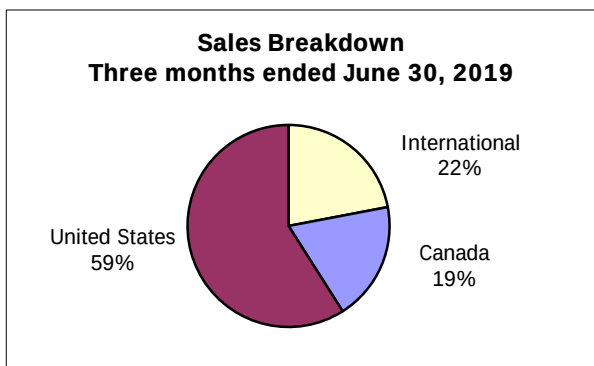
Sales



During the three months ended June 30, 2019, Pollard achieved sales of \$97.1 million, compared to \$86.8 million in the three months ended June 30, 2018. Factors impacting the \$10.3 million sales increase were:

Higher sales of ancillary lottery products and services increased revenue in the second quarter of 2019 by \$11.8 million. This increase was primarily from the addition of Schafer and Fastrak. Additional increases in revenues from iLottery, licensed product sales and digital and loyalty products further contributed to the increase in sales. Partially offsetting these increases was a slight decrease in instant ticket sales volume in the quarter, as compared to the second quarter of 2018, which reduced sales by \$3.8 million. While instant ticket sales volumes in the second quarter of 2019 were lower than the near record volumes recorded in the second quarter of 2018, they were relatively consistent with the volumes achieved in the first quarter of 2019. A decrease in the instant ticket average selling price in the quarter compared to the second quarter of 2018 decreased sales by \$2.0 million. This decrease was a result of the sales mix in the quarter, including lower sales of Pollard's proprietary Scratch FX[®] product, and higher volumes of a certain lower valued products.

Diamond Game's sales increased in the second quarter of 2019, which added an additional \$0.4 million to sales when compared to 2018. In addition, the increase in charitable gaming volumes increased sales by \$1.1 million from 2018. A higher average selling price for charitable games in 2019 further increased sales by \$0.6 million.



During the three months ended June 30, 2019, Pollard generated approximately 71.6% (2018 – 67.7%) 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 2019 the actual U.S. dollar value was converted to Canadian dollars at \$1.343, compared to a rate of \$1.288 during the second quarter of 2018. This 4.3% increase in the U.S. dollar value resulted in an approximate increase of \$2.5 million in revenue relative to the second quarter of 2018. During the quarter the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of \$0.3 million in revenue relative to the second quarter of 2018.

Cost of sales and gross profit

Cost of sales was \$75.5 million in the second quarter of 2019 compared to \$66.3 million in the second quarter of 2018. Cost of sales were higher in the quarter as a result of the inclusion of Schafer and Fastrak in 2019, as well as higher exchange rates on U.S. dollar denominated transactions. Additionally, higher manufacturing overheads contributed to the increase in cost of sales in the second quarter of 2019.

Gross profit was \$21.6 million (22.2% of sales) in the second quarter of 2019 compared to \$20.5 million (23.6% of sales) in the second quarter of 2018. This increase in gross profit was primarily the result of the additions of Schafer and Fastrak, partially offset by the effect of lower instant ticket average selling price, lower volumes and increased manufacturing overhead costs. The lower gross profit percentage was due in part to the instant ticket sales mix weighted toward lower margin work. In addition, the mix of work resulted in reductions in some production efficiencies.

Administration expenses

Administration expenses increased to \$10.5 million in the second quarter of 2019 from \$7.4 million in the second quarter of 2018. The increase of \$3.1 million was partially a result of the inclusion of Schafer and Fastrak increasing administration expenses by \$0.6 million, increased acquisition costs of \$0.3 million, higher compensation expenses to support Pollard's growth strategies of developing digital innovation products and higher professional fees. Professional fees were higher by \$0.9 million primarily due to higher legal fees incurred by Pollard to defend our intellectual property including certain patents.

Selling expenses

Selling expenses increased to \$4.1 million in the second quarter of 2019 from \$3.4 million in the second quarter of 2018 primarily due to the addition of Schafer and Fastrak, as well as higher compensation costs.

Foreign exchange

The net foreign exchange gain was \$1.4 million in the second quarter of 2019 compared to a net loss of \$1.4 million in the second quarter of 2018. The 2019 net foreign exchange gain of \$1.4 million resulted from a \$1.2 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. This gain was partially offset by an unrealized loss on U.S. dollar denominated accounts receivable. In addition a \$0.2 million realized foreign exchange gain as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at favorable foreign exchange rates increased the net foreign exchange gain.

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.

Adjusted EBITDA

Adjusted EBITDA without the impact of IFRS 16 Leases decreased to \$12.3 million in the second quarter of 2019 compared to \$14.1 million in the second quarter of 2018. The primary reasons for the \$1.8 million decrease were higher administration expenses (net of acquisition costs) of \$2.8 million, an increase in selling expenses of \$0.7 million, and an increase in other expenses of \$0.6 million. These decreases to Adjusted EBITDA were partially offset by the increase in gross profit of \$2.2 million (net of amortization and depreciation and IFRS 16 impact).

Interest expense

Interest expense increased to \$1.6 million in the second quarter of 2019 from \$1.0 million in the second quarter of 2018 primarily as a result of the additional interest expense related to increased long-term debt incurred with the acquisition of Schafer and Fastrak, and additional interest expense with the implementation of IFRS 16 on January 1, 2019 of \$0.1 million for the quarter.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$6.7 million during the second quarter of 2019 which increased from \$4.3 million during the second quarter of 2018. The increase was primarily as a result of \$1.2 million of former operating lease costs being characterized as depreciation with the implementation of IFRS 16 on January 1, 2019 and the addition of Schafer and Fastrak, including the amortization and depreciation relating to the purchase price allocations to intangible assets and property, plant and equipment.

Income taxes

Income tax expense was \$1.1 million in the second quarter of 2019, an effective rate of 17.3%, lower than our domestic rate of 27.0% due primarily to the impact of lower tax rates in foreign jurisdictions and the effect of foreign exchange.

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

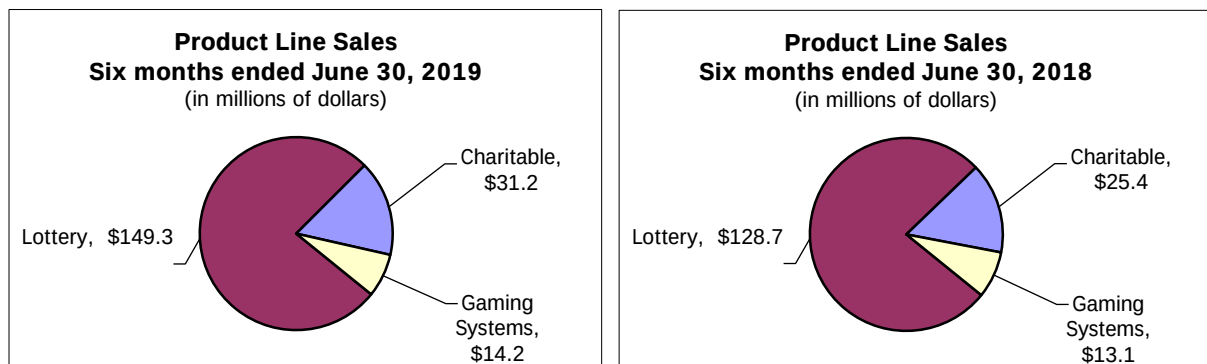
Net income

Net income was \$5.0 million in the second quarter of 2019, which was consistent with the \$5.0 million earned in the second quarter of 2018. The primary increases in net income between the quarters were the increase in gross profit of \$1.1 million, the increase in foreign exchange gain of \$2.8 million and the decrease in income tax expense of \$1.1 million. These increases were offset by the increase in administration expenses of \$3.1 million, the increase in selling costs of \$0.7 million, the increase in other expenses of \$0.6 million and the increase in interest expense of \$0.6 million.

Net income per share (basic and diluted) remained consistent at \$0.20 per share in the second quarter of 2019 as compared to \$0.20 per share in the second quarter of 2018.

ANALYSIS OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2019

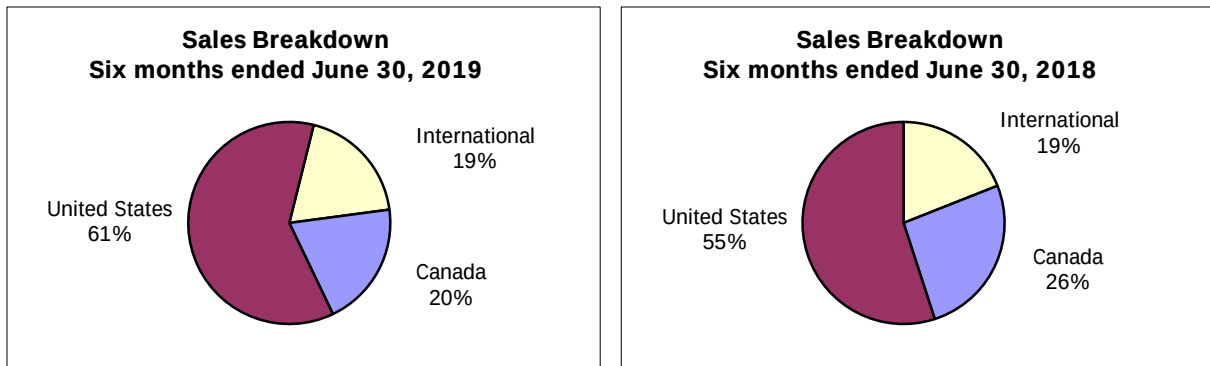
Sales



During the six months ended June 30, 2019, Pollard achieved sales of \$194.7 million, compared to \$167.2 million in the six months ended June 30, 2018. Factors impacting the \$27.5 million sales increase were:

Higher sales of ancillary lottery products and services increased revenue in the first six months of 2019 by \$15.4 million. This increase was primarily from the addition of Schafer and Fastrak. Additional increases in revenues from iLottery and digital and loyalty products, further contributed to the increase in sales. An increase in the instant ticket average selling price in 2019 increased sales by \$6.3 million. This increase was, in part, a result of record quarterly sales of Pollard's proprietary Scratch FX® product in the first quarter of 2019. Partially offsetting these increases was a decrease in instant ticket sales volume in the period which reduced sales by \$6.1 million. Sales volumes were lower during the six months of 2019 primarily due to the time lag of recovering from the lower order volumes from the fourth quarter of 2018.

Diamond Game's sales increased in the first half of 2019, which added \$0.6 million to sales when compared to 2018. In addition, the increase in charitable gaming volumes increased sales by \$4.1 million from 2018. A higher average selling price for charitable games in 2019 further increased sales by \$1.2 million.



During the six months ended June 30, 2019, Pollard generated approximately 72.3% (2018 – 67.5%) 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 2019 the actual U.S. dollar value was converted to Canadian dollars at \$1.338, compared to a rate of \$1.272 the first six months of 2018. This 5.2% increase in the U.S. dollar value resulted in an approximate increase of \$6.3 million in revenue relative to the first six months of 2018. Also during the first half of 2019, the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of \$0.3 million in revenue relative to the first half of 2018.

Cost of sales and gross profit

Cost of sales was \$150.2 million in the six months ended June 30, 2019, compared to \$127.3 million in the six months ended June 30, 2018. Cost of sales were higher as a result of the inclusion of Schafer and Fastrak in 2019, as well as higher exchange rates on U.S. dollar denominated transactions. Additionally, increased manufacturing overheads contributed to the increase in cost of sales in the second quarter of 2019.

Gross profit increased to \$44.5 million (22.9% of sales) in the six months ended June 30, 2019, from \$39.9 million (23.9% of sales) in the six months ended June 30, 2018. This increase in gross profit was primarily the result of the additions of Schafer and Fastrak, partially offset by the effect of lower instant ticket volumes and increased manufacturing overheads. The lower gross profit percentage was due in part to the instant ticket sales mix weighted toward lower margin work. In addition, the mix of work resulted in reductions in some production efficiencies.

Administration expenses

Administration expenses increased to \$19.2 million in the first six months of 2019 from \$15.4 million in the first six months of 2018. The increase of \$3.8 million was a result of the inclusion of Schafer and Fastrak increasing administration expenses by \$1.1 million, increased acquisition costs of \$0.2 million, higher compensation expenses to support Pollard's growth strategies of developing digital innovation products and higher professional fees. Professional fees were higher by \$1.2 million primarily due to higher legal fees incurred by Pollard to defend our intellectual property including certain patents. These increases were partially offset by the \$0.4 million reduction in severance costs as compared to 2018.

Selling expenses

Selling expenses increased to \$7.6 million in the first six months of 2019 from \$6.2 million in the first six months of 2018 primarily due to the addition of Schafer and Fastrak, as well as higher compensation costs. These increases were partially offset by a decrease in contract support costs.

Foreign exchange

The net foreign exchange gain was \$2.8 million in the first six months of 2019 compared to a net foreign exchange loss of \$2.5 million in the first six months of 2018. The 2019 net foreign exchange gain resulted in part from a net unrealized foreign exchange gain of \$3.0 million, comprised predominately of an unrealized gain on U.S. denominated liabilities, due to the strengthening of the Canadian dollar at the end of the quarter. This gain was partially offset by an unrealized loss on U.S. dollar denominated accounts receivable. Partially offsetting the unrealized gain was a \$0.2 million realized foreign exchange loss as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

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.

Adjusted EBITDA

Adjusted EBITDA without the impact of IFRS 16 Leases increased to \$27.4 million in the first six months of 2019 compared to \$27.1 million in the first six months of 2018. The primary reason for the increase of \$0.3 million was the increase in gross profit of \$6.6 million (net of amortization and depreciation and IFRS 16 impact). This increase was partially offset by higher administration expenses (net of acquisition and severance costs) of \$4.0 million, an increase in selling expenses of \$1.4 million and an increase in other expenses of \$0.8 million.

Interest expense

Interest expense increased to \$3.1 million in the first six months of 2019 from \$2.2 million in the first six months of 2018 primarily as a result of the additional interest expense related to increased long-term debt incurred with the acquisition Schafer and Fastrak, and additional interest expense with the implementation of IFRS 16 on January 1, 2019, of \$0.3 million for the first six months of 2019.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$13.0 million during the first six months of 2019 which increased from \$8.4 million during the first six months of 2018. The increase was primarily as a result of \$2.3 million of former operating lease costs being characterized as depreciation with the implementation of IFRS 16 on January 1, 2019 and the addition of Schafer and Fastrak, including the amortization and depreciation relating to the purchase price allocations to intangible assets and property, plant and equipment.

Income taxes

Income tax expense was \$3.5 million in the first six months of 2019, an effective rate of 21.1%, which was lower than our domestic rate of 27.0% due primarily to the impact of lower tax rates in foreign jurisdictions and the effect of foreign exchange.

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 domestic rate of 27.0% due primarily to the impact of the effect of foreign exchange.

Net income

Net income increased to \$13.0 million in the first six months of 2019 from \$9.6 million in the first six months of 2018 primarily as a result of an increase in gross profit of \$4.6 million, the increase in foreign exchange gain of \$5.3 million and the decrease in income tax expense of \$0.4 million. These increases were partially offset by the increase in administration expenses of \$3.8 million, the increase in selling costs of \$1.4 million, the increase in other expenses of \$0.8 million and the increase in interest expense of \$0.9 million.

Net income per share (basic and diluted) increased to \$0.51 per share in the six months ending June 30, 2019, as compared to \$0.38 per share in the six months ending June 30, 2018.

Liquidity and Capital Resources

Cash provided by operating activities

For the six months ended June 30, 2019, cash flow provided by operating activities was \$3.3 million compared to cash flow provided by operating activities of \$22.4 million for the first six months of 2018.

The primary reason for the reduction in cash flow provided by operations was a significant increase in our investment working capital. For the six months ended June 30, 2019, changes in non-cash working capital used \$22.4 million as compared to 2018 which provided \$4.5 million in non-cash working capital, a \$26.9 million difference. For the first six months of 2019, changes in the non-cash working capital decreased cash flow from operations due primarily to an increase in accounts receivables and a decrease in accounts payable and accrued liabilities, partially offset by a decrease in inventory. The higher investment in accounts receivables reflects the increasing sales volume from increased orders levels building throughout the first six months of 2019. For the first six months of 2018, changes in the non-cash component of working capital increased cash flow from operations due primarily to the decreased investment in accounts receivables and inventories, partially offset by a decrease in accounts payable and accrued liabilities.

Higher net income before income taxes after non-cash adjustments in the first half of 2019 contributed an additional \$4.7 million to the increase in cash provided by operating activities as compared to 2018. Cash used for interest increased to \$2.7 million in 2019 as compared to \$2.3 million in 2018. Cash used for pension plan contributions increased to \$3.4 million in 2019 as compared to \$2.4 million in 2018. Cash used for income tax payments decreased to \$3.0 million in 2019 from \$7.6 million in 2018.

Cash used for investing activities

In the six months ended June 30, 2019, cash used for investing activities was \$22.0 million compared to cash used of \$32.2 million in the first half of 2018. In the six months ended June 30, 2019, Pollard used \$8.5 million, net of cash acquired, to purchase Fastrak. In addition, Pollard expended \$7.3 million in capital expenditures, \$2.2 million on its investment in its iLottery joint venture and \$4.0 million on additions to intangible assets.

In the six months ended June 30, 2018, Pollard used \$21.6 million, net of cash acquired, to purchase Gamco. In addition, Pollard expended \$6.7 million in capital expenditures, \$1.1 million on its investment in its iLottery joint venture and \$2.9 million on additions to intangible assets.

Cash provided by financing activities

Cash provided by financing activities was \$8.7 million in the six months ended June 30, 2019, compared to cash provided by financing activities of \$13.1 million in the six months ended June 30, 2018.

During the first half of 2019 Pollard received net proceeds from long-term debt of \$13.1 million. This receipt of cash was partially offset by \$2.5 million of lease principal payments and \$1.8 million of dividends.

During the first half of 2018 Pollard raised \$35.4 million, net of expenses, from the issuance of common shares. The proceeds were used, in part, to repay \$3.4 million of long-term debt and \$16.7 million of subordinated debt. Pollard also expended \$0.2 million on long-term liabilities, \$0.4 million of deferred financing charges and paid dividends of \$1.5 million.

As at June 30, 2019, Pollard had unused credit facility of \$46.4 million, in addition to \$1.1 million in available cash resources. These amounts, in addition to cash flow provided by operating activities, are available to be used for future working capital requirements, contractual obligations, capital expenditures, dividends and to assist in financing future acquisitions.

Quarterly Information

(unaudited)

(millions of dollars)

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Sales	\$97.1	\$97.6	\$70.2	\$94.5	\$86.8	\$80.4	\$79.6	\$70.6	\$77.9
Adjusted EBITDA	13.6	16.4	7.5	14.2	14.1	13.0	13.0	11.6	13.1
Net Income	5.0	8.0	(1.9)	7.2	5.0	4.6	4.3	4.7	6.0

Effective the first quarter 2019 Adjusted EBITDA increased, \$1.3 million in Q2 2019 and \$1.3 million in Q1 2019, as a result of the implementation of IFRS 16 Leases.

The trend of increased sales, Adjusted EBITDA and net income, starting the fourth quarter of 2017, with the exception of the fourth quarter of 2018, was primarily as a result of higher instant ticket volumes and the acquisitions made during this timeframe.

The significant decrease in instant ticket volumes in the fourth quarter of 2018 reduced sales, Adjusted EBITDA and net income. Net income was further reduced by the large unrealized foreign exchange loss in the quarter.

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 June 30, 2019, Pollard's investment in non-cash working capital increased \$22.4 million compared to December 31, 2018, primarily as a result of increased investment in accounts receivables and a decrease accounts payable and accrued liabilities, partially offset by a decrease in inventories. The higher investment in accounts receivables reflects the increasing sales volume from increased orders levels building throughout the first six months of 2019.

	June 30, 2019	December 31, 2018
Working Capital	\$74.8	\$65.5
Total Assets	\$337.2	\$305.6
Total Non-Current Liabilities	\$178.4	\$142.9

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 June 30, 2019, the outstanding letters of guarantee were \$2.4 million. The remaining balance available for drawdown under the credit facility was \$46.4 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 June 30, 2019, 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 three-year period, renewable June 22, 2021. 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.

Outstanding Share Data

As at June 30, 2019 and August 6, 2019, outstanding share data was as follows:

Common shares	25,635,658
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In March 2019, 5,000 common shares were issued through the exercise of stock options.

In May 2019, 5,000 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. On March 19, 2019, 5,000 stock options were exercised and an additional 5,000 stock options were exercised on May 24, 2019. As at June 30, 2019, the total share options issued and outstanding were 227,500.

Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2018, that are outside the normal course of business, other than noted below.

Off-Balance Sheet Arrangements

There have been no material changes to Pollard's off-balance sheet arrangements since December 31, 2018, 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, 2018.

Critical Accounting Policies and Estimates

Other than the implementation of IFRS 16 Leases, effective January 1, 2019, 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, 2018. For details on the implementation of IFRS 16 Leases see note 3 of Pollard's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019.

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the six months ended June 30, 2019, 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, 2018.

Outlook

Our current instant ticket order levels through to the end of 2019 are higher than our volume levels experienced in the first half of 2019. We anticipate these orders will lead to higher production volumes and, depending on the timing of customer shipments which can impact significantly the timing of the revenue recognition, an increase in sales volumes relative to the first half of 2019. Historically our third quarter trend is for a higher mix of premium products in the lead up to the holiday season and we anticipate this will be the case for the third quarter for 2019.

The lottery industry is strong, with organizations receptive to new products and services to help them generate greater proceeds for good causes. In addition, suppliers such as Pollard can continue to assist and expand existing product lines such as instant tickets to expand lotteries revenue. As discussed in previous quarters, the charitable gaming market continues to show signs of growth and increased consumer demand for products such as pull-tabs and eGaming machines. We expect this incremental growth trend to continue.

Our current contract portfolio remains in place with an average contract term, including renewals, in excess of 4 years, including certain key contracts with terms well in excess of the average. We will continue to strategically bid on new instant ticket contracts while focusing on growing our portion of work within lotteries that have shared supply contracts. Certain large instant ticket contracts up for bid in 2019, as previously discussed, remain in process, with no awards or decisions announced at this time. Tickets under these contracts would be mostly incremental for Pollard as we are not primary supplier under the current existing contracts.

The recent New Hampshire Circuit Court decision in Pollard's favour clarified the Wire Act only applies to sports betting and confirmed Pollard's iLottery operations are not barred from operating lawful gaming over the internet. This decision has provided some positive clarity to the industry, although the Department of Justice still has the opportunity to appeal. Our most recent contract award providing the iLottery operation for the North Carolina Lottery continues its rollout with the anticipated go live date in the fall of 2019. Further lottery interest in iLottery remains healthy with a number of U.S. lotteries actively investigating this opportunity.

The integration of our most recent acquisitions, Fastrak and Schafer, continues positively, both within the two organizations as well as in conjunction with our main instant ticket lottery business.

Our CAPEX remains on budget, with no large individual projects anticipated, rather a number of manufacturing efficiency improvements have been undertaken. Additional equipment has been successfully installed on our second press line in Ypsilanti, our original press, and it has been recommissioned in the second quarter, providing us with incremental additional capacity. Additional capital investment focus is on our digital products such as our Sales Force management tool and ScanACTIV™, our proprietary multi-lane ticket sales solution.

Our business is a strong cash flow producer with significant organic resources generated to fund various capital, dividend and debt repayment requirements. As witnessed in the first half of 2019, investments in working capital can vary significantly given the low-transaction volume and high-value nature of our ticket orders. After the significant working capital investment experienced in the first six months of 2019, we would anticipate that investment to stabilize and possibly decline, freeing up additional cash flow over the last half of 2019.

We are continuing to look at acquisitions to help support and achieve our objectives to build our product portfolio and grow our profitability, with specific focus on the areas of technology, charitable gaming and additional lottery ancillary products.

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 Schafer and Fastrak, 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 Schafer and Fastrak, 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 six months ended June 30, 2019, 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, 2018, is available on SEDAR at www.sedar.com.

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