Pollard banknote limited

March 31, 2019

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

FOR THE THREE MONTHS ENDED MARCH 31, 2019

May 8, 2019

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three months ended March 31, 2019, is prepared as at May 8, 2019, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at March 31, 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 months ended March 31, 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 March 31, 2019	Three months ended March 31, 2018
Lottery[(1)]	76.7%	78.0%
Charitable [(2)]	16.3%	14.1%
Gaming Systems	7.0%	7.9%

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

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

Geographic breakdown of revenue

	Three months ended March 31, 2019	Three months ended March 31, 2018
United States	62%	55%
Canada	22%	26%
International	16%	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 months ended March 31, 2019.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended March 31, 2019	Three months ended March 31, 2018
Sales	$97.5	$80.3
Cost of sales	74.6	60.9
Gross profit	22.9	19.4
Gross profit as a % of sales	*23.5%*	*24.2%*
Administration expenses	8.7	8.0
Administration expenses as a % of sales	*8.9%*	*10.0%*
Selling expenses	3.5	2.8
Selling expenses as a % of sales	*3.6%*	*3.5%*
Net income	8.0	4.5
Net income as a % of sales	*8.2%*	*5.6%*
Adjusted EBITDA	16.4	13.0
Adjusted EBITDA as a % of sales	*16.8%*	*16.2%*
Adjusted EBITDA without IFRS 16 impact	15.1	13.0
Adjusted EBITDA as a % of sales	*15.5%*	*16.2%*
Net income per share (basic and diluted)	$0.31	$0.18

	March 31, 2019	December 31, 2018
Total Assets	$317.0	$305.6
Total Non-Current Liabilities	$155.4	$142.9

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

	Three months ended March 31, 2019	Three months ended March 31, 2018
Net income	$8.0	$4.5
Adjustments:		
Amortization and depreciation	6.3	4.1
Interest	1.5	1.2
Unrealized foreign exchange (gain) loss	(1.9)	1.0
Acquisition costs	-	0.1
Severance costs	-	0.4
Income taxes	2.5	1.7
Adjusted EBITDA	$16.4	$13.0
Less impact of implementation of IFRS 16 Leases*:		
IFRS 16 related depreciation	1.1	-
IFRS 16 related interest	0.2	-
Adjusted EBITDA without IFRS 16 impact	$15.1	$13.0
Lotteries and charitable gaming	$13.7	$10.6
Diamond Game	2.7	2.4
Adjusted EBITDA	$16.4	$13.0
Lotteries and charitable gaming	$12.6	$10.6
Diamond Game	2.5	2.4
Adjusted EBITDA without IFRS 16 impact	$15.1	$13.0

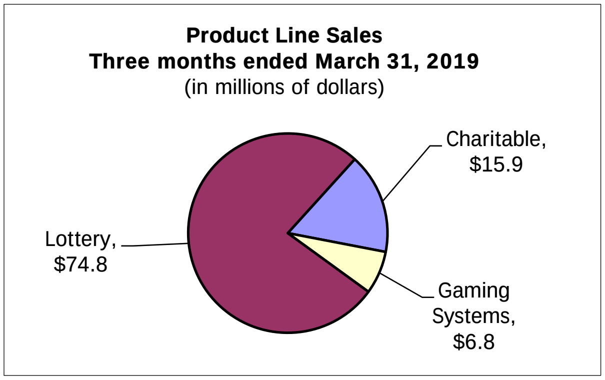
* IFRS 16 Leases was implemented effective January 1, 2019. Qualifying leases are now capitalized and an offsetting liability is recorded. The right-of-use asset is depreciated over the term of the lease and interest expense related to the liability is expensed over the term of the lease. As a result,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

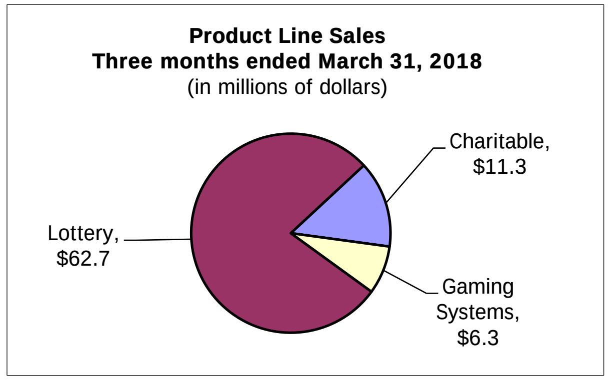
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2019

Sales

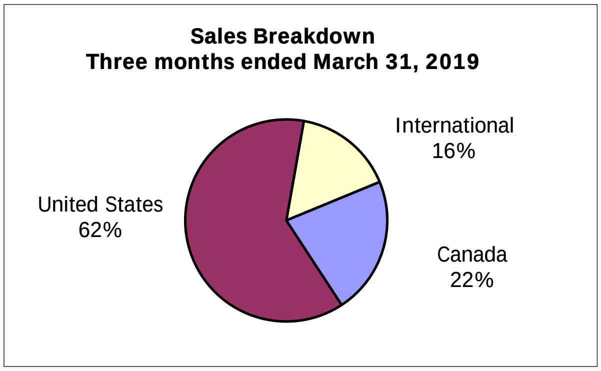


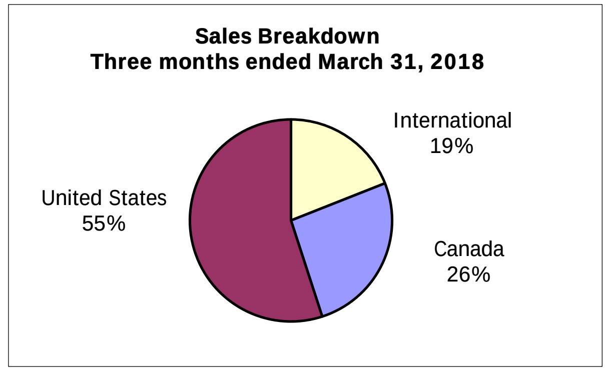


During the three months ended March 31, 2019, Pollard achieved sales of $97.5 million, compared to $80.3 million in the three months ended March 31, 2018. Factors impacting the $17.2 million sales increase were:

An increase in the instant ticket average selling price in the first quarter of 2019 compared to the first quarter of 2018 increased sales by $8.2 million. This increase was, in part, a result of record sales of Pollard's proprietary Scratch FX® product in the quarter. Sales of ancillary instant ticket products and services increased revenue in 2019 by $3.7 million. This increase was primarily from the addition of Schafer Systems (2018) Inc. ("Schafer") and increased iLottery revenues, partially offset by lower licensed product sales. Partially offsetting these increases was a slight decrease in instant ticket sales volume in the quarter which reduced sales by $2.3 million. Certain instant ticket production volume from the fourth quarter of 2018 was recognized in revenue in the first quarter of 2019 as expected, however similar volumes of instant tickets produced later in the first quarter of 2019 will be recognized in the second quarter of 2019.

Diamond Game's sales increased in the first quarter of 2019, which added an additional $0.2 million to sales when compared to 2018. In addition, the increase in charitable gaming volumes, primarily as a result of including three months of International Gamco, Inc. ("Gamco") sales in 2019 as compared to two months in 2018, increased sales by $3.0 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 March 31, 2019, Pollard generated approximately 73.1% (2018 – 67.3%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first quarter of 2019, the actual U.S. dollar value was converted to Canadian dollars at $1.333, compared to a rate of $1.256 during the first quarter of 2018. This 6.1% increase in the U.S. dollar value resulted in an approximate increase of $3.9 million in revenue relative to the first quarter of 2018. In addition, during the quarter the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $0.1 million in revenue relative to the first quarter of 2018.

Cost of sales and gross profit

Cost of sales was $74.6 million in the first quarter of 2019 compared to $60.9 million in the first quarter of 2018. The increase in cost of sales was partially as a result of higher exchange rates on U.S. dollar denominated transactions in 2019 and higher input costs relating to increased Scratch FX® sales. The majority of the remaining increase related to the inclusion of Schafer in 2019, as well as the inclusion of Gamco for three months in the first quarter of 2019 as compared to two months in 2018.

Gross profit was $22.9 million (23.5% of sales) in the first quarter of 2019 compared to $19.4 million (24.2% of sales) in the first quarter of 2018. This increase of $3.5 million in gross profit was primarily the result of the addition of Schafer, and a full quarter of Gamco, which increased gross margin by approximately $2.0 million. Gross profit generated from the lotteries and charitable gaming business (excluding Gamco and Schafer) increased approximately $1.6 million due to the higher instant ticket average selling price and increased profits from digital and iLottery offerings. These increases were partially offset by lower licensed games sales. The gross profit percentage was slightly lower due to the change in instant ticket sales mix and a reduction in license product sales, partially offset by higher iLottery sales and the addition of Schafer.

Administration expenses

Administration expenses increased to $8.7 million in the first quarter of 2019 from $8.0 million in the first quarter of 2018. The increase of $0.7 million was partially a result of the inclusion of Schafer and including Gamco for an entire quarter in 2019. Additional reasons for the increase, totaling approximately $0.5 million, were higher compensation expenses to support Pollard's growth strategies of acquisition and digital innovation and increased professional fees. These increases were partially offset by the $0.1 million reduction in acquisition costs and $0.4 million reduction in severance costs as compared to 2018.

Selling expenses

Selling expenses increased to $3.5 million in the first quarter of 2019 from $2.8 million in the first quarter of 2018 primarily due to the addition of Schafer and including Gamco for an entire quarter in 2019, as well as higher compensation costs. These increases were partially offset by a decrease in contract support costs.

Other expenses

Other expenses increased to $0.2 million in in the first quarter of 2019 from $nil in 2018, primarily due to the increased loss on equity investment of $0.4 million, partially offset by the increased other income of $0.2 million.

Foreign exchange

The net foreign exchange gain was $1.5 million in the first quarter of 2019 compared to a net loss of $1.2 million in the first quarter of 2018. The 2019 net foreign exchange gain consisted of a $1.9 million unrealized gain primarily as a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt with the strengthening of the Canadian dollar relative to the U.S. dollar. In fiscal 2018 Pollard added almost US$29 million of U.S. dollar denominated debt, with the acquisitions of Gamco and Schafer, which is subject to revaluation through the income statement. The strengthening of the Canadian dollar relative to the U.S. dollar in the first quarter of 2019 resulted in the substantial unrealized foreign exchange gain. In addition to the unrealized foreign exchange gain in 2019, Pollard incurred a realized foreign exchange loss of $0.4 million 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 of $1.2 million consisted of an unrealized foreign exchange loss of $1.0 million primarily as a result of the unrealized loss on U.S. dollar denominated debt which was a result of the weakening of the value of the Canadian dollar versus the U.S. dollar during the first quarter of 2018. In addition to the unrealized loss, there was a realized loss of $0.2 million, primarily as a result of the decreased value of U.S. denominated receivables at collection.

Adjusted EBITDA

Adjusted EBITDA increased to $16.4 million in the first quarter of 2019 compared to $13.0 million in the first quarter of 2018. The classification of operating lease costs under IFRS 16 Leases, which was implemented effective January 1, 2019, increased Adjusted EBITDA by $1.3 million in the first quarter of 2019.

The primary reason for the remaining increase in Adjusted EBITDA of $2.1 million was the increase in gross profit of $4.4 million (net of amortization and depreciation and IFRS 16 impact). This increase to Adjusted EBITDA was partially offset by higher administration expenses (net of acquisition and severance costs) of $1.2 million, an increase in selling expenses of $0.7 million, an increase in other expenses of $0.2 million and an increase in realized foreign exchange loss of $0.2 million.

Interest expense

Interest expense increased to $1.5 million in the first quarter of 2019 from $1.2 million in first quarter of 2018 primarily as a result of the additional interest expense related to increased long-term debt incurred with the acquisition Schafer and additional interest expense with the implementation of IFRS 16 on January 1, 2019 of $0.2 million.

Amortization and depreciation

Amortization and depreciation, including depreciation of property and equipment and the amortization of intangible assets, totaled $6.3 million during the first quarter of 2019 which increased from $4.1 million during the first quarter of 2018. The increase was primarily as a result of $1.0 million of former operating lease costs being characterized as depreciation with the implementation of IFRS 16 on January 1, 2019 and the addition of a Schafer and a full quarter of Gamco, 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 $2.5 million in the first quarter of 2019, an effective rate of 23.3%, 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.

Income tax expense was $1.7 million in the first quarter of 2018, an effective rate of 27.2%, which was similar to our domestic rate of 27.0%.

Net income

Net income increased to $8.0 million in the first quarter of 2019 from $4.5 million in the first quarter of 2018. The primary reasons for the increase in net income were the increase in gross profit of $3.5 million, due to the addition of Schafer, a full quarter of Gamco and the increase in instant ticket average selling price, and the increase in foreign exchange gain of $2.7 million. Partially offsetting these increases were the increase in administration expenses of $0.7 million, the increase in selling expenses of $0.7 million, higher interest expense of $0.3 million and the increase in income taxes of $0.8 million.

Net income per share (basic and diluted) increased to $0.31 per share in the first quarter of 2019 from $0.18 per share in the first quarter of 2018.

Liquidity and Capital Resources

Cash provided by operating activities

For the three months ended March 31, 2019, cash flow provided by operating activities was $5.5 million compared to cash flow provided by operating activities of $20.1 million for the first three 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 three months ended March 31, 2019, changes in non-cash working capital used $8.6 million as compared to 2018 which provided $9.5 million in non-cash working capital, an $18.1 million difference. For the first quarter of 2019, changes in the non-cash working capital decreased cash flow from operations was due primarily to an increase in accounts receivables and a decrease in accounts payable and accrued liabilities, partially offset by a decrease in inventory. For the fiscal year 2018, changes in the non-cash component of working capital increased cash flow from operations due primarily to a decrease in accounts receivables, partially offset by an increase in inventory and a decrease in accounts payable and accrued liabilities.

Higher net income before income taxes after non-cash adjustments in the first quarter of 2019 contributed an additional $4.3 million to the increase in cash provided by operating activities as compared to 2018. Cash used for interest increased to $1.3 million in 2019 as compared to $1.2 million in 2018. Cash used for pension plan contributions increased to $1.6 million in 2019 as compared to $1.1 million in 2018. Cash used for income tax payments increased to $1.7 million in 2019 from $1.6 million in 2018.

Cash used for investing activities

In the three months ended March 31, 2019, cash used for investing activities was $6.3 million compared to $26.6 million in the first three months of 2018. In the three months ended March 31, 2019, Pollard used $3.8 million on capital expenditures, $0.8 million on its investment in its iLottery joint venture and $1.6 million on additions to intangible assets.

In the three months ended March 31, 2018, cash used for investing activities was $26.6 million. Pollard used $21.6 million, net of cash acquired, to purchase Gamco. In addition, Pollard expended $3.0 million in capital expenditures, $0.5 million on its investment in its iLottery joint venture and $1.6 million on additions to intangible assets.

Cash used for financing activities

Cash used for financing activities was $7.6 million in the three months ended March 31, 2019, compared to cash provided by financing activities of $8.8 million in the three months ended March 31, 2018.

During the first quarter of 2019 cash was used to repay $5.6 million of long-term debt and pay $1.3 million of lease principal payments and $1.0 million of dividends.

During the first quarter of 2018 Pollard raised $35.4 million, net of expenses, from the issuance of common shares. The proceeds were used, in part, to repay $17.3 million of long-term debt and $8.4 million of subordinated debt. Pollard also expended $0.2 million on long-term liabilities and paid dividends of $0.7 million.

As at March 31, 2019, Pollard had unused credit facility of $64.3 million, in addition to $2.8 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)

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Sales	$97.5	$70.2	$94.5	$86.8	$80.3	$79.6	$70.6	$77.9	$57.5
Adjusted EBITDA	16.4	7.5	14.2	14.1	13.0	13.0	11.6	13.1	6.3
Net income (loss)	8.0	(1.9)	7.2	5.0	4.5	4.3	4.7	6.0	1.8

Effective the first quarter 2019 Adjusted EBITDA increased $1.3 million 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 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 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 result in regular payments. 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.

The overall impact of seasonality does not have a material impact on the carrying amounts in working capital.

As at March 31, 2019, Pollard's investment in non-cash working capital increased $8.6 million compared to December 31, 2018, primarily as a result of an increase in accounts receivables and a decrease in accounts payable and accrued liabilities, partially offset by a decrease in inventories.

	March 31, 2019	December 31, 2018
Working Capital	$60.6	$65.5
Total Assets	$317.0	$305.6
Total Non-Current Liabilities	$155.4	$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 March 31, 2019, the outstanding letters of guarantee were $2.4 million. The remaining balance available for drawdown under the credit facility was $64.3 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 March 31, 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 March 31, 2019 and May 8, 2019, outstanding share data was as follows:

Common shares	25,630,658

In March 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. As at March 31, 2019, the total share options issued and outstanding were 232,500.

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.

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 months ended March 31, 2019.

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the three months ended March 31, 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 instant ticket order levels have returned to similar levels previously seen in the first three quarters of 2018 as expected. Based on our expectations and current schedules we believe these order levels will continue through the second quarter and the remainder of 2019. In addition, with industry growth and continued success developing innovative products, we are hopeful to achieve incremental growth over and above the volume levels achieved in the first three quarters of 2018.

The lottery industry remains robust with growing consumer demand, particularly as it relates to instant tickets and digital offerings. Our contract portfolio remains strong with no material contracts expiring in 2019. Over the past year we have been awarded a number of long-term instant ticket contracts with key lotteries including the Western Canada Lottery Corporation and the British Columbia Lottery

Corporation. We have also recently been awarded a new contract with the Arizona Lottery to manage their instant ticket warehousing, distribution and inventory management operations. This award represents growing recognition of our expanding product offering.

As previously disclosed, there are currently large instant ticket contracts up for bid in 2019 where Pollard is not a major supplier. These contract bid processes are underway and, although lotteries don't regularly replace their primary supplier, we are hopeful at a minimum that these upcoming contract awards may offer Pollard the opportunity to provide incremental levels of instant tickets going forward.

iLottery continues to be very active, with state and provincial lotteries looking into opportunities in this space, while work continues on the roll out of our North Carolina iLottery operation targeted to go live late in 2019. The court process we initiated to clarify that the Wire Act only applies to sports betting, and thereby confirming lotteries can continue to provide lawful gaming over the internet, remains before the New Hampshire circuit court. A ruling is not expected before the summer of 2019. We remain confident the court will find in favour of the lotteries, although we anticipate the initial court ruling will likely be appealed.

A foundation of our success has been, and continues to be, the development of innovative proprietary products with regard to both our instant tickets as well as our other offerings, including digital and other ancillary products. We continue to invest resources in developing these value-added products and services in order to help lotteries maximize their proceeds for good causes and differentiate Pollard Banknote from other suppliers.

The integration of our most recent acquisition, Schafer Systems, with our instant ticket business continues to move forward positively, with cross-company development teams working together on innovative merchandising concepts for instant tickets.

In 2018 we recommissioned our original printing press in Ypsilanti and we are currently adding some additional equipment in order to increase its capacity. The resulting capacity increase will position us to provide efficient, flexible scheduling for our current level of orders as well as ensure sufficient available capacity for growth.

No major individual CAPEX projects are anticipated for 2019 and we expect our CAPEX for the next year will be similar to the levels incurred in 2018. Our business remains a strong generator of free cash flow and after funding our CAPEX and current dividend, free cash flow will be used to pay down debt and to help fund any future acquisitions.

Acquisitions remain a critical component in our strategic plan and we continue to actively review strategic opportunities that will assist us in key areas such as technology, ancillary lottery products and charitable gaming.

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") regarding the design and effectiveness of the disclosure controls and procedures. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the disclosure controls and procedures as defined in National Instrument 52-109 are designed appropriately and are effective at providing 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, 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 and effectiveness 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 internal controls over financial reporting as defined in National Instrument 52-109 are designed appropriately and are effective at providing reasonable assurance of achieving the financial reporting objectives.

Pollard has limited its design of ICFR to exclude controls, policies and procedures of Schafer, 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 months ended March 31, 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 for the year ended December 31, 2018, is available on SEDAR at www.sedar.com.

Pollard Banknote Limited
140 Otter Street
Winnipeg, Manitoba R3T 0M8
(204) 474-2323
www.Pollardbanknote.com