September 30, 2019

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

November 5, 2019

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard", "Company") for the three and nine months ended September 30, 2019, is prepared as at November 5, 2019, 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, 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 nine months ended September 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™ loyalty program, 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 September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Lottery (1) (2)	80.2%	76.6%	76.9%	76.9%
Charitable (3)	14.4%	16.6%	16.4%	15.7%
Gaming Systems	5.4%	6.8%	6.7%	7.4%

(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 September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
United States	63%	54%	61%	54%
Canada	18%	26%	20%	26%
International	19%	20%	19%	20%

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, 2019.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Sales	$103.2	$94.5	$297.8	$261.6
Cost of sales	78.6	72.0	228.7	199.2
Gross profit	24.6	22.5	69.1	62.4
Gross profit as a % of sales	*23.8%*	*23.8%*	*23.2%*	*23.9%*
Administration expenses	10.5	8.8	29.7	24.2
Administration expenses as a % of sales	*10.2%*	*9.3%*	*10.0%*	*9.3%*
Selling expenses	4.2	3.6	11.8	9.8
Selling expenses as a % of sales	*4.1%*	*3.8%*	*4.0%*	*3.7%*
Net income	4.4	7.2	17.4	16.8
Net income as a % of sales	*4.3%*	*7.6%*	*5.8%*	*6.4%*
Adjusted EBITDA	16.1	14.2	46.0	41.3
Adjusted EBITDA as a % of sales	*15.6%*	*15.0%*	*15.4%*	*15.8%*
Adjusted EBITDA without IFRS 16	14.7	14.2	42.0	41.3
Adjusted EBITDA as a % of sales	*14.2%*	*15.0%*	*14.1%*	*15.8%*
Net income per share (basic and diluted)	$0.17	$0.28	$0.68	$0.66

	September 30, 2019	December 31, 2018
Total Assets	$348.5	$305.6
Total Non-Current Liabilities	$182.7	$142.9

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Net income	$4.4	$7.2	$17.4	$16.8
Adjustments:				
Amortization and depreciation	7.1	4.3	20.1	12.7
Interest	1.7	0.9	4.8	3.1
Unrealized foreign exchange (gain) loss	0.8	(1.0)	(2.3)	1.4
Severance costs	-	-	-	0.4
Acquisition costs	0.2	0.4	0.6	0.6
Income taxes	1.9	2.4	5.4	6.3
Adjusted EBITDA	$16.1	$14.2	$46.0	$41.3
Less impact of implementation of IFRS 16 Leases*:				
IFRS 16 related depreciation	1.2	-	3.5	-
IFRS 16 related interest	0.2	-	0.5	-
Adjusted EBITDA without IFRS 16 impact	$14.7	$14.2	$42.0	$41.3
Lotteries and charitable gaming	$14.2	$11.6	$38.3	$33.5
Diamond Game	1.9	2.6	7.7	7.8
Adjusted EBITDA	$16.1	$14.2	$46.0	$41.3
Lotteries and charitable gaming	$13.0	$11.6	$34.8	$33.5
Diamond Game	1.7	2.6	7.2	7.8
Adjusted EBITDA without IFRS 16 impact	$14.7	$14.2	$42.0	$41.3

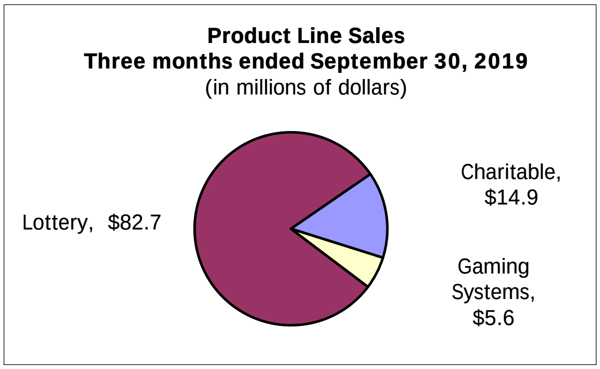
* IFRS 16 Leases was implemented effective January 1, 2019. Qualifying leases are now capitalized and an offsetting liability is recorded. The right-of-use asset is depreciated over the term of the lease and interest expense related to the liability is expensed over the term of the lease. As a result,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

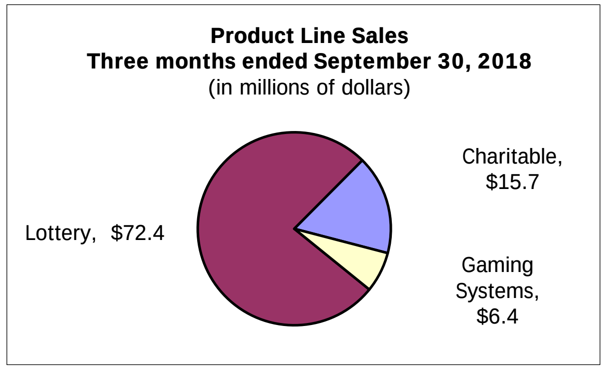
REVIEW OF OPERATIONS

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 SEPTEMBER 30, 2019

Sales

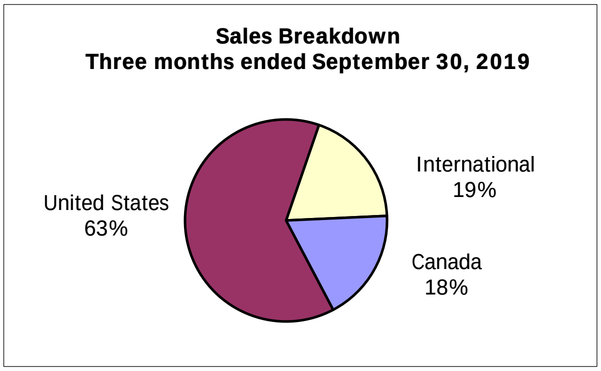


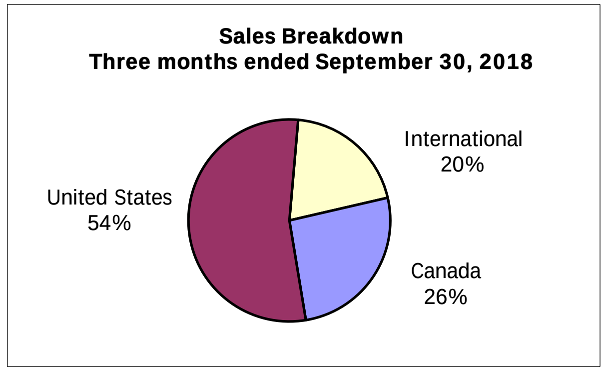


During the three months ended September 30, 2019, Pollard achieved sales of $103.2 million, compared to $94.5 million in the three months ended September 30, 2018. Factors impacting the $8.7 million sales increase were:

Instant ticket sales volume in the quarter increased when compared to the prior year, increasing sales by $2.1 million. Also higher sales of ancillary lottery products and services increased revenue in the third quarter of 2019 by $8.7 million. This increase was due to higher licensed product and iLottery sales, and the addition of Schafer and Fastrak. Partially offsetting these increases was a slight decrease in the instant ticket average selling price in the quarter compared to the third quarter of 2018 which lowered sales by $0.9 million.

Diamond Game's sales decreased in the third quarter of 2019, which reduced sales by $0.9 million when compared to 2018 due to lower pricing in a certain jurisdiction. In addition, a decrease in charitable gaming volumes reduced sales by $1.2 million from 2018. This was partially offset by a higher average selling price for charitable games in 2019 which increased sales by $0.2 million.





During the three months ended September 30, 2019, Pollard generated approximately 71.7% (2018 – 66.0%) 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 2019 the actual U.S. dollar value was converted to Canadian dollars at $1.320, compared to a rate of $1.302 during the third quarter of 2018. This 1.4% increase in the U.S. dollar value resulted in an approximate increase of $1.0 million in revenue relative to the third quarter of 2018. In addition, 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 third quarter of 2018.

Cost of sales and gross profit

Cost of sales was $78.6 million in the third quarter of 2019 compared to $72.0 million in the third quarter of 2018. Cost of sales were higher in the quarter relative to 2018 as a result of the inclusion of Schafer and Fastrak in 2019, as well as higher instant ticket volumes and licensed product sales.

Gross profit was $24.6 million (23.8% of sales) in the third quarter of 2019 compared to $22.5 million (23.8% of sales) in the third quarter of 2018. This increase in gross profit was primarily the result of the additions of Schafer and the increased instant ticket sales volume. Gross margin percentage was consistent with the third quarter of 2018, with lower margins in Diamond Game, due to the reduction in pricing, being offset by higher margins achieved from increased ancillary lottery products and services sales.

Administration expenses

Administration expenses increased to $10.5 million in the third quarter of 2019 from $8.8 million in the third quarter of 2018. The increase of $1.7 million was partially a result of the inclusion of Schafer and Fastrak increasing administration expenses by $0.7 million, higher compensation expenses to support Pollard's growth strategies of developing digital innovation products and higher professional fees. Professional fees were higher by $0.6 million primarily due to higher legal fees incurred by Pollard to defend our intellectual property including certain patents.

Selling expenses

Selling expenses increased to $4.2 million in the third quarter of 2019 from $3.6 million in the third quarter of 2018 primarily due to the addition of Schafer and Fastrak, as well as higher compensation costs.

Foreign exchange

The net foreign exchange loss was $1.1 million in the third quarter of 2019 compared to a net gain of $0.9 million in the third quarter of 2018. The 2019 net foreign exchange loss of $1.1 million consisted of a $0.8 million unrealized foreign exchange loss, comprised predominately of an unrealized loss 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 gain on U.S. dollar denominated cash and receivables. Additionally, included in the net foreign exchange loss was a realized loss of $0.3 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

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.

Adjusted EBITDA

Adjusted EBITDA without the impact of IFRS 16 Leases increased to $14.7 million in the third quarter of 2019 compared to $14.2 million in the third quarter of 2018. The primary reason for the $0.5 million increase was the increase in gross profit of $3.5 million (net of amortization and depreciation and IFRS 16 impact). This increase was partially offset by the increase in administration costs (net of severance and acquisition costs) of $1.9 million, the increase in selling costs of $0.6 million and an increase in other expenses of $0.3 million.

Interest expense

Interest expense increased to $1.7 million in the third quarter of 2019 from $0.9 million in the third 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 $0.2 million for the quarter.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $7.1 million during the third quarter of 2019 which increased from $4.3 million during the third 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 $1.9 million in the third quarter of 2019, an effective rate of 30.5%, higher than our domestic rate of 27.0% due primarily to the impact of non-tax deductible expenses.

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

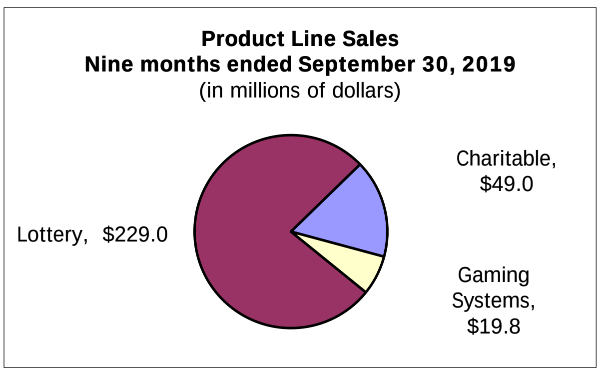
Net income

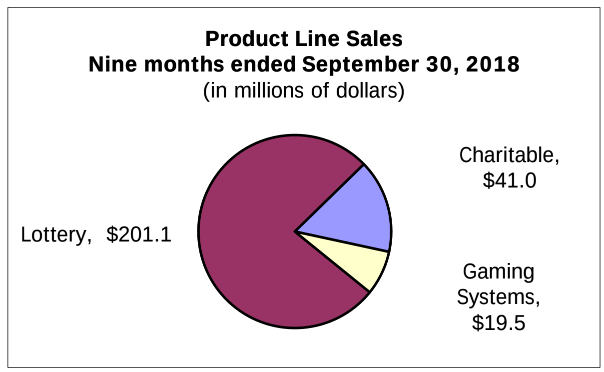
Net income decreased to $4.4 million in the third quarter of 2019 from $7.2 million in the third quarter of 2018. The primary reasons for the decrease of $2.8 million in net income were the increase in foreign exchange loss of $2.0 million, the increase in administration expenses of $1.7 million, the increase in selling costs of $0.6 million, the increase in other expenses of $0.3 million and the increase in interest expense of $0.8 million. These decreases in net income were partially offset by the increase in gross profit of $2.1 million and the decrease in income tax expense of $0.5 million.

Net income per share (basic and diluted) decreased to $0.17 per share in the third quarter of 2019 from $0.28 per share in the third quarter of 2018.

ANALYSIS OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

Sales

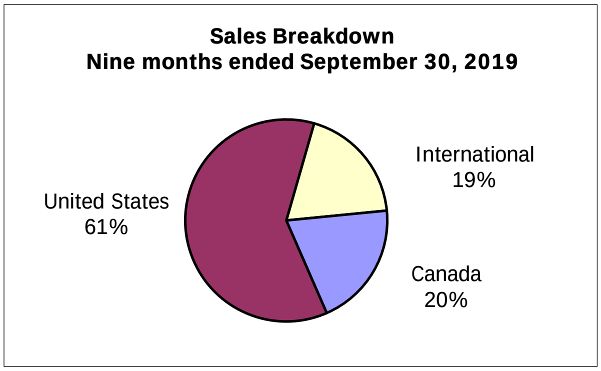


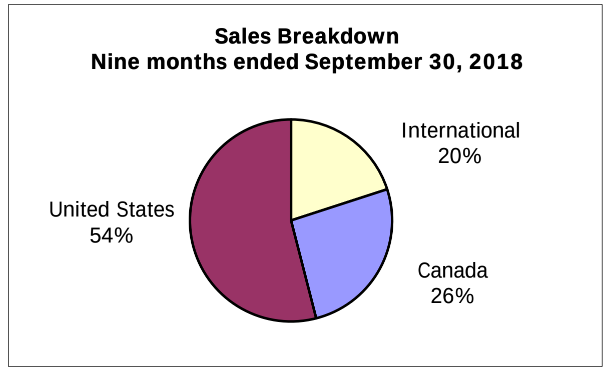


During the nine months ended September 30, 2019, Pollard achieved sales of $297.8 million, compared to $261.6 million in the nine months ended September 30, 2018. Factors impacting the $36.2 million sales increase were:

Higher sales of ancillary lottery products and services increased revenue in the first nine months of 2019 by $24.1 million. This increase was from the addition of Schafer and Fastrak, as well as increased sales of licensed products, iLottery, and digital and loyalty products. An increase in the instant ticket average selling price in 2019 increased sales by $5.8 million. This increase was, in part, a result of significant sales of Pollard's proprietary Scratch FX® product in 2019. Partially offsetting these increases was a decrease in instant ticket sales volume in the period which reduced sales by $4.6 million. Sales volumes were lower during the first 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 decreased in the first nine months of 2019, which reduced sales by $0.2 million when compared to 2018. An increase in charitable gaming volumes increased sales by $3.0 million from 2018. In addition, a higher average selling price for charitable games in 2019 further increased sales by $1.4 million.





During the nine months ended September 30, 2019, Pollard generated approximately 72.1% (2018 – 67.0%) 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 2019 the actual U.S. dollar value was converted to Canadian dollars at $1.332, compared to a rate of $1.283 the first nine months of 2018. This 3.8% increase in the U.S. dollar value resulted in an approximate increase of $7.3 million in revenue relative to the first nine months of 2018. In addition, during the first nine months of 2019, the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $0.6 million in revenue relative to the first nine months of 2018.

Cost of sales and gross profit

Cost of sales was $228.7 million in the nine months ended September 30, 2019, compared to $199.2 million in the nine months ended September 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 and the increase in charitable gaming sales volume. Additionally, increased instant ticket manufacturing overheads contributed to the increase in cost of sales in 2019.

Gross profit increased to $69.1 million (23.2% of sales) in the nine months ended September 30, 2019, from $62.4 million (23.9% of sales) in the nine months ended September 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. Higher charitable gaming sales also contributed to the increase in gross profit. The lower gross profit percentage was due in part to the instant ticket sales mix weighted toward lower margin work in the first six months of 2019, this mix of work also resulted in reductions in some production efficiencies.

Administration expenses

Administration expenses increased to $29.7 million in the first nine months of 2019 from $24.2 million in the first nine months of 2018. The increase of $5.5 million was a result of the inclusion of Schafer and Fastrak increasing administration expenses by $1.8 million, higher compensation expenses to support Pollard's growth strategies of developing digital innovation products and higher professional fees. Professional fees were higher by $1.8 million primarily due to higher legal fees incurred by Pollard to defend our intellectual property including certain patents. These increases were partially offset by a $0.4 million reduction in severance costs as compared to 2018.

Selling expenses

Selling expenses increased to $11.8 million in the first nine months of 2019 from $9.8 million in the first nine 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 $1.8 million in the first nine months of 2019 compared to net foreign exchange loss of $1.6 million in the first nine months of 2018. The 2019 net foreign exchange gain of $1.8 million consisted of a net unrealized foreign exchange gain of $2.3 million, comprised predominately of an unrealized gain on U.S. denominated liabilities, due to the strengthening of the Canadian dollar, which was partially offset by an unrealized loss on U.S. denominated receivables. Partially offsetting the unrealized gain was a $0.5 million realized foreign exchange loss predominately a result of foreign currency denominated currencies and account receivables collected in the first nine months of 2019 being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2018 net foreign exchange loss of $1.6 million 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.

Adjusted EBITDA

Adjusted EBITDA without the impact of IFRS 16 Leases increased to $42.0 million in the first nine months of 2019 compared to $41.3 million in the first nine months of 2018. The primary reason for the increase of $0.7 million was the increase in gross profit of $10.1 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 $5.9 million, an increase in selling expenses of $2.0 million, an increase in other expenses of $1.2 million and an increase in the realized foreign exchange loss of $0.3 million.

Interest expense

Interest expense increased to $4.8 million in the first nine months of 2019 from $3.1 million in the first nine 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 $0.5 million for the first nine months of 2019.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $20.1 million during the first nine months of 2019 which increased from $12.7 million during the first nine months of 2018. The increase was primarily as a result of $3.5 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 $5.4 million in the first nine months of 2019, an effective rate of 23.7%, lower than our domestic rate of 27.0% due primarily to the impact of lower foreign tax rates and the effect of foreign exchange.

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 domestic rate of 27.0%.

Net income

Net income increased to $17.4 million in the first nine months of 2019 from $16.8 million in the first nine months of 2018. The reason for the increase in net income of $0.6 million was the increase in gross profit of $6.7 million, the increase in foreign exchange gain of $3.4 million and the decrease in income tax expense of $0.9 million. These increases were partially offset by the increase in administration expenses of $5.5 million, the increase in selling costs of $2.0 million, the increase in other expenses of $1.2 million and the increase in interest expense of $1.7 million.

Net income per share (basic and diluted) increased to $0.68 per share in the nine months ending September 30, 2019 from $0.66 in the nine months ending September 30, 2018.

Liquidity and Capital Resources

Cash provided by operating activities

For the nine months ended September 30, 2019, cash flow provided by operating activities was $16.3 million compared to cash flow provided by operating activities of $29.5 million for the first nine 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 nine months ended September 30, 2019, changes in non-cash working capital used $24.5 million as compared to 2018 which used $0.4 million in non-cash working capital, a $24.1 million difference.

For the first nine months of 2019, changes in the non-cash working capital decreased cash flow from operations due primarily to an increase in accounts receivables. The higher investment in accounts receivables reflects the increasing sales volume from increased orders levels building throughout the first nine months of 2019. For the first nine months of 2018, changes in the non-cash component of working capital slightly decreased cash flow from operations due primarily to a small increase in accounts receivables, partially offset by a decrease in inventories.

Higher net income before income taxes after non-cash adjustments in the first nine months of 2019 contributed an additional $6.8 million to the cash provided by operating activities in 2019 as compared to 2018. Cash used for interest increased to $4.3 million in 2019 as compared to $3.2 million in 2018. Cash used for pension plan contributions increased to $5.4 million in 2019 as compared to $4.1 million in 2018. Cash used for income tax payments decreased to $2.7 million in 2019 from $9.2 million in 2018.

Cash used for investing activities

In the nine months ended September 30, 2019, cash used for investing activities was $30.9 million compared to cash used of $38.2 million in the first nine months of 2018. In the nine months ended September 30, 2018, Pollard used $8.5 million, net of cash acquired, to purchase Fastrak. In addition, Pollard expended $12.7 million in capital expenditures, $3.3 million on its investment in its iLottery joint venture and $6.4 million on additions to intangible assets.

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.

Cash provided by financing activities

Cash provided by financing activities was $10.1 million in the nine months ended September 30, 2019, compared to cash provided by financing activities of $7.9 million in the nine months ended September 30, 2018.

During the first nine months of 2019 Pollard received net proceeds from long-term debt of $17.0 million. This receipt of cash was partially offset by $3.8 million of lease principal payments and $2.8 million of dividends.

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.

As at September 30, 2019, Pollard had unused credit facility of $42.4 million, in addition to $6.7 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.

Quarterly Information

(unaudited)

(millions of dollars)

	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Sales	$103.2	$97.1	$97.5	$70.2	$94.5	$86.8	$80.3	$79.6	$70.7
Adjusted EBITDA	16.1	13.6	16.3	7.5	14.2	14.1	13.0	13.0	11.6
Net income (loss)	4.4	5.0	8.0	(1.9)	7.2	5.0	4.6	4.3	4.6

Effective the first quarter 2019 Adjusted EBITDA increased as a result of the implementation of IFRS 16 Leases. The amount per quarter were $1.2 million in Q2 2019, $1.3 million in Q2 2019 and $1.3 million in Q1 2019.

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 September 30, 2019, Pollard's investment in non-cash working capital increased $24.5 million compared to December 31, 2018, primarily as a result of increased investment in accounts receivables. The higher investment in accounts receivables reflects the increasing sales volume from increased orders levels building throughout the first nine months of 2019.

	September 30, 2019	December 31, 2018
Working Capital	$80.4	$65.5
Total Assets	$348.5	$305.6
Total Non-Current Liabilities	$182.7	$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 September 30, 2019, the outstanding letters of guarantee were $2.0 million. The remaining balance available for drawdown under the credit facility was $42.4 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 September 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 September 30, 2019 and November 5, 2019, outstanding share data was as follows:

Common shares	25,635,658

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 September 30, 2019, the total share options issued and outstanding were 227,500.

Subsequent to the period ended September 30, 2019, on November 5, 2019, the Board of Directors approved the award of 150,000 options to purchase common shares of Pollard for key management personnel. The options will be granted on November 8, 2019, and have a seven-year term, vesting 25% per year over the first four years. The exercise price of the options will be equal to the closing price of the common shares on November 7, 2019.

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.

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 nine months ended September 30, 2019.

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the nine months ended September 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

The lottery and charitable gaming industries remain robust, with strong demand in the instant ticket product line and ongoing interest shown in additional products such as digital and iLottery platforms. Our instant ticket order levels through the remainder of 2019 and the first quarter of 2020 remain at the high levels experienced in the third quarter, which were greater than the first half of 2019. While production levels will be high, sales could be impacted by the timing of the revenue recognition, however, over time sales will also reflect the underlying higher production levels. Our average selling price generally decreases slightly after our third quarter holiday season themed tickets build-up, however we continue to see strong levels of interest in our premium value proprietary products that generate increased returns for the lotteries.

There have been no significant changes in our underlying contract portfolio for instant tickets. The Florida Lottery recently awarded their new instant ticket contract and although there were no significant changes in the existing supplier relationships, we believe there is opportunity over the course of the contract term to add incremental work for Pollard.

iLottery remains a very active development area for lotteries, particularly in the U.S. and Canada, with a number of jurisdictions at varying levels of investigation. Our fourth iLottery customer went live at the end of October, the North Carolina Education Lottery, which includes additional Pollard digital products including our PlayOn™ loyalty platform. While still in its formative stages throughout North America, we believe that lotteries will continue to expand in this critical distribution channel and Pollard, through our joint venture NeoPollard, will continue to be the key provider.

The charitable gaming market continues to show signs of incremental growth and increased consumer demand for both the traditional pull-tab products as well as eGaming machines. To that end we have invested some additional capital to grow our press capacity, improve our turnaround times and ultimately reduce our costs. Our Diamond Game and Oasis teams are actively pursuing new jurisdictions and expanding existing marketplaces for eGaming machines in charitable locations. While these sales cycles can be long, there are a number of current opportunities including the etab markets in Minnesota and a few other states that look promising. Regulatory changes in one of our large jurisdiction, which took effect in the third quarter, has opened up the possibility of adding new additional machines, and while the pricing structure has correspondingly been reduced, in the long term we believe the potential for machine expansion will offset any negative short-term impacts.

Our capital expenditures have increased in the third quarter reflecting the investments we are making in both our traditional paper-based products (increased capacity in our charitable pull-tab press capabilities and completion of the instant ticket press upgrades in Ypsilanti) as well as the ongoing development in our digital products such as our PlayOn™ loyalty system and advancements in our Lottery Management Systems. New investments were made in producing additional Diamond Game eGaming machines in anticipation of new placements in the charitable gaming market and continuing outlays were incurred in supporting some of our new contracts including the Arizona warehousing and distribution operation slated to go live early in 2020. We anticipate our overall CAPEX levels for 2019 will be approximately 10% higher than our comparable expenditures in 2018 and would expect levels in 2020 to be similar to 2019.

Acquisitions remain an integral part of our strategic plan and we remain active in identifying and reviewing opportunities that will provide both appropriate financial returns and assist us in expanding our complete suite of products and services required by our lottery and charitable gaming customers.

Despite slightly higher CAPEX expenditures our business remains a very strong cash flow generating business. One significant variable remains our investment in working capital, that can vary significantly given the nature of much of our business being low-volume high-value transactions. During the first nine months of 2019 we invested approximately $24.5 million into working capital due to increased volumes and timing of orders. Since the end of the third quarter we have seen significant positive cash flow returned to the business as our investment in accounts receivable and inventory have stabilized. Our conversion of earnings into cash-flow remains high and we anticipate this, coupled with our existing senior debt facility, to provide ample capital to fund our operations, dividends, capital expenditures and future acquisitions.

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 Fastrak, as it was 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 Fastrak, as it was 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, 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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