POLLARD
banknote limited

December 31, 2018

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

FOR THE YEAR ENDED DECEMBER 31, 2018

March 13, 2019

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the year ended December 31, 2018, is prepared as at March 13, 2019, and should be read in conjunction with the accompanying audited financial statements of Pollard and the notes therein as at December 31, 2018. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("GAAP" or "IFRS").

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 consolidated results of Pollard for the year ended December 31, 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, ScanACTIV™ 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.

Product line breakdown of revenue

	Year ended December 31, 2018	Year ended December 31, 2017
Lottery[1]	75.5%	86.7%
Charitable [2]	16.6%	9.7%
Gaming systems [3]	7.9%	3.6%

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

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

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

Geographic breakdown of revenue

	Year ended December 31, 2018	Year ended December 31, 2017
United States	56%	56%
Canada	23%	22%
International	21%	22%

Acquisition of International Gamco, Inc.

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

During the period between February 1, 2018 and December 31, 2018, Gamco generated revenues of $27.1 million and net income of $1.1 million, after depreciation and amortization of the fair values of identifiable assets acquired, 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 recognized in the year ended December 31, 2018.

Share offering

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

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

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

Acquisition of Schafer Systems

On October 31, 2018, Pollard Systems Inc., a wholly-owned indirect subsidiary of Pollard, acquired substantially all of the operating assets and business of Schafer Systems Inc. ("Schafer"), a leading global provider of lottery ticket dispensers and play stations, for a purchase price of approximately US$23.2 million. 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 October 31, 2018, the acquisition date. Pollard Systems Inc. was renamed Schafer Systems (2018) Inc. upon completion of the transaction.

During the period between October 31, 2018 and December 31, 2018, Schafer generated revenues of $2.2 million and net income of $0.2 million, after depreciation and amortization of the fair values of identifiable assets acquired, which have been recorded in the consolidated financial statements. If Schafer had been acquired on January 1, 2018, incremental revenue of $11.8 million and net income of $1.9 million would have been recognized in the year ended December 31, 2018.

The following financial information should be read in conjunction with the accompanying financial statements of Pollard and the notes therein as at and for the year ended December 31, 2018.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Sales	**$331.9**	$285.6	$246.4
Cost of sales	**256.2**	219.9	197.2
Gross profit	**75.7**	65.7	49.2
Gross profit as a % of sales	***22.8%***	*23.0%*	*20.0%*
Administration expenses	**32.2**	28.6	20.9
Expenses as a % of sales	***9.7%***	*10.0%*	*8.5%*
Selling expenses	**13.4**	9.4	8.0
Expenses as a % of sales	***4.0%***	*3.3%*	*3.2%*
Net income	**14.9**	16.8	12.3
Net income as a % of sales	***4.5%***	*5.9%*	*5.0%*
Adjusted EBITDA	**48.8**	44.0	29.7
Adjusted EBITDA as a % of sales	***14.7%***	*15.4%*	*12.1%*
Earnings per share (basic and diluted)	**$0.58**	$0.71	$0.52

	December 31, 2018	December 31, 2017	December 31, 2016
Total Assets	**$305.6**	$228.3	$176.8
Total Non-Current Liabilities	**$142.9**	$124.8	$94.4

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

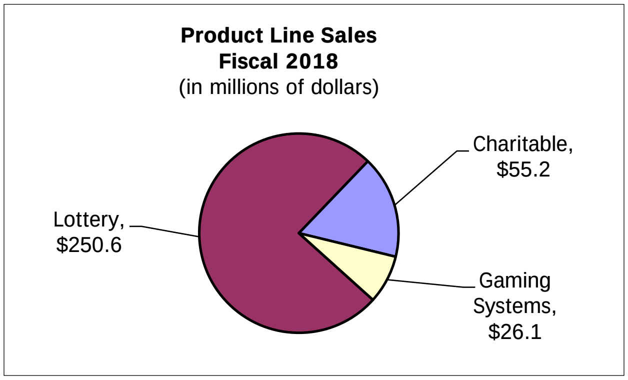
	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Net income	**$14.9**	$16.8	$12.3
Adjustments:			
Amortization and depreciation	**18.0**	13.1	10.6
Interest	**4.2**	3.9	3.6
Unrealized foreign exchange (gain) loss	**4.6**	(1.4)	(1.6)
Acquisition costs	**0.8**	2.7	-
Severance costs	**0.4**	1.7	-
Income taxes	**5.9**	7.2	4.8
Adjusted EBITDA	**$48.8**	$44.0	$29.7
Lotteries and charitable gaming	**$38.4**	$40.0	$29.7
Diamond Game	**10.4**	4.0	-
Total Adjusted EBITDA	**$48.8**	$44.0	$29.7

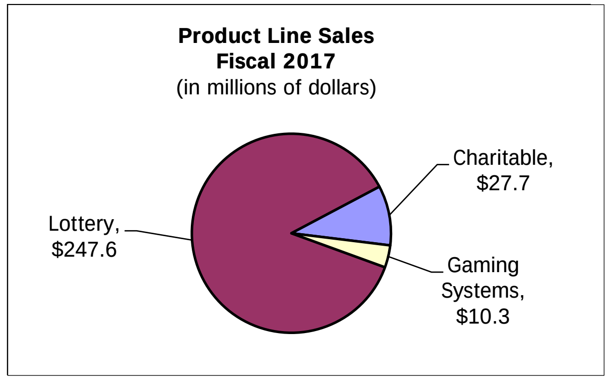
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018

Sales



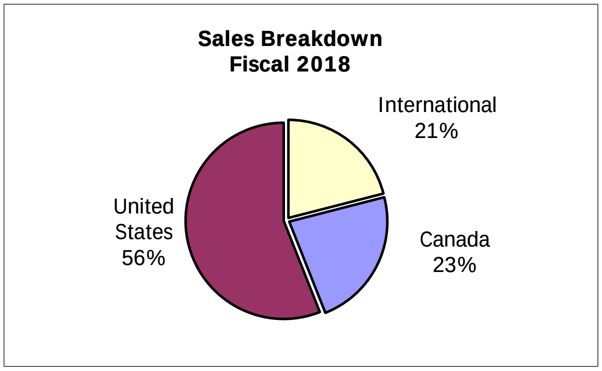


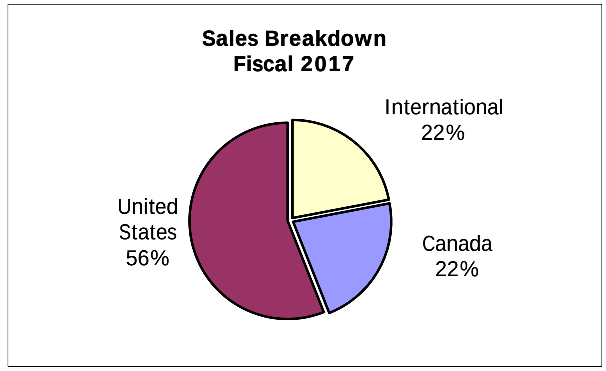
During the year ended December 31, 2018 ("Fiscal 2018" or "2018"), Pollard achieved sales of $331.9 million, compared to $285.6 million in the year ended December 31, 2017 ("Fiscal 2017" or "2017"). Factors impacting the $46.3 million sales increase were:

Higher instant ticket sales volumes in the first three quarters of 2018, which were substantially offset by lower sales volumes in the fourth quarter of 2018, increased sales slightly by $1.3 million compared to Fiscal 2017. Additionally, higher instant ticket average selling price increased sales by $1.8 million when compared to 2017. An increase in ancillary instant ticket products and services volumes grew revenue by $0.5 million. This increase primarily resulted from sales due to the addition of Schafer, beginning November 1, 2018, and higher iLottery revenues, partially offset by lower licensed product sales in 2018.

After the first nine months of 2018 our instant ticket volumes were on track to be significantly higher than Fiscal 2017. However, a temporary reduction in orders from our customers in the fourth quarter resulted in Fiscal 2018 sales and production volumes roughly equaling 2017. Our order volumes for the first quarter of 2019 have returned to similar levels of the first three quarters of 2018. In addition, approximately 15% of the instant tickets produced in the fourth quarter 2018 were not recognized in sales due to the timing of shipments but are anticipated to be recognized in the first quarter of 2019.

The addition of Diamond Game in August 2017 added $15.5 million in sales to Fiscal 2018 when compared to 2017. An increase in charitable gaming volumes, primarily as a result of the acquisition of Gamco, including its Oasis division's sale of electronic pull-tab machines into the North Dakota market, increased sales by $26.7 million from 2017. A higher average selling price for charitable games in 2018 further increased sales by $1.1 million.





During Fiscal 2018, Pollard generated approximately 69.8% (2017 – 69.4%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2018 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.292 compared to an average rate of $1.304 during Fiscal 2017. This 1.0% decrease in the U.S. dollar value resulted in an approximate decrease of $1.5 million in revenue relative to Fiscal 2017. Also during 2018 the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.9 million in revenue relative to 2017.

Cost of sales and gross profit

Cost of sales was $256.2 million in Fiscal 2018 compared to $219.9 million in Fiscal 2017. Cost of sales was higher in Fiscal 2018 primarily as a result of the inclusion of Gamco and Schafer, and a full year of Diamond Game, as well as the slight increase in instant ticket sales volumes.

Gross profit was $75.7 million (22.8% of sales) in Fiscal 2018 compared to $65.7 million (23.0% of sales) in Fiscal 2017. This increase of $10.0 million in gross profit was primarily the result of the addition of Gamco and Schafer, and a full year of Diamond Game, which increased gross margin by approximately $11 million. Gross profit generated from the lotteries and charitable gaming business (excluding acquisitions) declined approximately $1 million due to lower licensed games sales and lower gross margin on slightly lower instant ticket production volumes year over year. The significant reduction in the fourth quarter instant ticket production volumes resulted in the total production volume for Fiscal 2018 being slightly lower than Fiscal 2017. The gross profit percentage was slightly lower due to the small decrease in instant ticket production volumes and a reduction in license product sales, partially offset by higher iLottery sales.

Administration expenses

Administration expenses increased to $32.2 million in Fiscal 2018 from $28.6 million in Fiscal 2017. The increase of $3.6 million was partially a result of the inclusion of Gamco and Schafer, and a full year of Diamond Game. Additional reasons for the increase were higher compensation expenses to support Pollard's growth strategies of acquisition and digital innovation, as well as increased professional fees and IT infrastructure related expenses totaling approximately $2 million. These increases were partially offset by the $1.9 million reduction in acquisition costs and $1.3 million reduction in severance costs as compared to 2017.

Selling expenses

Selling expenses increased to $13.4 million in Fiscal 2018 from $9.4 million in Fiscal 2017 primarily due to the addition of Gamco and Diamond Game for an entire year in 2018, as well as higher compensation costs. These increases were partially offset by a decrease in contract support costs.

Other expenses

Other expenses decreased to $0.4 million in Fiscal 2018 from $0.7 million in 2017, primarily due to the increase in the income from the EBITDA support agreement with a full year of Diamond Game, partially offset by the increased loss on equity investment.

Foreign exchange

The net foreign exchange loss was $4.7 million in Fiscal 2018 compared to a net gain of $0.9 million in Fiscal 2017. The 2018 net foreign exchange loss consisted of a $4.6 million unrealized loss primarily as a result of the increased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt with the weakening of the Canadian dollar relative to the U.S. dollar. In 2018 Pollard added almost $29 million of U.S. dollar denominated debt, with the acquisitions of Gamco and Schafer, which is subject to revaluation through the income statement. At December 31, 2018, the Canadian dollar had weakened relative to the U.S. dollar, resulting in the substantial unrealized foreign exchange loss.

In addition to the unrealized foreign exchange loss in 2018, Pollard incurred a realized foreign exchange loss of $0.1 million as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2017 net foreign exchange gain consisted of a $1.4 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. This gain was partially offset by the realized foreign exchange loss of $0.5 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 was $48.8 million in Fiscal 2018 compared to $44.0 million in Fiscal 2017. The primary reasons for the increase in Adjusted EBITDA of $4.8 million were the increase in gross profit of $14.9 million (net of amortization and depreciation), a decrease in other expenses of $0.3 million and a decrease in realized foreign exchange loss of $0.4 million. These increases to Adjusted EBITDA were partially offset by higher administration expenses (net of acquisition and severance costs) of $6.8 million and an increase in selling expenses of $4.0 million.

Our lotteries and charitable gaming business, excluding our 2018 acquisition of Gamco, generated approximately $5.0 million lower Adjusted EBITDA compared to Fiscal 2017. Gross profit decreased by approximately $3.0 million (excluding depreciation and amortization) due to lower licensed games sales and higher costs of goods sold despite slightly lower instant ticket production volumes. Higher administration costs (excluding acquisition costs) increased by approximately $2.0 million primarily due to higher compensation expenses to support Pollard's growth strategies of acquisition and digital innovation, as well as increased professional fees and IT infrastructure related expenses.

These decreases in lotteries and charitable gaming Adjusted EBITDA were partially offset by acquisitions of Gamco and Schafer, and the full year impact of Diamond Game, totaling approximately $9.8 million.

Interest expense

Interest expense increased to $4.2 million in Fiscal 2018 from $3.9 million in Fiscal 2017 primarily as a result of the additional interest expense related to increased long-term debt incurred with the acquisitions of Gamco and Schafer.

Amortization and depreciation

Amortization and depreciation, including depreciation of property and equipment and the amortization of intangible assets, totaled $18.0 million during Fiscal 2018 which increased from $13.1 million during Fiscal 2017. The increase was a result of the addition of Diamond Game, Gamco and Schafer including the amortization and depreciation relating to the purchase price allocations to tangible and intangible assets acquired.

Income taxes

Income tax expense was $5.9 million in Fiscal 2018, an effective rate of 28.5%, which was higher than our domestic rate of 27.0% due primarily to non-deductible amounts relating to expenses incurred in the acquisitions and the effect of foreign exchange. Partially offsetting these increases was the lower federal income tax rates in the United States.

Income tax expense was $7.2 million in Fiscal 2017, an effective rate of 30.0%, which was higher than our domestic rate of 27.0% due primarily to adjustments relating to the acquisition of Diamond Game, the effect of higher tax rates in the United States in 2017 on current taxes and non-deductible amounts primarily relating to expenses incurred in the acquisition of Diamond Game. Partially offsetting these increases was the reduction in the future federal income tax rates in the United States which reduced related deferred taxes.

Net income

Net income was $14.9 million in Fiscal 2018 compared to net income of $16.8 million in Fiscal 2017. Our lotteries and charitable gaming business generated lower net income compared to 2017 due to the lower instant ticket production and sales volumes combined with the large unrealized foreign exchange loss. Partially offsetting these decreases were the net income associated with the 2018 acquisitions and the inclusion of a full year of Diamond Game.

Specifically the reasons for the decrease in net income were the increase in net foreign exchange loss of $5.6 million, the increase in administration expenses of $3.6 million, the increase in selling expenses of $4.0 million and the increase in interest expense of $0.3 million. Partially offsetting these decreases in net income were the increase in gross profit of $10.0 million, the decrease in other expenses of $0.3 million and the decrease in income taxes of $1.3 million.

Earnings per share (basic and diluted) decreased to $0.58 per share in Fiscal 2018 from $0.71 per share in Fiscal 2017.

Liquidity and Capital Resources

Cash provided by operating activities

For the year ended December 31, 2018, cash flow provided by operating activities was $39.7 million compared to $28.4 million in Fiscal 2017. Higher net income before income taxes and after non-cash adjustments in Fiscal 2018 contributed an additional $9.5 million to the increase in cash provided by operating activities compared to Fiscal 2017.

For the fiscal year 2018, changes in the non-cash component of working capital increased cash flow from operations by $4.0 million. The increase was due primarily to a decrease in accounts receivables, partially offset by an increase in inventory and a decrease in accounts payable and accrued liabilities. For the fiscal year 2017, changes in the non-cash component of working capital decreased cash flow from operations by $2.9 million. The decrease was due primarily to increases in inventory and prepaid expenses and deposits, partially offset by an increase in accounts payable and accrued liabilities.

Cash used for interest payments increased to $4.5 million in 2018 as compared to $3.7 million in 2017. Cash used for pension plan contributions increased to $5.5 million in 2018 as compared to $5.3 million in 2017. Cash used for income taxes paid was $10.2 million in 2018 compared to $6.1 million in 2017. Income tax payments in 2018 included the final installments for the 2017 tax year and initial installments for 2018. Increasing taxable income in 2017 resulted in a higher installment requirement.

Cash used for investing activities

In the year ended December 31, 2018, cash used for investing activities was $77.1 million compared to $51.2 million in the year ended December 31, 2017. In Fiscal 2018, Pollard used $21.6 million, net of cash acquired, to purchase Gamco and $30.4 million to purchase Schafer. In addition, Pollard expended $15.1 million in capital expenditures, $2.8 million on its investment in its iLottery joint venture and $7.1 million on additions to intangible assets.

In Fiscal 2017, Pollard used $39.3 million, net of cash acquired, to purchase Diamond Game. In addition, Pollard invested $6.9 million in capital expenditures, $2.2 million in its iLottery joint venture and $2.2 million on additions to intangible assets.

Cash provided by financing activities

Cash provided by financing activities was $42.6 million in the year ended December 31, 2018, compared to $21.3 million in the year ended December 31, 2017.

During Fiscal 2018, Pollard raised $35.4 million, net of expenses, from the issuance of common shares, which was used, in part, to repay $16.7 million of subordinated debt. In addition, Pollard received net proceeds from long-term debt of $27.9 million, partially to fund the acquisitions of Gamco and Schafer. These cash receipts were partially offset by $0.6 million of financing costs and dividends paid of $3.1 million.

During Fiscal 2017, Pollard received net proceeds from long-term debt of $13.5 million and $10.6 million from subordinated debt, which partially funded the acquisition of Diamond Game. These cash receipts were partially offset by $0.3 million of financing costs and dividends paid of $2.8 million.

As at December 31, 2018, Pollard had unused committed credit facility of $58.9 million, in addition to $11.2 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.

ANALYSIS OF RESULTS FOR THE PERIOD OCTOBER 1, 2018 TO DECEMBER 31, 2018 FOURTH QUARTER OF 2018

SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Three months ended December 31, 2018	Three months ended December 31, 2017
	(unaudited)	(unaudited)
Sales	$70.2	$79.6
Cost of sales	56.9	62.1
Gross profit	13.3	17.5
Administration	7.9	7.5
Selling	3.6	2.6
Other income	(0.1)	-
Income from operations	1.9	7.4
Finance costs	4.2	1.3
Income (loss) before income taxes	(2.3)	6.1
Income taxes:		
Current (recovery)	(0.4)	1.5
Future	-	0.3
	(0.4)	1.8
Net income (loss)	($1.9)	$4.3
Adjustments:		
Amortization and depreciation	5.3	4.5
Interest	1.2	1.3
Unrealized foreign exchange loss	3.1	0.5
Acquisition costs	0.2	0.3
Severance costs	-	0.3
Income taxes (recovery)	(0.4)	1.8
Adjusted EBITDA	$7.5	$13.0
Lotteries and charitable gaming	$4.9	$10.1
Diamond Game	2.6	2.9
Adjusted EBITDA	$7.5	$13.0

Sales

During the three months ended December 31, 2018, Pollard achieved sales of $70.2 million, compared to $79.6 million in the three months ended December 31, 2017. Factors impacting the $9.4 million sales decrease were:

Instant ticket sales volumes for the fourth quarter of 2018 were significantly lower, 31.9%, than the fourth quarter of 2017, which decreased sales by $19.4 million. The reduction in instant ticket volumes was two-fold. Production orders were down almost 15% from the fourth quarter of 2017 due to a temporary decline in orders from our customer portfolio as a number of our larger customers had lower orders during the quarter. The reduction in order volumes was temporary and reflects the variability of order patterns and the nature of our sales mix with relatively few orders of a large dollar amount. With the start of the first quarter of 2019 our production volumes and order levels have returned to similar levels experienced in the first three quarters of 2018.

Secondly, approximately 14% of the tickets produced in the quarter did not meet the revenue recognition standards primarily because shipments to the lotteries were not required until early 2019. This is similar to the situation that occurred in the first quarter of 2017 when timing of customer receipts delayed the revenue recognition of produced tickets until the next quarter. We anticipate a majority of these deferred sales volumes to be shipped and recognized in the first quarter of 2019. The impact of these factors resulted in an approximate reduction in Adjusted EBITDA of $6.0 million. A decrease in the average selling prices of instant tickets further reduced sales by $0.4 million.

Partially offsetting these decreases was an increase in our ancillary instant ticket products and services volumes, primarily sales from the addition of Schafer, increased iLottery revenues, and partially offset by lower licensed product sales. The net of these increased revenue by $1.5 million.

The increase in charitable gaming volumes, primarily as a result of the addition of Gamco, increased sales by $7.1 million from 2017, including its Oasis division's sale of electronic pull-tab machines into the North Dakota market. Also the higher average selling price for charitable games in 2018 further increased sales by $0.4 million.

During the three months ended December 31, 2018, Pollard generated approximately 80.5% (2017 – 67.1%) of its revenue in U.S. dollars including a portion of international sales which were priced in U.S. dollars. During the fourth quarter of 2018 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.311, compared to an average rate of $1.275 during the fourth quarter of 2017. This 2.9% increase in the value of the U.S. dollar resulted in an approximate increase of $1.4 million in revenue relative to 2017.

Cost of sales and gross profit

Cost of sales was $56.9 million in the fourth quarter of 2018 compared to $62.1 million in the fourth quarter of 2017. Cost of sales was lower in the quarter as a result of the decrease in instant ticket volumes discussed above. Partially offsetting the decrease was increases in cost of goods sold incurred with the inclusion of Gamco and Schafer as compared to the fourth quarter of 2017.

Gross profit was $13.3 million (18.9% of sales) in the fourth quarter of 2018 compared to $17.5 million (22.0% of sales) in the fourth quarter of 2017. This decrease in gross profit was primarily the result of the decrease in instant ticket production and sales volumes. The decrease in our order volumes was temporary and reflects the variability of our order patterns and the nature of our sales mix with relatively few orders of a large dollar amount. With the start of the first quarter of 2019 our production volumes and order levels have returned similar to the levels experienced in the first three quarters of 2018.

Partially offsetting this reduction in gross profit was the gross profit earned by Gamco and Schafer and increased iLottery gross profits. The gross profit percentage was lower due to the decrease in instant tickets volumes, partially offset by increased sales of ancillary instant ticket products and services, including higher iLottery sales, and the inclusion of Gamco and Schafer.

Administration expenses

Administration expenses increased to $7.9 million in the fourth quarter of 2018 compared to $7.5 million in the fourth quarter of 2017. The increase was partially a result of the inclusion of Schafer and Gamco in 2018. Additional reasons for the increase were higher compensation expenses to support Pollard's growth strategies of digital innovation, as well as increased professional fees. These increases were partially offset by a reduction in Diamond Game compensation and severance costs compared to 2017.

Selling expenses

Selling expenses increased to $3.6 million in the fourth quarter of 2018 from $2.6 million in the fourth quarter of 2017. The increase was primarily as a result of the inclusion of Schafer and Gamco, in addition to higher selling related costs in Diamond Game when compared to 2017. Partially offsetting these increases was a decrease in contract support costs.

Foreign exchange

The net foreign exchange loss was $3.0 million in the fourth quarter of 2018 compared to a net loss of $nil in the fourth quarter of 2017. The 2018 net foreign exchange loss consisted of a $3.1 million unrealized loss primarily as a result of the increased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the weakening of the Canadian dollar relative to the U.S. dollar. The Canadian dollar weakened approximately 5.5% since the beginning of the fourth quarter of 2018 and this movement, combined with higher U.S. dollar denominated debt relating to the acquisitions, generated a substantial unrealized foreign exchange loss. The unrealized foreign exchange loss was partially offset by the realized foreign exchange gain of $0.1 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchanges rates.

The 2017 net foreign exchange loss consisted of a $0.5 million unrealized loss which was primarily as a result of the decreased Canadian equivalent value of U.S. denominated accounts receivables with the weakening of the Canadian dollar relative to the U.S. dollar. This loss was fully offset by the realized foreign exchange gain of $0.5 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchanges rates.

Adjusted EBITDA

Adjusted EBITDA was $7.5 million in the fourth quarter of 2018 compared to $13.0 million in the fourth quarter of 2017. The primary reason for the reduction were the lower sales and production volumes of instant tickets noted above which negatively impacted Adjusted EBITDA by approximately $6.0 million. In addition, the increase in administration expenses (net of severance and acquisition costs) of $0.8 million, an increase in selling expenses of $1.0 million and the decrease in the realized foreign exchange gain of $0.4 million further lowered Adjusted EBITDA. The 2018 acquisitions increased Adjusted EBITDA by approximately $3.0 million.

Interest expense

Interest expense was $1.2 million in the fourth quarter of 2018 consistent with $1.3 million in the fourth quarter of 2017.

Amortization and depreciation

Amortization and depreciation, including depreciation of property, plant and equipment and the amortization of intangible assets, increased to $5.3 million during the fourth quarter of 2018 as compared to $4.5 million during the fourth quarter of 2017. The increase was a result of the additions of Diamond Game, Gamco and Schafer including the amortization and depreciation relating to the purchase price allocations to tangible and intangible assets acquired.

Income taxes (recovery)

Income tax recovery was $0.4 million in the fourth quarter of 2018, an effective rate of 16.3% which was lower than our domestic rate of 27.0% due primarily to non-deductible amounts relating to expenses incurred in the acquisitions and the effect of foreign exchange. Partially offsetting these decreases were the lower federal income tax rates in the United States.

Income tax expense was $1.8 million in the fourth quarter of 2017, an effective rate of 28.8% which was higher than our domestic rate of 27.0% due primarily to adjustments relating to the acquisition of Diamond Game, the effect of higher tax rates in the United States in 2017 on current taxes, the effect of foreign exchange and non-deductible amounts primarily relating to expenses incurred in the acquisition of Diamond Game. Partially offsetting these increases was the reduction in the future federal income tax rates in the United States which reduced related deferred taxes.

Net income (loss)

Net loss was $1.9 million in the fourth quarter of 2018 compared to net income of $4.3 million in the fourth quarter of 2017. The primary reasons for the decrease in net income were the lower gross profit of $4.2 million, due to the reduction in instant ticket sales and production volumes partially offset by the impact of the 2018 acquisitions, the increase in foreign exchange loss of $3.0 million, the increase in administration expenses of $0.4 million and the increase in selling expenses of $1.0 million. Partially offsetting these decreases was the reduction in income taxes of $2.2 million.

Earnings (loss) per share (basic and diluted) decreased to ($0.08) per share in the fourth quarter of 2018 from $0.18 per share in the fourth quarter of 2017.

Quarterly Information
(unaudited)
(millions of dollars)

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Sales	$70.2	$94.5	$86.8	$80.4	$79.6	$70.6	$77.9	$57.5
Adjusted EBITDA	7.5	14.2	14.1	13.0	13.0	11.6	13.1	6.3
Net income (loss)	(1.9)	7.2	5.0	4.6	4.3	4.7	6.0	1.8

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.

The trend of increased sales, Adjusted EBITDA and net income, starting the fourth quarter of 2017 through to the third quarter of 2018, was primarily as a result of higher instant ticket volumes and the additions of Diamond Game and Gamco.

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 December 31, 2018, Pollard's investment in non-cash working capital decreased $4.0 million compared to December 31, 2017, primarily as a result of the decreased investment in accounts receivables, partially offset by an increase in inventory and a decrease in accounts payable and accrued liabilities.

	December 31, 2018	December 31, 2017
Working Capital	$65.5	$44.6
Total Assets	$305.6	$228.3
Total Non-Current Liabilities	$142.9	$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 December 31, 2018, the outstanding letters of guarantee were $1.3 million. The remaining balance available for drawdown under the credit facility was $58.9 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 December 31, 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. 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.

Subordinated Debt

On June 23, 2017, Pollard entered into a loan agreement with Pollard Equities Limited for a subordinated term loan with a seven year term, repayable at any time (subject to meeting certain financial covenants under the secured credit facility). The loan was provided to assist with the purchase of Diamond Game. A total of $25.1 million was drawn in the third quarter of 2017. Interest on the subordinated debt commenced with the first draw at a rate of 8%. Quarterly principal payments on the loan facility commenced the month following the first draw, which occurred August 4, 2017.

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

Outstanding Share Data

As at December 31, 2018 outstanding share data was as follows:

Common shares	25,625,658

In February 2018, 2,070,000 common shares were issued through a share offering.

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

As at March 13, 2019, outstanding share data was as follows:

Common shares	25,625,658

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 October 17, 2018, 12,500 stock options were exercised. As at December 31, 2018, the total share options issued and outstanding were 237,500.

Dividends

On March 13, 2019, the Board of Directors increased the rate of dividend from $0.03 per quarter per common share to $0.04 per quarter per common share, declaring a dividend of $0.04 per common share payable on April 15, 2019, for the quarter ending March 31, 2019.

Contractual Obligations

Pollard rents premises and equipment under long-term operating leases. The following is a schedule by year of commitments and contractual obligations outstanding, including related interest payments:

(millions of dollars)	Total	2019	2020	2021	2022	2023
Long-term debt	$129.4	$4.8	$5.6	$119.0	-	-
Operating leases	$20.0	$5.7	$4.9	$3.8	$3.2	$2.4
Total	$149.4	$10.5	$10.5	$122.8	$3.2	$2.4

Pension Obligations

Pollard sponsors four non-contributory defined benefit pension plans, of which three are final pay plans and one is a flat benefit plan. As of December 31, 2018, the aggregate fair value of the assets of Pollard's defined benefit pension plans was $52.9 million and the accrued benefit plan obligations were $73.3 million. Pollard's total annual funding contribution for its defined pension plans in 2019 is expected to be approximately $4.7 million, compared to $4.7 million in 2018, including $1.2 million in additional solvency payments.

One of Pollard's Canadian pension plans was subject to a solvency valuation beginning with its December 31, 2016, valuation. The solvency valuation is required to be updated annually. As at the December 31, 2017, valuation there was a deficit of $9.4 million, due to the low current levels of the mandated interest rate used to discount the future liabilities. As a result, Pollard is subject to additional special pension plan payments of approximately $1.2 million per year through to 2026. These additional solvency payments do not impact pension expense and therefore will not affect our net income or Adjusted EBITDA and will be funded from operating cash flows.

Off-Balance Sheet Arrangements

Other than the operating leases described previously, Pollard has no other off-balance sheet arrangements.

Related Party Transactions

Pollard Equities Limited and affiliates

During the year ended December 31, 2018, Pollard paid property rent of $3.2 million (2017 - $3.2 million) and $0.5 million (2017 - $0.4 million) in plane charter costs to affiliates of Equities. In addition, Pollard paid Equities $0.4 million (2017 - $1.0 million) of interest on Pollard's subordinated debt.

During the year ended December 31, 2018, Equities paid Pollard $0.07 million (2017 - $0.07 million) for accounting and administration fees.

At December 31, 2018, Pollard owed Equities and its affiliates $0.6 million (2017 - $1.9 million) for rent, interest, expenses and other items.

Neogames S.à r.l. and affiliates

During the year ended December 31, 2018, Pollard reimbursed operating costs and paid software royalties of $3.3 million (2017 - $2.9 million) to its iLottery partner, which are recorded in cost of sales.

At December 31, 2018, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of $0.9 million (2017 - $0.7 million) for reimbursement of operating costs and capital expenditures, and its share of operating profits.

Critical Accounting Policies and Estimates

Described in the notes to Pollard's 2018 audited consolidated financial statements are the accounting policies and estimates that Pollard believes are critical to its business. Please refer to note 2 (c) to the audited consolidated financial statements for the year ended December 31, 2018, for a discussion of the significant accounting estimates and judgements.

Future Changes in Accounting Policies

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16 *Leases* which replaces IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019.

Pollard has undertaken a preliminary review of all lease contracts and has applied the new measurement model for lessees. Pollard leases a number of manufacturing facilities in Canada and the United States. The present value of the remaining lease payments will be recognized on the balance sheet as right to use assets and related lease liabilities upon adoption. The nature of expenses related to those leases will now change because Pollard will recognize a depreciation charge on the right to use assets and an interest expense on the related lease liabilities. Pollard intends to adopt the standard using the modified retrospective approach, using the practical expedient of setting the initial right to use asset and the corresponding lease liability equal. No restatement is required under this approach. Pollard has preliminarily estimated that the transitional impact on the consolidated statements of financial position will result in recognizing right to use assets and corresponding lease liabilities of $18.7 million.

In June 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments.* The Interpretation aims to reduce diversity in how companies recognize and measure a tax liability or tax asset when there is uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after January 1, 2019 and is to be applied retrospectively. Pollard does not expect the Interpretation to have a significant impact on the consolidated financial statements upon adoption.

In October 2017, the IASB issued amendments to IAS 28 *Investments in Associates and Joint Ventures.* The amendments clarify that long-term interests in associates and joint ventures, to which the equity method is not applied, are in the scope of both IFRS 9 *Financial Instruments* (including impairment testing) and IAS 28 in terms of the application of IFRS 9 loss absorption and the impairment requirements of IAS 28. These amendments are effective for annual periods beginning on or after January 1, 2019. Pollard does not expect the amendments to have a significant impact on the consolidated financial statements upon adoption.

In February 2018, the IASB issued amendments to IAS 19 *Employee Benefits*. The amendments were issued to specify how an entity determines pension expenses when changes to a defined benefit plan occur. When a change to a plan takes place, including an amendment, curtailment or settlement, IAS 19 requires an entity to remeasure its employee benefit plan liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and the net finance cost for the remainder of the reporting period after the change to the plan. The amendments are for annual and interim reporting periods beginning on or after January 1, 2019 and are to be applied prospectively. Pollard does not expect the amendments to have a significant impact on the consolidated financial statements upon adoption.

Industry Risks and Uncertainties

Pollard is exposed to numerous risks and uncertainties which are described in this MD&A and Pollard's most recent Annual Information Form dated March 13, 2019, which is available under Pollard's profile on SEDAR (www.sedar.com).

Financial Instruments

Pollard is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates, liquidity risk and credit risk. Pollard uses financial instruments, from time to time, to manage these risks.

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls to monitor risks and adherence to limits. The Audit Committee oversees how management monitors compliance with Pollard's risk management policies and procedures. The Audit Committee is assisted in its oversight role by Internal Audit, who undertakes regular reviews of risk management controls and utilizes the annual risk assessment process as the basis for the annual internal audit plan.

Risk Exposure

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to international customers where sales are denominated in U.S. dollars. In addition, a significant portion of its cost inputs are denominated in U.S. dollars. Pollard also generates revenue in currencies other than Canadian and U.S. dollars, primarily in Euros.

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time.

Interest rate risk

Pollard is exposed to interest rate risk relating to its fixed and floating rate instruments. Fluctuation in interest rates will have an effect on the valuation and repayment of these instruments.

Credit risk

Credit risk is the risk of financial loss if a customer or counterpart to a financial instrument fails to meet its financial obligations.

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due.

Risk Management

Currency risk

Pollard utilizes a number of tools to manage its foreign currency risk including sourcing its manufacturing facilities in the U.S. and sourcing other cost of sales in U.S. dollars.

A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and U.S. dollar would decrease/increase the income before income taxes by approximately $0.02 million for year ended December 31, 2018 (2017 - $0.15 million). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian dollar and Euro would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $0.08 million for year ended December 31, 2018 (2017 - $0.07 million).

Five manufacturing facilities are located in the U.S. and a significant amount of cost inputs for all production facilities are denominated in U.S. dollars, offsetting a large portion of the U.S. dollar revenue in a natural hedge.

As at December 31, 2018, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately $36.1 million (2017 - $1.3 million). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in income before income taxes of approximately $0.2 million (2017 - $0.01 million).

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At December 31, 2018, Pollard had no outstanding foreign currency contracts.

Interest rate risk

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of $0.6 million for the year ended December 31, 2018 (2017 - $0.4 million).

Credit risk

Credit risk on Pollard's accounts receivable is minimized since they are mainly from governments and their agencies and are collected in a relatively short period of time. Credit risk on foreign currency contracts is minimized since the counterparties are restricted to Schedule 1 Canadian financial institutions.

In accordance with IFRS 9, Pollard has applied the expected credit loss model in evaluating the credit risk associated with its accounts receivable. As part of this analysis, Pollard groups its customers into two tranches: government lottery organizations and charitable gaming distribution networks. For sales to government lottery organizations, Pollard has assessed the loss allowance at zero based on the nature of the customer organizations, and no history of losses, collection issues, or significantly overdue receivables, as well as other customer-specific and forward-looking macroeconomic factors. Pollard has performed the same assessment for charitable gaming distribution network customers, resulting in the provision of a loss allowance of $0.2 million, which is netted against accounts receivables.

Liquidity risk

Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. Pollard maintains a committed credit facility including up to $160.0 million for its Canadian operations and up to US$12.0 million for its U.S. subsidiaries. At December 31, 2018, the unused balance available for drawdown was $58.9 million (2017 - $34.2 million).

The 2019 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Outlook

The lottery industry remains very robust, with continued consumer demand presenting lotteries with the foundation for growing their revenue and proceeds raised for good causes. Showing particularly strong growth is the instant ticket product line. Higher price points, greater prize payouts, varying ticket sizes and play mechanics, all continue to drive higher retail sales and ultimately greater demand for our instant tickets over the long term. We also believe our ancillary and support products for instant tickets will see increased demand. These items, such as iLottery and digital games, loyalty solutions and other related services, also help expand sales of instant tickets creating more opportunities for Pollard.

We believe our first quarter 2019 Adjusted EBITDA will return to expected levels and we anticipate this trend to continue. Orders can vary in the short-term and on a quarter to quarter basis can impact our results. We believe growing our volumes and market share will help mitigate this variability.

Revenue recognition standards and delivery terms can impact when we are able to recognize our instant ticket production in revenue. Over a longer period of time these variations are lessened but over the short term it can have an impact on our financial results. We anticipate the majority of the instant ticket volumes that were deferred at the end of 2018 to be recognized in the first quarter of 2019.

Much of our revenue is based on long term contracts and our current contract portfolio is well positioned with no large contracts up for expiry in 2019. We renewed or extended all our major contracts that came due in 2018. Many of our contracts allow the lottery to choose from multiple suppliers, which provides Pollard the opportunity to win market share from other suppliers by providing successful products for the lottery. Over the past few years this has been one of the keystones of our growth and we will continue to focus on this strategy in 2019. We have previously disclosed that there were a number of large instant ticket contracts that came up for bid in 2018 where Pollard was not a major supplier. These contract bid processes remain underway as we enter 2019.

The ability to develop and sell proprietary products and services is a key success factor for Pollard. Our specialty instant tickets such as Scratch FX® and laminated products such as PlayBooks® have been very important in supporting lotteries in their growth initiatives and we are planning to continue to invest in the resources to develop more innovative products and services. Ticket features such as Clear Play™ and the development and roll out of our PlayOn™ player engagement solution are examples of the development necessary to remain partner of choice.

We expect our first quarter 2019 revenue to be boosted due to the deferral of completed tickets from 2018 being delivered in the first three months of 2019. This additional sales volume will supplement the revenue from sales of tickets produced in the first quarter.

We anticipate our 2019 CAPEX to be at similar levels expended in 2018 once adjusted for the full year of ownership of our recent acquisitions. Included in our planned capital expenditures are new eGaming machines for our Diamond Game and Oasis operations. These expenditures can vary depending on timing of new machine placements and new contract wins. We expect our operations to generate strong free cash flow after consideration of CAPEX and expect to use these funds to pay down bank debt and to contribute to any additional acquisitions.

Charitable gaming remains steady, with ongoing orders from private distributors supporting pull-tab and bingo paper sales. Third party data has indicated some retail sales growth of these products which is a positive sign. The charitable gaming business generates strong cash flow, as it requires minimal capital investment.

In early 2018 we increased our instant ticket capacity by recommissioning our original press line in Ypsilanti. We are in the process of adding supplementary equipment to this original press line which will add incremental capacity in 2019 to help ensure we will have the capability to effectively and efficiently handle future sales growth.

In January 2019, the United States Department of Justice ("DOJ") issued a new interpretation of its previous 2011 interpretation relating to the applicability of the Wire Act to internet gaming including operations conducted by state lotteries. The 2011 interpretation had determined that the Wire Act, which prohibited gambling or associated gambling activity from utilizing interstate wire communication facilities, including the internet, only applied to sports betting. As a result, a number of state lotteries initiated iLottery businesses to sell their lottery products over the internet within each of their own states to local residents. The new January 2019 interpretation reverses this view and, in effect, indicates the Wire Act is not restricted to just sports gambling. The DOJ granted an initial 90-day grace period from the date of release of their ruling (January 14, 2019) for various organizations to assess the impact. Subsequently the DOJ granted an additional 60-day grace period for a total of 150 days. This new interpretation reverses the 2011 ruling and raises uncertainty as to how the Wire Act will be applied to existing and future gaming activities including those run by state sponsored lotteries.

On February 15, 2019, Pollard Banknote Limited and NeoPollard Interactive LLC. filed a motion with the United States District Court for the District of New Hampshire ("District Court") requesting a formal declatory judgement clarifying that the Wire Act only applies to sports betting. Simultaneously, the State of New Hampshire also filed a motion with the District Court requesting the same definitive clarification.

We believe the January 2019 DOJ interpretation is incorrect on a number of key issues relating to existing and long-time legacy lottery gaming products and we are confident a definitive ruling from the District Court will reconfirm that iLottery and other gaming operations conducted by state lotteries are not subject to the Wire Act and can therefore continue to operate as they have for many years. Notwithstanding the uncertainty brought on with the Department of Justice reinterpretation, interest in iLottery operations continues to rise among many lottery organizations. We expect opportunities to provide these services to lotteries will continue to grow and are actively pursuing a number of them in 2019.

The integration of our recently acquired Schafer retail merchandising business is proceeding as expected and we are looking for opportunities to maximize instant ticket sales through innovative use of point of sale dispensers. The integration of our International Gamco business with our American Games business is also progressing well. At the same time, Diamond Game is pursuing a number of new market opportunities for its eGaming machines and will be increasing the number of machines in developing markets.

Our strategic vision includes pursuing acquisitions to expand our product offerings and we are actively looking at a number of tactical additions that would further enhance Pollard's position as partner of choice for the lottery and charitable gaming industries.

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 year ended December 31, 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 for the year ended December 31, 2018, is available on SEDAR at www.sedar.com.

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