POLLARD banknote limited

March 31, 2014

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014

May 6, 2014

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three months ended March 31, 2014, is prepared as at May 6, 2014, 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, 2014 and the audited consolidated financial statements of Pollard for the year ended December 31, 2013 and the notes therein. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP").

Forward-Looking Statements

Certain statements in this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this document, such statements include such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

Use of Non-GAAP Financial Measures

Reference to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and amortization, unrealized foreign exchange gains and losses, mark-to-market gains and losses on foreign currency contracts and interest rate swaps, and certain non-recurring items including facility closing reserve, conversion expenses, warranty reserve accruals, settlement loss on pension curtailment and restructuring 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, 2014. 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.

Pollard produces and provides a comprehensive line of instant tickets and lottery services including: licensed products, distribution, retail telephone selling ("tel-sell"), marketing, iLottery, interactive gaming, Social Instants™ and instant ticket vending machines. 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 50 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Three months ended March 31, 2014	Three months ended March 31, 2013
Instant Tickets	89.7%	89.2%
Charitable Gaming Products	9.0%	9.3%
Vending Machines	1.3%	1.5%

Geographic breakdown of revenue

	Three months ended March 31, 2014	Three months ended March 31, 2013
United States	57%	51%
Canada	18%	24%
International	25%	25%

The following financial information should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at and for the three months ended March 31, 2014.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Sales	$50.7	$44.4
Cost of Sales	41.2	36.3
Gross Profit	9.5	8.1
Gross Profit as a % of sales	*18.7%*	*18.2%*
Administration Expenses	3.8	3.4
Administration Expenses as a % of sales	*7.5%*	*7.7%*
Selling Expenses	1.7	1.6
Selling Expenses as a % of sales	*3.4%*	*3.6%*
Net Income	1.1	0.9
Net Income as a % of sales	*2.2%*	*2.0%*
Adjusted EBITDA	6.3	5.1
Adjusted EBITDA as a % of sales	*12.4%*	*11.5%*
Net Income per share (basic and diluted)	$0.05	$0.04

	March 31, 2014	December 31, 2013
Total Assets	$134.1	$133.4
Total Non-Current Liabilities	$79.3	$79.2

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

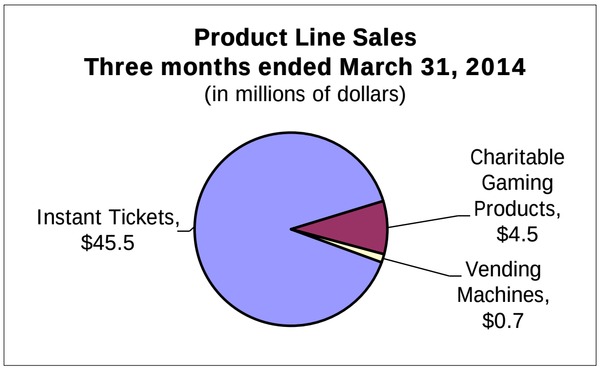
	Three months ended March 31, 2014	Three months ended March 31, 2013
Net income	$1.1	$0.9
Adjustments:		
Amortization and depreciation	1.9	1.9
Interest	0.8	0.9
Mark-to-market loss on foreign currency contracts	0.6	-
Unrealized foreign exchange loss	0.8	0.4
Income taxes	1.1	1.0
Adjusted EBITDA	$6.3	$5.1

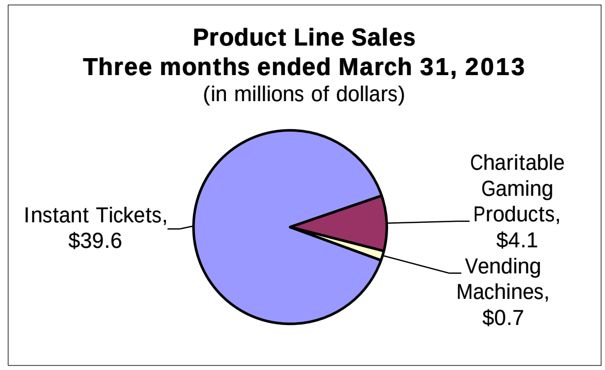
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2014

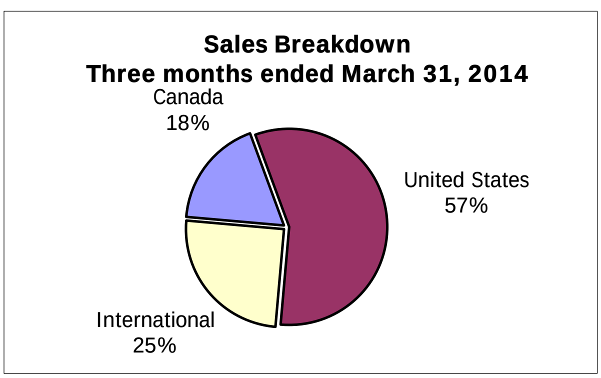
Sales

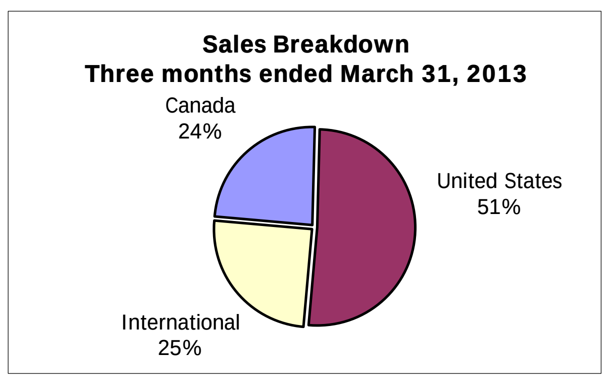




During the three months ended March 31, 2014, Pollard achieved sales of $50.7 million, compared to $44.4 million in the three months ended March 31, 2013. A number of factors resulted in the $6.3 million sales increase.

An increase in ancillary instant ticket products and services, primarily licensed games, in the first quarter of 2014 increased sales by $2.6 million when compared to the first quarter of 2013. In addition, a slight increase in average selling price compared to 2013 further increased sales by $0.3 million.





During the three months ended March 31, 2014, Pollard generated approximately 70.1% (2013 - 64.8%) of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the first quarter of 2014 the actual U.S. dollar value was converted to Canadian dollars at $1.093, compared to a rate of $1.003 during the first quarter of 2013. This 8.9% increase in the U.S. dollar value resulted in an approximate increase of $2.9 million in revenue relative to the first quarter of 2013. Also during the quarter, the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.4 million in revenue relative to the first quarter of 2013.

Cost of sales and gross profit

Cost of sales was $41.2 million in the first quarter of 2014 compared to $36.3 million in the first quarter of 2013. Cost of sales was higher by $4.9 million as a result of increased ancillary instant ticket sales, primarily licensed games. In addition, higher exchange rates on U.S. dollar transactions in the first quarter of 2014 increased cost of sales approximately $2.1 million when compared to the first quarter of 2013.

Gross profit earned in the first quarter of 2014 was $9.5 million (18.7% of sales) as compared to $8.1 million (18.2% of sales) earned in the first quarter of 2013. This increase was due mainly to the increase in ancillary instant ticket product volumes, primarily licensed sales, as well as the weakening of the Canadian dollar relative to the U.S. dollar and Euro.

Administration expenses

Administration expenses increased to $3.8 million in the first quarter of 2014 from $3.4 million in the first quarter of 2013 due primarily to increased compensation costs.

Selling expenses

Selling expenses were $1.7 million in the first quarter of 2014 which was similar to $1.6 million in the first quarter of 2013.

Interest expense

Interest expense was $0.8 million in the first quarter of 2014 which was similar to $0.9 million in the first quarter of 2013.

Foreign exchange (gain) loss

The net foreign exchange loss was $0.4 million in the first quarter of 2014 compared to a loss of $0.2 million in the first quarter of 2013. Within the 2014 net foreign exchange loss was an unrealized foreign exchange loss of $0.8 million comprised of a $0.6 million unrealized loss on U.S. dollar denominated debt (caused by the weakening of the value of the Canadian dollar versus the U.S. dollar) in addition to an unrealized loss of $0.2 million on other U.S. dollar denominated assets. Partially offsetting the unrealized loss was a realized gain of $0.4 million relating to the increased value of U.S. dollar denominated receivables of $0.8 million partially offset by a $0.1 million realized loss on the conversion of U.S. dollars and Euros into Canadian dollars and a $0.2 million realized loss relating to payments made on U.S. dollar denominated payables.

Within the 2013 net foreign exchange loss was an unrealized foreign exchange loss of $0.4 million comprised of a $0.5 million unrealized loss on U.S. dollar denominated debt (caused by the weakening of the value of the Canadian dollar versus the U.S. dollar) which was partially offset by an unrealized gain on U.S. dollar denominated receivables. Partially offsetting the unrealized loss was a realized gain of $0.2 million relating to the increased value of U.S. dollar denominated receivables.

Adjusted EBITDA

Adjusted EBITDA was $6.3 million in the first quarter of 2014 compared to $5.1 million in the first quarter of 2013. The primary reason for the increase in Adjusted EBITDA was the increased gross profit and realized foreign exchange gains, partially offset by increased administration expenses.

Income taxes

Income tax expense was $1.1 million in the first quarter of 2014, an effective rate of 50.1%, due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The weakening of the Canadian dollar versus the U.S. dollar results in a future gain on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax expense with no related income (as the gain is eliminated on consolidation). This increased the consolidated provision percentage by about 16%. Other differences relating to changes in the expected income tax rate increased the provision by approximately 8%.

Income tax expense was $1.0 million in the first quarter of 2013, an effective rate of 51.3%, as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries due to a weakening Canadian dollar during the period.

Amortization and depreciation

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled $1.9 million during the first quarter of 2014 which was similar to $1.9 million during the first quarter of 2013.

Net income

Net income increased to $1.1 million in the first quarter of 2014 from $0.9 million in the first quarter of 2013. The primary reason was the increase in gross profit of $1.4 million, which was partially offset by the $0.6 million of non-cash mark-to-market loss on foreign currency contracts and increased administration expenses of $0.4 million.

Net income per share (basic and diluted) increased to $0.05 per share in the first quarter of 2014 from $0.04 in the first quarter of 2013.

Liquidity and Capital Resources

Cash provided by operating activities

For the three months ended March 31, 2014, cash flow provided by operating activities was $1.4 million compared to cash flow used for operating activities of $1.0 million for the comparable period in 2013. For the three months ended March 31, 2014, changes in the non-cash component of working capital decreased cash flow from operations by $3.3 million. The decrease was due primarily to an increase in accounts receivable and prepaid expenses and a decrease in accounts payable and accrued liabilities, partially offset by a decrease in inventories. For the three months ended March 31, 2013, changes in the non-cash component of working capital decreased cash flow from operations by $3.7 million. The decrease was due primarily to decrease in accounts payable and accrued liabilities and an increase in prepaid expenses and deposits, partially offset by decreases in accounts receivable and inventories. Cash used for interest decreased to $0.8 million in 2014 as compared to $1.0 million in 2013, as well cash used for income taxes decreased to $0.2 million in 2014 as compared to $0.5 million in 2013.

Cash used for investing activities

In the three months ended March 31, 2014, cash used for investing activities was $1.2 million compared to $1.3 million used in the first quarter of 2013. Capital expenditures of $0.8 million were incurred in the three months ending March 31, 2014, compared to $1.1 million for the three months ending March 31, 2013. In addition, Pollard also expended $0.4 million on additions to intangible assets, primarily related to implementation costs, including capitalized internal costs, for ERP software in 2014 as compared to $0.2 million in the first quarter of 2013.

Cash used for financing activities

Cash used for financing activities was $0.9 million in the three months ended March 31, 2014, compared to cash provided by financing activities of $1.2 million in the three months ended March 31, 2013.

During the first quarter of 2014 Pollard repaid $0.2 million of long-term debt and also paid dividends of $0.7 million.

During the first quarter of 2013 proceeds from long-term debt of $1.9 million were partially offset by dividends paid of $0.7 million.

As at March 31, 2014, Pollard had unused committed debt facility of $9.9 million. This amount is available to be used for future working capital requirements, contractual obligations, capital expenditures and dividends.

Quarterly Information
(unaudited)
(millions of dollars)

	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Sales	$50.7	$47.6	$48.1	$44.8	$44.4	$40.9	$44.1	$40.8	$36.6
Adjusted EBITDA	6.3	6.3	6.3	4.9	5.1	5.1	5.9	5.3	3.4
Net Income	1.1	0.9	2.6	1.0	0.9	1.3	3.3	1.0	0.9

Sales in Q1 2014 were higher due to increased ancillary instant ticket sales, primarily licensed games.

Sales in Fiscal 2013 and in Q3 2012 were higher primarily due to increases in volumes.

Adjusted EBITDA in Q4 and Q3 2013 were higher due to higher gross profit achieved through higher sales volumes.

Adjusted EBITDA and net income in Q3 2012 were higher primarily due to higher gross profit achieved through higher sales volumes.

Sales in Q1 and Q2 2012 were lower primarily due to decreases in volumes and in average selling prices.

Productive Capacity

Management has defined productive capacity as the level of operations necessary to maintain a minimum Adjusted EBITDA of $24.0 million on an annualized basis. Due to varying factors implicit in the nature of the lottery industry and the instant ticket market, productive capacity can best be measured through a financial output such as Adjusted EBITDA and cash flow. A number of factors impact the level of Adjusted EBITDA including physical plant capacity, machine capacity, nature of product and service offerings produced and mix of customers. Changes to productive capacity have occurred primarily through expenditures on fixed assets and improved processes and other internal improvement measures and the closure of the Kamloops facility in February 2010. Productive capacity is also impacted by changes in foreign exchange relationships. There have been no increases in productive capacity due to acquisitions since Pollard's initial public offering ("IPO") in August 2005.

On April 4, 2014, Pollard entered into a purchase agreement for a new 22 station Tresu press line, with an approximate cost, including installation, of $20.0 million. When fully operational in the spring of 2015, it is expected to provide an approximate increase in capacity of 35%.

Pollard's strategy with respect to productive capacity is to expend the required funds and resources to maintain the assets required to generate the targeted cash flow. In addition, dependent on certain market conditions and limitations on available funds, projects are incurred to increase cash inflow or decrease cash outflow. The nature of the lottery industry does not in itself lead to significant obsolescence risk with the operating assets. To grow productive capacity, ongoing investment in new technology, new fixed assets and new intangible assets is required. Pollard utilizes a number of individual strategies to maintain and grow productive capacity including a capital expenditure budget and a rigorous formal approval process, flexible individual customer management relationships and structured maintenance programs throughout all of the facilities.

An important component to managing and growing productive capacity is the management of certain intangible assets, including customer contracts and relationships, patents, computer software and goodwill. Certain of these assets are reflected in Pollard's financial statements due to the use of continuity of interest method of accounting during the transfer of the business at Pollard's IPO.

Management focuses on maintaining and growing the value of the customer relationship through winning contract renewals, pursuing and obtaining new contracts and assisting existing customers growing their instant ticket product lines. Regular commitment to research and development allows continual development of patents, software and additional technological assets that maintain and increase operating income and cash flow. Detailed cost benefit analysis is performed for any significant investment of funds or resources in order to minimize the associated risks that these assets will not be able to generate the expected level of cash flow. Where new opportunities are identified, such as a new marketing opportunity or a new machine or process able to reduce input costs, consideration is given to revise plans and take advantage of these prospects.

Certain risks are associated with projects aimed at increasing productive capacity, including increases in working capital, acquisition or development of intellectual property, development of additional products or services and purchases of fixed assets. If these investments fail to increase Adjusted EBITDA and cash flow, then productive capacity will ultimately decrease over time due to the consumption of these investment resources. The impact on productive capacity may also depend upon the completion and start up timing of certain investment projects.

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 impact significantly 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, 2014, Pollard's investment in non-cash working capital increased $3.3 million compared to December 31, 2013 primarily as a result of increased investment in accounts receivables as a result of increased sales in the first quarter of 2014.

	March 31, 2014	December 31, 2013
Working Capital	$35.6	$33.3
Total Assets	$134.1	$133.4
Total Non-Current Liabilities	$79.3	$79.2

Credit Facility

Pollard's credit facility, which was renewed effective June 28, 2013, consists of one committed term bank loan facility. The committed term bank loan facility provides loans of up to $74.0 million for its Canadian operations and up to US$10.0 million for its U.S. subsidiaries. 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, 2014, the outstanding letters of guarantee were $1.2 million and the remaining balance available for drawdown was $9.9 million.

On April 2, 2014, the credit facility was further amended to increase the amount of the facility. See *Contractual Obligations* section (page 13) for further details.

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including working capital ratios, debt to income before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at March 31, 2014, and May 6, 2014, Pollard is in compliance with all financial covenants.

Under the credit facility, Pollard has agreed not to pay dividends in excess of the current quarterly amount of $0.03 per share if the debt to Adjusted EBITDA ratio is above a certain level. As at March 31, 2014, Pollard's Adjusted EBITDA ratio is below the target level and as a result there are currently no restrictions on the amount of dividends.

Under the terms of the credit facility the amount of the facility will be reduced on a quarterly basis by an amount calculated as 50% of the prior quarter's Excess Cash Flow. Excess Cash Flow is defined as Adjusted EBITDA less scheduled principal indebtedness payments (if any), maintenance capital expenditures (to a maximum of $3.5 million per year), pension deficit installments (to a maximum of $2.0 million for Fiscal 2013 and $2.7 million for Fiscal 2014), interest and cash income taxes paid. The reduction in the available facility is not required when the debt to Adjusted EBITDA ratio reaches certain target levels. For the quarter ending December 31, 2013, the target was not reached therefore the credit facility will be reduced by approximately $2.1 million as of May 15, 2014. For the quarter ending March 31, 2014, the target level was reached therefore no further reduction is required.

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard's operating subsidiaries. The credit facility can be prepaid without penalties. Under the terms of the agreement, the credit facility is committed for a one year period, renewable June 30, 2014 ("Facility Expiry Date"). If the credit facility is not renewed, the loans are repayable one year after the Facility Expiry Date. As such, the credit facility has effectively a two year term expiring June 30, 2015. Effective April 2, 2014, as discussed under *Contractual Obligations* (page 13), the effective term of the credit facility was extended to June 30, 2016.

Pollard believes that its credit facility, subordinated loan from Pollard Equities Limited and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital and dividends at expected business levels.

Outstanding Share Data

As at March 31, 2014 and May 6, 2014, outstanding share data was as follows:

Common shares	23,543,158

Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2013, that are outside the normal course of business, except as discussed below.

On April 4, 2014, Pollard entered into a purchase agreement for a new 22 station Tresu press line, with an approximate cost, including installation, of $20.0 million. The financing of the project will come from additional bank financing, subordinated debt from Pollard Equities Limited and from cash generated from operations. On April 2, 2014, Pollard renegotiated its credit facility under similar terms as its previous agreement, except for the addition of an additional term facility of $4.8 million. On April 2, 2014, Pollard's subsidiary, Pollard Holdings Limited Partnership, entered into a loan agreement with Pollard Equities Limited, for a subordinated term loan facility with a seven year term in the amount of $6.8 million. Principal payments on the subordinated loan facility will commence the month following the later of: twenty-four months from the date of the first advance or the date of repayment in full of the additional term facility of $4.8 million. Interest on the subordinated term loan facility commences with the first draw at a rate of 9%.

Off-Balance Sheet Arrangements

There have been no material changes to Pollard's off-balance sheet arrangements since December 31, 2013, 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, 2013.

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management of Pollard regularly reviews its estimates and assumptions based on historical experience and various other assumptions that it believes would result in reasonable estimates given the circumstances. Actual results could differ from those estimates under different assumptions. The following is a discussion of accounting policies which require significant management judgment and estimation.

Impairment of goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired of Pollard's U.S. subsidiaries and the excess purchase price over the underlying carrying amount of the portion of the net assets sold as at August 5, 2005, as part of the 26.7% of Pollard sold in conjunction with the IPO, and is not amortized. Goodwill is subject to an annual impairment review. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units ("CGUs") to which goodwill is allocated. Estimating a value in use requires Pollard to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Employee future benefits

Accounting for defined benefit plans requires Pollard to use actuarial assumptions. These assumptions include the discount rate and the rate of compensation increases. These assumptions depend on underlying factors such as economic conditions, government regulations, investment performance, employee demographics and mortality rates.

Income taxes

Pollard is required to evaluate the recoverability of deferred income tax assets. This requires an estimate of Pollard's ability to utilize the underlying future income tax deductions against future taxable income before they expire. In order to evaluate the recoverability of these deferred income tax assets, Pollard must estimate future taxable income.

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the three months ended March 31, 2014, 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, 2013.

Outlook

The market for lottery products remains strong, with many individual lottery jurisdictions reporting record levels of funds generated for good causes. High consumer demand for instant tickets and related products and services continues and is expected to drive higher retail sales. Lotteries are being innovative in expanding distribution channels for their product offerings, be it in traditional bricks and mortar retail channels or through newer methods such as the internet.

Our volume expectations for 2014 remain on course to be higher than 2013 based on our new contract wins and "same store sales growth" of existing lottery customers. Higher levels of proprietary and premium products tend to be produced in the third and fourth quarters in preparation for pre-holiday sales. Increases in our capacity with the installation of our new press line coming on stream in the spring of 2015 will be the foundation for future growth in our instant ticket volumes.

Licensed games sales are traditionally slightly lower in the second and third quarter of the year with increased sales anticipated in the fourth quarter based on sales relating to the holiday season. Sales of key licensed products such as Cadillac® continue to generate positive results.

Our contract portfolio remains strong including relationships with many of the world's leading lotteries. The recently announced contracts with the Washington State and South Carolina Lotteries are brand new relationships for us. Other key contract news includes a five year extension with the British Columbia Lottery Corporation. We have no material customer contracts that come due in 2014 (when extensions are considered) and this security of recurring revenue is a cornerstone of our future financial security.

Our manufacturing operations are focused on continuous improvement throughout the entirety of our operations, from order initiation, design and programming right through to the finished product. A focus on yield improvement, turnaround times and labour efficiency are key to our cost improvement initiatives. The ongoing development of our new ERP software systems will also continue, with a targeted roll out in the fall of 2014.

The impact of the weaker Canadian dollar experienced during the first quarter was positive, as Pollard has an exposure to net U.S. dollar cash inflow. A Canadian/U.S. dollar relationship that remains similar to the levels experienced in the first quarter will continue to have a positive effect on our financial results. We also have a portion of our revenue generated in Euros and to the extent that the Canadian dollar remains weak relative to the Euro, the future impact will also be positive on our cash flow.

Charitable gaming results during the first three months of 2014 were a bit lower than last year reflecting the timing of certain sales in addition to the impact of negative weather on the ultimate consumer of our pull-tab and bingo products. Over 2014 we would expect the charitable gaming business to remain similar to 2013.

Our 2014 capital expenditures are expected to be significantly higher than in recent years due to the initiation of the approximate $20 million expansion plan regarding installation of a new press line, moving existing press capacity and various related expenditures. The costs of this expansion will be incurred over the next 18 months.

Pollard believes our ongoing cash flow from operations, our current bank facility capacity and our subordinated debt facility will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital and dividends at expected business levels.

Disclosure Controls and Procedures

Under Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") for the interim period regarding the design of the disclosure controls and procedures. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the disclosure controls and procedures as defined in Multilateral Instrument 52-109 will provide reasonable assurance of achieving the disclosure objectives.

Internal Controls over Financial Reporting

Under Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Certifying Officers regarding the design of the internal controls over financial reporting. Pollard's management, with the participation of the Certifying

Officers of Pollard, has concluded that the design of the internal controls over financial reporting as defined in Multilateral Instrument 52-109 will provide reasonable assurance of achieving the financial reporting objectives.

No changes were made in Pollard's internal control over financial reporting during the three months ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

Additional Information

Shares of Pollard Banknote Limited are traded on the Toronto Stock Exchange under the symbol PBL.

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form of Pollard for the year ended December 31, 2013, is available on SEDAR at www.sedar.com.

Pollard Banknote Limited
1499 Buffalo Place
Winnipeg, Manitoba R3T 1L7
(204) 474-2323
www.Pollardbanknote.com