POLLARD banknote limited

June 30, 2018

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

August 8, 2018

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and six months ended June 30, 2018, is prepared as at August 8, 2018, 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, 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 six months ended June 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 June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Instant Tickets	76.0%	91.3%	77.0%	89.4%
Charitable Gaming Products (1)	16.2%	8.7%	15.2%	10.6%
Diamond Game Products (2)	7.8%	-	7.8%	-

(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 June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
United States	55%	60%	55%	58%
Canada	26%	16%	26%	19%
International	19%	24%	19%	23%

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. ("Gamco"). 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 June 30, 2018, Gamco generated revenues of $11.5 million and net income of $0.4 million, 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 six months ended June 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.

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, 2018.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Sales	$86.8	$77.9	$167.2	$135.3
Cost of sales	66.3	59.3	127.3	105.3
Gross profit	20.5	18.6	39.9	30.0
Gross profit as a % of sales	*23.6%*	*23.9%*	*23.9%*	*22.2%*
Administration expenses	7.4	6.6	15.4	12.0
Administration expenses as a % of sales	*8.5%*	*8.5%*	*9.2%*	*8.9%*
Selling expenses	3.4	2.1	6.2	4.1
Selling expenses as a % of sales	*3.9%*	*2.7%*	*3.7%*	*3.0%*
Net income	5.0	6.0	9.6	7.8
Net income as a % of sales	*5.8%*	*7.7%*	*5.7%*	*5.8%*
Adjusted EBITDA	14.1	13.1	27.1	19.4
Adjusted EBITDA as a % of sales	*16.2%*	*16.8%*	*16.2%*	*14.3%*
Net income per share (basic and diluted)	$0.20	$0.25	$0.38	$0.33

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

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

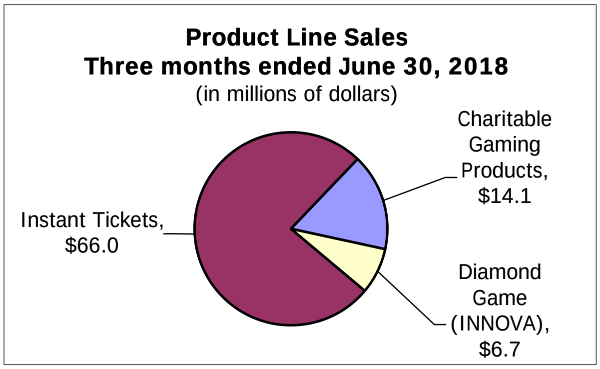
	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Net income	$5.0	$6.0	$9.6	$7.8
Adjustments:				
Amortization and depreciation	4.3	2.5	8.4	5.1
Interest	1.0	0.8	2.2	1.6
Severance costs	-	-	0.4	-
Acquisition costs	0.1	0.7	0.2	1.0
Unrealized foreign exchange loss	1.5	0.5	2.4	0.3
Income taxes	2.2	2.6	3.9	3.6
Adjusted EBITDA	$14.1	$13.1	$27.1	$19.4
Pollard Banknote Limited	$11.2	$13.1	$21.9	$19.4
Diamond Game	2.9	-	5.2	-
Adjusted EBITDA	$14.1	$13.1	$27.1	$19.4

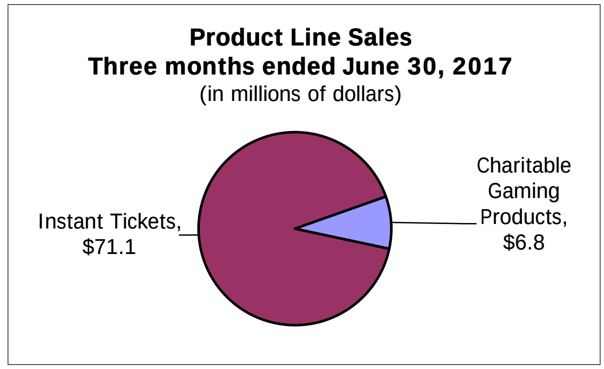
REVIEW OF OPERATIONS

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, 2018

Sales

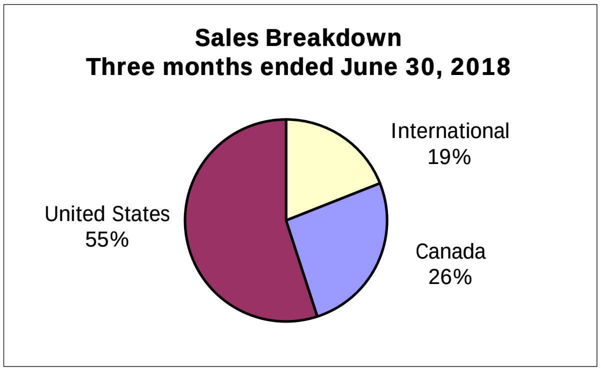


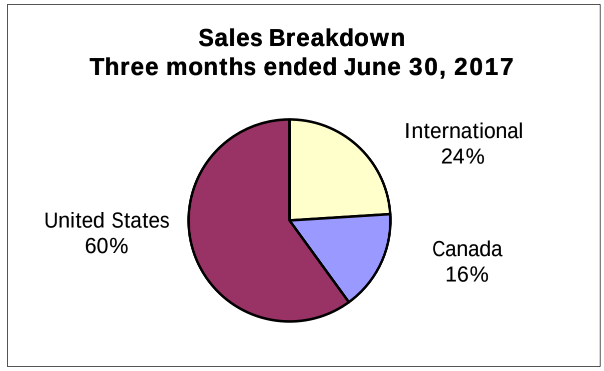


During the three months ended June 30, 2018, Pollard achieved sales of $86.8 million, compared to $77.9 million in the three months ended June 30, 2017. Factors impacting the $8.9 million sales increase were:

Instant ticket sales volumes in the quarter decreased slightly when compared to the prior year, reducing sales by $0.3 million. The second quarter of 2017 saw record sales volume achieved partially as a result of a significant amount of goods in transit to international customers at March 31, 2017, being recognized in sales in the second quarter of 2017. However, while sales volumes were slightly lower in comparison in 2018, the second quarter of 2018 instant tickets sales volume was the second highest in Pollard's history. A decrease in the instant ticket average selling price in the second quarter of 2018 compared to the second quarter of 2017 decreased sales by $0.4 million. Sales of ancillary instant ticket products and services decreased in 2018, due primarily to lower sales of licensed products, reducing sales by $2.9 million.

The addition of Diamond Game added $6.7 million in sales when compared to 2017. In addition, the increase in charitable gaming volumes, primarily as a result of the addition of Gamco, increased sales by $7.4 million from 2017. A higher average selling price for charitable games in 2018 further increased sales by $0.5 million.





During the three months ended June 30, 2018, Pollard generated approximately 67.7% (2017 – 75.0%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the second quarter of 2018 the actual U.S. dollar value was converted to Canadian dollars at $1.288, compared to a rate of $1.347 during the second quarter of 2017. This 4.4% decrease in the U.S. dollar value resulted in an approximate decrease of $2.4 million in revenue relative to the second quarter of 2017. In addition, during the quarter the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.3 million in revenue relative to the second quarter of 2017.

Cost of sales and gross profit

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

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

Administration expenses

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

Selling expenses

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

Interest expense

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

Foreign exchange (gain) loss

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

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

Adjusted EBITDA

Adjusted EBITDA increased to $14.1 million in the second quarter of 2018 compared to $13.1 million in the second quarter of 2017 primarily as a result of the acquisitions of Diamond Game and Gamco. The reasons for the increase in Adjusted EBITDA of $1.0 million include the increase in gross profit (net of amortization and depreciation) of $3.7 million and a decrease in other expenses of $0.5 million. These increases in Adjusted EBITDA were partially offset by the increase in administration costs (net of acquisition costs) of $1.4 million, the increase in selling costs of $1.3 million and the decrease in the realized foreign exchange gain of $0.5 million.

Income taxes

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

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

Amortization and depreciation

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

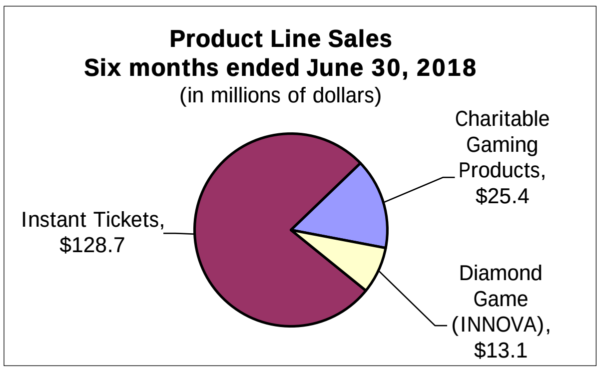
Net income

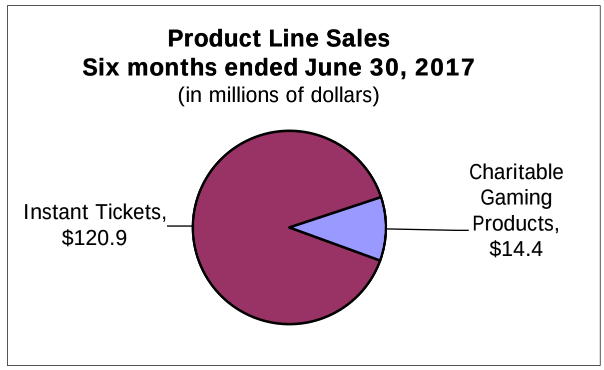
Net income decreased to $5.0 million in the second quarter of 2018 from $6.0 million in the second quarter of 2017. The primary reasons for the decrease of $1.0 million in net income were the increase in administration expenses of $0.8 million, the increase in selling costs of $1.3 million, the increase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

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

ANALYSIS OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2018

Sales

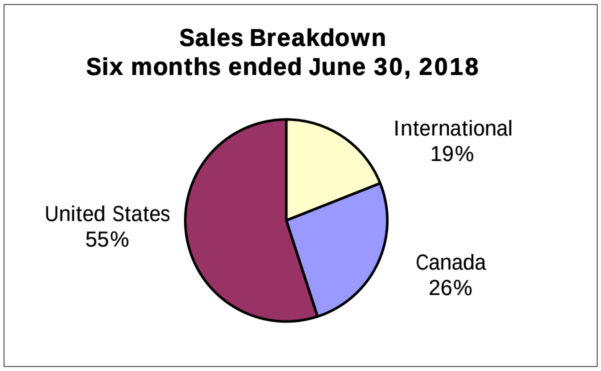


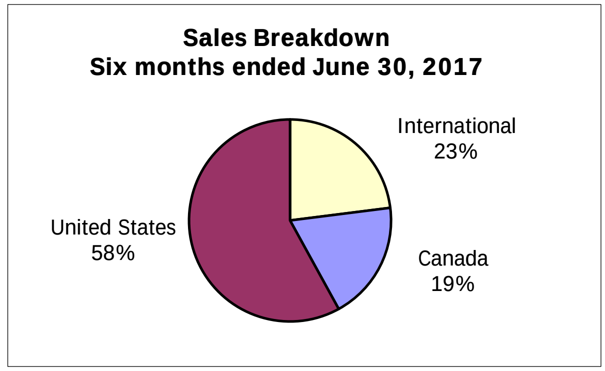


During the six months ended June 30, 2018, Pollard achieved sales of $167.2 million, compared to $135.3 million in the six months ended June 30, 2017. Factors impacting the $31.9 million sales increase were:

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

The addition of Diamond Game added $13.1 million in sales to the first six months of 2018 when compared to 2017. An increase in charitable gaming volumes, primarily as a result of the addition of Gamco, increased sales by $11.4 million from 2017. A higher average selling price for charitable games in 2018 further increased sales by $0.8 million.





During the six months ended June 30, 2018, Pollard generated approximately 67.5% (2017 – 72.1%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first six months of 2018 the actual U.S. dollar value was converted to Canadian dollars at $1.272, compared to a rate of $1.339 the first six months of 2017. This 5.0% decrease in the U.S. dollar value resulted in an approximate decrease of $5.3 million in revenue relative to the first six months of 2017. Also during the first half of 2018, the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.7 million in revenue relative to the first half of 2017.

Cost of sales and gross profit

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

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

Administration expenses

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

Selling expenses

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

Interest expense

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

Foreign exchange (gain) loss

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

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

Adjusted EBITDA

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

Income taxes

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

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

Amortization and depreciation

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

Net income

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

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

Liquidity and Capital Resources

Cash provided by operating activities

For the six months ended June 30, 2018, cash flow provided by operating activities was $22.4 million compared to cash flow provided by operating activities of $17.4 million for the first six months of 2017. Higher net income before income taxes after non-cash adjustments in the first six months of 2018 contributed to an increase in cash provided by operating activities compared to 2017.

For the six months ended June 30, 2018, changes in the non-cash component of working capital increased cash by $4.5 million. The increase was due primarily to the decreased investment in accounts receivables and inventories, partially offset by a decrease in accounts payable and accrued liabilities. For the six months ended June 30, 2017, changes in the non-cash component of working capital increased cash by $3.2 million. The increase was due primarily to the decreased investment in accounts receivables and an increase in accounts payable and accrued liabilities, partially offset by an increase in prepaid expenses.

Cash used for interest increased to $2.3 million in 2018 as compared to $1.4 million in 2017. Cash used for pension plan contributions increased to $2.4 million in 2018 as compared to $2.0 million in 2017. Cash used for income tax payments increased to $7.6 million in 2018 from $4.0 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 six months ended June 30, 2018, cash used for investing activities was $32.2 million compared to cash used of $3.4 million in the first half of 2017. In the six months ended June 30, 2018, Pollard used $21.6 million, net of cash acquired, to purchase International Gamco, Inc.. 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.

In the six months ended June 30, 2017, capital expenditures were $1.8 million. In addition, Pollard expended $1.0 million on its investment in its iLottery joint venture and $0.6 million on additions to intangible assets.

Cash provided by financing activities

Cash provided by financing activities was $13.1 million in the six months ended June 30, 2018, compared to cash used for financing activities of $15.1 million in the six months ended June 30, 2017.

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.

During the first half of 2017 cash was used to repay $13.0 million of long-term debt, $0.7 million of subordinated debt, decrease other non-current liabilities by $0.2 million and pay dividends of $1.4 million.

As at June 30, 2018, Pollard had unused credit facility of $91.3 million, in addition to $9.0 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 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Sales	$86.8	$80.4	$79.6	$70.7	$77.9	$57.4	$65.7	$62.7	$54.0
Adjusted EBITDA	14.1	13.0	13.0	11.6	13.1	6.3	9.1	7.8	6.0
Net Income	5.0	4.6	4.3	4.7	6.0	1.8	3.8	2.8	2.0

Q2 2018, Q1 2018 and Q4 2017 sales and Adjusted EBITDA were high relative to previous quarters primarily as a result of higher instant ticket volumes and the addition of Diamond Game.

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, 2018, Pollard's investment in non-cash working capital decreased $4.5 million compared to December 31, 2017, primarily as a result of decreased investment in accounts receivables and inventories, partially offset by a decrease accounts payable and accrued liabilities.

	June 30, 2018	December 31, 2017
Working Capital	$58.3	$44.6
Total Assets	$252.7	$228.3
Total Non-Current Liabilities	$108.0	$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 June 30, 2018, the outstanding letters of guarantee were $2.0 million. The remaining balance available for drawdown under the credit facility was $91.3 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, 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 Equities 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 the common shares of INNOVA. 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 June 30, 2018 and August 8, 2018, outstanding share data was as follows:

Common shares	25,613,158

As noted previously, on February 21, 2018, Pollard closed its offering for an additional 2,070,000 common shares.

Share Options

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

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, other than noted below.

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 six months ended June 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

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

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

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

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

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

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

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

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

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

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 INNOVA and 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 INNOVA and 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 six months ended June 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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