



West Virginia Purchasing Division

2019 Washington Street, East
Charleston, WV 25305
Telephone: 304-558-2306
General Fax: 304-558-6026
Bid Fax: 304-558-3970

The following documentation is an electronically-submitted vendor response to an advertised solicitation from the *West Virginia Purchasing Bulletin* within the Vendor Self-Service portal at ***wvOASIS.gov***. As part of the State of West Virginia's procurement process, and to maintain the transparency of the bid-opening process, this documentation submitted online is publicly posted by the West Virginia Purchasing Division at ***WVPurchasing.gov*** with any other vendor responses to this solicitation submitted to the Purchasing Division in hard copy format.

Header 1

List View

General Information | Contact | Default Values | Discount | Document Information

Procurement Folder: 278701

SO Doc Code: CRFQ

Procurement Type: Central Master Agreement

SO Dept: 0705

Vendor ID: VS0000012035

SO Doc ID: LOT1700000005

Legal Name: Pollard Banknote Limited

Published Date: 3/2/17

Alias/DBA:

Close Date: 3/16/17

Total Bid: \$2.63

Close Time: 13:30

Response Date: 03/14/2017

Status: Closed

Response Time: 16:13

Solicitation Description: ADDENDUM NO. 4 - INSTANT LOTTERY TICKET PRINTING &

Total of Header Attachments: 1

Total of All Attachments: 1



Purchasing Division
 2019 Washington Street East
 Post Office Box 50130
 Charleston, WV 25305-0130

**State of West Virginia
 Solicitation Response**

Proc Folder : 278701

Solicitation Description : ADDENDUM NO. 4 - INSTANT LOTTERY TICKET PRINTING & SERVICES

Proc Type : Central Master Agreement

Date issued	Solicitation Closes	Solicitation Response	Version
	2017-03-16 13:30:00	SR 0705 ESR03141700000004362	1

VENDOR
VS0000012035 Pollard Banknote Limited

Solicitation Number: CRFQ 0705 LOT1700000005

Total Bid : \$2.63 **Response Date:** 2017-03-14 **Response Time:** 16:13:53

Comments:

FOR INFORMATION CONTACT THE BUYER
 Michelle L Childers
 (304) 558-2063
 michelle.l.childers@wv.gov

Signature on File	FEIN #	DATE
--------------------------	---------------	-------------

All offers subject to all terms and conditions contained in this solicitation

Line	Comm Ln Desc	Qty	Unit Issue	Unit Price	Ln Total Or Contract Amount
1	LOTTERY TICKET PRINTING & RELATED SERVICES				\$2.63

Comm Code	Manufacturer	Specification	Model #
60141113			

Extended Description :	*MUST COMPLETE EXHIBIT A PRICING PAGE
-------------------------------	---------------------------------------

Comments: The number provided for the contract amount on our Pricing page is 2.631 which is the number that auto-populated. Please note that this number (2.63) is entered because this field only accepts two numbers following the decimal.



TRANSMITTAL LETTER

March 15, 2017

Michelle L. Childers
Department of Administration
Purchasing Division
2019 Washington St. E
Charleston, West Virginia
25305-0130
Tel: (304) 558-2063
Email: michelle.l.childers@wv.gov

Re: Request for Quotation for Instant Ticket Printing & Services for the West Virginia Lottery Solicitation No: CRFQ #0705 LOT1700000005

Dear Ms. Childers,

Pollard Banknote Limited, the Vendor, together with its American and Canadian instant ticket manufacturing subsidiaries (collectively, "Pollard Banknote") is pleased to submit to the West Virginia Purchasing Division solicitation on behalf of the West Virginia Lottery ("Lottery") our response to its **Request for Quotations (RFQ) for Instant Lottery Ticket Printing and Services, No: CRFQ #0705 LOT1700000005.**

Pollard Banknote has read, accepts and will comply with all of the information and requirements presented in the Instructions to Vendors Submitting Bids, General Terms and Conditions, Specifications, including Purpose and Scope, Definitions, Qualifications, Mandatory Requirements, Contract Award, Performance, Ordering and Payment, Delivery and Return, Facilities Access, and Vendor Default. It affirms that it has read all of the instructions and documents attached in the RFQ in their entirety. As described throughout the Solicitation, Pollard Banknote agrees to provide the Lottery with all of the information requested of the successful Vendor upon contract award.

In addition, we received from the Lottery the responses to Questions (Q1) through to (Q30) on February 22, 2017, and have incorporated that content into our response, where applicable.

Also, as required, we have included with our bid our acknowledgement of receipt of all addenda issued with this Solicitation in the Solicitation Acknowledgement Form. Specifically, Pollard Banknote has received four (4) addenda on February 17, 2017 (Addendum 1), February 22, 2017 (Addendum 2), February 28, 2017 (Addendum 3), and March 2, 2017 (Addendum 4). The Cover Pages for each Addendum is signed by Doug Pollard, Co-Chief Executive Officer, Pollard Banknote.

We also acknowledge that our submission is a public document, and will be disclosed to the public following the bid/proposal opening or award of the contract, as required by the competitive bidding laws of West Virginia Code §§ 5A-3-1 et. Seq., 5-22-1 et seq., and 5G-1-1 et seq. and the Freedom of Information Act West Virginia Code §§ 29B-1-1 et seq.

We have prepared our response in accordance with the terms and conditions outlined in the RFQ. In our response, we include the following documentation, submitted electronically through wvOASIS, as required:



- Supporting Statements and Documentation for Requirements in Sections 3 & 4
- RFQ Cover Pages (4), signed, and Board of Directors (BOD) Resolution
- Exhibit A: Pricing Page
- Contract Manager Contact Information (page 63 of the RFQ)
- Contract Administrator Contact Information Certification and Signature (page 83 of the RFQ)
- Purchasing Affidavit (page 84 of the RFQ) – please note that the seal affixed to the hard copy of this document does not appear in the electronic version. If required, we would be pleased to send the Lottery a hard copy of this signed and sealed Affidavit.
- Solicitation Addendum Acknowledgement Forms (4)
- State of West Virginia Vendor Preference Certificate (not applicable-explanation provided on page 33)

Pollard Banknote understands that the Lottery’s objectives for issuing this Request for Quotations is to establish a contract for the printing of, and related services for, instant lottery games. Pollard Banknote’s clear focus on instant tickets makes us the best partner for the Lottery now, and in the future. In fact, we are the only instant ticket printer that is not distracted by interests outside of the lottery sphere. We understand how to drive sales, but also understand that this needs to be done in a manner which ultimately maximizes revenues for schools and education in the State of West Virginia. Our experience as an instant ticket vendor has taught us about lifetime player value. We know that lifetime player value is maximized if players are long-term players, playing within their limits.

Pollard Banknote has the experience, expertise, and equipment necessary to handle anything the Lottery may require—now and in the future. More importantly, Pollard Banknote boasts a proven track record of developing true partnerships with our clients to fulfill the common goal of increasing revenues and net proceeds to support good causes. We would welcome the opportunity to work closely with the West Virginia Lottery to help reverse the recent trend of declining instant ticket sales by offering actionable insights and key recommendations based on winning strategies.

POLLARD BANKNOTE: PARTNER OF CHOICE

With more than 30 years of exclusive specialization in the instant ticket industry and the only instant ticket printer today who will maintain that focus in the future, and not be distracted by other gaming areas such as casinos, Pollard Banknote’s success is based upon formulating open, communicative, and successful partnerships with our 60+ customers worldwide. We have an established presence in both the North American and international markets, with the privilege of serving 28 NASPL/WLA lotteries as a primary or sole source supplier. We take great pride in the relationships we build and foster with all of our valued clients—from many longstanding partnerships to a number of new and exciting collaborations.

Pollard Banknote is a dominant force in the North American instant ticket industry. Amongst our 34 NASPL clients, we have 14 primary or sole source contracts and 20 secondary contracts. We will utilize the breadth of our experience and expertise to develop unique and innovative solutions for the Lottery to ensure that our products and services meet the specific needs of West Virginia’s marketplace and retailers.

In the past few years alone, we have had numerous lotteries choose Pollard Banknote as a partner for instant tickets and related services. We retained our primary designation in Maryland and Minnesota and were awarded new primary contracts in Connecticut, Québec, Vermont and Virginia. In addition, lotteries in Arkansas, California, Kansas, North Carolina, South Carolina, South Dakota, and Washington have also



chosen Pollard Banknote as an instant ticket partner. We have also been awarded expanded roles or contract extensions in Iowa, Oregon, Texas, Wisconsin, and most recently, Arizona, Florida, Idaho, Massachusetts, and Missouri.

Pollard Banknote prides itself on being more than just a supplier, but rather a value-add partner that lotteries rely on to provide expert design, marketing, and strategic leadership. We have proven time and again that we bring the best insights, products, and strategies to our clients. Our recent momentum is a further indication of how our sales-driving, value-add, consultative approach, and customer service philosophy have been rewarded by the market. In short, Pollard Banknote is the best partner for the West Virginia Lottery. We deliver results.

Our approach is simple. We drive net proceeds by implementing winning strategies and creating the most innovative and imaginative products in the industry today to help our customers maximize returns for their states or other entities. Our relationships with clients are based on trust, respect, and dedication to providing unrivalled quality in both products and services. To sustain growth in sales, our clients rely on us to supply a full slate of lottery services, including industry reviews, game selection and prize structure recommendations based on market research analyses; innovative game designs; secure, high-quality ticket production; licensed games; warehousing; distribution; all supported by secure systems and processes that are second-to-none.

Client-Focused Approach

Many lotteries have benefited from our value-add partnership and focus on driving instant ticket sales, and ultimately new proceeds for good causes. We emphasize innovation to bring new ideas, methods, and products to market. We ensure that the right team of people is dedicated to the program, and have the resources to meet current production needs, as well as the ability to grow with the Lottery. Furthermore, we know our clients' markets, and we make recommendations that work as proven by our clients' sales successes.

Pollard Banknote offers second-to-none customer service, with each client receiving the same high standards of service, regardless of size. We customize our approach for every client and always put forward the appropriate resources and attention to each project we undertake. We are very excited about the prospect of adding the West Virginia Lottery to our client list and would welcome the opportunity to demonstrate Pollard Banknote's strengths and capabilities to the West Virginia Lottery instant ticket development team.

We work closely with every client—big and small—to fully appreciate a lottery's particular needs and understand how to provide the best products and services to the Lottery in the most dependable and efficient manner. Moreover, we will collaborate to develop unique and innovative solutions for the Lottery to ensure that we meet the Lottery's specific needs.

Strong Thought Leadership

We are proud that our leadership has been recognized as having made significant contributions to the industry. Doug Pollard, at the helm of Pollard Banknote as Co-CEO was inducted into the Lottery Industry Hall of Fame in 2015. Pollard Banknote is proud to have another inductee that will actively provide guidance and direction to our efforts for the Lottery. Jennifer Westbury (2012 inductee), Executive Vice President, Sales & Customer Development, will oversee the Lottery's account at the executive level. In



addition, the diverse team dedicated to the Lottery account will include marketing representatives and support specialists ranging from technical expertise through to licensed games and innovations. This team includes some of the most experienced and seasoned individuals in the lottery industry, including Matthew Isaac, Director, Sales & Marketing, and Krista Stepa, Manager, Sales & Marketing. This expertise will play a key role creating standout products that are engaging and innovative to positively impact the Lottery and the players that support it. Our employee turnover is the lowest in the industry; ensuring consistency in the team is of utmost importance to us.

Value-Add Partner

Recently, our value-add partnership was recognized by the Minnesota Lottery during its recent procurement process for scratch printing services in which it once again selected Pollard Banknote as the Lottery's primary vendor.



We are very excited to continue our **STRONG PARTNERSHIP** with Pollard Banknote. We rely heavily on our primary printing partner for **DESIGN, MARKETING** and **STRATEGY LEADERSHIP**—a partner proven to help the Lottery **DRIVE** its **SCRATCH SALES**. Pollard Banknote offers everything we seek from a scratch game printer—**GUIDANCE** and **EXPERTISE** in research, marketing and product innovation. We are always intrigued by the **NEW CONCEPTS** presented and look forward to launching a variety of new initiatives in the years to come, ultimately **INCREASING REVENUE** for **GOOD CAUSES** in the state of Minnesota.

— Michael Vekich, Acting Director, Minnesota Lottery



Proven Success as a Primary Vendor

We have proven time and again that we bring the best insights, products, and strategies to our clients, and customize them to their specific market conditions in order to drive sales growth. We are proud of our accomplishments, but more than anything else, we are pleased that our approach has meant real-world results in overcoming the challenges lotteries face in meeting their mandates of maximizing net proceeds. We drive sales—and the results speak for themselves!

The knowledge we have as one of the largest global instant ticket supplier is of benefit to the West Virginia Lottery as we not only present the Lottery with recommendations based on industry trends and best practices, but also U.S.-specific trends – and importantly, those from West Virginia's regional neighbors. We know how to give the Lottery a competitive edge in its regional marketplace.

Primary awards from the Virginia and Vermont Lotteries in 2014, our retained primary contract as the exclusive supplier to the Maryland Lottery in 2013, and our elevation from secondary to primary supplier for the Connecticut Lottery in 2012 are but a few examples that speak to our ability to help drive sales and ultimately net proceeds for each state and the causes they support, our client-focused approach, and our in-depth understanding of the regional markets we serve.

In the following descriptions, we provide summaries of our demonstrated success working with our primary clients.



The Vermont Lottery

A recent demonstration of our success driving sales for new clients is our experience with the Vermont Lottery. Pollard Banknote was named the new primary instant ticket supplier to the Vermont Lottery in July 2014. Our collaboration with the Vermont Lottery is already showing great results. From FY 2012 to FY 2014, the Lottery's sales were stagnant, hovering around \$75 million each year. Compare this to FY 2015, when Pollard Banknote games began entering the Vermont market; sales grew to \$85.5 million, an incredible 12.54% increase over the previous year! This success continued into FY 2016 when sales rose by another 8.9%.

This success is due in part to Pollard Banknote assisting the Lottery with prize structure improvements and play enhancements, as well as the launch of a new second chance website and exciting licensed brands like the \$5 *Frogger* ticket.

Existing categories have also continued to excel. From FY 2014 to FY 2016, sales of \$3 Cashword and Bingo have increased by a very impressive 73.2% and 15.4%, respectively. In March 2016, Pollard Banknote worked with the Lottery to launch its first ever \$5 Cashword game, *Super Cool Cashword!* and accompanying *Space Between™* game. The instant ticket quickly achieved remarkable sales success, garnering a sales index of 137 in its first 10 weeks on the market. The introduction of *Super Cool Cashword!* also had a significant impact on the Vermont Lottery's entire Cashword category. Total Cashword sales in FY 2016 increased by more than 55% over FY 2015, with *Super Cool Cashword!* representing almost 20% of overall Cashword sales.

The partnership has been so successful that the Vermont Lottery granted Pollard Banknote both of the available contract's extensions at once.

Below, we have provided an excerpt from a letter provided by **Greg Smith, former Executive Director, Vermont Lottery**, stating his satisfaction with Pollard Banknote. Greg has recently been appointed as the new Lottery Director for the Illinois Lottery.

"During the Vermont Lottery's most recent Request for Proposal process for Instant Ticket Printing Services in 2013, we were seeking an experienced, qualified, and value-add partner that would maximize proceeds, ultimately benefiting the State's Education Fund.

A number of factors were taken into consideration when choosing an instant ticket vendor. While price was certainly an important factor, it was also imperative for us to consider the value offered within each proposal in terms of quality, secure instant products that are coupled with sales-driving strategic product recommendations customized to our unique market.

After careful consideration, we named Pollard Banknote as our primary supplier of instant ticket printing services. This award marked the first opportunity for us to work with the company that is known for unrivalled quality, care and attention to both product and service within the industry. Since Pollard Banknote has taken over as primary supplier, we have worked closely to develop and implement a number of winning strategies including improvements to prize structures, game play, and design improvements, as well as identifying fresh ways to engage players through the introduction of exciting licensed brands and the recent launch of a new second chance website.



As a result, CY 2015 sales were up an impressive **19.4%** when compared to CY 2013—from \$74.2 million to **\$85.5 MILLION**, respectively. In addition, we have moved up **FIVE POSITIONS** in U.S. per capita sales since the initial contract began, and are fast approaching the **TOP TEN** with a current rank of number **12** in the U.S. We feel that the care and attention devoted to our account from the Pollard Banknote team has helped us reach these levels of success.

As a specific example, we have worked diligently together to grow our Cashword category, leveraging Pollard Banknote's unparalleled expertise in the development and programming of extended play games to increase sales. In fact, FY 2015 Cashword sales increased by a remarkable 39.3% over FY 2014. We expect even greater success in this category in 2016 as we prepare to launch Cashword at a new \$5 price point, complete with a Pollard Banknote-developed Space Between™ Cashword app. The interactive elements of the new \$5 game will add value by appealing to a new, younger demographic of players and extending the life of the instant ticket by allowing continued play of the Cashword game through our second chance website for prizes or for fun. Since the digital interaction is secondary to the retail one for this product, we feel that it will help us further our footprint in the digital space while still supporting our retail focus.

In closing, it has been a pleasure to work the Pollard Banknote. The company's client-focused approach has been instrumental to our recent growth. They consistently offer second-to-none customer service that has exceeded our expectations. The Vermont Lottery's continued investment in the partnership is demonstrated by a recent extension to our contract for an additional two years. We look forward to ongoing collaboration and success for years to come."

The Virginia Lottery

The Virginia Lottery awarded Pollard Banknote a primary contract for instant Scratcher tickets and services in October, 2014. We launched our first games with the Lottery in January 2015, and since then have introduced several new and exciting products to the Virginia market. To date, the partnership has proven very successful, and we have proven our ability to understand what appeals to players in the region; a skill that will help us serve the West Virginia Lottery well. Two years in a row, the Lottery has broken instant sales records, closing out FY 2016 with more than \$1.1 billion in instant Scratcher sales. FY 2016 sales were an impressive 8.1% increase over FY 2015—a year in which the Lottery made history by selling more than \$1 billion in Scratcher tickets for the first time in a single fiscal year. Our work with the Virginia Lottery is just one of many examples of our exceptional value-added service provided to our client lotteries.

One contributor to the Virginia Lottery's record-breaking success is the growth of its \$3 price point, in particular the strength of its \$3 Crossword games. Since FY 2014, sales of the Lottery's \$3 games have increased by an outstanding 27%. The Lottery's \$3 *Triple Cash Crossword*, developed based on Pollard Banknote design that has proven successful in other jurisdictions achieved a 10-week sales index was 114.

We continue to work closely with the Virginia Lottery to enhance its core offerings and create new and innovative products that engage players with unique play concepts and value propositions. An example of this is the Lottery's \$1,000 *Frenzy* ticket. This \$10 game, featuring a lower top prize of \$1,000, focused on offering an increased number of meaningful wins for players and sold through in twenty-eight weeks!



In addition, in August 2015, the Virginia Lottery became one of the first lotteries in the U.S to launch an instant ticket featuring Eco Scratch™. Eco Scratch™, a product innovation available exclusively through Pollard Banknote, offers players an eco-friendly way to play and win! Eco Scratch™ paper stock is made from 100% recycled fibers and capitalizes on the latest package design trends—the use of kraft paper and a shift towards clean, simple design. Although the organic, recycled look and feel of Eco Scratch™ is perfect for vintage designs, it is also suitable for creating striking modern designs.

The Michigan Lottery

Pollard Banknote has been the Michigan Lottery's primary supplier of instant games and related services since 1996. During those 20 years, we have provided the Lottery with over 1,100 instant games and have seen instant sales grow to a record breaking \$1.16 in FY 2016. As a testament to our continued success, Michigan's instant sales growth jumped an impressive 13.4% from FY 2015 to FY 2016. This compares favorably to the overall U.S. increase in instant sales of 7.0% over the same time period.

In recent years, Pollard Banknote has been instrumental in helping the Michigan Lottery develop and implement a successful omni-channel strategy. For example, the Michigan Lottery and Pollard Banknote collaborated to introduce several Space Between™ games, in order to rejuvenate and extend the life and playability of instant tickets. The introduction of the Michigan Lottery's first Space Between™ game in 2012—complete with a mobile app and website where players can access second chance opportunities—was employed to launch its \$3 *\$100,000 Cashword* game. The ticket and Space Between™ tie-in game garnered several accolades and accomplishments. It was named NASPL's Best New Instant Game of the Year in 2012, and reached \$22 million in sales after 30 weeks on the market.

Due to the incredible and undeniable success of *\$100,000 Cashword*, the Michigan Lottery has since built its interactive game portfolio to include several more Space Between™ apps from Pollard Banknote over the last few years—all of which have been widely accepted by players and extremely popular in the Michigan marketplace. The addition of these apps and new price points has helped increase Michigan Cashword sales—from FY 2012 to FY 2016, Michigan's Cashword category sales increased by 30%. In addition, Pollard Banknote recently helped the Lottery launch its extremely successful \$5 *Super Bingo* ticket and Space Between™ app. When compared to the 10-week average sales of all other \$5 Bingo games launched since 2009, *Super Bingo* outperformed the others by 74%, and more than one-in-five of all \$5 *Super Bingo* tickets sold are entered into the second chance game, an increase over the 20% participation rate of the previous app and ticket, demonstrating the level of increasing engagement with the interactive game.

Pollard Banknote has worked with the Lottery on several market research initiatives which have proven very beneficial for the Lottery. One such example was conducted at a sporting event at which the Lottery's Street Team handed out coupons redeemable for lottery tickets. After playing the tickets, players filled out a survey based on their experience and were entered into a cash drawing. This try-before-you-buy approach not only provided the Lottery the opportunity to reach new players, but also provided a wealth of data from current and potential players, giving the Lottery insight into how to attract new demographics.

Other notable examples of research conducted for the Lottery includes a Player Behavior Program in which players were given a set amount of money to spend on instant tickets and then required to answer a short



survey about their purchasing decisions, and an online instant ticket concept testing survey with 1,000 scratch player participants.

The Maryland Lottery

In FY 2007, Pollard Banknote became the Maryland Lottery's primary instant ticket supplier and was awarded a new primary contract in 2013 that extends our partnership until 2017, plus one three-year renewal option. In FY 2015, the Lottery's instant sales were up 14% over FY 2014, the second largest growth among U.S. lotteries. FY 2016 marked the Lottery's second consecutive record year for instant sales (\$611.3 million). This represents a year-over-year increase of 12.0%.

Since Pollard Banknote began as the Lottery's primary instant game provider (FY 2007), total annual instant sales have seen a 44% increase.

To further strengthen sales, Pollard Banknote helped the Maryland Lottery restructure its prize structures in FY 2014. Adjustments were made to the mid-tier prize category so that a greater distribution of winnings covered this portion of the prize fund. When comparing the six-week sales to launches that occurred around the same time in FY 2013, the rate of sales following Pollard Banknote's prize structure enhancements resulted in increased sales. For example, sales of \$1 games increased by 150% and \$2 sales increased by 118%.

More recently, we have worked with the Lottery to decrease the number of game launches and lengthen the print runs, allowing for the creation of more robust prize structures throughout the Lottery's price points.

In addition to the success described above, Pollard Banknote has helped the Maryland Lottery develop and launch new and innovative products and promotions. For example, we helped the Lottery launch its \$3 Bonus Crossword game in May 2014, which marked an opportunity for us to provide a turnkey second chance promotion, including a Space Between™ Crossword app and a QR code on the ticket. There were over 30,000 registrations to the Bonus Crossword interactive game. The data also revealed that players valued the second chance prizing, with 63% of coupons redeemed at retail, driving traffic back into the Lottery's retailers. In total, more than 1.6 million games have been played for fun and fun prizes.

The Lottery has recently had success with some of Pollard Banknote's innovative instant print products. Its \$10 \$250,000! High Rollers Club was adorned with Scratch FX®, a printing feature that adds sparkling effects to enhance an instant ticket's visual appeal. This game recorded an outstanding 10-week index of 134 and was a contributing factor in the 25% jump in the Lottery's \$10 instant game sales from FY 2015 to FY 2016.

Crab Cash, a \$2 game printed on Eco Scratch™, launched in April 2016. With a 10-week index of 138, this unique looking game was the second highest indexing \$2 game since 2013. The brown paper look of Eco Scratch™ was a perfect tie-in; crabs—the center piece of many social feasts and crab festivals—are often served in restaurants that use kraft paper as table cloths. The ticket art also incorporates the Maryland flag. With exciting vacation getaways as second chance prizes, this game was a treat for Marylanders.

Pollard Banknote also works with research suppliers and the Lottery to conduct various research studies throughout the year, and has partnered with third-party research firms to conduct online surveys for the Lottery. These surveys provided information about instant ticket concept testing which provided a stronger understanding of Maryland players, identified interest in several games and price points, and determined



players' levels of engagement with technology and social media. In addition, Pollard Banknote is currently in the process of facilitating an in-field audit of 800 retailers throughout the Maryland Lottery network to identify opportunities for retailer growth.

The Connecticut Lottery Corporation

After a decade-long partnership as secondary supplier, Pollard Banknote was awarded the primary supplier contract for the Connecticut Lottery in 2012. Since that time, Pollard Banknote has worked with the Lottery to increase sales, and support the Connecticut Lottery in its role as a trendsetter. The Lottery has been very successful launching Pollard Banknote's innovative products, play styles, strategies, and promotional support. One of the most recent examples of this success is the Lottery's \$5 *Gold Premium Play*. Launched in September, 2016, this ticket featured Pollard Banknote's spectrum Scratch FX®, and its decadent design was inspired by the allure of premium products. The sparkle of this ticket proved to be attractive to players, with the game reaching a ten week index of 169! Further testament to the game's success, the Lottery launched an advertising campaign in the tenth week of sales, which kept sales going strong, with a twenty week index of 187!

Historically, the Lottery's \$20 price point is very well-established. To build on its strengths, we recommended that the Lottery expand their strongest-selling extended play game to that \$20 price point as well. We worked with the Lottery to design a \$20 Cashword game that would build on the success of the existing \$10 game. *\$20 \$250,000 Cashword* launched in June 2014. Moving the game to a higher price point involved adding an additional full-size puzzle grid, and increasing the multiplier from 10X to 20X. In addition, the \$20 ticket featured Pollard Banknote's patent-pending Play Around™ Fold-Over innovation to provide players with a new twist on extended play games. This innovation allows us to extend the play value of the ticket by wrapping the game play areas around the ticket front and back to optimize the entertainment value without having to produce a larger ticket, allowing players to receive increased entertainment value as they move up the price point ladder. All of these features combined to create a ticket so successful that the Lottery has launched it twice more following the initial launch, and sales continue to remain strong. Further testament to this ticket's impact on the Crossword category, from the time the first \$20 Cashword ticket launched in FY 2014 to FY 2016, total Crossword sales have increased 26%.

The success of Pollard Banknote's partnership with the Connecticut Lottery is due to more than just our innovative products alone. In February, 2016, the Lottery launched the Lucky 7 multiplier family. The tickets featured lucky symbols such as coins, shamrocks, and of course the number "7", and game play was based on the proven key number match style. The family featured tickets at three price points, \$2 *Lucky 7*, \$5 *Lucky 77 Doubler*, and \$10 *Lucky 777 Tripler*. All three games indexed over 108 in the first ten weeks, and the \$2 ticket had a ten week index of 161!

In addition to innovations and families, the Lottery also found success with unique game play. In April, 2016 the Lottery launched another exciting new game that offered players a brand new game play experience. *\$5 Run the Table* was a billiard theme ticket that featured four games on one ticket. Players could win a top prize in any one of the four games—between \$50 and \$1000. If they won the top prizes in games one, two, and three they would receive a top prize of \$25,000, and if they won the top prize in all four games they would receive \$75,000! This unique prize structure added an exciting aspect to the ticket, leading the ticket to a ten week index of 108.



One of the Lottery's most successful tickets in recent years was the \$10 ticket, *Star Platinum Play*. This premium instant game, featuring Pollard Banknote's exclusive Scratch FX®, has captured the attention of lottery fans and is achieving remarkable results. After 10 weeks on the market, *Star Platinum Play's* average weekly sales were 55% higher than the average sales of all other \$10 games launched by the Lottery since 2012! Since its launch in September 2015, this game has earned the Lottery over \$15.5 million in sales. With multiple top prizes of \$1,000,000, *Star Platinum Play* invited players to step into the limelight and get a taste of VIP treatment.

Success as a Secondary Vendor

Pollard Banknote is proud to be a secondary vendor to 20 clients in North America. The following success stories describe our role as secondary vendor to the lotteries in New York State, Missouri and Idaho.

The New York Lottery

Pollard Banknote began working with the New York Lottery in 1994. In recent years, the Lottery has had success leveraging products from our expansive portfolio of instant ticket innovations such as Scratch FX® and oversized tickets, and most recently, a patented Pollard PlayBook® product. *Lucky 7's PlayBook*—with 122 chances to win up to \$250,000 on six unique games in one package—is the latest in a series of strategic marketing initiatives from the New York Lottery intended to bring added value to players and extra sales to the Lottery's 18,000 licensed retailers to benefit education statewide. The Lottery also turned to Pollard Banknote for its \$10 holiday game, *Winner Wonderland*. This oversized instant ticket featured Pollard Banknote's patented Scratch FX® treatment on the front of the ticket to help 'pop' at retail over the busy holiday season.

The Missouri Lottery

Pollard Banknote has been a secondary supplier of instant Scratchers games and services for the Missouri Lottery since 2011. Over the years, Pollard Banknote has fostered a very successful partnership with the Lottery and gained valuable insights regarding Missouri Lottery players and its unique market situation.

Together, Pollard Banknote and the Missouri Lottery have experienced a great deal of success. For example, through the years, we have collaborated with the Lottery to develop and launch several bestselling holiday games. During the 2015 holiday season, we launched the very successful *Garland Riches* instant game, which featured Pollard Banknote's patented Scratch FX® and was the Lottery's highest selling \$10 holiday game since 2007. Moreover, the Lottery saw an average lift in sales of 33% at both the \$5 and \$10 price points with Scratch FX®.

Another innovation from Pollard Banknote that has yielded great success in Missouri is our patented PlayBook®. The Lottery launched its first PlayBook®—*Lucky 7s PlayBook*—in March 2014. This dazzling, gem-themed PlayBook® featured six games for \$20 in a one-of-a-kind booklet format. The game shattered sales records—in its first six weeks on the market, it was the Lottery's top-selling instant game, boasting an incredible sales index of 291. The Lottery followed up this remarkable success with the launch of another PlayBook®, *Mega \$\$\$ Multiplier Playbook*, in February 2015. These games contributed to sales of the Lottery's \$20 price point reaching an unprecedented \$153.3 million in FY 2015, of which Pollard Banknote's PlayBook® games accounted for 24%.



The Missouri Lottery has directly benefited from Pollard Banknote’s expertise in producing bestselling extended play games, such as Crossword and Bingo. Since 2011, we have been the sole supplier of the Missouri Lottery’s \$5 Crossword games, including the recently launched Triple Cherry Crossword, which recorded a 10-week index of 111. The combination of our unique game programming capabilities and printing expertise has made Pollard Banknote the world-renowned industry leader in this category.

The Idaho Lottery

Since 2013, Pollard Banknote has partnered with the Idaho Lottery to help strengthen its Scratch Game™ portfolio. Pollard Banknote prints a broad range of games for the Idaho Lottery, including extended play, licensed games, and holiday offerings.

In 2013, the Idaho Lottery became the first U.S. lottery to launch a \$5 *Frogger* scratch game. The game was so successful that a second version of *Frogger*—a licensed brand available to lotteries exclusively through Pollard Banknote—was launched in 2015. Each of these games were complemented with an interactive game to enhance player engagement. The games were very popular with Idaho players—ranking as the Idaho Lottery’s two bestselling \$5 games based on 10-week average sales.

The Idaho Lottery has also leveraged some of Pollard Banknote’s innovative print products. The Lottery’s first \$25 game, *25th Anniversary*, showcased Scratch FX®, a patented Pollard Banknote printing feature that added festive, sparkling effects to the ticket’s design. The Idaho Lottery also employed Pollard Banknote’s Eco Scratch™ for its \$2 holiday game, *Santa Paws*. Eco Scratch™ stock resembles brown kraft paper, giving instant tickets a hand-crafted, nostalgic feel that is perfect for the holiday season.

As a testament to the partnership we have grown, the Idaho Lottery said the following in the recent contract renewal letter, “We are very satisfied with the contractual arrangement thus far [and] we look forward to another two great years of doing legendary work.”

INDUSTRY-LEADING INNOVATION

Setting new standards in the market for more than three decades, Pollard Banknote’s products and services have become synonymous with innovation. As the only vendor who specializes in instant games, our focus has enabled us to push the boundaries of what a “traditional” ticket looks and plays like. Pollard Banknote is leading the industry in the development of value added instant games that feature unique play styles and formats, special materials, striking inks, as well as tickets that leverage emerging technologies to further engage players via web and mobile devices. We also continue to increase specialty press and ticket security techniques.

Pollard Banknote has brought some of the most important, revenue-generating printed product innovations to the market, such as our proven translucent marking system, Scratch FX®, and Fusion® innovations including the Pollard PlayBook® and Double Play®, and we continue to redefine products and services in the instant ticket industry with a number of new and exciting instant products. These products have proven to generate an ROI for our clients that make them worthy of the West Virginia Lottery’s consideration. Most recently, we have introduced Pop ‘n’ Play™, Jumbo Pop ‘n’ Play™, and PlayBook Mini™—innovations that are already generating strong interest from our clients, with the Indiana Hoosier Lottery announcing the inaugural launch of *Cash Vault*, a Jumbo Pop ‘n’ Play™ product on March 7, 2017!

Furthermore, we understand that to be truly innovative is to be constantly searching for new ideas. As such, we strive at all times to bring new concepts to market, and hone our innovation processes to do it in



the most accelerated manner possible. To that end, Pollard Banknote has become an industry leader in the adoption of Innovation Engineering, a process where systems thinking is applied to the innovation process. It's a methodology that allows Pollard Banknote to get new products to market faster, and with less risk.

Engaging Brand Loyalty with Licensed Brands

Pollard Banknote targets our licensed property acquisitions on brands with global appeal that can be specifically customized to selected regions. Our licensed properties are selected to appeal to the existing player, while attracting new players who do not currently purchase lottery products, but are brand loyal.

Whether trading on universally recognizable brands or created in-house, these products are all designed to provide the Lottery with games that are instantly embraced at retail—and games that often offer players terrific opportunities to participate in second chance draws, web-based interactive games, and the chance to win some truly unique prizes.

Pollard Banknote's licensed property portfolio includes a range of well-recognized brands and features turnkey integrated marketing programs to generate player excitement, and more importantly, word of mouth advertising. As the successful primary vendor, we will work with the Lottery to develop a comprehensive licensed games strategy.

Pollard Banknote also has extensive experience in the development and implementation of jurisdiction-specific promotions for instant lottery games, many of which have focused on various licensed offerings. Our preferred approach is to start by tapping into the wealth of knowledge concerning promotions that have worked well in various jurisdictions and then apply this knowledge to assess if it is a good fit with the specific promotion/property/product mix currently under consideration.

Ultimately, Pollard Banknote offers the creative and promotional support required to ensure the success of these licensed games in West Virginia. Our licensed game portfolio includes the following brands:



For the West Virginia Lottery, we recommend three great licensed games, each with strong brand recognition and a broad fan base: PAC-MAN™, Tetris® and Corvette® StingRay™. Based on the Lottery's recent success with its launch of a Frogger ticket with a 10-week index of 112, we recommend PAC-MAN™ and Tetris® to leverage the popularity of this retro gaming theme. In addition, based on the Lottery's



success launching a Cadillac® ticket in 2014 that had a 10-week index of 117, we recommend another popular luxury car brand—Corvette® Stingray™.

Exploring the Space Between™ and Beyond

In recent years, Pollard Banknote has looked to redefine the lottery marketplace through the development of the Space Between™ channel. The Space Between™ is a term we coined in reference to the space in the market that exists between brick-and-mortar retail activity and the purchase of lottery products over the internet. The Space Between™ is an important and growing channel within the omni-channel ecosystem that can—and should—be fully leveraged to optimize sales.

Pollard Banknote has introduced a number of interactive and technology-enabled products that exist in the Space Between™ and have been very successful, particularly when adding an interactive component to a known instant ticket brand. For example, our popular Space Between™ games deliver an opportunity to extend the life of traditional instant ticket games by providing related play online via a lottery’s website or through a mobile app.

The Space Between™ channel can provide the West Virginia Lottery with the added benefits of expanding front-of-mind awareness of its new and existing games, building and maintaining equity of its brand, and driving player engagement and loyalty through digital experiences. By engaging players through interactive and technology-enabled products, the Lottery will be able to introduce players, particularly a younger and more tech-savvy demographic, to its brand in new and exciting ways. Our research shows that this approach significantly increases the likelihood of those players then purchasing lottery games at retail, especially as traditional lottery products are expanding to include more interactive features that support the omni-channel approach.

One key to successful interactive initiatives is ensuring that retail partners are part of the evolution. It is vital to demonstrate that these new products help support and grow retail sales. We have seen in a number of jurisdictions around the world that retail sales continue to grow—typically at a higher rate—as lotteries introduce digital offerings, both in the Space Between™ and iLottery.

PlayOn® Player Engagement Solution: Pollard Banknote’s Own Loyalty Program

With a growing range of technological advancements, consumers have access to more entertainment choices than ever before, and as a result, lotteries face both direct and indirect competition from a variety of gaming options, including social gaming websites and apps. This reality makes it imperative for lotteries to implement effective player acquisition and retention strategies—something a well-designed loyalty club should inform and enable.

Our approach is to create engagement online with the goal of driving players back to retail. Pollard Banknote’s robust PlayOn® player engagement solution is designed to engage and reward loyal, existing players, and recruit and retain new players that will become fully immersed in the program over time. Pollard Banknote’s state-of-the industry loyalty solution is specifically crafted for lotteries and the unique challenges faced by our industry.

In 2016, following a competitive procurement process, Pollard Banknote was awarded a six-year contract to serve as the provider of the Kansas Lottery’s PlayOn® Players Loyalty Program, which launched on January 25, 2017.



MANUFACTURING RESOURCES

Multiple facilities offering over 380,000 square feet of production space, and utilizing our proprietary vision inspection, packaging systems, and varnish detection capabilities, means the Lottery's ticket production will always be manufactured to the highest standards using the latest in automation and technology. Close to 1,000 employees company-wide provide the versatility, flexibility, and the backup capabilities to deliver the highest quality products, efficiently and on time—even on occasions where the Lottery requires the shortest, most urgent turnaround.

We currently print over 12 billion ESS (equivalent single size or 2" x 4") tickets yearly with capacity to print up to 15 billion ESS and typically produce over 100 distinctive games each month. If there are games that can help the West Virginia Lottery reach its goals and objectives, Pollard Banknote can program and print them.

Pollard Banknote has also been the most consistently profitable instant ticket supplier in the industry. We have generated significant positive cash flow year in and year out, which allows us to reinvest large amounts of resources back into developing the innovative products and services that our lottery clients demand.

PARTNERING FOR SUCCESS

Ultimately, Pollard Banknote is successful as an instant ticket lottery vendor-partner because we not only provide products of the highest quality and integrity, but also because our clients have enjoyed tremendous growth. We believe one of the most important components for achieving growth is to understand our clients, and ultimately, the players that buy lottery products. We are confident that we are the best in the world at developing interesting, innovative instant games and related services that meet our customers' expectations and resonate with their players.

A partnership between the West Virginia Lottery and Pollard Banknote will be instrumental in assisting the Lottery in growing sales. We will provide the Lottery with recommendations based on the application of winning strategies and sound marketing methodology according to the Lottery's unique variables. The Lottery will reap the benefits of world-class market research to provide in-depth analysis and insight into its consumer base. Moreover, our in-house marketing team uses this research to provide clients with tangible, detailed, and specific marketing recommendations aimed to effectively reach both new and existing players. Ultimately, Pollard Banknote's games and overall strategy will bring an added level of entertainment and value to the Lottery's entire portfolio.

When you choose Pollard Banknote as your partner, you receive the best products, the best people, and the best partner. You also receive the benefit of knowing you're working with a company that understands the importance of assisting the West Virginia Lottery in its dedication to generating revenue to support schools and education in the state.

In closing, it is our pleasure to participate in this bidding process. Jennifer Westbury, Executive Vice President, Sales & Customer Development, would be pleased to answer any questions pertaining to our submission. Her contact information is as follows:



Jennifer Westbury
Executive Vice President, Sales & Customer Development
Tel: 204-474-2323, extension 217
Fax; 204-453-1375
Email: jwestbury@pbl.ca

Sincerely,
POLLARD BANKNOTE LIMITED

A handwritten signature in blue ink, appearing to read 'Doug Pollard'.

Doug Pollard
Co-Chief Executive Officer



TABLE OF CONTENTS

TRANSMITTAL LETTER	1
TABLE OF CONTENTS	16
3. QUALIFICATIONS.....	17
3.1 EXPERIENCE	17
3.2 REQUIRED STAFF ASSIGNMENTS	18
3.3 VENDOR ORGANIZATIONAL CHART	20
3.4 EQUIPMENT AND TECHNOLOGY.....	21
3.5 DISASTER RECOVERY	21
3.6 CORPORATE AUDIT REQUIREMENTS:	23
3.6.1	23
3.6.2	24
3.7 DISCLOSURE OF LITIGATION AND INVESTIGATION:.....	25
4. MANDATORY REQUIREMENTS	26
4.1 MANDATORY CONTRACT SERVICES REQUIREMENTS AND DELIVERABLES.....	26
REQUEST FOR QUOTATION COVER PAGE AND BOD RESOLUTION.....	27
EXHIBIT A: PRICING PAGE	28
CONTRACT MANAGER CONTACT INFORMATION	29
DESIGNATED CONTACT AND CERTIFICATION AND SIGNATURE	30
PURCHASING AFFADAVIT	31
SOLICITATION ADDENDUM ACKNOWLEDGEMENT FORM	32
STATE OF WEST VIRGINIA VENDOR PREFERENCE CERTIFICATE	33
APPENDICES.....	34



3. QUALIFICATIONS

3.1 EXPERIENCE

The Vendor MUST have a minimum of two (2) years' experience in successfully providing a wide variety of secure instant lottery game tickets for one or more North American government lotteries. The Vendor MUST have experience in the creative design, imaging, computer programming for ticket generation, inventory control and validation, security, production, and secure delivery of instant lottery games of the type sought by the Lottery. Compliance with this experience requirement will be determined prior to contract award by the State through references provided by the Vendor upon request, through knowledge or documentation of the Vendor's past projects, through confirmation of experience requirements from the architect assisting the State in this project, or some other method that the State determines to be acceptable. Vendor must provide any documentation requested by the State to assist in confirmation of compliance with this provision. References, documentation, or other information to confirm compliance with this experience requirement may be requested after bid opening and prior to contract award.

With more than 30 years of exclusive specialization in the instant ticket industry, Pollard Banknote's success is based upon formulating open, communicative, and successful partnerships with our 60+ customers worldwide. We have an established presence in both the North American and international markets, with the privilege of serving 28 NASPL/WLA lotteries as a primary or sole source supplier. We take great pride in the relationships we build and foster with all of our valued clients—from many longstanding partnerships to a number of new and exciting collaborations.

Pollard Banknote is a dominant force in the North American instant ticket industry—amongst our 34 NASPL clients, we have 14 primary or sole source contracts and 20 secondary contracts. We will utilize the breadth of our experience and expertise to develop unique and innovative solutions for the West Virginia Lottery to ensure that our products and services meet the specific needs of the Lottery's marketplace.

We have extensive experience in the creative design, imaging, computer programming for ticket generation, inventory control and validation, security, production, and secure delivery of instant lottery games of the type sought by the Lottery. Pollard Banknote would be pleased to comply with the Lottery's requirement by providing references upon request. We would also be pleased to provide documentation of past projects or by any means the State determines to be acceptable. Pollard Banknote will provide any and all documentation requested by the State to assist in confirmation of compliance with this provision. Pollard Banknote also understands and will fully comply with satisfying the Lottery's experience requirement by providing references, documentation or other information that may be requested after bid opening and prior to contract award.

As discussed in our Transmittal Letter, above, many lotteries around the world have benefitted from our value-add partnership and focus on driving instant ticket sales, and ultimately net proceeds. We emphasize innovation to bring new ideas, methods, and products to market. We ensure that the right team of people is dedicated to the program, and have the resources to meet current production needs, as well as the ability to grow with the Lottery. Furthermore, we know our clients' markets, and we make recommendations that work as proven by our clients' sales successes.



Pollard Banknote has a reputation throughout the Lottery industry of being a trusted Vendor Partner. Our relationship with our customers is part of our core services, and our customers value this dedication.

In order to demonstrate our broad and extensive experience in providing instant ticket game services to lotteries worldwide, we have also provided a full list of our current clients in **Appendix 1: Client List**, which provides specific contract details for our 60+ customers worldwide.

3.2 REQUIRED STAFF ASSIGNMENTS

The Vendor MUST supply, at a minimum, a specified account representative for key day to day contact for production of instant lottery games. The successful Vendor will provide resources for maintaining and implementing a research and development effort in such areas as instant lottery game concept, design, development, and post-game review. The Lottery has the right to approve or request any changes in key support staff at any time.

Pollard Banknote will supply not only a specified account representative for key day to day contact for production of instant lottery games, but an entire Dedicated Account Team, led by Matthew Isaac, Director, Sales & Marketing, and supported by Krista Stepa, Manager, Sales & Marketing, and Suzanne Johnson, Account Executive. Members of the Dedicated Account Team will work in partnership with Darren Perche, Senior Manager, Market Research, to implement initial market research that will address game development and player attitudes, with regular updates. This research shall include, but is not limited to, player surveys and segmentation studies for the purpose of seeking information about lottery game concept, design, development, and post-game review.

Pollard Banknote will comply with giving the Lottery the right to approve or request any changes in key support staff at any time. Pollard Banknote's Dedicated Account Team sets a high standard for meeting our clients' needs through proactive and extremely responsive customer service. Moreover, we provide service on a per game basis; each game receives the same amount of attention and dedication—from concept to production, delivery, and beyond. We customize our approach for each client, and our attention to detail for each game ensures that all clients receive the same level of exceptional service. Rest assured, Pollard Banknote's proposed account team for the West Virginia Lottery project are among the most experienced and seasoned professionals in the lottery industry.

Our comprehensive account team is comprised of three principal components:

- Executive Leadership
- Dedicated Account Team
- Marketing and Operational Support Specialists

Executive Leadership Team

Our Executive Leadership Team includes Doug Pollard, Co-Chief Executive Officer, who plays an integral leadership role in setting Pollard Banknote's exceptional standards of quality, innovation, marketing, and client service. Doug was inducted into the Lottery Industry Hall of Fame in 2015. Jennifer Westbury, Executive Vice President, Sales & Customer Development, will guide Pollard Banknote's dedicated account team for the West Virginia Lottery. As the Executive Leader, Jennifer employs 26 years of experience in the instant ticket business to work with sales and retail teams to drive revenue. Jennifer's induction into the PGRI Lottery Hall of Fame (2012) is evidence of the exceptionally high regard in which she is held in the



industry. Rob Young, Executive Vice President, Operations, is a key member of Pollard Banknote’s Executive Management Team, boasting over 35 years of lottery/print experience, and oversees the Game Generation, Information Systems, Game Planning, Manufacturing, and Quality departments at all of our instant ticket production facilities.

Dedicated Account Team

Matthew Isaac, Director, Sales & Marketing and Specified Account Representative

As Pollard Banknote’s Director, Sales & Marketing, Matthew will act as the Specified Account Representative for the West Virginia Lottery. Matthew has been with Pollard Banknote since 2014. His knowledge of the industry and intimate understanding of our company’s capabilities makes him highly effective at working with lottery clients to identify products and opportunities that will increase sales and net revenue.



In addition to Matthew’s knowledge of sales, marketing, analysis and customer relations, Matthew has expertise in strategic development and retail/merchandising.

Matthew will lead the Dedicated Account Team and will oversee all responsibilities relating to the Lottery’s instant ticket contract, with the goal of meeting the Lottery’s mandate to generate net proceeds for good causes. If awarded a contract, he will maintain contact with the Lottery for the development and production of instant games and work closely with the Lottery to develop marketing strategies and insightful recommendations. Supported by sales analyses, comparative data, industry trends, and proven winning strategies, Matthew will present new opportunities to meet the Lottery’s objectives, suggest market-specific promotions, and offer the latest on product innovations.

For the past decade, Matthew has worked with many lotteries, such as Florida, Maryland, Virginia, and Michigan, and outside partners in order to provide world-class retail and sales training initiatives. This hands-on experience includes working with the Florida Lottery’s Sales and Product Development Department in an industry-leading retail environment for over seven years. As the Florida Lottery’s Scratch-Off Product Manager, Matthew oversaw scratch-off product strategy, marketing initiatives, research, ticket distribution, product placement, retailer education, and motivation initiatives, ultimately contributing to over 70% growth of the Lottery’s Scratch-Off product sales from \$2.1 billion in FY 2009 to a record \$3.4 billion in FY 2014.

Krista Stepa, Manager, Sales & Marketing

Krista brings vast experience in sales, marketing, promotions, management, strategic planning, research and event organization to benefit the West Virginia Lottery. Combining market intelligence with expertise and insight, Krista will work with the Lottery to introduce fresh, new business opportunities, develop strategic marketing plans, and expand sales with a focus on increasing the return on investment.



Krista will oversee all responsibilities relating to the Lottery’s contract and will work closely with the Lottery to develop defined marketing strategies that align with the Lottery’s goals. Krista has a wealth of experience providing marketing expertise to lotteries across North America – strategies that have resulted in countless success stories for our clients.



Suzanne Johnson, Account Executive

Suzanne joined Pollard Banknote in 2001 and since then has been providing marketing support to a number of U.S. lotteries. Suzanne has vast experience working with lotteries to develop instant games, from prize structures and programming parameters and security features to artwork and shipping information.



Pollard Banknote understands and accepts that the Lottery has the right to approve or request any changes in key support staff at any time.

Marketing and Operational Support Specialists

While the day-to-day key personnel are critical in providing effective account service, its members are supported by the efforts of many highly-qualified individuals who offer specialized expertise. Our executive, managers, creative, technical, and marketing specialists, together with our craftspeople—totaling almost 1,000 people across five instant scratch ticket press lines and eight finishing lines—have manufactured and marketed instant ticket products that have helped lotteries across the globe meet their sales objectives.

Pollard Banknote has allocated several of our senior leaders to support the West Virginia Account Team in order to ensure that the Lottery receives the very best products and services the industry has to offer. We also offer some of the most experienced professionals in their respective fields by providing the Lottery with ongoing marketing and operational support. They are very familiar with what is required to develop and produce secure and marketable instant tickets, and each offer extensive experience working with lottery clients across North America. Our support specialists include representatives from Sales & Marketing, Production, Game Design & Programming, Quality & Security, and Information Technology. This full team of specialists will provide full support to Matthew, Krista and Suzanne to ensure all of the Lottery's needs, now and in the future, are fully met.

3.3 VENDOR ORGANIZATIONAL CHART

An accurate, current organizational chart that includes all of the corporate management individuals identified above MUST be submitted upon contract award. Related organizations MUST be clearly shown. The Lottery may request background checks of the successful Vendor, as well as subcontractors or parent entity, and its substantial subcontractors as follows:

- *If a sole proprietorship, the individual owner.*
- *If a corporation, all officers and directors in such corporation.*
- *If a partnership, each general partner as an individual.*
- *If a joint venture, all individual joint ventures.*
- *If a trust, all trustees.*
- *If an association, all officers and directors.*

For the Evaluation Committee's consideration, Pollard Banknote will submit an accurate, current organizational chart upon contract award. This chart will include all of the corporate management



individuals identified above, with related organizations clearly shown. Pollard Banknote will provide background checks if awarded the successful Vendor, as well as background checks for any subcontractors or parent entity. We will also list all officers and directors that form Pollard Banknote (a corporation).

3.4 EQUIPMENT AND TECHNOLOGY

The successful Vendor MUST provide an overview summary of the equipment and technology in place at the Vendor's facility that will be used to satisfy the requirements of this solicitation upon contract award. Additionally, the successful Vendor MUST provide an overview description of any other equipment and technology currently available at the Vendor's facility that offers lottery-related capabilities. These documents will be used to better understand the business relationship and further enhance the lottery product produced. This information is for continued operations and will not be evaluated.

Pollard Banknote will provide an overview summary of the equipment and technology in place at our facilities that will be used to satisfy all of the Lottery's requirements outlined in this solicitation upon contract award. We will also provide an overview description of any other equipment and technology currently available at our facilities that offers lottery-related capabilities. We will provide these documents upon contract award to help the Lottery better understand our business relationship and how our operations can further enhance the lottery product produced. Pollard Banknote understands that this information will be for continued operations and will therefore not be evaluated.

3.5 DISASTER RECOVERY

In the event that the primary printing site becomes incapacitated for more than a week, the successful Vendor MUST have a disaster recovery plan for production and provide gaming tickets within a reasonable time frame so as to meet the requirements set forth in this Solicitation.

Pollard Banknote's manufacturing capabilities reside within five instant scratch ticket press lines and eight finishing lines across North America with a range of modern and advanced equipment for production of lottery products that will be available to meet the requirements of the RFP. Together, these operations total over 380,000 square feet and employ close to 1,000 staff. Currently we print over 12 billion ESS (equivalent single size or 2" x 4") tickets each year with the capacity to print up to 15 billion ESS, and we typically produce over 100 distinctive games each month. Quite simply—we produce more games, for more clients, in more countries, than any other instant ticket supplier.

Pollard Banknote operates the following facilities in the manufacture and support of instant tickets:

Winnipeg, Manitoba

Corporate Headquarters (165,000 sq. ft.)

140 Otter Street

Winnipeg, Manitoba, Canada

R3T 0M8

Winnipeg, Manitoba

Instant Ticket Production Facility

(65,000 sq. ft.)



1499 Buffalo Place
Winnipeg, Manitoba, Canada
R3T 1L7

Ypsilanti, Michigan

Instant Ticket Production Facility (89,000 sq. ft.)
775 James L. Hart Parkway
Washtenaw Business Park
Ypsilanti, Michigan, U.S.A.
48197

Barrhead, Alberta

Finishing Exclusively, If Required (20,000 sq. ft.)
6203-46th Street
Barrhead, Alberta, Canada
T7N 1A1

Sault Ste. Marie, Ontario

Finishing Exclusively, If Required (28,000 sq. ft.)
45 White Oak Drive
Sault Ste. Marie, Ontario, Canada
P6B 4J7

Pollard Banknote has in place a comprehensive contingency plan with both internal and external backup capability in order to protect the West Virginia Lottery from financial loss in the event of a disaster that impacts production of Lottery tickets. In the event that our primary printing site for the West Virginia Lottery becomes incapacitated for more than a week, Pollard Banknote has a disaster recovery plan for production that outlines our capability to manufacture the Lottery's instant tickets at an alternate (or unaffected) facility. In other words, Pollard Banknote will always have a facility available to serve in a backup capacity if the designated primary facility is disrupted for any reason.

We have the ability to do this because of standardized processes and systems that have been implemented company-wide, ensuring we have redundant systems, including servers, as well as consistent training, sources of raw materials and manufacturing equipment across all facilities. Our Disaster Recovery Plan does guarantee that gaming tickets are provided within a reasonable time frame to meet the requirements set forth in this solicitation. Pollard Banknote would be pleased to provide our Disaster Recovery Plan upon contract award.



3.6 CORPORATE AUDIT REQUIREMENTS:

The successful Vendor must meet specific corporate auditing obligations to prove ability of continuing performance set for in this Solicitation:

3.6.1

The Vendor must have a complete corporate financial Audit conducted annually, at its own expense. The audit must follow Generally Accepted Auditing Standards (GAAS). A copy of the Vendor's certified financial statements MUST be provided annually within one quarter after the close of the Vendor's fiscal year. The Lottery will accept a parent company's Form 10-K to satisfy this requirement.

Pollard Banknote agrees to provide a complete corporate financial Audit annually at its own expense. Our audits follow Generally Accepted Auditing Standards (GAAS). For the Lottery's consideration, we provide our Annual Report for 2015 that includes our audited financial statements for that year, in **Appendix II: Financial Statements**, and we also include the financial statements and MDA for all four quarters of 2016. Our financial statements have been audited by an international firm of Chartered Accountants, the Canadian equivalent of a certified public accountant, according to GAAS.

Pollard Banknote will provide annually within one quarter after the close of our fiscal year our certified financial statements.

A HISTORY OF FINANCIAL STRENGTH

Pollard Banknote's position as a leading instant ticket expert is made possible by our strong financial condition. With over 100 years of financial success behind us, our strong capital base reflects strength and stability that generate confidence from our lottery customers. Over the past decade, Pollard Banknote has been the most consistently profitable instant ticket supplier in the industry. We have the financial stability to ensure an uninterrupted product supply over the life of this Contract.

Pollard Banknote is one of the least leveraged businesses among the largest lottery suppliers and this strength provides the financial flexibility lotteries are demanding from their suppliers in today's market. We have generated significant positive cash flow year in and year out which allows us to reinvest large amounts of resources in developing the products and services that our lottery clients demand and to undertake major projects in the lottery industry.

Over the last five years, as Pollard Banknote has recorded increasing net income, our major competitors have been losing significant money each year. Recently, all of our major competitors have taken on significant new amounts of debt as a result of acquisitions outside of the lottery space. We believe that stable financial strength of suppliers is crucial to growth and stability of the lottery industry as a whole in both the short and long term. We believe a highly leveraged organization will invariably come under pressure to make business decisions not in the best interests of their customers.

Pollard Banknote has systematically been reducing the debt portion of our capital structure over the last three years while at the same time maintaining access to available and unused capital. Over the same timeframe our competitors have been dramatically increasing their debt. Recent events in the industry further highlight our different approaches. Pollard Banknote's financial strength and stability is further underscored by the steady stream of dividends paid to our shareholders over the last number of years.



Recently, over the course of 2014 and 2015, Pollard Banknote has invested over \$26 million USD in capital additions to improve and expand our capabilities exclusively in the lottery industry, with almost all of those funds being generated by our internal operations.

Our strong, internally generated financial strength is supported by a bank syndicate with decades of experience partnering our growth. These committed capital sources ensure Pollard Banknote has the ability to respond to the Lottery's needs at all levels. Further, two of the largest bonding companies provide our bonding facility reflecting their very positive assessment of the financial strength of Pollard Banknote.

3.6.2

The Vendor MUST annually provide the Lottery with Securities and Exchange Commission (SEC) 10-K reports (or the appropriate non-U.S. equivalent such as the Manitoba Securities Commission) as they are issued, together with any other reports required pursuant to Section 13 of the Securities and Exchange Act of 1934, as amended. The Lottery will accept a parent company's Form 10-K to satisfy this requirement.

As a Canadian-based company, Pollard Banknote has not submitted any 10-K reports or other filings with the Securities and Exchange Commission ("SEC").

The Canadian equivalent of 10-K statements is our annual audited financial statements, our annual MDA and our Annual Information Form. Our Annual Reports include our annual financial statements and our annual MDA. Please see our response to 3.6.1, above, for a review of our audited financial statements for 2015 and 2016 provided in **Appendix II: Financial Statements**. Please note that the financial statements provided are in Canadian dollars (CAD).

Vendor WILL arrange for a third party auditor to review the Vendor as a service organization on an annual basis in accordance with the attestation standards established by the American Institute of Certified Public Accountants (AICPA) in Statement on Standards for Attestation Engagements (SSAE) No. 16. This examination: (a) WILL focus on the operations necessary to provide services to the Lottery under the Contract and on the policies, procedures, systems security and data integrity measures, and other controls implemented by the Vendor in connection with those operations; (b) WILL result in a Service Organization Control (SOC) Report; and (c) MUST be paid for by the Vendor. The annual SSAE No. 16 reviews MUST occur - and the resulting SOC Reports MUST be provided to the Lottery - within one quarter after the close of the State's fiscal year. The first such review MUST cover a partial year ending with the State's fiscal year.

Pollard Banknote understands, accepts and will comply with arranging for a third party auditor to review Pollard Banknote as a service organization on an annual basis in accordance with the attestation standards established by the American Institute of Certified Public Accountants (AICPA) in Statement on Standards for Attestation Engagements (SSAE) No. 16. Pollard Banknote will ensure that this examination will focus on the operations necessary to provide services to the Lottery under the Contract and on the policies, procedures, systems security and data integrity measures, and other controls implemented by Pollard Banknote in connection with those operations. It will also result in a Service Organization Control (SOC) Report; and will be paid for by Pollard Banknote. The annual SSAE No. 16 reviews will occur - and the resulting SOC Reports will be provided to the Lottery - within one quarter after the close of the State's fiscal year. The first such review will cover a partial year ending with the State's fiscal year.



3.7 DISCLOSURE OF LITIGATION AND INVESTIGATION:

Because the Lottery has a strong interest in the successful Vendor's continuing ability to produce secure, high quality products and services, the successful Vendor MUST list and summarize pending or threatened litigation, administrative or regulatory proceedings, or similar matters not disclosed in Vendor's financial statements that could materially affect the Vendor's performance. As part of this disclosure requirement, the Vendor MUST state whether it or any owners, officers, directors, or partners have ever been convicted of any felony. As noted in West Virginia State Code §29-22-14.a.3;

No person MUST be permitted to act as vendor to the commission who has been convicted of any violation of this article, or of any felony or any crime related to theft, bribery or gambling or involving moral turpitude. The commission MUST deny the privilege of acting as a vendor to the commission for any person so convicted. Failure to disclose such matters on contract award may result in termination of Contract.

This is a continuing disclosure requirement; any such matter commencing after the execution of a Contract, MUST be disclosed in a timely manner in a written statement to the Lottery.

Pollard Banknote understands that the Lottery has a strong interest in the successful Vendor's continuing ability to produce secure, high quality products and services.

Pollard Banknote affirms it has no pending or threatened litigation, administrative or regulatory proceedings or similar matters not disclosed in financial statements that could materially affect performance.

Pollard Banknote affirms that neither Pollard Banknote, nor any of its owners, officers, directors, or partners have ever been convicted of any felony. Pollard Banknote understands and accepts the tenets of the West Virginia Code §29-22-14.a.3, as outlined in this requirement. Pollard Banknote also understands that failure to disclose such matters on contract award may result in termination of Contract. Pollard Banknote further affirms and accepts that this is a continuing disclosure requirement and will disclose any such matter commencing after the execution of a Contract in a timely manner in a written statement to the Lottery.



4. MANDATORY REQUIREMENTS

4.1 MANDATORY CONTRACT SERVICES REQUIREMENTS AND DELIVERABLES

Contract services must meet or exceed the mandatory requirements listed below.

In response to **4.1.1 Development** through to **4.1.16 Record Retention (Access and Accountability)** of the RFQ and all of the subsections therein, Pollard Banknote understands, accepts and will comply with all of the requirements listed. Upon contract award, Pollard Banknote will be pleased to provide our expertise in game planning and analysis, intellectual property research, graphic arts, and state-of-the-art printing systems. Pollard Banknote will produce instant lottery tickets in accordance with Working Paper specifications and will be delivered to the Lottery's gaming system and related services vendor of record in West Virginia.

Upon contract award we will describe in detail our production processes which will include game planning assistance, creative ticket design, complete game development, game printing, and production plans. Also upon contract award, we will provide information about the printing presses that will be utilized, to be used to assist in cooperative planning.

Pollard Banknote will meet all of the standards outlined, including standards for ticket sizes and orientation, ticket numbering, barcodes, uniform product codes, retailer validation codes, Process controls, printing specifications, design, Working Paper specifications, game requirements, shipping and delivery, security, marketing, disaster recovery, ownership of materials, end of contract transition, and record retention (access and confidentiality).



REQUEST FOR QUOTATION COVER PAGE AND BOD RESOLUTION

On the following page, please find the State of West Virginia cover page that includes Vendor name, address and telephone number and is signed by Doug Pollard, Co-Chief Executive Officer, Pollard Banknote. We have also included a Resolution of the Board of Directors confirming the signing authority of Doug Pollard to legally bind Pollard Banknote.

LOT1700000005	Document Phase Final	Document Description INSTANT LOTTERY TICKET PRINTING & SERVICES	Page 3 of 3
----------------------	--------------------------------	--	------------------------------

ADDITIONAL TERMS AND CONDITIONS

See attached document(s) for additional Terms and Conditions

ADDITIONAL INFORMATION:

Addendum

Addendum 1 issued to publish and distribute the attached information to the vendor community.
.....

Request for Quotation

The West Virginia Purchasing Division is soliciting bids on behalf of the West Virginia Lottery to establish a contract for printing of, and related services for, instant lottery games.

INVOICE TO		SHIP TO	
ACCOUNTS PAYABLE LOTTERY PO BOX 2087		PURCHASING LOTTERY 900 PENNSYLVANIA AVE	
CHARLESTON	WV25327-2067	CHARLESTON	WV 25302
US		US	

Line	Comm Ln Desc	Qty	Unit Issue	Unit Price	Total Price
1	LOTTERY TICKET PRINTING & RELATED SERVICES				

Comm Code	Manufacturer	Specification	Model #
60141113			

Extended Description :

*MUST COMPLETE EXHIBIT A PRICING PAGE

POLLARD BANKNOTE LIMITED
BOARD OF DIRECTORS MEETING
WEDNESDAY, NOVEMBER 9, 2011 at 8:00 a.m. (Central)
WINNIPEG, MANITOBA

Certified Extract from the Minutes of Meeting

MINUTES OF A MEETING of the Board of Directors (the "Board") of **POLLARD BANKNOTE LIMITED** (the "Corporation") held at 140 Otter Street, in Winnipeg, Manitoba, on November 9, 2011 at 8:00 a.m.

PRESENT:

Lawrence O. Pollard
Gordon O. Pollard
John S. Pollard
Douglas E. Pollard
Delmore C.W. Crewson
Jerry L. Gray
Garry A. Leach

being all of the directors of the Corporation.

ALSO PRESENT:

Rob Rose
Riva Richard

with the consent of the persons present at the meeting.

The Executive Chair of the Board, Gordon O. Pollard, served as Chair of the meeting, called the meeting to order and appointed Riva Richard as Secretary.

Notice convening the meeting having been sent to all the directors in accordance with the by-laws of the Corporation, and a quorum being present, the Chair declared the meeting duly constituted for the transaction of business.

[Selected Content Not Reproduced]

WHEREAS from time to time in the ordinary course of its business, the Corporation desires to submit proposals, quotations, bids or responses (any such documents being herein collectively called "Bid Response") to requests for proposals, requests for quotation, invitations to tender, invitations to bid and similar documents generally relating to the potential engagement of the Corporation by a third party for the supply for goods and/or services which are within the scope of the business of the Corporation to supply (any such documents being herein collectively called "Bid Documents");

AND WHEREAS it is considered desirable and in the best interests of the Corporation to give power and authority to designated officers of the Corporation to select and determine which Bid Documents the Corporation shall respond to by submitting a Bid Response, to execute and deliver on behalf of the Corporation all manner of

documentation associated with any Bid Response, and to appoint official representatives of the Corporation, for all purposes associated with the Corporation's Bid Response;

THEREFORE, on a motion duly moved by Jerry Gray, seconded by Del Crewson and unanimously carried:

RESOLVED THAT any one director, officer or an Executive Vice-President of Sales & Marketing of the Corporation, be and each of them is hereby authorized:

- a) to select and determine which Bid Documents the Corporation shall respond to;
- b) to execute and deliver, on behalf of the Corporation, the Corporation's Bid Response to any Bid Document, and any contract or agreement resulting from acceptance of the Corporation's Bid Response, with such changes therein, additions thereto or deletions therefrom, if any, as the person so signing in his discretion may approve, with approval of any changes, additions or deletions to be conclusively evidenced by such execution; and
- c) to appoint by instrument in writing, one or more official representatives of the Corporation, who need not be employees of the Corporation, for all purposes associated with the Corporation's participation in any process related to the Bid Documents for the Corporation's Bid Response.

RESOLVED THAT any one director, officer or an Executive Vice-President of Sales & Marketing of the Corporation, be and each of them is hereby authorized to do all such other things and to execute and deliver, on behalf of the Corporation, all such further and other documents, instruments, declarations, affirmations, certificates, agreements and assurances as may be necessary in order to effectuate the foregoing.

I, Riva J. Richard, Secretary of Pollard Banknote Limited, hereby certify that the foregoing resolutions were passed at a duly constituted meeting of the Board of Directors of Pollard Banknote Limited held on the 9th day of November, 2011.

Dated this 2nd day of March, 2017.


Riva J. Richard, Secretary



EXHIBIT A: PRICING PAGE

On the following pages, we have provided pricing for all 24 items listed in **Exhibit A: Pricing**. As specified in the **General Terms and Conditions, 13. Pricing**, the pricing set forth herein is firm for the life of the Contract, unless specified elsewhere within the Solicitation/Contract by the State. Furthermore, as per section **5.2 Pricing Page**: we have completed the Pricing Page by determining the cost per square inch per one thousand tickets for the base ticket requirements and the additional processes or finishes. As required, our Pricing Page is completed in full.

EXHIBIT A - PRICING PAGE

	<i>All pricing is per square inch per thousand</i>	<i>Estimated Usage Percentage Per Square Inch Annually</i>	<i>Weighted Price</i>
1 BASE PRINTING COST Each Vendor's base price MUST include base ticket cost with foil-less stock, one imaged play area, four-color display, four-color overprint, two color ticket back, full gloss coating, background coating, all security for full game creation and reconstruction, validation barcode on ticket front and back, UPC barcode on ticket back, all protective coatings, personnel required for contract, ticket and POS art design, and all research and development costs.	\$1.910	100%	\$1.910
2 MULTIPLE GAME IMAGED PLAY AREAS	\$0.000	50%	\$0.000
3 PLAYER MARKING SYSTEM FOR EXTENDED PLAY	\$0.000	50%	\$0.000
4 SCENES/COLOR PULSES SEQUENTIALLY WITHIN A GAME	\$0.080	30%	\$0.024
5 SCENE/COLOR PULSES SPLIT QUANTITIES WITHIN A GAME	\$0.080	30%	\$0.024
6 FLOURESCENT INKS	\$0.100	10%	\$0.010
7 METALLIC-LIKE INKS	\$0.150	10%	\$0.015
8 DUAL COLOR IMAGING OF PLAY SYMBOLS	\$0.400	20%	\$0.080
9 MULTIPLE COLOR IMAGING OF PLAY SYMBOLS	\$0.750	15%	\$0.113
10 FOIL STOCK	\$0.250	10%	\$0.025
11 RECYCLABLE HOLOGRAPHIC STOCK	\$1.810	5%	\$0.091
12 DIE-CUTTING OF TICKETS	\$0.500	5%	\$0.025
13 MATTE COATING ON TICKET FRONT	\$0.000	10%	\$0.000
14 PERFORATED STUB WITH IMAGED INFORMATION	\$0.080	5%	\$0.004
15 PERFORATED STUB WITHOUT IMAGED INFORMATION	\$0.050	5%	\$0.003
16 EACH ADDITIONAL SPOT DISPLAY COLOR	\$0.040	10%	\$0.004
17 ADDITIONAL VARIABLE BARCODE OR DATA	\$0.000	10%	\$0.000
18 EACH ADDITIONAL SPOT OVERPRINT COLOR	\$0.040	10%	\$0.004
19 OVERSIZED / EXTENDED PLAY TICKETS	\$0.000	10%	\$0.000
20 Point of Sale Piece Cards	\$15.000	0.2%	\$0.030
21 Point of Sale Piece Cards with fluorescent ink	\$60.000	0.1%	\$0.060
22 Point of Sale Piece Card with metallic-like ink	\$75.000	0.1%	\$0.075
23 Point of Sale Piece Card with holographic stock	\$90.000	0.1%	\$0.090
24 Point of Sale Piece Card with foil-lamenated stock	\$45.000	0.1%	\$0.045

Weighted Price = Items 1 through 24 multiplied by respective Estimated Usage Percentage Per Square Inch Annually Award will be based on lowest cost bid Weighted Price TOTAL. Failure to Bid on All 24 Items will result in disqualification of Vendor's Bid	\$2.631
---	----------------



CONTRACT MANAGER CONTACT INFORMATION

As per the requirement described in **12.1 Contract Manager:** we provide on the following page the designated primary contract manager responsible for overseeing Pollard Banknote's responsibilities under this Contract. Matthew Isaac, the dedicated Contract Manager for the West Virginia Lottery, will be available during normal business hours to address any customer service or other issues related to this Contract.

REQUEST FOR QUOTATION
Instant Lottery Game Ticket Printing And Services

10.5. Vendor MUST inform all staff of Lottery's security protocol and procedures.

11. VENDOR DEFAULT:

11.1. The following MUST be considered a vendor default under this Contract.

11.1.1. Failure to perform Contract Services in accordance with the requirements contained herein.

11.1.2. Failure to comply with other specifications and requirements contained herein.

11.1.3. Failure to comply with any laws, rules, and ordinances applicable to the Contract Services provided under this Contract.

11.1.4. Failure to remedy deficient performance upon request.

11.2. The following remedies MUST be available to Lottery upon default.

11.2.1. Immediate cancellation of the Contract.

11.2.2. Immediate cancellation of one or more release orders issued under this Contract.

11.2.3. Any other remedies available in law or equity.

12. MISCELLANEOUS:

12.1. **Contract Manager:** During its performance of this Contract, Vendor must designate and maintain a primary contract manager responsible for overseeing Vendor's responsibilities under this Contract. The Contract manager must be available during normal business hours to address any customer service or other issues related to this Contract. Vendor should list its Contract manager and his or her contact information below.

Contract Manager: Matthew Isaac, Director

Telephone Number: (813) 957-0755

Fax Number: (204) 453-1375

Email Address: misaac@pbl.ca



CONTRACT ADMINISTRATOR CONTACT INFORMATION CERTIFICATION AND SIGNATURE

On the following page, we provide the required information about Jennifer Westbury, Executive Vice President, Sales & Customer Development, whom we have identified as the Contract Administrator and the initial point of contact for matters relating to this Contract. We also provide the signature of Doug Pollard, Co-Chief Executive Officer, Pollard Banknote as certification that this Solicitation has been reviewed by Mr. Pollard in its entirety and that he understands the requirements, terms and conditions.

DESIGNATED CONTACT: Vendor appoints the individual identified in this Section as the Contract Administrator and the initial point of contact for matters relating to this Contract.

Jennifer Westbury, Executive Vice President Sales & Customer Development

 (Name, Title)

 (Printed Name and Title)

140 Otter Street Winnipeg, Manitoba, Canada R3T 0M8

 (Address)

(204) 474-2323 Extension 217

 (Phone Number) / (Fax Number)


jwestbury@pbl.ca

 (email address)

CERTIFICATION AND SIGNATURE: By signing below, or submitting documentation through wvOASIS, I certify that I have reviewed this Solicitation in its entirety; that I understand the requirements, terms and conditions, and other information contained herein; that this bid, offer or proposal constitutes an offer to the State that cannot be unilaterally withdrawn; that the product or service proposed meets the mandatory requirements contained in the Solicitation for that product or service, unless otherwise stated herein; that the Vendor accepts the terms and conditions contained in the Solicitation, unless otherwise stated herein; that I am submitting this bid, offer or proposal for review and consideration; that I am authorized by the vendor to execute and submit this bid, offer, or proposal, or any documents related thereto on vendor's behalf; that I am authorized to bind the vendor in a contractual relationship; and that to the best of my knowledge, the vendor has properly registered with any State agency that may require registration.

Pollard Banknote Limited

 (Company)



 (Authorized Signature) (Representative Name, Title)

Doug Pollard, Co-Chief Executive Officer

 (Printed Name and Title of Authorized Representative)

March 6, 2017

 (Date)

(204) 474-2323 Extension 275 Fax: (204) 453-1375

 (Phone Number) (Fax Number)



PURCHASING AFFADAVIT

On the following page, we provide the signed and notarized State of West Virginia Purchasing Division's Purchasing Affidavit. The Affidavit is signed by Doug Pollard, Co-Chief Executive Officer, Pollard Banknote, and notarized by Debbie Schween, Director, Legal Affairs, Pollard Banknote.

STATE OF WEST VIRGINIA
Purchasing Division

PURCHASING AFFIDAVIT

MANDATE: Under W. Va. Code §5A-3-10a, no contract or renewal of any contract may be awarded by the state or any of its political subdivisions to any vendor or prospective vendor when the vendor or prospective vendor or a related party to the vendor or prospective vendor is a debtor and: (1) the debt owed is an amount greater than one thousand dollars in the aggregate; or (2) the debtor is in employer default.

EXCEPTION: The prohibition listed above does not apply where a vendor has contested any tax administered pursuant to chapter eleven of the W. Va. Code, workers' compensation premium, permit fee or environmental fee or assessment and the matter has not become final or where the vendor has entered into a payment plan or agreement and the vendor is not in default of any of the provisions of such plan or agreement.

DEFINITIONS:

"Debt" means any assessment, premium, penalty, fine, tax or other amount of money owed to the state or any of its political subdivisions because of a judgment, fine, permit violation, license assessment, defaulted workers' compensation premium, penalty or other assessment presently delinquent or due and required to be paid to the state or any of its political subdivisions, including any interest or additional penalties accrued thereon.

"Employer default" means having an outstanding balance or liability to the old fund or to the uninsured employers' fund or being in policy default, as defined in W. Va. Code § 23-2c-2, failure to maintain mandatory workers' compensation coverage, or failure to fully meet its obligations as a workers' compensation self-insured employer. An employer is not in employer default if it has entered into a repayment agreement with the Insurance Commissioner and remains in compliance with the obligations under the repayment agreement.

"Related party" means a party, whether an individual, corporation, partnership, association, limited liability company or any other form or business association or other entity whatsoever, related to any vendor by blood, marriage, ownership or contract through which the party has a relationship of ownership or other interest with the vendor so that the party will actually or by effect receive or control a portion of the benefit, profit or other consideration from performance of a vendor contract with the party receiving an amount that meets or exceeds five percent of the total contract amount.

AFFIRMATION: By signing this form, the vendor's authorized signer affirms and acknowledges under penalty of law for false swearing (W. Va. Code §61-5-3) that neither vendor nor any related party owe a debt as defined above and that neither vendor nor any related party are in employer default as defined above, unless the debt or employer default is permitted under the exception above.

WITNESS THE FOLLOWING SIGNATURE:

Vendor's Name: Pollard Banknote Limited

Authorized Signature:  Doug Pollard, Co-CEO Date: March 2, 2017

~~State of~~ City of Winnipeg

~~County of~~ Province of Manitoba, to-wit:

Taken, subscribed, and sworn to before me this 2nd day of March, 2017.

My Commission ~~expires~~ does not expire, 20.

AFFIX SEAL HERE

NOTARY PUBLIC





SOLICITATION ADDENDUM ACKNOWLEDGEMENT FORM

On the following pages, we provide acknowledgement and receipt of all addenda issued by the Lottery's Purchasing Division issued with the Solicitation. We have provided signed acknowledgement forms for all four (4) addenda issued.



Purchasing Division
 2019 Washington Street East
 Post Office Box 50130
 Charleston, WV 25305-0130

State of West Virginia
 Request for Quotation
 34 - Service - Prof

Proc Folder: 278701

Doc Description: ADDENDUM NO. 1 - INSTANT LOTTERY TICKET PRINTING & SERVICES

Proc Type: Central Master Agreement

Date Issued	Solicitation Closes	Solicitation No	Version
2017-02-17	2017-03-16 13:30:00	CRFQ 0705 LOT1700000005	2

BID RECEIVING LOCATION

BID CLERK
 DEPARTMENT OF ADMINISTRATION
 PURCHASING DIVISION
 2019 WASHINGTON ST E
 CHARLESTON WV 25305
 US

VENDOR

Vendor Name, Address and Telephone Number:

Pollard Banknote Limited
 140 Otter Street
 Winnipeg, Manitoba, Canada
 R3T 0M8
 Tel: (204) 474-2323

FOR INFORMATION CONTACT THE BUYER

Michelle L Childers
 (304) 558-2063
 michelle.l.childers@wv.gov

Pollard Banknote Limited

Signature X  Doug Pollard, Co-CEO FEIN # 98-0665125

DATE March 2, 2017

All offers subject to all terms and conditions contained in this solicitation

ADDITIONAL INFORMATION:

Addendum

Addendum 1 issued to publish and distribute the attached information to the vendor community.
.....

Request for Quotation

The West Virginia Purchasing Division is soliciting bids on behalf of the West Virginia Lottery to establish a contract for printing of, and related services for, instant lottery games.

INVOICE TO		SHIP TO	
ACCOUNTS PAYABLE LOTTERY PO BOX 2067		PURCHASING LOTTERY 900 PENNSYLVANIA AVE	
CHARLESTON	WV25327-2067	CHARLESTON	WV 25302
US		US	

Line	Comm Ln Desc	Qty	Unit Issue	Unit Price	Total Price
1	LOTTERY TICKET PRINTING & RELATED SERVICES				

Comm Code	Manufacturer	Specification	Model #
60141113			

Extended Description :
*MUST COMPLETE EXHIBIT A PRICING PAGE

SOLICITATION NUMBER: CRFQ LOT1700000005

Addendum Number: 01

The purpose of this addendum is to modify the solicitation identified as ("Solicitation") to reflect the change(s) identified and described below.

Applicable Addendum Category:

- Modify bid opening date and time
- Modify specifications of product or service being sought
- Attachment of vendor questions and responses
- Attachment of pre-bid sign-in sheet
- Correction of error
- Other

Description of Modification to Solicitation:

This addendum is issued to modify the solicitation per the attached documentation and the following:

1. To modify the bid opening date to March 16, 2017 at 1:30PM, EST.

No other changes.

Additional Documentation: Documentation related to this Addendum (if any) has been included herewith as Attachment A and is specifically incorporated herein by reference.

Terms and Conditions:

1. All provisions of the Solicitation and other addenda not modified herein shall remain in full force and effect.
2. Vendor should acknowledge receipt of all addenda issued for this Solicitation by completing an Addendum Acknowledgment, a copy of which is included herewith. Failure to acknowledge addenda may result in bid disqualification. The addendum acknowledgement should be submitted with the bid to expedite document processing.

ADDENDUM ACKNOWLEDGEMENT FORM
SOLICITATION NO.: CRFQ 0705 LOT1700000005

Instructions: Please acknowledge receipt of all addenda issued with this solicitation by completing this addendum acknowledgment form. Check the box next to each addendum received and sign below. Failure to acknowledge addenda may result in bid disqualification.

Acknowledgment: I hereby acknowledge receipt of the following addenda and have made the necessary revisions to my proposal, plans and/or specification, etc.

Addendum Numbers Received:

(Check the box next to each addendum received)

- | | |
|--|--|
| <input checked="" type="checkbox"/> Addendum No. 1 | <input type="checkbox"/> Addendum No. 6 |
| <input type="checkbox"/> Addendum No. 2 | <input type="checkbox"/> Addendum No. 7 |
| <input type="checkbox"/> Addendum No. 3 | <input type="checkbox"/> Addendum No. 8 |
| <input type="checkbox"/> Addendum No. 4 | <input type="checkbox"/> Addendum No. 9 |
| <input type="checkbox"/> Addendum No. 5 | <input type="checkbox"/> Addendum No. 10 |

I understand that failure to confirm the receipt of addenda may be cause for rejection of this bid. I further understand that any verbal representation made or assumed to be made during any oral discussion held between Vendor's representatives and any state personnel is not binding. Only the information issued in writing and added to the specifications by an official addendum is binding.

Pollard Banknote Limited

Company



Doug Pollard, Co-CEO

Authorized Signature

March 2, 2017

Date

NOTE: This addendum acknowledgment should be submitted with the bid to expedite document processing.
Revised 6/8/2012



Purchasing Divison
2019 Washington Street East
Post Office Box 50130
Charleston, WV 25305-0130

State of West Virginia
Request for Quotation
34 – Service - Prof

Proc Folder: 278701

Doc Description: ADDENDUM NO. 2 - INSTANT LOTTERY TICKET PRINTING & SERVICES

Proc Type: Central Master Agreement

Date Issued	Solicitation Closes	Solicitation No	Version
2017-02-22	2017-03-16 13:30:00	CRFQ 0705 LOT1700000005	3

BID RECEIVING LOCATION

BID CLERK
DEPARTMENT OF ADMINISTRATION
PURCHASING DIVISION
2019 WASHINGTON ST E
CHARLESTON WV 25305
US

VENDOR

Vendor Name, Address and Telephone Number:

Pollard Banknote Limited
140 Otter Street
Winnipeg, Manitoba, Canada
R3T 0M8
Tel: (204) 474-2323

FOR INFORMATION CONTACT THE BUYER

Michelle L Childers
(304) 558-2063
michelle.l.childers@wv.gov

Pollard Banknote Limited

Signature X  Doug Pollard, Co-CEO FEIN # 98-0665125

DATE March 2, 107

All offers subject to all terms and conditions contained in this solicitation

ADDITIONAL INFORMATION:

Addendum

Addendum 2 issued to publish and distribute the attached information to the vendor community.

Request for Quotation

The West Virginia Purchasing Division is soliciting bids on behalf of the West Virginia Lottery to establish a contract for printing of, and related services for, instant lottery games.

INVOICE TO		SHIP TO	
ACCOUNTS PAYABLE LOTTERY PO BOX 2067		PURCHASING LOTTERY 900 PENNSYLVANIA AVE	
CHARLESTON	WV25327-2067	CHARLESTON	WV 25302
US		US	

Line	Comm Ln Desc	Qty	Unit Issue	Unit Price	Total Price
1	LOTTERY TICKET PRINTING & RELATED SERVICES	0.00000			

Comm Code	Manufacturer	Specification	Model #
60141113			

Extended Description :

*MUST COMPLETE EXHIBIT A PRICING PAGE

SOLICITATION NUMBER: CRFQ LOT1700000005

Addendum Number: 02

The purpose of this addendum is to modify the solicitation identified as (“Solicitation”) to reflect the change(s) identified and described below.

Applicable Addendum Category:

- | Modify bid opening date and time
- | Modify specifications of product or service being sought
- | Attachment of vendor questions and responses
- | Attachment of pre-bid sign-in sheet
- | Correction of error
- | Other

Description of Modification to Solicitation:

This addendum is issued to modify the solicitation per the attached documentation and the following:

1. To publish vendor questions and agency responses.

No other changes.

Additional Documentation: Documentation related to this Addendum (if any) has been included herewith as Attachment A and is specifically incorporated herein by reference.

Terms and Conditions:

1. All provisions of the Solicitation and other addenda not modified herein shall remain in full force and effect.
2. Vendor should acknowledge receipt of all addenda issued for this Solicitation by completing an Addendum Acknowledgment, a copy of which is included herewith. Failure to acknowledge addenda may result in bid disqualification. The addendum acknowledgement should be submitted with the bid to expedite document processing.

ATTACHMENT A

Questions & Answers

CRFQ LOT1700000005

Instant Lottery Ticket Printing & Services

Q1) How will vendors receive notification of response to vendor questions – via direct communication from RFQ coordinator (M Childers) or via the wvOASIS procurement site?

A1) Responses to all vendor questions will be published on wvOASIS.gov via formal Addendum after the question deadline.

Q2) Will vendor questions submitted in advance of final question period (Feb 14, 2017) be responded as they are received or will all questions only be responded post Feb 14, 2017 date?

A2) Please refer to response on A1.

Q3) With such compressed timeline between response to vendor questions and bid due date, would WV Purchasing consider extending the RFQ submission due date by a minimum of two weeks to allow all information received via vendor question process to be integrated into the necessary RFQ response (pricing and technical)?

A3) WV Purchasing agrees to extend the submission due date by two weeks to allow all vendors to adjust responses based on the Questions and Answers Addendum.

Q4) Would the WV Division of Purchasing please confirm to all vendors who are responding to this RFQ that they need only file the following document(s) to provide a fully compliant RFQ response:

- a) Exhibit A – Pricing Page**
- b) State of West Virginia Vendor Preference Certificate**
- c) State of West Virginia Purchasing Division Purchasing Affidavit**

A4) Please refer to the “Instructions to Vendors Submitting Bids” section of the RFQ for clarification of any documents that may need to be submitted with bid.

Please refer to the “Instructions to Vendors Submitting Bids” section of the RFQ for clarification of any documents that may need to be submitted with the bid that includes, RFQ Cover Page, Exhibit A Pricing Page, State of West Virginia Vendor Preference Certificate with Vendor contact information and signature, State of West Virginia Purchasing Division Purchasing Affidavit, Addendum Acknowledgment Form, and supporting statements and documentation for requirements in Sections 3 & 4 of this RFQ.

Q5) Would the WV Division of Purchasing please provide confirmation that any apparent successful vendor identified as being selected as a result of this procurement will have adequate time to compile the required response to the technical requirements of this Scope

of Work (RFQ Sections 1, 2, 3 and 4 – pages 26-60)? It is suggested that the apparent successful vendor have a minimum of five weeks of time to compile and submit the technical / experience / bonds / certificates necessary as outlined in the RFQ.

A5) This is a time-sensitive solicitation. WV Purchasing Division will proceed with a timeline necessary to meet the Lottery's needs. Upon the commencement of the awarded contract beginning on May 1, 2017, the successful Vendor must provide any supporting documentation that is not required with the bid submission. With the bid submission, Vendors must also provide and agree to terms in Section 3, unless it is explicitly stated that the documentation must be provided upon contract award.

Q6) Would the WV Division of Purchasing please send vendors a digital copy of the Exhibit A Pricing form (that is fillable by vendors) and can be uploaded as a soft copy submission to the wvOASIS site for this procurement?

A6) Exhibit A Pricing Page - BuyerRev 02022017.xlsx is attached to the Vendor Self Service portal in wvOASIS.

Q7) Would the WV Division of Purchasing please provide a copy of the current vendor (IGT) instant game pricing schedule – including any amendments/extension revisions to the pricing?

A7) For more information regarding the bids received for LOT460, please visit: <http://www.state.wv.us/admin/purchase/Bids/FY2012/BO20111110.html>

Q8) Would the WV Division of Procurement please provide a copy of the last evaluation scoring showing results from all vendors who responded to the previous 2010 RFQ for instant games?

A8) This was bid as a CRFQ last time, please see response on A7.

Q9) Would the WV Division of Procurement please confirm whether or not a responding vendor must complete the Page 1 and 2 document of the RFQ and submit with response or will this information be provided for the apparent successful vendor at contract award?

A9) Please refer to response on A4.

Q10) 4.1.9.1.1.6 p. 51 States "Must include promotional cards or other informational materials in or on packs prior to packaging when specified in the Working Papers.

Question: Would the Lottery please clarify whether the 4" x 4' Point of Sale pieces described in various places in the RFQ are inserted into packs, or alternatively, ship in bulk to the Lottery?

A10) The 4" x 4" Point of Sale items are shipped in bulk to the Lottery's warehouse for distribution with the respective instant games. Pack Insertion is required for special materials, games, and notifications to retailers. This option has not been exercised in the

past ten (10) years; however, the Lottery may adjust pack sizes, pack quantities, establish special promotions, etc. that would require a pack insertion.

Q11) Exhibit A, Pricing Page Items 20 through 24 refer to Point of Sale Piece cards

Question: When pricing Point of Sale piece cards would the Lottery please confirm that the per square inch prices submitted refer to the size of Point of Sale Piece (4" x 4"), rather than the ticket size of the instant ticket game to which the piece refers ?

A11) Items 20 through 24 on Exhibit A Pricing Page strictly refers to Point of Sale pieces, which are currently the 4" x 4" game menu cards.

Q12)Exhibit A, Pricing Page

Question: Would the Lottery please confirm that prospective vendors are to complete the column headed "Weighted Price" and the TOTAL field at the bottom of Exhibit A or alternatively, will these fields be completed by the Lottery?

A12) The EXCEL spreadsheet provided will calculate the Weighted price and the total. Upon bid opening, the calculations will be assessed and confirmed.

Q13)Exhibit B , Instant Game Schedule The header for this Exhibit indicates that it originated as an Excel file.

Question: Would the Lottery please provide Exhibit B in excel format ?

A13) Yes. Please see Exhibit B.xlsx.

Q14)It is our understanding that this Request for Quotations ONLY requires the following documentation, as the purpose of this RFQ is to identify an apparent Successful Vendor that is able to provide the Contract Services for the lowest overall total cost as shown on the Pricing Pages. Would the Lottery please confirm that Vendors should include ONLY the following documentation in response to this RFQ:

Exhibit A – Pricing Page

RFQ Cover Page – Page 1

Contract Manager contact information (p. 63)

Contract Administrator contact information (p.83)

Certification & Signature (p. 83)

Purchasing Affidavit (p.84)

A14) Please refer to response on A4.

Q15)Page 37, 4.1.5.2. Paper/Stock/Substrate: This requirement outlines the ticket stock required but does not specify the exact requirement. Would the Lottery please identify the specific paper stock to be included in the base price (for example, 10pt C1S).

A15) The Lottery amends Section 4.1.5.2. to read, "Paper stock: The Vendor must provide ticket paper stock that is equivalent to 10pt C1S. Ticket stock requirements may be modified within reason, at the discretion of the Lottery, during the term of the contract."

Q16) This requirement describes how the proposed paper, substrates and layers must be compatible with all instant ticket display and dispensing mechanisms used by the Lottery. Would the Lottery please state the types of ITVMs and dispensing machines used.

A16) The Lottery currently using IGT 24-bin and 16-bin Player Activated Terminals; 4, 6, 8, 16, and 24-bin Instant Ticket Vending Machines. For behind the counter sales, the Lottery uses Schafer Systems to provide 12, 15, 16-bin in-counter units; 12, 16, 20, 24, 32-bin on-counter promoters; 4" single and dual snap dispensers; and 6" single and dual snap dispensers.

Q17)Page 38, 4.1.5.3 Colors and Ink and 4.1.5.4 Overprint: Both of these requirements state that the successful Vendor must provide capabilities for full-bleed graphic designs using up to five (5) inks in different colors for ticket fronts and overprints in the production of instant ticket fronts. Yet the Exhibit A Pricing Page states that the base printing cost must include four-color display and overprint. Can the Lottery please confirm how many colors are required in the base price – four or five?

A17) The Lottery is requesting four-color process full-bleed on the overprint and ticket front in the base price as well as any blocking colors or base coats in the ticket printing process. Any specific color or additional colors requested would be an additional cost.

Q18)Page 42, 4.1.5.12 Die-Cut Tickets: Has the lottery launched a die-cut ticket in the past that was able to vend through an instant ticket vending machine? If so, can we please see a graphic of the ticket including size descriptions?

A18) The Lottery has not launched a die-cut ticket at this point. The Lottery recognizes that the ticket design would have to be limited to allow vending machine dispensing.

Q19)Page 47, 4.1.7.13 Copies: This requirement states that working papers are to be received by the Lottery within five (5) business days of Vendor's receipt of Lottery approval signatures. Can the Lottery please confirm that it will accept an electronic version?

A19) The Lottery will accept an electronic version of the final document and prefers a high quality PDF document.

Q20)Exhibit A Pricing Page: Item 20 requests pricing for holographic stock. We are able to provide an alternative to holographic stock that offers a better price. Would the Lottery allow the inclusion of a price for our alternative to holographic stock?

A20) No. Alternative pricing is not permitted within the scope of the Purchasing requirements.

Q21) Section 45 – Determination of Damages: In determining any liquidated damages to be assessed by the Lottery against the successful bidder for failure to timely deliver or maintain ticket inventory, would the Lottery consider calculating liquidated damages using a model based on the average net revenues earned over an extended period such as thirteen weeks?

A21) No.

Q22) Page 19, Please confirm that Vendor indemnification obligations relate to third party claims only. In addition, please confirm that claims that arise from the acts and omissions of the State and Lottery are excluded from Section 37.

A22) Yes.

Q23)Page 23-25, Please confirm issues that arise from the acts and omissions of the State and Lottery are excluded from Vendor defaults giving rise to Liquidated Damages under Section 45.

A23) The Lottery amends the General Terms and Conditions, part 45 to read, “Nothing in this section, or the following section relating to Liquidated Damages, shall be construed as relieving the Vendor from performing all contract requirements whether or not said requirements are set forth herein, excluding defaults or delays arising from acts or omissions of the State or of the Lottery.”

Q24)Would the Lottery consider adding the following additional language to “Improper Ticket Validation:” In addition, the Vendor MUST be financially liable for all claims resulting in prize payouts for tickets improperly validates due to printing errors or misprints, programming or other Vendor controlled causes. Damages will be assessed in the amounts of actual claims required to be paid under West Virginia law.

A24) No.

Q25)Page 64, Would the Lottery please provide an editable PDF or Word document of Exhibit A for the bidder to use for submission?

A25) Please refer to response on A6.

Q26)Page 64, Would the Lottery kindly provide an amendment to Exhibit A –Pricing Page, to include Additional Options that the vendor would like to provide the Lottery for consideration?

A26) No. Additional Options pricing is not permitted within the scope of Purchasing requirements.

Q27)Page 28, How much time between bid opening on February 28th and contract award will the successful Vendor be given to provide the references, documentation and other information required to show compliance?

A27) Please refer to response on A5

Q28)Could the lottery please clarify what documents and information, in addition to pricing, is required to be submitted by bidders for this RFQ?

A28) Please refer to response on A4.

Q29)Given the short time frame available to bidders following the receipt of the answers to questions, could the lottery please extend the opening date of the RFQ by three weeks?

A29) Please refer to response on A5.

Q30) Page 6, Would the Lottery please clarify if submitting the RFQ response electronically through wvOASIS is an option, and if yes, provide instructions on how to access the portal?

A30) Bids may be submitted online through wvOASIS.gov via the Vendor Self Service (VSS) portal. Please contact the OASIS help desk for questions relating to access.

helpdesk@wvOASIS.gov or Toll Free (855) 666-8823

ADDENDUM ACKNOWLEDGEMENT FORM
SOLICITATION NO.: CRFQ 0705 LOT1700000005

Instructions: Please acknowledge receipt of all addenda issued with this solicitation by completing this addendum acknowledgment form. Check the box next to each addendum received and sign below. Failure to acknowledge addenda may result in bid disqualification.

Acknowledgment: I hereby acknowledge receipt of the following addenda and have made the necessary revisions to my proposal, plans and/or specification, etc.

Addendum Numbers Received:

(Check the box next to each addendum received)

- | | |
|--|--|
| <input type="checkbox"/> Addendum No. 1 | <input type="checkbox"/> Addendum No. 6 |
| <input checked="" type="checkbox"/> Addendum No. 2 | <input type="checkbox"/> Addendum No. 7 |
| <input type="checkbox"/> Addendum No. 3 | <input type="checkbox"/> Addendum No. 8 |
| <input type="checkbox"/> Addendum No. 4 | <input type="checkbox"/> Addendum No. 9 |
| <input type="checkbox"/> Addendum No. 5 | <input type="checkbox"/> Addendum No. 10 |

I understand that failure to confirm the receipt of addenda may be cause for rejection of this bid. I further understand that any verbal representation made or assumed to be made during any oral discussion held between Vendor's representatives and any state personnel is not binding. Only the information issued in writing and added to the specifications by an official addendum is binding.

Pollard Banknote Limited

Company



Doug Pollard, Co-CEO

Authorized Signature

March 2, 2017

Date

NOTE: This addendum acknowledgment should be submitted with the bid to expedite document processing.
Revised 6/8/2012



Purchasing Division
 2019 Washington Street East
 Post Office Box 50130
 Charleston, WV 25305-0130

State of West Virginia
 Request for Quotation
 34 - Service - Prof

Proc Folder: 278701

Doc Description: ADDENDUM NO. 3 - INSTANT LOTTERY TICKET PRINTING & SERVICES

Proc Type: Central Master Agreement

Date Issued	Solicitation Closes	Solicitation No	Version
2017-02-28	2017-03-16 13:30:00	CRFQ 0705 LOT1700000005	4

BID RECEIVING LOCATION

BID CLERK
 DEPARTMENT OF ADMINISTRATION
 PURCHASING DIVISION
 2019 WASHINGTON ST E
 CHARLESTON WV 25305
 US

VENDOR

Vendor Name, Address and Telephone Number:

Pollard Banknote Limited
 140 Otter Street
 Winnipeg, Manitoba, Canada
 R3T 0M8
 Tel: (204) 474-2323

FOR INFORMATION CONTACT THE BUYER

Michelle L Childers
 (304) 558-2063
 michelle.l.childers@wv.gov

Pollard Banknote Limited

Signature X  Doug Pollard, Co-CEO FEIN # 98-0665125

DATE March 2, 2017

All offers subject to all terms and conditions contained in this solicitation

ADDITIONAL INFORMATION:

Addendum

Addendum 3 issued to publish and distribute the attached information to the vendor community.
.....

Request for Quotation

The West Virginia Purchasing Division is soliciting bids on behalf of the West Virginia Lottery to establish a contract for printing of, and related services for, instant lottery games.

INVOICE TO		SHIP TO	
ACCOUNTS PAYABLE LOTTERY PO BOX 2067		PURCHASING LOTTERY 900 PENNSYLVANIA AVE	
CHARLESTON	WV25327-2067	CHARLESTON	WV 25302
US		US	

Line	Comm Ln Desc	Qty	Unit Issue	Unit Price	Total Price
1	LOTTERY TICKET PRINTING & RELATED SERVICES				

Comm Code	Manufacturer	Specification	Model #
60141113			

Extended Description :

*MUST COMPLETE EXHIBIT A PRICING PAGE

SOLICITATION NUMBER: CRFQ LOT1700000005

Addendum Number: 03

The purpose of this addendum is to modify the solicitation identified as ("Solicitation") to reflect the change(s) identified and described below.

Applicable Addendum Category:

- Modify bid opening date and time
- Modify specifications of product or service being sought
- Attachment of vendor questions and responses
- Attachment of pre-bid sign-in sheet
- Correction of error
- Other

Description of Modification to Solicitation:

This addendum is issued to modify the solicitation per the attached documentation and the following:

1. To correct Exhibit A Pricing Sheet attachment in wvOASIS.gov.

No other changes.

Additional Documentation: Documentation related to this Addendum (if any) has been included herewith as Attachment A and is specifically incorporated herein by reference.

Terms and Conditions:

1. All provisions of the Solicitation and other addenda not modified herein shall remain in full force and effect.
2. Vendor should acknowledge receipt of all addenda issued for this Solicitation by completing an Addendum Acknowledgment, a copy of which is included herewith. Failure to acknowledge addenda may result in bid disqualification. The addendum acknowledgement should be submitted with the bid to expedite document processing.

ADDENDUM ACKNOWLEDGEMENT FORM
SOLICITATION NO.: CRFQ 0705 LOT1700000005

Instructions: Please acknowledge receipt of all addenda issued with this solicitation by completing this addendum acknowledgment form. Check the box next to each addendum received and sign below. Failure to acknowledge addenda may result in bid disqualification.

Acknowledgment: I hereby acknowledge receipt of the following addenda and have made the necessary revisions to my proposal, plans and/or specification, etc.

Addendum Numbers Received:
(Check the box next to each addendum received)

- | | |
|--|--|
| <input type="checkbox"/> Addendum No. 1 | <input type="checkbox"/> Addendum No. 6 |
| <input type="checkbox"/> Addendum No. 2 | <input type="checkbox"/> Addendum No. 7 |
| <input checked="" type="checkbox"/> Addendum No. 3 | <input type="checkbox"/> Addendum No. 8 |
| <input type="checkbox"/> Addendum No. 4 | <input type="checkbox"/> Addendum No. 9 |
| <input type="checkbox"/> Addendum No. 5 | <input type="checkbox"/> Addendum No. 10 |

I understand that failure to confirm the receipt of addenda may be cause for rejection of this bid. I further understand that any verbal representation made or assumed to be made during any oral discussion held between Vendor's representatives and any state personnel is not binding. Only the information issued in writing and added to the specifications by an official addendum is binding.

Pollard Banknote Limited

Company



Doug Pollard, Co-CEO

Authorized Signature

March 2, 2017

Date

NOTE: This addendum acknowledgement should be submitted with the bid to expedite document processing.
Revised 6/8/2012



Purchasing Division
 2019 Washington Street East
 Post Office Box 50130
 Charleston, WV 25305-0130

State of West Virginia
 Request for Quotation
 34 — Service - Prof

Proc Folder: 278701

Doc Description: ADDENDUM NO. 4 - INSTANT LOTTERY TICKET PRINTING & SERVICES

Proc Type: Central Master Agreement

Date Issued	Solicitation Closes	Solicitation No	Version
2017-03-02	2017-03-16 13:30:00	CRFQ 0705 LOT1700000005	5

BID RECEIVING LOCATION

BID CLERK
 DEPARTMENT OF ADMINISTRATION
 PURCHASING DIVISION
 2019 WASHINGTON ST E
 CHARLESTON WV 25305
 US


VENDOR

Vendor Name, Address and Telephone Number:
 Pollard Banknote Limited
 140 Otter Street
 Winnipeg, Manitoba, Canada
 R3T 0M8
 Tel: (204) 474-2323

FOR INFORMATION CONTACT THE BUYER

Michelle L Childers
 (304) 558-2063
 michelle.l.childers@wv.gov

Pollard Banknote Limited

Signature X  Doug Pollard, Co-CEO EIN # 98-0665125 DATE March 10, 2017

All offers subject to all terms and conditions contained in this solicitation

ADDITIONAL INFORMATION:

Addendum

Addendum 4 issued to publish and distribute the attached information to the vendor community.

Request for Quotation

The West Virginia Purchasing Division is soliciting bids on behalf of the West Virginia Lottery to establish a contract for printing of, and related services for, instant lottery games.

INVOICE TO		SHIP TO	
ACCOUNTS PAYABLE LOTTERY PO BOX 2067		PURCHASING LOTTERY 900 PENNSYLVANIA AVE	
CHARLESTON	WV25327-2067	CHARLESTON	WV 25302
US		US	

Line	Comm Ln Desc	Qty	Unit Issue	Unit Price	Total Price
1	LOTTERY TICKET PRINTING & RELATED SERVICES	0.00000			

Comm Code	Manufacturer	Specification	Model #
60141113			

Extended Description :

*MUST COMPLETE EXHIBIT A PRICING PAGE

SOLICITATION NUMBER: CRFQ LOT1700000005
Addendum Number: 04

The purpose of this addendum is to modify the solicitation identified as (“Solicitation”) to reflect the change(s) identified and described below.

Applicable Addendum Category:

- | Modify bid opening date and time
- | Modify specifications of product or service being sought
- | Attachment of vendor questions and responses
- | Attachment of pre-bid sign-in sheet
- | Correction of error
- | Other

Description of Modification to Solicitation:

This addendum is issued to modify the solicitation per the attached documentation and the following:

1. To publish Exhibit B as Excel format.

No other changes.

Additional Documentation: Documentation related to this Addendum (if any) has been included herewith as Attachment A and is specifically incorporated herein by reference.

Terms and Conditions:

1. All provisions of the Solicitation and other addenda not modified herein shall remain in full force and effect.
2. Vendor should acknowledge receipt of all addenda issued for this Solicitation by completing an Addendum Acknowledgment, a copy of which is included herewith. Failure to acknowledge addenda may result in bid disqualification. The addendum acknowledgement should be submitted with the bid to expedite document processing.

ADDENDUM ACKNOWLEDGEMENT FORM
SOLICITATION NO.: CRFQ 0705 LOT1700000005

Instructions: Please acknowledge receipt of all addenda issued with this solicitation by completing this addendum acknowledgment form. Check the box next to each addendum received and sign below. Failure to acknowledge addenda may result in bid disqualification.

Acknowledgment: I hereby acknowledge receipt of the following addenda and have made the necessary revisions to my proposal, plans and/or specification, etc.

Addendum Numbers Received:
(Check the box next to each addendum received)

- | | |
|--|--|
| <input type="checkbox"/> Addendum No. 1 | <input type="checkbox"/> Addendum No. 6 |
| <input type="checkbox"/> Addendum No. 2 | <input type="checkbox"/> Addendum No. 7 |
| <input type="checkbox"/> Addendum No. 3 | <input type="checkbox"/> Addendum No. 8 |
| <input checked="" type="checkbox"/> Addendum No. 4 | <input type="checkbox"/> Addendum No. 9 |
| <input type="checkbox"/> Addendum No. 5 | <input type="checkbox"/> Addendum No. 10 |

I understand that failure to confirm the receipt of addenda may be cause for rejection of this bid. I further understand that any verbal representation made or assumed to be made during any oral discussion held between Vendor's representatives and any state personnel is not binding. Only the information issued in writing and added to the specifications by an official addendum is binding.

Pollard Banknote Limited

Company



Doug Pollard, Co-CEO

Authorized Signature

March 10, 2017

Date

NOTE: This addendum acknowledgement should be submitted with the bid to expedite document processing.
Revised 6/8/2012



STATE OF WEST VIRGINIA VENDOR PREFERENCE CERTIFICATE







Pollard Banknote is not making an application for preference for our residency status, as outlined in the Vendor Preference Certificate, as such, the certificate has not been included.



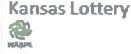





APPENDICES

Appendix I: Client List








Appendix II: Financial Statements

UNITED STATES				
LOTTERY JURISDICTION	ADDRESS	NAME/ADDRESS/TITLE/PHONE NUMBER OF CONTACT PERSON	TYPE & START AND END DATES OF CONTRACT	SERVICES PROVIDED
Connecticut Lottery Corporation 	777 Brook Street Rocky Hill, CT 06067 USA	Diane Patterson VP Marketing & Sales Tel: (860) 713-2819 Fax: (860) 713-2805 Email: diane.patterson@ctlottery.org	<ul style="list-style-type: none"> Primary printer Current contract: 2012-2017 Client since 2002 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services
Maryland State Lottery Agency 	1800 Washington Boulevard, Suite 330 Baltimore, MD 21230 USA	Leo Mamorsky Managing Director, Chief Marketing Officer Tel: (410) 230-8902 Fax: (410) 230-8795 Email: Leo.mamorsky@maryland.gov	<ul style="list-style-type: none"> Primary printer Current contract: 2013-2017 Client since 2004 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services Additional services
Michigan Lottery 	101 East Hillsdale P.O. Box 30023 Lansing, MI 48909 USA	Rick Droste Acting Chief Deputy/Sales & Marketing Tel: (517) 241-7154 Fax: (517) 241-0104 Email: droster@michigan.gov	<ul style="list-style-type: none"> Exclusive printer Current contract: 2017-2019 Client since 1996 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services iLottery platform, games, and operational services Additional services
Minnesota State Lottery 	2645 Long Lake Road Roseville, MN 55113-2533 USA	Todd Vodden Product Director Tel: (651) 635-8152 Email: toddv@mnlottery.com	<ul style="list-style-type: none"> Primary printer Current contract: 2016-2020 Client since 2007 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Sales training Secure freight services Additional services
Vermont Lottery Commission 	1311 US Route 302 Berlin-Suite 100 Barre, VT 05641-2399 USA	Jeff Cavender Marketing Director Tel: (802) 476-0103 Fax: (802) 479-4294 Email: jcavender@vtlottery.com	<ul style="list-style-type: none"> Primary printer Current contract: 2014-2018 Client since 2014 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services Additional services
Virginia Lottery 	900 E. Main Street Richmond, VA 23219 USA	Katherine Cundiff Product Manager Tel: (804) 692-7515 Email: KCundiff@valottery.com	<ul style="list-style-type: none"> Primary printer Current contract: 2014-2020 Client since 1996 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services Additional services








* Lottery clients are grouped by primary, shared primary and secondary printer and then sorted alphabetically within each group.

UNITED STATES				
LOTTERY JURISDICTION	ADDRESS	NAME/ADDRESS/TITLE/PHONE NUMBER OF CONTACT PERSON	TYPE & START AND END DATES OF CONTRACT	SERVICES PROVIDED
 Kansas Lottery	128 North Kansas Avenue Topeka, KS 66603 USA	Colleen O'Neil Director, Marketing Tel: (785) 296-5710 Fax: (785) 296-5712 Email: Colleen.ONeil@kslottery.net	<ul style="list-style-type: none"> Shared (1 of 3 non-exclusive printers) Current contract: 2016-2022 Client since 1998 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services Player Loyalty Program Additional services
 Massachusetts State Lottery Corporation	60 Columbian Street Braintree, MA 02184 USA	Lauren Luttrell Instant Product Manager Tel: (781) 849-5555 Fax: (781) 849-5546 Email: lluttrell@masslottery.com	<ul style="list-style-type: none"> Shared (1 of 3 non-exclusive printers) Current contract: 2012-2016 Client since 1996 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services Additional services
 Texas Lottery Commission	611 East Sixth Street P.O. Box 16630 Austin, TX 78701 USA	Robert Tirloni Products Manager Tel: (512) 344-5406 Fax: (512) 344-5242 Email: robert.tirloni@lottery.state.tx.us	<ul style="list-style-type: none"> Shared (1 of 3 non-exclusive printers) Current contract: 2012-2018 Client since 1999 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services Additional services
 Arizona Lottery	4740 East University Drive Phoenix, AZ 85034 USA	Michael Schiefelbein Director of Products Tel: (480) 921-4472 Fax: (480) 921-4507 Email: mschiefelbein@azlottery.gov	<ul style="list-style-type: none"> Secondary printer Current contract: 2010-2018 Client since 1998 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services Additional services
 Arkansas Scholarship Lottery	124 W. Capitol Suite 1400 Little Rock, AR 72201	Mike Smith Director Gaming Tel: (501) 683-2000 Fax: (501) 683-1878 Email: mike.smith@arkansas.gov	<ul style="list-style-type: none"> Secondary printer Current contract: 2015-2016 Client since 2015 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services Additional services
 California Lottery	700 N. 10th Street Sacramento, CA 95811 USA	Liz Furtado Chief of Scratchers Products/Sales & Marketing Tel: (916) 822-8407 Fax: (916) 737-5899 Email: lfurtado@calottery.com	<ul style="list-style-type: none"> Secondary printer Current contract: 2013-2019 Client since 1997 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services

* Lottery clients are grouped by primary, shared primary and secondary printer and then sorted alphabetically within each group.



UNITED STATES				
LOTTERY JURISDICTION	ADDRESS	NAME/ADDRESS/TITLE/PHONE NUMBER OF CONTACT PERSON	TYPE & START AND END DATES OF CONTRACT	SERVICES PROVIDED
Colorado Lottery 	720 South Colorado Boulevard, Suite 110A Denver, CO 80246 USA	Todd Greco Product Manager Tel: (303) 759-6809 Fax: (303) 759-6847 Email: todd.greco@state.co.us	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2011-2017 • Client since 2009 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services • Additional services
D.C. Lottery & Charitable Games Control Board 	2101 Martin Luther King Jr. Avenue, S.E. Washington, D.C. 20020 USA	John Gorman, Strategic Development Specialist Tel: (202) 645-8968 Fax: (202) 645-1938 Email: john.gorman@dc.gov	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2015-2017 • Client since 2011 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services • Additional services
Florida Lottery 	250 Marriott Drive Tallahassee, FL 32399-4002 USA	Justin Rock Director, Product Management Tel: (850) 487-7777 x 2315 Email: rockj@flalottery.com	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2009-2018 • Client since 2009 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services
Georgia Lottery 	250 Williams Street, Suite 3000 Atlanta, GA 30303-1032 USA	James Hutchinson Sr. VP, Marketing and Product Development Tel: (404) 215-5006 Fax: (404) 215-8871 Email: jhutchinson@galottery.org	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2006-2015 • Client since 2006 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services
Idaho Lottery 	1199 Shoreline Lane - Suite 100 Boise, ID 83702 USA	Joe King Product Manager Tel: (208) 334-2600 Fax: (208) 334-2610 Email: jking@lottery.idaho.gov	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2013-2017 • Client since 2013 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Consultancy and advisory services
Indiana (Hoosier) Lottery 	1302 N. Meridian Street Indianapolis, IN 46202 USA	Kary Hacker Instant Tickets Product Manager Tel: (317) 264-4870 Fax: (317) 264-4621 Email: kary.hacker@hoosierlottery.com	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2013-2018 • Client since 2002 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services
Iowa Lottery Authority 	2323 Grand Avenue Des Moines, IA 50312 USA	Larry Loss Executive Vice President Tel: (515) 725-7907 Fax: (515) 725-7882 Email: lloss@ialottery.com	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2013-2017 • Client since 1993 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services • Additional services

* Lottery clients are grouped by primary, shared primary and secondary printer and then sorted alphabetically within each group.


UNITED STATES				
LOTTERY JURISDICTION	ADDRESS	NAME/ADDRESS/TITLE/PHONE NUMBER OF CONTACT PERSON	TYPE & START AND END DATES OF CONTRACT	SERVICES PROVIDED
 Kentucky Lottery	1011 West Main Street Louisville, KY 40202 USA	Steve Casebeer Senior VP, Sales/Marketing Tel: (502) 560-1611 Fax: (502) 560-1534 Email: steve.casebeer@kylottery.com	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2011-2016 • Client since 2011 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Consultancy and advisory services • Secure freight services • Additional services
 Missouri Lottery	1823 Southridge Drive Jefferson City, MO 65109 USA	May Scheve Reardon Executive Director Tel: (573) 751-4050 Fax: (573) 522-1630 Email: May.Scheve@molottery.com	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2011-2020 • Client since 2009 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services • Additional services
 New York State Lottery	One Broadway Center Schenectady, NY 12301-7500 USA	Daniel Martin Director of Sales & Marketing, Lottery Division Tel: (518) 388-3430 Fax: (518) 388-3498 Email: daniel.martin@gaming.ny.gov	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2011-2018 • Client since 1994 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services • Additional services
 North Carolina Education Lottery	2100 Yonkers Road Raleigh, NC 27604 USA	Randy Spielman Product Manager Tel: (919) 715-6886 Fax: (919) 715-8833 Email: randy.spielman@lotterync.net	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2016-2025 • Client since 2012 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Consultancy and advisory services • Secure freight services • Additional services
 Oregon Lottery	500 Airport Road, Southeast Salem, OR 97301 USA	Art Kiuttu Senior Traditional Product Manager Tel: (503) 540-1000 Fax: (503) 540-1001 Email: art.kiuttu@state.or.us	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2010-2017 • Client since 2005 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services • Additional services
 South Carolina Education Lottery	P.O. Box 11949 Columbia, SC 29211 USA	Jay Johnson Director of Marketing and Product Development Tel: (803) 737-2348 Fax: (803) 737-2687 Email: Jay.johnson@sclot.com	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2013-2018 • Client since 2013 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services
 South Dakota Lottery	711 East Wells Avenue Pierre SD 57501-2815 USA	Norman Lingle Director Tel: (605) 773-5785 Email: norman.lingle@state.sd.us Clark Hepper Deputy Director Tel: (605) 773-8113 Email: Clark.Hepper@state.sd.us	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2016-2019 • Client since 2016 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Consultancy and advisory services • Secure freight services • Additional services

* Lottery clients are grouped by primary, shared primary and secondary printer and then sorted alphabetically within each group.






UNITED STATES

LOTTERY JURISDICTION	ADDRESS	NAME/ADDRESS/TITLE/PHONE NUMBER OF CONTACT PERSON	TYPE & START AND END DATES OF CONTRACT	SERVICES PROVIDED
Washington's Lottery 	P.O. Box 43000 Olympia, WA 98504-3000 USA	Bill Hanson Lottery Director Tel: (360) 664-4800 Fax: (360) 586-2234 Email: bhanson@walottery.com	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2014-2020 • Client since 2014 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services
Wisconsin Lottery 	2135 Rimrock Road, #231 Madison, WI 53708 USA	Saverio Maglio Marketing Director Tel: (608) 267-4817 Fax: (608) 264-6644 Email: Saverio.Maglio@revenue.wi.gov	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2009-2017 • Client since 1993 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services

* Lottery clients are grouped by primary, shared primary and secondary printer and then sorted alphabetically within each group.







CANADA				
LOTTERY JURISDICTION	ADDRESS	NAME/ADDRESS/TITLE/PHONE NUMBER OF CONTACT PERSON	TYPE & START AND END DATES OF CONTRACT	SERVICES PROVIDED
British Columbia Lottery Corporation 	2940 Virtual Way Vancouver, BC V5M 0A6 Canada	Heather Tryon Category Manager, Instant Games Tel: (604) 228 3087 Fax: (604) 225-6441 Email: htryon@bclc.com	<ul style="list-style-type: none"> Primary printer Current contract: 2009-2018 Client since 1986 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services Additional services
Interprovincial Lottery Corporation 	40 Holly Street, 6 th Floor Toronto, ON M4S 3C3 Canada	Elaine Stanley Executive Director Tel: (416) 488-4002 Fax: (416) 488-7871 Email: stanley@ilc.ca	<ul style="list-style-type: none"> Primary printer Current contract: 2013-2018 Client since 1985 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services
Loto-Québec 	500 Sherbrooke Street West Montreal, QC H3A 3G6 Canada	Hélène Rousseau Contract Administrator Tel: (514) 499-5162 Fax: (514) 982-5577 Email: helene.rousseau@loto-quebec.com	<ul style="list-style-type: none"> Primary printer Current contract: 2014-2019 Client since 2005 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services
Ontario Lottery and Gaming Corporation 	70 Foster Drive, Ste. 800 Sault Ste. Marie, ON P6A 6V2 Canada	Carleen Cameron Director, Marketing and Production Management Tel: (705) 946-6420 Fax: (705) 946-6993 Email: cncameron@olg.ca	<ul style="list-style-type: none"> Primary printer Current contract: 2007-2017 Client since 1987 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services Additional services
Western Canada Lottery Corporation 	WCLC Marketing Division 6910 50th Avenue Stettler, AB T0C 2L0 Canada	Brad Wiebe Vice President Marketing Products & Operations Tel: (403) 742-7154 Fax: (403) 742-7193 Email: wiebeb@wclc.com	<ul style="list-style-type: none"> Primary printer Current contract: 2013-2018 Client since 1985 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services Additional services
Atlantic Lottery Corporation 	PO Box 5500 922 Main Street Moncton, NB E1C 8W6 Canada	Rose-Marie Hatchette Supply Chain Specialist Tel: (506) 867-5495 Fax: (506) 867-5616 Email: rose.hatchette@alc.com	<ul style="list-style-type: none"> No fixed contract, game by game printer 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services Additional services

* Lottery clients are grouped by primary or secondary printer and then sorted alphabetically within each group.

INTERNATIONAL				
LOTTERY JURISDICTION	ADDRESS	NAME/ADDRESS/TITLE/PHONE NUMBER OF CONTACT PERSON	TYPE & START AND END DATES OF CONTRACT	SERVICES PROVIDED
Tatts Lotteries – NSW Lotteries & Golden Casket (Australia) 	87 Ipswich Road Woolloongabba, Queensland 4151	Nada McNamara Brand Portfolio Manager – Instants Tel: (617) 3877 1124 Fax: (617) 3877 1175 Email: Nada.McNamara@thelott.com	<ul style="list-style-type: none"> Primary printer of proprietary products Current contract: 2016-2018 Client since 2014 	<ul style="list-style-type: none"> Ticket design services Ticket print services Consultancy and advisory services Secure freight services
Junta de Protección Social (Costa Rica)	Calle 20 Avenidas 2 y 4 San José, Costa Rica 592-1000	Danny Paniagua Villalobos Marketing Representative Tel: 011-506-2522-2274 Email: dpaniagua@jps.go.cr Karen Gomez Granados Marketing Representative Tel: 011-506-2522-2261 Email: kgomez@jps.go.cr	<ul style="list-style-type: none"> Primary printer Current contract: 2011-2016 Client since 2011 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services Additional services
Cyprus Government Lottery (Cyprus) 	Ministry of Finance 1439 Nicosia Cyprus	Stravros Michael Director Tel: 001-357-2260-1132 Email: smichael@mof.gov.cy	<ul style="list-style-type: none"> Exclusive printer Current contract: 2010-2017 Client since 2010 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services
Danske Spil (Denmark) 	Postbox 847 Korsdalsvej 135 DK 2605 Brøndby Denmark	Henrik Greve Jensen Product Development Manager Tel: 011-45-3151-9914 Email: hgje@danskespil.dk	<ul style="list-style-type: none"> Primary printer Current contract: 2013-2017 Client since 2008 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services
Lotería Nacional de la República Dominicana, CONAFRA (Dominican Republic) 	Calle Boy Scout #65 Santiago, República Dominicana	Lic. Norberto Taveras President of CONAFRA Tel/Fax : +(809) 582-5605 Email : conafra@gmail.com or facipago@hotmail.com	<ul style="list-style-type: none"> Exclusive printer Current contract: 2012-2022 Client since 2009 	<ul style="list-style-type: none"> Ticket design services Ticket print services Consultancy and advisory services Additional services
Veikkaus Oy (Finland) 	Karhunkierros 4 SF-01009 Vantaa Finland	Heidi Ioannidou Vice President Daily Games Tel: +358 400 658 744 Fax: +358-20-750-751 Email: Heidi.ioannidou@veikkaus.fi	<ul style="list-style-type: none"> Shared primary printer Current contract: 2016-2019 Client since 1993 	<ul style="list-style-type: none"> Ticket print services Statistical and security services Consultancy and advisory services






* Lottery clients are grouped by primary or secondary printer and then sorted alphabetically by country within each group.

Date last saved: 01 March 2017

INTERNATIONAL				
LOTTERY JURISDICTION	ADDRESS	NAME/ADDRESS/TITLE/PHONE NUMBER OF CONTACT PERSON	TYPE & START AND END DATES OF CONTRACT	SERVICES PROVIDED
<p>La Française des Jeux (France)</p> 	<p>126, rue Galliéni 92643 Boulogne-Billancourt Cedex France</p>	<p>Henri-Jacques Hassid Director, Purchasing Department Tel: 011-33-1-41-10-37-43 Email: hjhassid@lfdj.com</p>	<ul style="list-style-type: none"> • Shared primary printer • Current contract: 2014-2019 • Client since 1996 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services • Additional services
<p>Premier Lotteries Ireland Limited (Ireland)</p> 	<p>1st Floor, Fitzwilton House Wilton Place Dublin 2 Ireland</p>	<p>Dermot Griffith Chief Executive Officer Tel: (353) 836-4444 Fax: (353) 836-6034 Email: dermot.griffith@lottery.ie</p>	<ul style="list-style-type: none"> • Primary printer • Current contract: 2014-2024 • Client since 1995 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services
<p>Mifal Hapayis (Israel)</p> 	<p>3 Heftman Street Tel Aviv, 61070 Israel</p>	<p>Avi Levy Instant Products Manager Tel: 011 972-3-694-0366 Email: avile@pais.co.il</p>	<ul style="list-style-type: none"> • Exclusive printer • Current contract: 2012-2016 • Client since 2003 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services
<p>Pan Malaysian Sweeps Sdn. Bhd (Malaysia)</p> 	<p>312 Jalan Pudu 56100 Kuala Lumpur Malaysia</p>	<p>Teh Wee Chin General Manager Tel: 603-248-6622 Email: weechin_teh@pmp.com.my</p>	<ul style="list-style-type: none"> • Shared primary printer • Client since 1990 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services • Additional services
<p>Totalizator Sportowy (Poland)</p> 	<p>ul. Targowa 25 03-728 Warsaw Poland</p>	<p>Katarzyna Woznica-Borkowska Lotto & Instant Games Department Tel: +48-22-818-28-67 Email: katarzyna.woznica-borkowska@totalizator.com.pl</p>	<ul style="list-style-type: none"> • Primary printer • Current contract: 2012-2017 • Client since 2007 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services
<p>Svenska Spel (Sweden)</p> 	<p>106 10 Stockholm Evenemangsgatan 17 Solna Sweden</p>	<p>Elin Sundberg Category Manager, Numbered Games & Lottery Tel: +46 8 757 77 00 Email: Elin.Sundberg@svenskaspel.se</p>	<ul style="list-style-type: none"> • Exclusive printer • Current contract: 2016-2018 • Client since 1993 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services






* Lottery clients are grouped by primary or secondary printer and then sorted alphabetically by country within each group.

INTERNATIONAL

LOTTERY JURISDICTION	ADDRESS	NAME/ADDRESS/TITLE/PHONE NUMBER OF CONTACT PERSON	TYPE & START AND END DATES OF CONTRACT	SERVICES PROVIDED
Loterie de la Suisse Romande (Switzerland) 	Rue Marterey 15 Case Postale 216 CH-1005 Lausanne Switzerland	Alain Volet Production Manager Tel: 41-21-348 13.24 Email: alain.volet@loterie.ch	<ul style="list-style-type: none"> Primary printer Current contract: 2015-2020 Client since 2000 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services
Taiwan Lottery Co. Ltd. (Taiwan)	7F, No.18 Yongji Rd. Taipel City Taiwan ROC	Elisa Cheng Department Manager, Instant Lottery Development Tel: (886) 2 2175 1915 Fax: (886) 2 2717 0686 Email: elisa.cheng@taiwanlottery.com.tw	<ul style="list-style-type: none"> Primary printer Current contract: 2014-2017 Note: Pollard Banknote has been supplying tickets to Taiwan since 2001 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services
Lotterywest (Australia) 	74 Walters Drive Osborne Park, Western Australia 6017	Sonya Meehan Portfolio Manager, Product Development Tel: (618) 9340 5349 Fax: (618) 9242-2577 Email: Sonya.Meehan@lotterywest.wa.gov.au	<ul style="list-style-type: none"> Secondary printer Current contract: 2013-2017 Client since 2013 	<ul style="list-style-type: none"> Ticket design services Ticket print services Consultancy and advisory services Secure freight services
Österreichische Lotterien GmbH (Austria) 	Rennweg 44 1038 Wien Austria	Thomas Schmitzberger Head of Advertising and Print Supplies Tel: 43-1-790-70-3320 Email: thomas.schmitzberger@lotterien.at	<ul style="list-style-type: none"> Secondary printer Current contract: 2013-2016 Client since 2000 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services
Loterie Nationale (Belgium) 	Rue Belliard, 25-33 1040 Brussels Belgium	Wim Schoolmeesters Sr. Manager, Research & Product Development Tel: + 32 (0)2 238 45 89 Fax: +32 (0)2 238 48 30 Email: wim.schoolmeesters@nationale-loterij.be	<ul style="list-style-type: none"> Secondary printer of proprietary products No fixed contract, game by game printer Client since 2005 	<ul style="list-style-type: none"> Ticket print services Statistical and security services Consultancy and advisory services Secure freight services
SAZKA a.s. (Czech Republic) 	K Zizkova 851 CZ 190 93 Praha 9	Martina Nováková Product Manager Tel: 420/266 12 80 22 Email: NOVAKOVAM@SAZKA.CZ	<ul style="list-style-type: none"> Non-exclusive printer Current contract: 2014-2017 Client since 2014 	<ul style="list-style-type: none"> Ticket design services Ticket print services Statistical and security services Consultancy and advisory services Secure freight services

* Lottery clients are grouped by primary or secondary printer and then sorted alphabetically by country within each group.

Date last saved: 01 March 2017

INTERNATIONAL				
LOTTERY JURISDICTION	ADDRESS	NAME/ADDRESS/TITLE/PHONE NUMBER OF CONTACT PERSON	TYPE & START AND END DATES OF CONTRACT	SERVICES PROVIDED
Lotterie- Treuhandgesells- haft mbH Hessen (Germany) 	Rosenstrar..e 5-9, 65189 Wiesbaden	Dr. Heinz-Georg Sundermann CEO Tel: 011-49-611-361-2100 Email: sundermann@lotto-hessen.de	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2017-2019 • Client since 2016 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services
Szerencsejáték Zrt. (Hungary) 	H-1015 Budapest, Csalogány u. 30-32 Hungary	Andrea Komáromi Head of Instant Ticket Department Sales and Games Organization Division	<ul style="list-style-type: none"> • Secondary printer • Client since 2012 	<ul style="list-style-type: none"> • Ticket printing services
LOTERIE NATIONALE DU LUXEMBOURG (Luxembourg) 	18, rue Léon Laval Leudelange L-3372 Luxembourg	Léon Losch Director Tel: 011-352-22-57-58-1 Fax :011-352-22 57 58 59 Email: leon.losch@loterie.lu	<ul style="list-style-type: none"> • No fixed contract, game by game printer • Client since 2011 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services
De Lotto (Netherlands) 	Laan van Hoornwijck 55 2289 DG Rijswijk Netherlands	Carolien Brunsveld Marketing Coordinator Tel: 011-070 321 6618 Fax: 011-3170-367-4872 Email: brunsveld@krasloten.nl	<ul style="list-style-type: none"> • Secondary printer • Client since 2001 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services
NIKÉ (Slovakia)	Ilkovicova 34 Bratislava 812 30 Slovak Republic	Lenka Janouchova Tel: 011-2 602 69 131 Email: lenka@janouchova.com	<ul style="list-style-type: none"> • Secondary printer • Current contract: 2013-2019 • Client since 2013 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services
ONCE – Organización Nacional de Ciegos Españoles (Spain) 	Calle Prado 24 28014 Madrid Spain	Francisco Jose Martinez Palao Director of Operations Email: ALGAM@once.es	<ul style="list-style-type: none"> • Secondary printer • Client since 2009 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services

* Lottery clients are grouped by primary or secondary printer and then sorted alphabetically by country within each group.

INTERNATIONAL				
LOTTERY JURISDICTION	ADDRESS	NAME/ADDRESS/TITLE/PHONE NUMBER OF CONTACT PERSON	TYPE & START AND END DATES OF CONTRACT	SERVICES PROVIDED
SWISSLOS – Interkantonale Landeslotterie (Switzerland) 	Lange Gasse 20 GH – 4002 Basel Switzerland	Mark Lauber Instant tickets Director Tel: 011-41-61-284-1111 Email: mark.lauber@swisslos.ch	<ul style="list-style-type: none"> • Secondary printer • Client since 2002 	<ul style="list-style-type: none"> • Ticket design services • Ticket print services • Statistical and security services • Consultancy and advisory services • Secure freight services

* Lottery clients are grouped by primary or secondary printer and then sorted alphabetically by country within each group.



POLLARD
banknote limited

ANNUAL REPORT

2015

CONTENTS

Letter to Shareholders

Board of Directors

Management's Discussion and Analysis
Pollard Banknote Limited

Consolidated Financial Statements
of Pollard Banknote Limited

Corporate Information

LETTER TO SHAREHOLDERS

Enclosed please find our 2015 Annual Report. We are very proud of our accomplishments achieved during this past year, both in terms of financial results as well as the achievement of a number of key milestones in building the foundation for future success. We are very excited about the prospects going forward for our organization and the tremendous opportunities developing in the lottery world.

Revenue growth for our main customer group continues in a very positive trend with many lotteries reporting record sales and contributions to their good causes. The chief driver of this success has been the instant ticket product line which continues to register high single digit sales increases at the retail level. Consumer demand for these products remains high and this translates into growth opportunities for key lottery partners like Pollard.

In last year's Letter to Shareholders we identified two key foundational developments as part of Pollard's advancement as a leader in the lottery industry and we are happy to report continued progress has been achieved in these strategic initiatives.

The installation of our new state of the art printing press was successfully completed in the fall of 2015. As we complete the transition of our production to this new press in 2016 we will see the benefits of a lower cost platform and the impact of increased capacity start to accrue in our results.

The first complete year of operation of the Michigan Lottery's iLottery site was a resounding success. For the first time in North America, Michigan is showing that meaningful profit can be generated selling lottery products via the internet. Our integral role in this success puts us in a great position to win additional iLottery contracts in the future.

Sales

Our 2015 annual revenue achieved a new record at just over \$221 million, 13% higher than 2014. The two main factors generating the increase were higher volumes of instant ticket sales (resulting in an increase of approximately \$7 million compared to 2014) and the impact of the much weaker Canadian dollar relative to the U.S. dollar (a \$19 million positive impact).

Despite the competitive market place, we were able to maintain our average selling prices during the year. Our commitment to innovative specialty products played an important role in this trend.

Sales associated with our ancillary product lines were strong, with a noticeable increase in sales of our lottery management systems (including our SureTrack® system) and sales in our 'Space Between' products and services such as individual game apps and second chance drawings gaining traction. While currently not material to our financial results these areas continue to gain importance to our lottery customers and successes here help reinforce our leadership role with lotteries. Licensed games sales were lower in 2015 due to certain licenses no longer available in the lottery space.

Charitable gaming generated very good results in 2015. Sales of bingo paper, pull tabs and the related vending machines were strong despite operating in an industry where growth was flat. Sound cost controls in our manufacturing process helped earn an improved gross margin.

2015 saw the full year implementation of new contract wins acquired in 2014 including major contracts with Loto Quebec and the Virginia Lottery. During 2015 a number of important contract extensions were attained including the lotteries of Arizona, Iowa, Kansas, Massachusetts, Missouri, Wisconsin, Denmark, Finland, Sweden, Taiwan and Poland. These extensions are a testament to our ability to meet our customer's needs in generating proceeds for good causes.

In conjunction with our partner NeoGames S.à.r.l., our Michigan iLottery venture continued to set the North American standard in internet based lottery operations. Operational for slightly more than a year, the category share of instant ticket sales achieved through iLottery now exceeds 13% of the total instant ticket sales for the Michigan Lottery. At the same time as the iLottery based sales have grown, the distribution of instant tickets through traditional retail establishments has also continued to grow at a double digit rate. In early 2016 the introduction of draw based games to the iLottery platform completed the full suite of lottery products available via the internet, resulting in another source of revenue for the lottery.

Operations

Our gross margin increased in absolute terms during 2015, up over \$3 million reflecting the impact of the increased revenue discussed previously. The gross margin percentage decreased from 21% to 20% reflecting the mix of work produced during the year being weighted slightly toward lower margin sales, as well as the short term negative impact of the installation costs and ramp up of the new press in our Ypsilanti location.

Administration and selling expenses increased approximately 11% compared to 2014. A portion of this increase reflects the higher Canadian dollar cost of underlying U.S. dollar denominated expenditures due to the weaker Canadian dollar. In addition, we undertook a number of initiatives which increased the support and resources dedicated to areas such as product development,

information technology as well as specific resources required to deliver sales of our lottery management systems. Included in our administration category are a number of support activities including our technical and research department as well as our large information technology group. These employee groups are directly correlated to our manufacturing and production activities. Our expanded activities into more digital product development, lottery management systems and the roll out of iLottery have increased these expenses. We also incurred a higher level of professional fees primarily relating to our expanded activity in identifying, investigating and forging strategic alliances.

Another major accomplishment during 2015 was the completion of the installation of our new \$25 million Tresu printing press. This was a significant project almost two years in the making including the planning, design and build phase. A significant amount of time and personnel resources have been dedicated to this major undertaking and we are very thankful for everyone's commitment to the project. Although we were slightly behind schedule going live, the transition of our existing production and processes to this new platform will continue through 2016. When completed this will provide Pollard with not only a cost efficient production platform, but also increased capacity to grow the top line.

We continue to implement our new print specific ERP system which will be a key component in supporting our growth initiatives. Our first modules went live on January 1, 2016 and we will stage additional roll outs in 2016.

Our cash flow during 2015 was very strong, propelled by our positive operating results. Our net financial position (interest bearing debt less cash) has stayed approximately the same over the course of 2015, despite investing \$3 million in our working capital and incurring over \$16 million in capital expenditures. Indeed, over the past two years, 2014 and 2015, we have generated enough free cash flow internally, combined with the \$6.8 million subordinated debt financing in 2014, to fund over \$35 million in capital expenditures.

The weakening of the Canadian dollar compared to the U.S. dollar continued to have a positive effect on our business in 2015. Pollard has a net positive exposure to U.S. dollar cash flow and a weaker Canadian dollar increases our cash generated. A weaker dollar also helps us bid more aggressively in the U.S. when the situation requires such flexibility. During periods of significant weakening of the Canadian dollar, however, we do record large unrealized foreign exchange losses due to restating our U.S. dollar denominated bank debt to its higher Canadian equivalent. These large, unrealized, non-cash losses were a major factor in reducing our net income in 2015.

Outlook for 2016

We expect 2016 to be another very positive year for Pollard Banknote. Our industry remains very strong with no expectation of any changes in the foreseeable future. Our current contract portfolio in place provides us significant volume for a number of years and many of our existing customers have generated growth in excess of the industry average.

We are in the process of ramping up our new press which will ultimately lead to more capacity and a lower cost platform. With a return to more traditional levels of capital expenditure, our cash flow should be very healthy.

Our second iLottery operation will be launched with the Virginia Lottery later in 2016 and our existing operation in Michigan is expected to continue to generate outstanding results. We will be actively monitoring and participating in the development of iLottery opportunities in the U.S. and throughout the world.

Most importantly we will not fall out of love with our core product, the instant win lottery ticket. This product provides us with exciting growth prospects and will continue to be the cornerstone of our operating success.

2015 was a very important year for Pollard, with significant achievements made in establishing new capacity and pioneering the iLottery business while at the same time generating good financial results. Many individuals contributed to these successes including our tremendous team of 1,150 dedicated employees who constantly seek out greatness; over 60 lottery customers and hundreds of charitable gaming clients who trust us with their most important needs; countless suppliers who provide us with the critical inputs to enable us to craft the most innovative and creative lottery solutions; our board of directors who lead and encourage us to perform at the highest levels and our numerous shareholders who have supported us for many years and continue to help provide the inspiration to grow and expand the Pollard name in the lottery world.

We thank all of our stakeholders for your support and look forward to achieving even greater success in 2016.

Douglas Pollard
Co-Chief Executive Officer

John Pollard
Co-Chief Executive Officer

DIRECTORS OF POLLARD BANKNOTE LIMITED

Gordon Pollard

Executive Chair

Gordon Pollard joined Pollard Banknote in 1989 as Vice President, Marketing. He became Co-Chief Executive Officer in 1997 and on May 1, 2011, was appointed Executive Chair of the Board of Directors. Prior to 1989, he practiced law with a major Manitoba firm specializing in corporate and securities law. Mr. Pollard has an LL.B. from the University of Manitoba and a B.A. from the University of Winnipeg.

Del Crewson

Del Crewson is a former senior partner and Vice-Chair of Deloitte and Touche LLP. He is a member of the Chartered Professional Accountants of Manitoba and has been elected a "Fellow" of the Institute. Mr. Crewson serves on the Board of Trustees of Artis Real Estate Investment Trust and is a member and on the Advisory Board of the Manitoba Chapter of the Institute of Corporate Directors. He is also the Chairman of the Audit and Evaluation Committee for the Department of Finance, Government of Canada and Chairman of the Audit Committee for the Canadian Grain Commission. He is a past President of the Institute of Chartered Accountants of Manitoba and is a former Canadian Institute of Chartered Accountants Board and Executive Committee member.

Jerry Gray

Jerry Gray is Dean Emeritus of the I. H. Asper School of Business at the University of Manitoba where he also held the CA Manitoba Endowed Chair in Business Leadership. He is a Past Chair of the Winnipeg Regional Health Authority and is a director and Chairman of the Board of Gendis, Inc. He has consulted with many major corporations in the United States and Canada in the areas of motivation, organizational design, manpower planning, managing change, management development, incentive system design, customer service and strategic planning.

Garry Leach

Garry Leach is the Chief Executive Officer of Belcher Island Smelting & Refining Corp. (an investment corporation). From 1988 to 2004, Mr. Leach was President and Chief Executive Officer of Gerdau MRM Steel (Manitoba Rolling Mills) and its predecessors. Mr. Leach has previously served on the Board of Directors for Gerdau Ameristeel, GLM Industries, Manitoba Hydro, the Canadian Steel Producers Association, (Ottawa), the Steel Manufacturers Association, (Washington), as well as the Business Council of Manitoba. Mr. Leach also served as Regent for the University of Winnipeg.

Douglas Pollard

Douglas Pollard is Co-Chief Executive Officer of Pollard Banknote. He joined Pollard Banknote in 1997 as Vice President, Lottery Management Services and on May 1, 2011, he was appointed Co-Chief Executive Officer. From 1997 to 1999 he was a director and the General Manager of Imprimerie Spéciale de Banque, a subsidiary of Pollard Banknote based in Paris, France. Prior to 1997 Mr. Pollard was a Senior Consultant with PricewaterhouseCoopers. Mr. Pollard has an M.B.A. from The Richard Ivey School of Business at the University of Western Ontario and a B.A. from the University of Manitoba.

John Pollard

John Pollard is Co-Chief Executive Officer of Pollard Banknote. He joined Pollard Banknote in 1986 as Vice President, Finance and became Co-Chief Executive Officer in 1997. Prior to 1986, he was an associate with the accounting firm Deloitte & Touche LLP. Mr. Pollard has a B.Comm. from the University of Manitoba, and is a former member of the Institute of Chartered Accountants of Manitoba.

POLLARD **banknote** limited

December 31, 2015

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

FOR THE YEAR ENDED DECEMBER 31, 2015

March 14, 2016

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the year ended December 31, 2015, is prepared as at March 14, 2016, and should be read in conjunction with the accompanying audited financial statements of Pollard and the notes therein as at December 31, 2015. 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, unrealized foreign exchange gains and losses, mark-to-market gains and losses on foreign currency contracts, and certain non-recurring items including start-up 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, 2015. 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 the 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, SureTrack® lottery management system, retail telephone selling ("tel-sell"), marketing, iLottery, interactive gaming, Social Instants™, retail management services 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 60 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Year ended December 31, 2015	Year ended December 31, 2014
Instant Tickets	90%	89%
Charitable Gaming Products	9%	10%
Vending Machines	1%	1%

Geographic breakdown of revenue

	Year ended December 31, 2015	Year ended December 31, 2014
United States	49%	50%
Canada	24%	22%
International	27%	28%

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, 2015.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Sales	\$221.0	\$194.5	\$184.9	\$162.4
Cost of sales	176.7	153.4	149.7	129.7
Gross profit	44.3	41.1	35.2	32.7
<i>Gross profit as a % of sales</i>	20.0%	21.1%	19.0%	20.1%
Administration expenses	19.2	17.0	15.2	13.6
<i>Expenses as a % of sales</i>	8.7%	8.7%	8.2%	8.4%
Selling expenses	7.4	6.9	6.8	6.1
<i>Expenses as a % of sales</i>	3.3%	3.5%	3.7%	3.8%
Net income	7.5	8.7	5.4	6.5
<i>Net income as a % of sales</i>	3.4%	4.5%	2.9%	4.0%
Adjusted EBITDA	26.8	25.6	22.7	19.9
<i>Adjusted EBITDA as a % of sales</i>	12.1%	13.2%	12.3%	12.3%
Earnings per share (basic)	\$0.32	\$0.37	\$0.23	\$0.28
Earnings per share (diluted)	\$0.32	\$0.37	\$0.23	\$0.28
	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012
Total Assets	\$164.1	\$149.3	\$133.4	\$127.0
Total Non-Current Liabilities	\$96.3	\$89.2	\$79.2	\$83.4

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

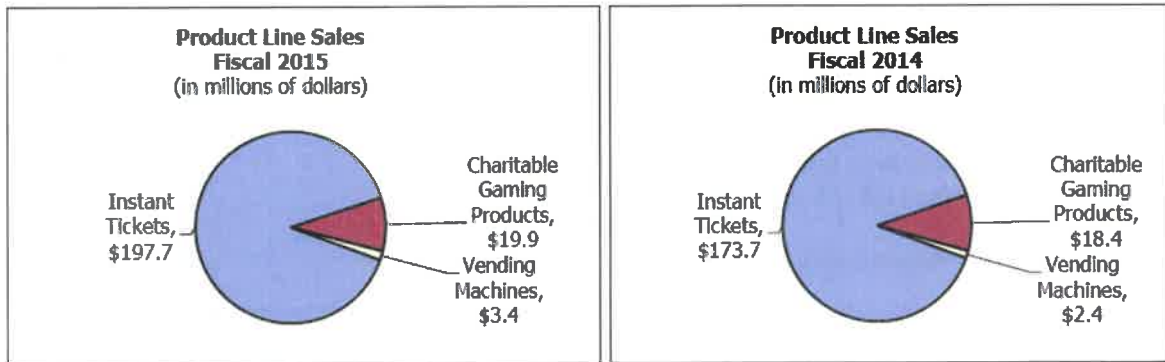
	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Net income	\$7.5	\$8.7	\$5.4	\$6.5
Adjustments:				
Amortization and depreciation	8.4	7.9	8.6	7.8
Interest	2.9	2.9	3.4	3.4
Unrealized foreign exchange (gain) loss	3.8	1.7	1.0	(0.1)
Mark-to-market (gain) loss on foreign currency contracts	(0.5)	0.1	0.4	-
Start-up costs – Michigan iLottery	-	0.6	-	-
Income taxes	4.7	3.7	3.9	2.3
Adjusted EBITDA	\$26.8	\$25.6	\$22.7	\$19.9

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.

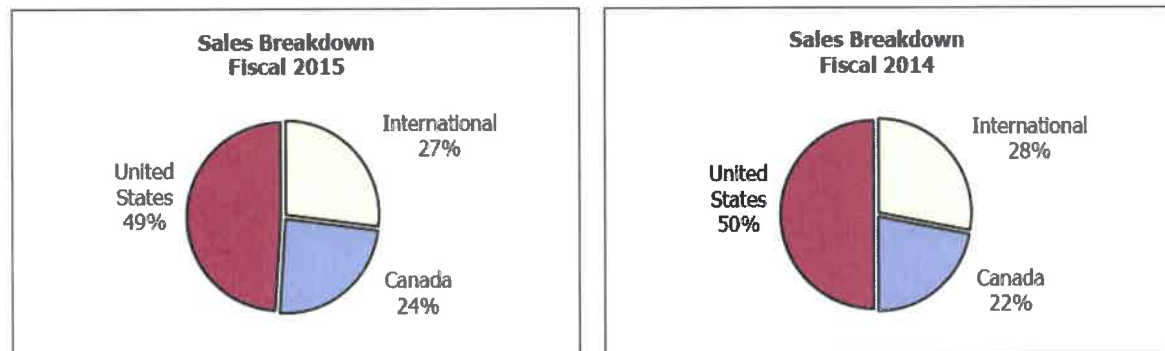
ANALYSIS OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2015

Sales



During the year ended December 31, 2015 ("Fiscal 2015" or "2015"), Pollard achieved sales of \$221.0 million, compared to \$194.5 million in the year ended December 31, 2014 ("Fiscal 2014" or "2014"). Factors impacting the \$26.5 million sales increase were:

During Fiscal 2015, Pollard generated approximately 65.0% (2014 – 62.3%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2015 the actual U.S. dollar value was converted to Canadian dollars at an average rate of \$1.269 compared to an average rate of \$1.097 during Fiscal 2014. This 15.6% increase in the U.S. dollar value resulted in an approximate increase of \$19.4 million in revenue relative to Fiscal 2014. Also during Fiscal 2015, the Canadian dollar strengthened against the Euro resulting in an approximate decrease of \$0.5 million in revenue relative to Fiscal 2014.



Higher instant ticket volumes increased sales in Fiscal 2015 by \$8.8 million compared to Fiscal 2014. Lower sales of our ancillary instant ticket products and services, primarily licensed games, decreased sales by \$1.5 million from Fiscal 2014. Higher instant ticket average selling prices for 2015 increased sales by \$1.0 million compared to 2014. Charitable gaming volumes were lower than Fiscal 2014 decreasing sales by \$1.6 million, which was partially offset by the increase in average selling price which

increased sales by \$0.4 million. An increase in machine volumes in Fiscal 2015 increased sales by \$0.5 million when compared to 2014.

Cost of sales and gross profit

Cost of sales was \$176.7 million in Fiscal 2015 compared to \$153.4 million in Fiscal 2014. Cost of sales was higher in Fiscal 2015 relative to Fiscal 2014 as a result of higher exchange rates on U.S. dollar transactions in 2015, which increased cost of sales approximately \$15.1 million, an increase in instant ticket volumes and higher manufacturing overheads. Partially offsetting these increases were reduced costs due to lower sales of ancillary instant ticket products and services and the elimination of iLottery start-up costs incurred in Fiscal 2014.

Gross profit was \$44.3 million (20.0% of sales) in Fiscal 2015 compared to \$41.1 million (21.1% of sales) in Fiscal 2014. This increase was due mainly to the increase in instant tickets volumes as well as the impact of the weakening of the Canadian dollar relative to the U.S. dollar and the elimination of the non-recurring start-up costs incurred in 2014. The decrease in gross profit percentage was primarily the result of higher manufacturing overheads and lower sales of ancillary instant ticket products. These decreases were partially offset by the impact of the weakening Canadian dollar.

Administration expenses

Administration expenses increased to \$19.2 million in Fiscal 2015 from \$17.0 million in Fiscal 2014 primarily as a result of higher professional fees, the increased Canadian dollar equivalent of U.S. dollar denominated expenses and increased compensation expenses including incentive accruals.

Selling expenses

Selling expenses increased to \$7.4 million in Fiscal 2015 from \$6.9 million in Fiscal 2014 primarily as a result of the increased cost of U.S. dollar denominated expenses as a result of the strengthening against the Canadian dollar.

Interest expense

Interest expense was \$2.9 million in Fiscal 2015 which was similar to \$2.9 million in Fiscal 2014.

Foreign exchange loss

The net foreign exchange loss was \$3.1 million in Fiscal 2015 compared to a net loss of \$1.9 million in Fiscal 2014. The 2015 net foreign exchange loss consisted of a \$3.8 million unrealized loss which was primarily a result of the increased Canadian equivalent value of U.S. denominated debt with the significant weakening of the Canadian dollar relative to the U.S. dollar. This loss was partially offset by the realized foreign exchange gain of \$0.7 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchange rates.

The 2014 net foreign exchange loss consisted of a \$1.7 million unrealized loss which was primarily as a result of the increased Canadian equivalent value of U.S. denominated debt and accounts payable due to the weakening of the Canadian dollar relative to the U.S. dollar. The realized foreign exchange loss of \$0.2 million was predominately a result of decreased value of foreign currency converted into Canadian dollars during Fiscal 2014.

Amortization and depreciation

Amortization and depreciation, including depreciation of property and equipment and the amortization of deferred financing costs and intangible assets, totaled \$8.4 million during Fiscal 2015 which increased from \$7.9 million during Fiscal 2014 due to increased amortization of deferred financing costs and patents.

Adjusted EBITDA

Adjusted EBITDA was \$26.8 million in Fiscal 2015 compared to \$25.6 million in Fiscal 2014. The primary reasons for the increase in Adjusted EBITDA of \$1.2 million were the increase in gross profit of \$3.1 million (net of amortization and excluding \$0.6 million in non-recurring iLottery start-up costs in 2014) and the increase in the realized foreign exchange gains of \$0.9 million. These increases were partially offset by increased administration expenses of \$2.2 million and an increase in selling expenses of \$0.5 million.

Income taxes

Income tax expense was \$4.7 million in Fiscal 2015, an effective rate of 38.8%, which was higher than our expected effective rate of 26.8% 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 approximately 30%. Other permanent differences relating to the foreign exchange translation of property, plant and equipment decreased the provision by approximately 15%. Current income tax expense was in a recovery position due to accelerated tax depreciation on capital expenditures.

Income tax expense was \$3.7 million in Fiscal 2014, an effective rate of 30.0%, 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).

Net income

Net income was \$7.5 million in Fiscal 2015 compared to net income of \$8.7 million in Fiscal 2014. The primary reason for the decrease in net income was the increase in income taxes of \$1.0 million. Additionally, the primary reasons for the decrease in income before income taxes were the increase in administration expenses of \$2.2 million, the increase in selling expenses of \$0.5 million and an increase in foreign exchange loss of \$1.2 million. Partially offsetting these decreases to income before income taxes were the increase in gross profit of \$3.2 million and the increase in the non-cash mark-to-market gain on foreign currency contracts of \$0.6 million.

Earnings per share (basic and diluted) decreased to \$0.32 per share in Fiscal 2015 from \$0.37 per share in Fiscal 2014.

Liquidity and Capital Resources

Cash provided by operating activities

For the year ended December 31, 2015, cash flow provided by operating activities was \$19.7 million compared to \$18.9 million in Fiscal 2014. Higher net income before income taxes after non-cash adjustments in Fiscal 2015 contributed to the increase in cash provided by operating activities compared to Fiscal 2014. Changes in the non-cash component of working capital decreased cash flow from operations by \$2.8 million for Fiscal 2015 (due primarily to increases in accounts receivable, prepaid expenses and income taxes receivable, and a decrease in accounts payable and accrued liabilities, partially offset by a decrease in inventory), compared to a decrease of \$0.7 million for Fiscal 2014 (due primarily to increases in inventory and prepaid expenses, partially offset by a decrease in accounts receivable and an increase in accounts payable and accrued liabilities).

Cash used for interest payments decreased to \$2.8 million in 2015 as compared to \$3.1 million in 2014 due to lower interest rates. As well, cash used for pension plan contributions decreased to \$2.9 million in 2015 as compared to \$3.6 million in 2014 due to the elimination of special payment requirements in 2014. Cash used for income tax payments increased to \$3.1 million in 2015 from \$2.1 million in 2014. Taxable income in Canada increased in 2014 due to improved operating results, however Pollard was not required to make installments during 2014, therefore the income taxes due for 2014 were payable at the end of February 2015.

Cash used for investing activities

In the year ended December 31, 2015, cash used for investing activities was \$16.5 million compared to \$18.8 million in the year ended December 31, 2014. In Fiscal 2015, capital expenditures were \$15.4 million, with \$12.0 million in expenditures relating to the new press project including various auxiliary equipment. Pollard expended \$0.4 million on its investment in its iLottery joint venture and \$0.7 million on additions to intangible assets, net of investment tax credits. These intangible additions primarily related to implementation costs, including capitalized internal costs, for ERP software.

In Fiscal 2014, capital expenditures were \$17.6 million, including \$15.1 million in expenditures relating to the new press project. Pollard expended \$1.2 million on additions to intangible assets, primarily related to implementation costs, including capitalized internal costs, for ERP software.

Cash used for financing activities

Cash used for financing activities was \$2.3 million in the year ended December 31, 2015, compared to cash used for financing activities of \$1.6 million in the year ended December 31, 2014.

During Fiscal 2015 proceeds from long-term debt of \$1.0 million were offset by \$0.4 million of financing costs and dividends paid of \$2.8 million.

During Fiscal 2014 cash was used to reduce long-term debt by \$5.6 million, and incur \$0.2 million in deferred financing costs and pay dividends of \$2.8 million. Partially offsetting was the proceeds from the subordinated debt of \$6.8 million to fund a portion of the new press.

As at December 31, 2015, Pollard had unused committed credit facility of \$17.6 million. This amount is available to be used for future working capital requirements, contractual obligations, capital expenditures and dividends.

**ANALYSIS OF RESULTS FOR THE PERIOD OCTOBER 1, 2015 TO DECEMBER 31, 2015
FOURTH QUARTER OF 2015**

SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Three months ended December 31, 2015	Three months ended December 31, 2014
	(unaudited)	(unaudited)
Sales	\$57.2	\$43.2
Cost of sales	45.6	33.4
Gross profit	11.6	9.8
Administration	5.7	4.6
Selling	2.0	1.7
Other (income) expense	0.1	(0.1)
Income from operations	3.8	3.6
Finance costs	1.8	1.5
Income before Income taxes	2.0	2.1
Income taxes:		
Current (recovery)	(4.5)	0.2
Future (reduction)	5.3	(0.2)
	0.8	-
Net income	<u>\$1.2</u>	<u>\$2.1</u>
Adjustments:		
Amortization and depreciation	2.4	2.0
Interest	0.8	0.6
Unrealized foreign exchange loss	1.1	0.9
Income taxes	0.8	-
Adjusted EBITDA	<u>\$6.3</u>	<u>\$5.6</u>

Sales

During the three months ended December 31, 2015, Pollard achieved sales of \$57.2 million, compared to \$43.2 million in the three months ended December 31, 2014. Factors impacting the \$14.0 million sales increase were:

During the three months ended December 31, 2015, Pollard generated approximately 62.0% (2014 – 60.8%) 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 2015 the actual U.S. dollar value was converted to Canadian dollars at an average rate of \$1.336, compared to an average rate of \$1.137 during the fourth quarter of 2014. This 17.5% increase in the value of the U.S. dollar resulted in an approximate increase of \$5.3 million in revenue relative to 2014. Also during the fourth quarter of 2015, the Canadian dollar weakened against the Euro resulting in an approximate increase of \$0.2 million in revenue relative to 2014.

Instant ticket sales volumes for the fourth quarter of 2015 were higher than the fourth quarter of 2014 by 9.5%, which combined with an increase in our ancillary instant ticket products and services volumes, primarily sales of our SureTrack® lottery management system, increased sales by \$4.8 million. Instant ticket sales volumes in the fourth quarter of 2014 were lower due to a significant amount of product in transit, which was not recorded in sales until the first quarter of 2015. In addition, an increase in average selling price of instant tickets compared to 2014 further increased sales by \$3.7 million.

Cost of sales and gross profit

Cost of sales was \$45.6 million in the fourth quarter of 2015 compared to \$33.4 million in the fourth quarter of 2014. Cost of sales was higher in the quarter relative to the fourth quarter of 2014 as a result of higher exchange rates on U.S. dollar transactions in 2015 which increased cost of sales approximately \$4.6 million, an increase in instant ticket volumes and higher manufacturing overheads.

Gross profit was \$11.6 million (20.3% of sales) in the fourth quarter of 2015 compared to \$9.8 million (22.7% of sales) in the fourth quarter of 2014. This increase in gross profit dollars was due to the impact of the weakening Canadian dollar, the higher instant ticket sales volumes and higher lottery management sales. The decrease in gross profit percentage was due to the higher manufacturing overheads and the instant ticket sales mix.

Administration expenses

Administration expenses were \$5.7 million in the fourth quarter of 2015 which was higher compared to \$4.6 million in the fourth quarter of 2014 primarily as a result of higher professional fees, the increased Canadian dollar equivalent of U.S. dollar denominated expenses and increased compensation expenses including incentive accruals.

Selling expenses

Selling expenses increased to \$2.0 million in the fourth quarter of 2015 from \$1.7 million in the fourth quarter of 2014 primarily as a result of the increased cost of U.S. dollar denominated expenses due to the strengthening against the Canadian dollar.

Interest expense

Interest expense increased to \$0.8 million in the fourth quarter of 2015 from \$0.6 million in the fourth quarter of 2014 primarily as a result of no longer capitalizing borrowing costs related to the new press project during 2015.

Foreign exchange loss

The net foreign exchange loss was \$0.9 million in the fourth quarter of 2015 compared to a net loss of \$0.8 million in the fourth quarter of 2014. The 2015 net foreign exchange loss consisted of a \$1.1 million unrealized loss which was primarily a result of the increased Canadian equivalent value of U.S. denominated debt with the weakening of the Canadian dollar relative to the U.S. dollar. This loss was partially offset by the realized foreign exchange gain of \$0.2 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchange rates.

The 2014 net foreign exchange loss consisted of an unrealized foreign exchange loss of \$0.9 million which was primarily as a result of the increased Canadian equivalent value of U.S. denominated payables and long-term debt caused by the weakening of the Canadian dollar relative to the U.S. dollar at the end of the quarter. The additional realized foreign exchange gain of \$0.1 million, was predominately a result of the increased value of U.S. denominated receivables, offset partially by increased cost of U.S. denominated payables.

Amortization and depreciation

Amortization and depreciation, including depreciation of property, plant and equipment and the amortization of deferred financing costs and intangible assets, totaled \$2.4 million during the fourth quarter of 2015 which increased from \$2.0 million during the fourth quarter of 2014 primarily as a result of increased depreciation of property, plant and equipment and amortization of patents in 2015.

Adjusted EBITDA

Adjusted EBITDA was \$6.3 million in the fourth quarter of 2015 compared to \$5.6 million in the fourth quarter of 2014. The primary reasons for the increase in Adjusted EBITDA were the increase in gross profit (net of amortization and depreciation) of \$2.2 million, partially offset by higher administration expenses of \$1.1 million, higher selling expenses of \$0.3 million and an increase in other expenses of \$0.2 million.

Income taxes

Income tax expense was \$0.8 million in the fourth quarter of 2015, an effective rate of 37.8% which was higher than our expected effective rate of 26.8% due primarily to difference 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 significant weakening of the Canadian dollar versus the U.S. dollar in the fourth quarter 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 31%. Other permanent differences relating to the foreign exchange translation of property, plant and equipment decreased the provision by approximately 21%. Current income tax expense was in a recovery position due to accelerated tax depreciation on capital expenditures.

Income tax expense was nil in the fourth quarter of 2014, an effective rate of 0.0%. Included in the effective rate are 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 in the fourth quarter 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 permanent differences relating to the foreign exchange translation of property, plant and equipment decreased the provision by approximately 15%. In addition, adjustments in the annual estimated tax rate to the actual tax rate in the U.S. subsidiaries decreased the provision by approximately 28%.

Net income

Net income was \$1.2 million in the fourth quarter of 2015 compared to \$2.1 million in the fourth quarter of 2014. The primary reason for the decrease in net income was the increase in income tax expense of \$0.8 million. Additionally, the primary reasons for the decrease in income before income taxes were the increase in administration expenses of \$1.1 million, the increase in selling expense of \$0.3 million, the increase in other expense of \$0.2 million and the increase in interest expense of \$0.2 million. Partially offsetting these decreases in income before income taxes was the increase in gross profit of \$1.8 million.

Earnings per share (basic and diluted) decreased to \$0.05 per share in the fourth quarter of 2015 from \$0.09 per share in the fourth quarter of 2014.

Quarterly Information

(unaudited)

(millions of dollars)

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Sales	\$57.2	\$57.9	\$51.4	\$54.5	\$43.2	\$53.5	\$47.1	\$50.7
Adjusted EBITDA	6.3	7.5	6.3	6.7	5.6	7.3	6.4	6.3
Net income	1.2	1.9	3.0	1.4	2.1	1.7	3.7	1.2

Q3 and Q4 2015 sales were higher due to the weakening of the Canadian dollar relative to the U.S. dollar.

Q2 2015 net income was higher due to the increased non-cash mark-to-market gain on foreign currency contracts and higher foreign exchange gain.

Q1 2015 sales and adjusted EBITDA were higher due to higher instant ticket volumes and weaker Canadian dollar.

Q4 2014 sales and adjusted EBITDA were lower due to lower instant ticket volumes.

Q3 2014 sales were higher predominately due to higher average selling price of instant tickets. Q3 2014 adjusted EBITDA was higher due to higher gross profit.

Q2 2014 net income was higher due to higher gross profit and increased non-cash mark-to-market gains on foreign currency contracts.

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

Productive Capacity

Management has defined the current productive capacity, factoring in the new press becoming fully operational, as the level of operations necessary to maintain a minimum Adjusted EBITDA of \$30.0 to \$35.0 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 significant impact on our Adjusted EBITDA capacity will be the timing of the ramp up of our new press and how quickly increased volumes will be attained through the relatively long sales cycle of the lottery industry. 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. 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.

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 December 31, 2015, Pollard's investment in non-cash working capital increased \$2.8 million compared to December 31, 2014, primarily as a result of an increased investment in accounts receivables, prepaid expenses and income taxes receivable, and increased accounts payables, which were partially offset by a decreased investment in inventory.

	December 31, 2015	December 31, 2014
Working Capital	\$39.1	\$30.2
Total Assets	\$164.1	\$149.3
Total Non-Current Liabilities	\$96.3	\$89.2

Credit Facility

Pollard's credit facility was renewed effective June 30, 2015. The credit facility provides loans of up to \$71.8 million for its Canadian operations (denominated in Canadian and U.S. dollars), \$3.9 million for a term facility and up to US\$12.0 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 December 31, 2015, the outstanding letters of guarantee were \$1.3 million. The remaining balance available for drawdown under the credit facility was \$17.6 million.

As at December 31, 2015, \$3.9 million of the term facility remained outstanding. Repayment of the term facility commenced on June 30, 2015, in the form of quarterly principal repayments of \$0.3 million plus interest. Repayments permanently reduce the term facility commitment available.

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, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at December 31, 2015, Pollard is in compliance with all covenants.

Pollard's credit facility, including the term facility, is secured by a first security interest in all of the present and after acquired property of Pollard's operating subsidiaries. The facility can be prepaid without penalties. Under the terms of the agreement the facility was committed for a period, renewable June 30, 2016 ("Facility Expiry Date"). If the facility is not renewed, the loans are repayable one year after the Facility Expiry Date, except for the scheduled principal repayments on the term facility. As such, the credit facility has effectively a two year term expiring June 30, 2017.

Pollard believes that its credit facility, including the term 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 existing business levels.

Subordinated Loan

On April 2, 2014, Pollard's former subsidiary, Pollard Holdings Limited Partnership, entered into a loan agreement with Pollard Equities Limited ("Equities") for a subordinated term loan facility with a seven year term in the amount of \$6.8 million. Equities owns approximately 73.5% of Pollard's outstanding shares. Effective January 1 2015, Pollard Banknote Limited assumed the subordinated debt on completion of the amalgamation of the Canadian entities. 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, completed on April 4, 2014, or the date of repayment in full of the additional term facility. Based on the current repayment schedule, the term facility will be repaid in full in March 2019, at which time principal payments on the subordinated debt will commence. Interest on the subordinated term loan facility commences with the first draw at a rate of 9%. The loan is fully subordinated to the secured credit facilities.

Outstanding Share Data

As at December 31, 2015 and March 14, 2016, outstanding share data was as follows:

Common shares	23,543,158
---------------	------------

Share Options

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares.

On March 5, 2014, the Board of Directors approved the award of 100,000 options to purchase common shares of Pollard for certain key management personnel. The options were granted on March 10, 2014, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on March 7, 2014.

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:

(millions of dollars)	Total	<1 Year	2-3 Years	4-5 Years	Thereafter
Long-term debt	\$73.3	\$1.2	\$72.1	-	-
Subordinated debt	\$6.8	-	-	\$6.0	\$0.8
Other non-current liabilities	\$0.4	-	\$0.4	-	-
Pension liability	\$11.3	-	-	-	\$11.3
Interest on long-term debt	\$3.7	\$2.3	\$1.4	-	-
Interest on subordinated debt	\$2.6	\$0.6	\$1.2	\$0.8	-
Operating leases	\$25.2	\$4.9	\$8.3	\$5.5	\$6.5
Total	\$123.3	\$9.0	\$83.4	\$12.3	\$18.6

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, 2015, the aggregate fair value of the assets of Pollard's defined benefit pension plans was \$40.1 million and the accrued benefit plan obligations were \$51.3 million. Pollard's total annual funding contribution for all pension plans in 2016 is expected to be approximately \$2.6 million, compared to \$2.4 million in 2015.

Off-Balance Sheet Arrangements

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

Related Party Transactions

During the year ended December 31, 2015, Pollard agreed to exercise its renewal clause on one of its Winnipeg properties leased from an affiliate of Equities. The renewal covers the period from April 2021 to September 2023 with an approximate annual lease rate of \$2.4 million, including an annual amortization of a leasehold improvement allowance of approximately \$1.0 million. The total leasehold allowance is \$2.5 million.

During the year ended December 31, 2015, Pollard paid property rent of \$3.1 million (2014 - \$3.0 million) and \$0.3 million (2014 - \$0.2 million) in plane charter costs to affiliates of Equities. In addition, Pollard paid Equities \$0.6 million (2014 - \$0.4 million) of interest on Pollard's subordinated debt.

During the year ended December 31, 2015, Equities paid Pollard \$0.07 million (2014 – \$0.07 million) for accounting and administration fees.

During the year ended December 31, 2015, Pollard reimbursed operating costs of \$0.5 million (2014 - \$.05 million) to its iLottery partner which are recorded in cost of sales.

At December 31, 2015, Pollard owes Equities and its affiliates \$0.8 million (2014 - \$1.2 million) for rent, interest and other expenses. Also included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of \$1.1 million (2014 - nil) for reimbursement of operating costs and capital expenditures, and its share of operating profits.

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 test. 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.

Future Changes in Accounting Policies

In July 2014, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standards ("IFRS") 9 *Financial Instruments* ("IFRS 9"), which replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is required for fiscal years beginning on or after January 1, 2018. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard specifies the steps and timing for recognizing revenue, as well as requiring more informative, relevant disclosures. IFRS 15 supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue*. IFRS 15 is required for fiscal years beginning on or after January 1, 2018 with early adoption available. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The amendments prohibit the use of revenue based depreciation for property, plant and equipment and significantly limit the use of revenue based amortization for intangibles. These amendments are effective for fiscal years beginning on or after January 1, 2016. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

In May 2014, the IASB issued amendments to IAS 11 *Interests in Joint Operations*. The amendments require business combination accounting to be applied to acquisition of interest in a joint operation that constitute a business. These amendments are effective for fiscal years beginning on or after January 1, 2016, with early adoption available. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

In September 2014, the IASB issued amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments were to be effective for fiscal years beginning on or after January 1, 2016, with early adoption available; however, in December 2015 the IASB decided to defer the effective date for these amendments indefinitely. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

In December 2014, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*. The amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. These amendments are effective for fiscal years beginning on or after January 1, 2016, with early adoption available. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

In January 2016, the 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. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

Industry Risks and Uncertainties

Pollard is exposed to a variety of business and industry risks. A summary of the major risks faced by Pollard is noted below.

Dependence on Key Products

Instant lottery tickets and related services accounted for approximately 90% of Pollard's Fiscal 2015 revenues. Pollard's financial results and condition are substantially dependent on the continued success and growth in sales of this product and the profitability of such sales. Competitive efforts by other manufacturers of similar or substitute products, shifts in consumer preferences or the introduction and acceptance of alternative product offerings could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Economic Uncertainty

Considerable economic uncertainty and concern over possible recessions and economic downturns have dominated the news in the past few years. Instant lottery tickets account for approximately 90% of revenue and Pollard's financial results and condition are substantially dependent on the continued success and growth in sales of this product and the profitability of such sales. Historically the lottery industry, and particularly the instant ticket product lines, has not shown any significant negative impact during downturns in the economic cycles. However, lotteries, similar to many government agencies, are increasingly under pressure to reduce costs and expenditures. As such, Pollard has witnessed downward pressure on its selling prices. Continued pressure on lotteries to reduce their costs may further negatively impact Pollard's selling prices. Significant shifts in consumer preferences or the introduction and acceptance of alternative product offerings could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Inability to Sustain Sales or EBITDA Margins

Pollard's income depends upon its ability to generate sales to customers and to sustain its EBITDA margins. These margins are dependent upon Pollard's ability to continue to profitably sell lottery tickets and gaming products and to continue to provide products and services that make it the supplier of choice to its customers. If Pollard's costs of sales or operating costs increase, or other manufacturers of gaming products could compete more favourably with it, Pollard may not be able to sustain its level of sales or EBITDA margins.

Dependence on Major Customers

Pollard's 10 largest customers accounted for approximately 52% of its revenue during Fiscal 2015. Pollard's largest customer accounted for approximately 9% of Pollard's revenues during Fiscal 2015.

The nature of the worldwide lottery industry limits the absolute number of lottery operations. As is customary in the industry, Pollard does have long-term contracts with most of its customers. However, most allow the customer to cancel the contract at will and none guarantee volumes or order levels. A significant reduction of purchases by any of Pollard's largest customers could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations including the amount of cash available for dividends to shareholders.

Exchange Rate Fluctuation

A significant portion of Pollard's revenues are denominated in foreign currencies, primarily U.S. dollars and Euros, as well as expenses, principally related to its U.S. operations and to the purchase of raw materials, which are denominated in U.S. dollars. Furthermore, although certain raw materials may be purchased in Canadian dollars, they may have inputs that are denominated in foreign currencies. Any changes in the exchange rate between the Canadian dollar and these foreign currencies could have a material effect on the results of Pollard.

For the purposes of financial reporting, any change in the value of the Canadian dollar against the U.S. dollar and Euro during a given financial reporting period would result in a foreign exchange loss or gain on their translation into Canadian dollar equivalent. Further, Pollard's reported earnings could fluctuate materially as a result of revenues and expenses denominated in foreign currencies under GAAP. There can be no assurance that changes in the currency exchange rate will not have a material adverse effect on Pollard or on its ability to maintain a consistent level of dividends in Canadian dollars.

Additional Capital Requirements

Pollard believes that its future operating income will be sufficient to fund operations and planned capital expenditures. However, Pollard may be required to raise additional capital in the future if it decides to make additional acquisitions or significant additional capital expenditures.

The availability of future borrowings and access to capital markets for longer-term future financing depends on prevailing conditions and the acceptability of financing terms offered. There can be no assurances that future borrowings or equity financing will be available or available on acceptable terms.

Competition

The instant ticket and charitable gaming business is highly competitive, and Pollard faces competition from a number of domestic and foreign instant ticket manufacturers and other competitors. Pollard currently has two instant ticket competitors in North America: Scientific Games Corporation and IGT. Charitable gaming competitors include a number of manufacturers such as Arrow International, Inc. and International Gamco, Inc. Internationally, there are a number of lottery instant ticket vendors which compete with Pollard including Scientific Games, IGT, and the Eagle Press Group of Companies.

Some of Pollard's competitors have longer operating histories, greater name recognition, larger customer bases and greater financial, technical and marketing resources than Pollard. These resources may allow them to respond more quickly than Pollard can to new or emerging technologies and to changes in customer requirements. It may also allow them to devote greater resources than Pollard can to the development, promotion and sale of their products. Pollard's competitors may also engage in more extensive research and development, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies. The market for Pollard's products is highly competitive at both the lottery and charitable gaming levels. Pollard expects competition to continue to be intense. Pollard also faces

competition from emerging and existing lottery and charitable gaming products, such as internet gaming products and video lottery terminals. Competition from these and other gaming products may weaken demand for Pollard's products.

Licensing and Regulatory Requirements

Pollard is subject to regulation in most jurisdictions in which its products are sold or used by persons or entities licensed to conduct gaming activities. The gaming regulatory requirements vary from jurisdiction to jurisdiction and licensing, other approval or finding of suitability processes with respect to Pollard, its personnel and its products, can be lengthy and expensive. Many jurisdictions have comprehensive licensing, reporting and operating requirements with respect to the sale and manufacture of bingo and bingo related products, including bingo paper and pull-tab tickets. These licensing requirements have a direct impact on the conduct of the day-to-day operations of Pollard. Generally, gaming regulatory authorities may deny applications for licenses, other approvals or findings of suitability for any cause they may deem reasonable. There can be no assurance that Pollard, its products or its personnel will receive or be able to maintain any necessary gaming licenses, other approvals or findings of suitability. The loss of a license in a particular jurisdiction will prohibit Pollard from selling products in that jurisdiction and may prohibit Pollard from selling its products in other jurisdictions. The loss of one or more licenses held by Pollard could have an adverse effect on the business.

Certain jurisdictions require extensive personal and financial disclosure and background checks from persons and entities beneficially owning a specific percentage (typically five percent or more) of a vendor's securities. The failure of beneficial owners of Pollard's securities to submit to background checks and provide such disclosure could result in the imposition of penalties upon these beneficial owners and could jeopardize the award of a lottery contract to Pollard or provide grounds for termination of an existing lottery contract.

Income and Other Taxes

Pollard and its incorporated subsidiaries are subject to Canadian federal and provincial, and U.S. federal, state and withholding taxes. As taxing regimes change their tax basis and rates or initiate reviews of prior tax returns, Pollard could be exposed to increased costs of taxation, which would reduce the amount of funds available for operations.

Intellectual Property

Pollard's commercial success depends, in part, on its ability to secure and protect intellectual property rights that are important to its business, including patent, trademark, copyright and trade secret rights, to operate without infringing third party intellectual property rights and to avoid having third parties circumvent the intellectual property rights that Pollard owns or licenses. In particular, the patents and trademarks Pollard owns or licenses may not be valid or enforceable. In addition, Pollard cannot be certain that its proprietary technology affords a competitive advantage, does not infringe third party rights, or will not need to be altered in response to competing technologies. Pollard also cannot be certain that technologies developed in the future will be the subject of valid and enforceable intellectual property rights.

In addition, litigation may be necessary to determine the scope, enforceability and validity of third party intellectual property rights or to establish Pollard's intellectual property rights. Regardless of merit, any such litigation could be time consuming and expensive, divert management's time and attention, subject

Pollard to significant liabilities, require Pollard to enter into costly royalty or licensing agreements, or require Pollard to modify or stop using intellectual property that it owns or licenses.

Interest Rates

Pollard has certain floating rate loans and may be negatively impacted by increases in interest rates, the effects of which would be to reduce net income and the amount of cash available for operations and on its ability to maintain a consistent level of dividends in Canadian dollars.

Future Acquisition and Integration Risks

To grow by acquisition, Pollard must identify and acquire suitable acquisition candidates at attractive prices and successfully integrate any acquired businesses with its existing operations. If the expected synergies from acquisitions do not materialize or Pollard fails to successfully integrate any new businesses into its existing business, Pollard's financial performance could be significantly impacted. To the extent that businesses acquired by Pollard or their prior owners failed to comply with or otherwise violated applicable laws, Pollard, as a successor owner, may be financially responsible for these violations.

In connection with future acquisitions by Pollard, there may be liabilities that Pollard failed or was unable to discover in its due diligence prior to the consummation of the acquisition. The discovery of any material liabilities could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations or future prospects.

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 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 counterparty 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 due to changes in operating cashflow by approximately \$0.05 million for year ended December 31, 2015 (2014 - \$0.09 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 \$0.05 million for year ended December 31, 2015 (2014 - \$0.02 million).

Two 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, 2015, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately \$4.1 million (\$2014 - \$7.9 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 \$0.02 million (2014 - \$0.04 million).

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At December 31, 2015, 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 \$0.4 million for the year ended December 31, 2015 (2014 - \$0.3 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.

The carrying amount of accounts receivable is reduced through the use of an allowance account and any adjustment to the allowance account is recognized in the statement of income within selling and administration expenses. When a receivable balance is considered uncollectible, it is written off against the allowance account.

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 \$71.8 million for its Canadian operations, as well as the additional term facility of \$3.9 million and up to US\$12.0 million for its U.S. subsidiaries. At December 31, 2015, the unused balance available for drawdown was \$17.6 million (2014 - \$17.8 million).

The 2016 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, and specifically the instant ticket product line, continues a trend seen for the last number of years: robust growth. Even though total overall revenue growth of lotteries was tepid during 2015, the revenue growth of the instant ticket category has been strong, with most jurisdictions reporting in the high single digit growth rates and often record levels of instant ticket sales. We continue to believe this long term solid growth trend will continue, as lotteries focus on increasing their returns for good causes and expand their products and services to do so. Even during times of large jackpot sales for draw based games as recently witnessed in the United States, additional foot traffic is drawn into retail locations which in turn feeds incremental sales of instant tickets. Recent studies show a positive correlation between increased lottery sales and lower gasoline prices at the pumps, highlighting lower oil prices as a positive factor supporting the growth in sales. Overall consumer demand remains strong for instant lottery tickets and we believe all of the reasons supporting this demand will continue.

Our current contract portfolio remains strong. There has been no significant changes in our contracts during 2015 and we do not anticipate any significant changes during 2016. Our portfolio includes a number of jurisdictions that have achieved instant ticket growth higher than the industry average and these trends, combined with prospects to strategically bid for work on contracts that are shared amongst multiple suppliers, will support our current level of business and provide opportunities to grow.

One of the strengths in our recent results has been the ability to innovate and develop value added products which enable us to maintain our average selling prices in the face of continued competitive pressure on prices. We have made significant commitments of resources to innovation to generate these value added propositions so that our customers can have leading edge products in the retail environment to grow their business and generate greater returns for their good causes.

Operationally our focus for 2016 will be the continuing ramp up and increasing the utilization of our new press which began live production in the fall of 2015. We will begin to see more of the positive impacts as the press becomes fully integrated into our production environment during 2016. We do anticipate higher volumes in 2016 relative to 2015 due to the increased capacity now available, however the long

term sales cycle and timing of contract renewals does impact how quickly we can generate higher volumes. Increasing instant ticket sales of our existing customers does provide some built in organic growth opportunities, and we will be strategic in bidding for new opportunities to expand our volumes.

The Michigan Lottery iLottery operation continues to set the North American standard for successful iLottery operations and with the recent introduction of draw based games, we are now offering the complete suite of lottery products over the internet. In 2016 we, in conjunction with our partner, will initiate the operation of our second North American iLottery contract with the Virginia Lottery eSubscription platform. We are actively telling the story of the importance of iLottery to the industry and although there are currently no immediate formal bid opportunities available, we believe we are well positioned to capitalize as this distribution method develops.

We are seeing an increased interest in some of our ancillary product lines, in particular our SureTrack® lottery management system. As lotteries focus on improving their operations, opportunities to provide them the additional assistance of our inventory, distribution and lottery management system have increased and we have made a number of sales in this area. It is a growing area and provides additional value added services to both our existing customers and provides an important tool in developing new relationships.

The continued weakness in the Canadian dollar relative to both the U.S. dollar and the Euro is positive to our business, both in terms of higher net Canadian cash flow and giving us a stronger competitive position. Over the last number of years we have taken a number of steps to lessen our net exposure to foreign exchange variability through increasing our natural hedges by procuring inputs denominated in U.S. currency. This has reduced the volatility and overall impact of changes in the Canadian/U.S. relationship on our financial results, however an ongoing weak Canadian dollar is still positive for our business.

Our charitable games business had a very good year in 2015 and we anticipate this success to continue. While the overall market for pull-tabs and bingo paper remains flat or slightly declining, we have made a number of improvements in our cost structure and have seen new sales in specific product types that has generated some top line growth as well. The sale of our pull tab vending machines have increased and should continue due to new opportunities opening up in certain jurisdictions.

Our 2016 budgeted capital expenditures are expected to be significantly lower than those that occurred over the past two years due to the completion of the new press installation. We are anticipating our capital expenditure focus to be in maintenance areas and smaller growth projects and be at a dollar level more consistent with that experienced in 2012 and 2013.

As a result of lower capital expenditures we anticipate our free cash flow to be higher than experienced in the last few years. Our priority with this cash flow is to continue to invest in a number of opportunities we see in our business including future iLottery opportunities, financing our expanding strategic alliances and various partnerships, pursuing more aggressively acquisition opportunities and reducing our bank debt.

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.

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.

No changes were made in Pollard's internal control over financial reporting during the year ended December 31, 2015, 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, 2015, is available on SEDAR at www.sedar.com.

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

Consolidated Financial Statements of

**POLLARD BANKNOTE
LIMITED**

Years ended December 31, 2015 and 2014



Management's Report

The accompanying consolidated financial statements and all the information contained in the annual report of Pollard Banknote Limited ("Pollard") are the responsibility of management and have been approved by the Board of Directors of Pollard. Financial and operating data elsewhere in the annual report is consistent with the information contained in the financial statements. The financial statements and all other information have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements include some amounts and assumptions based on management's best estimates which have been derived with careful judgment.

In fulfilling its responsibilities, management of Pollard has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparing the financial statements. The Board of Directors of Pollard carries out its responsibility for the financial statements through the Audit Committee. The Audit Committee reviews Pollard's annual consolidated financial statements and recommends their approval by the Board of Directors. The auditors have full access to the Audit Committee with and without management present.

The consolidated financial statements have been audited by KPMG LLP Chartered Accountants, whose opinion is contained in this annual report.

"John Pollard"

JOHN POLLARD
Co-Chief Executive Officer

"Robert Rose"

ROBERT ROSE
Chief Financial Officer

March 14, 2016



KPMG LLP
Suite 2000 - One Lombard Place
Winnipeg MB R3B 0X3
Canada

Telephone (204) 957-1770
Fax (204) 957-0808
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pollard Banknote Limited

We have audited the accompanying consolidated financial statements of Pollard Banknote Limited, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pollard Banknote Limited as at December 31, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 14, 2016

Winnipeg, Canada

Pollard Banknote Limited
Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

	December 31, 2015	December 31, 2014
Assets		
Current assets		
Cash	\$ 7,587	\$ 6,212
Restricted cash	560	75
Accounts receivable	24,151	21,930
Inventories (note 5)	23,739	24,908
Prepaid expenses and deposits	4,169	3,275
Income taxes receivable	3,046	-
Total current assets	63,252	56,400
Non-current assets		
Property, plant and equipment (note 6)	50,380	40,723
Equity investments (note 7)	401	-
Goodwill (note 8)	37,717	36,600
Intangible assets (note 9)	12,340	13,292
Deferred income taxes (note 10)	-	2,304
Total non-current assets	100,838	92,919
Total assets	\$ 164,090	\$ 149,319

	December 31, 2015	December 31, 2014
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 22,290	\$ 21,225
Dividends payable	706	706
Income taxes payable	-	2,871
Foreign currency contracts (note 25)	-	483
Current portion long-term debt (note 11)	1,203	902
Total current liabilities	24,199	26,187
Non-current liabilities		
Long-term debt (note 11)	72,083	68,242
Subordinated debt (note 12)	6,813	6,813
Other non-current liabilities	397	375
Pension liability (note 13)	11,270	11,942
Deferred income taxes (note 10)	5,751	1,845
Total non-current liabilities	96,314	89,217
Shareholders' equity		
Share capital (note 14)	73,209	73,209
Reserves	4,384	1,456
Deficit	(34,016)	(40,750)
Total shareholders' equity	43,577	33,915
Commitments and contingencies (note 15)		
Total liabilities and shareholders' equity	\$ 164,090	\$ 149,319

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"D.C. Crewson" Director

"John Pollard" Director

Pollard Banknote Limited
Consolidated Statements of Income
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31

	2015	2014
Sales	\$ 221,030	\$ 194,471
Cost of sales	176,675	153,401
Gross profit	44,355	41,070
Administration	19,177	16,951
Selling	7,374	6,887
Other income (note 16)	(284)	(303)
Income from operations	18,088	17,535
Finance costs (note 17)	6,382	5,998
Finance income (note 17)	(490)	(959)
Income before income taxes	12,196	12,496
Income taxes (note 10)		
Current (recovery)	(677)	3,072
Deferred	5,410	678
	4,733	3,750
Net income	\$ 7,463	\$ 8,746
Net income per share (basic) (note 18)	\$ 0.32	\$ 0.37
Net income per share (diluted) (note 18)	\$ 0.32	\$ 0.37

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited
Consolidated Statements of Comprehensive Income
(In thousands of Canadian dollars)

Years ended December 31

	2015	2014
Net income	\$ 7,463	\$ 8,746
Other comprehensive income (loss)		
Items that are or may be reclassified to profit and loss		
Foreign currency translation differences – foreign operations	2,928	1,237
Items that will never be reclassified to profit and loss		
Defined benefit plans remeasurements, net of income tax (reduction) of \$773 and (\$2,704) (note 10 & note 13)	2,070	(6,916)
Other comprehensive income (loss) – net of income tax	4,998	(5,679)
Comprehensive income	\$ 12,461	\$ 3,067

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited
Consolidated Statements of Changes in Equity
(In thousands of Canadian dollars)

Year ended December 31, 2015

	Attributable to equity holders of Pollard Banknote Limited			
	Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2015	\$ 73,209	1,456	(40,750)	33,915
Net income	-	-	7,463	7,463
Other comprehensive income				
Foreign currency translation differences – foreign operations	-	2,928	-	2,928
Defined benefit plans remeasurements, net of income tax of \$773	-	-	2,070	2,070
Total other comprehensive income	\$ -	2,928	2,070	4,998
Total comprehensive income	\$ -	2,928	9,533	12,461
Share based compensation (note 14)	-	-	26	26
Dividends to owners of Pollard Banknote Limited	-	-	(2,825)	(2,825)
Balance at December 31, 2015	\$ 73,209	4,384	(34,016)	43,577

Year ended December 31, 2014

	Attributable to equity holders of Pollard Banknote Limited			
	Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2014	\$ 73,209	219	(39,788)	33,640
Net income	-	-	8,746	8,746
Other comprehensive income				
Foreign currency translation differences – foreign operations	-	1,237	-	1,237
Defined benefit plans remeasurements, net of income tax reduction of (\$2,704)	-	-	(6,916)	(6,916)
Total other comprehensive income	\$ -	1,237	(6,916)	(5,679)
Total comprehensive income	\$ -	1,237	1,830	3,067
Share based compensation (note 14)	-	-	33	33
Dividends to owners of Pollard Banknote Limited	-	-	(2,825)	(2,825)
Balance at December 31, 2014	\$ 73,209	1,456	(40,750)	33,915

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited
Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

Years ended December 31

	2015	2014
Cash increase (decrease)		
Operating activities		
Net income	\$ 7,463	\$ 8,746
Adjustments		
Income taxes	4,733	3,750
Amortization and depreciation	8,351	7,898
Interest expense	2,917	2,875
Unrealized foreign exchange loss	3,776	1,682
Loss on equity investment	32	167
Pension expense	4,532	2,979
Mark-to-market (gain) loss on foreign currency contracts	(483)	71
Interest paid	(2,828)	(3,066)
Income tax paid	(3,141)	(2,086)
Pension contributions	(2,879)	(3,553)
Change in non-cash operating working capital (note 20)	(2,815)	(650)
	<u>19,658</u>	<u>18,813</u>
Investing activities		
Additions to property, plant and equipment	(15,376)	(17,573)
Equity investments (note 7)	(433)	-
Additions to intangible assets	(682)	(1,221)
	<u>(16,491)</u>	<u>(18,794)</u>
Financing activities		
Net proceeds from (repayments of) long-term debt	989	(5,539)
Proceeds from subordinated debt	-	6,813
Change in other non-current liabilities	(46)	143
Deferred financing charges paid	(384)	(193)
Dividends paid	(2,825)	(2,825)
	<u>(2,266)</u>	<u>(1,601)</u>
Foreign exchange gain on cash held in foreign currency	474	20
Change in cash position	1,375	(1,562)
Cash position, beginning of year	6,212	7,774
Cash position, end of year	\$ 7,587	\$ 6,212

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited
Notes to Consolidated Financial Statements
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

1. Reporting entity:

Pollard Banknote Limited ("Pollard") was incorporated under the laws of Canada on March 26, 2010. The address of Pollard's registered office is 140 Otter Street, Winnipeg, Manitoba, Canada, R3T 0M8.

The consolidated financial statements of Pollard as at and for the year ended December 31, 2015, comprise Pollard and its subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture, development and sale of lottery and gaming products.

The controlling party of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owns approximately 73.5% of Pollard's outstanding shares.

On January 1, 2015, Pollard completed an amalgamation of all its Canadian based subsidiaries, including Pollard Holdings Limited Partnership and Pollard Banknote Limited Partnership.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

On March 14, 2016, Pollard's Board of Directors approved these consolidated financial statements.

(b) Basis of preparation:

These consolidated financial statements have been prepared on a historical cost basis, except for the following material items in the statement of financial position:

- Derivative financial instruments are measured at fair value;
- The pension liability is recognized as the net total of the fair value of plan assets less the present value of the defined benefit obligation.

These statements are presented in Canadian dollars, Pollard's functional currency, and all values are rounded to the nearest thousand (except share and per share amounts) unless otherwise indicated.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

2. Basis of preparation (continued):

(c) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Information about judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next period are as follows:

Impairment of goodwill:

Pollard determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units ("CGUs") to which goodwill is allocated. Estimating a value in use requires Pollard to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Judgment is required in determining the level at which to test goodwill, including the grouping of assets that generate cash inflows. Further details are provided in note 8.

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. See note 13 for further information.

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. Further details are provided in note 10.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Principles of consolidation:

These consolidated financial statements include the accounts of Pollard and all its subsidiaries. Subsidiaries are entities which are under Pollard's control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefits from its activities. Pollard holds 100% of the voting rights in, and therefore controls, its subsidiaries.

Significant subsidiaries:	Percent Ownership Interest	
	December 31, 2015	December 31, 2014
Pollard Holdings Limited Partnership	n/a	100
Pollard Banknote Limited Partnership	n/a	100
Pollard Holdings, Inc.	100	100
Pollard (U.S.) Ltd.	100	100
Pollard Games, Inc.	100	100
Pollard iLottery Inc.	100	100

On January 1, 2015, Pollard completed an amalgamation with all its Canadian based subsidiaries, including Pollard Holdings Limited Partnership and Pollard Banknote Limited Partnership.

Pollard has entered into a contractual joint agreement with Neogames S.à r.l. for the operation of iLottery gaming for the Michigan Lottery. As such Pollard has recognized in relation to its interest in the joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

Pollard, in conjunction with NeoGames US, LLP, established NeoPollard Interactive LLC ("NPI"). Pollard accounts for its investment in NPI as a joint venture. Under the equity method of accounting Pollard recognizes its share of the income and expenses and equity movements of NPI.

All inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, have been eliminated.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

(b) Restricted cash:

Under the terms of Pollard's iLottery contract with the Michigan Lottery, Pollard holds iLottery players' deposits in a bank account for the benefit of the lottery and therefore the cash is not available for use by Pollard. Pollard records an equal, offsetting liability within accounts payable and accrued liabilities. Pollard has excluded changes in the restricted cash and related liability from its calculation of the change in cash position in the statements of cash flows.

(c) Revenue recognition:

Revenue is recognized when persuasive evidence of an arrangement exists, significant risks and benefits of ownership are transferred, the sales price to the customer is fixed or is determined and collection of the resulting receivable is reasonably assured. The significant risks of ownership and benefits of ownership are normally transferred in accordance with the shipping terms agreed to with the customer. In some instances, revenue is recognized when the customers' tickets are sold at retail. Volume rebates are accrued and recorded as a reduction to sales based on historical experience and management's expectations regarding sales volume.

Revenues relating to license and royalty sales, iLottery services and lottery management services are recognized pursuant to the terms of the applicable contracts. Where Pollard provides software and related infrastructure, revenue is recognized in proportion to the stage of completion of the contracted work.

(d) Inventories:

Raw materials, work-in-process and finished goods are valued at the lower of cost and net realizable value. The cost of raw material inventory is based on its weighted average cost and includes all costs incurred to acquire the materials. In addition to the direct costs of conversion, the cost of work-in-process and finished goods, which Pollard manufactures, also includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion.

(e) Goodwill:

Goodwill is comprised of the excess sale price over the underlying carrying amount of the net assets sold as at August 5, 2005, as part of the 26.7% of Pollard Holdings Limited Partnership sold in conjunction with the Initial Public Offering ("IPO") and the excess purchase price over the underlying carrying amount of the net assets acquired of Pollard's U.S. subsidiaries. Goodwill is

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

not amortized but is subject to an annual impairment test to ensure its recoverable value remains greater than, or equal to, book value.

(f) Intangible assets:

Deferred development:

Development expenditures are recognized as an intangible asset only if Pollard can demonstrate that the development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and Pollard has sufficient resources to complete development and to use or sell the asset. The expenditures capitalized include the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use and borrowing costs incurred in respect of qualifying assets. Other development expenditures are expensed as incurred.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

Computer software and licenses:

Computer software consists of the cost of acquiring and implementing these systems. Cost of implementation include third party costs as well as direct labour and related overhead costs attributable to the asset. Minimum license fees incurred in connection with our licensing agreements for our use of third-party brands are capitalized and amortized over the estimated life of the asset.

Capitalized computer software costs and licenses are measured at cost less accumulated amortization and accumulated impairment losses.

Other intangible assets:

Intangible assets that are acquired by Pollard and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

Intangible assets are amortized, on a straight-line basis, over their estimated useful lives as follows:

Asset	Rate
Customer assets	16 years
Patents	Term of patent
Computer software and licenses	5 to 10 years or term of license
Deferred development	2 to 7 years

Amortization methods, estimated useful lives and residual value are reviewed each annual reporting date and adjusted prospectively if appropriate.

(g) Property, plant and equipment:

Property, plant and equipment ("PP&E") are stated at cost less investment tax credits (including SR&ED credits), accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and related fringes, other costs directly attributable to bringing the assets to working condition for their intended use and borrowing costs incurred in respect to qualifying assets. Major spare parts are treated as PP&E when they have a useful life greater than a year. Once major spare parts are put in service, they are transferred into equipment and amortized accordingly.

An item of PP&E is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on disposal of an item of PP&E is determined by comparing the proceeds from disposal with the carrying value of the PP&E and is recognized in the statement of income on a net basis.

The cost of each component of an item of PP&E is depreciated over its estimated useful life on a straight-line basis, commencing the date it is ready for use. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Asset	Rate
Buildings	10 to 30 years
Leasehold improvements	Term of lease
Equipment	2 to 11 years
Furniture, fixtures and computers	3 to 9 years

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

Depreciation methods, useful lives and residual values are reviewed each annual reporting date and adjusted prospectively if appropriate.

The carrying value of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(h) Investment in associate:

Pollard accounts for its investment in associate using the equity method of accounting as it has significant influence, but not control. Significant influence is presumed to exist when Pollard holds between 20 and 50 percent of the voting power of another entity. The consolidated financial statements include Pollard's share of the income and expenses and equity movements of the entity accounted for under the equity method of accounting.

(i) Investment in joint venture:

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, rather than rights to the assets and obligations for the liabilities. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require consent of both parties.

The consolidated financial statements include Pollard's share of the income and expenses and equity movements of the entity accounted for under the equity method of accounting.

(j) Investment in joint operation:

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require consent of both parties.

The consolidated financial statements include Pollard's interest in the Michigan Lottery iLottery joint operations: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

(k) Financial instruments:

Non-derivative financial assets

Pollard initially recognizes loans and receivables on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which Pollard becomes a party to the contractual provisions of the instrument. Pollard derecognizes a financial asset when the contractual rights to the cash flows from the asset expire.

Financial assets and liabilities are offset and the net amount presented on the statement of financial position when, and only when, Pollard has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Pollard classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Attributable transaction costs are recognized in net income as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income. Pollard has no non-derivative financial assets classified as financial assets at fair value through profit or loss.

ii) Held-to-maturity financial assets

If Pollard has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Pollard has no financial assets classified as held-to-maturity.

iii) Loans and receivables

Loans and receivables are financial assets with fixed or determined payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses, and the net gain or loss is included in finance income. Pollard has classified cash, restricted cash and accounts receivable as loans and receivables.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign exchange differences, are recognized in other comprehensive income and are presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to net income. Pollard has no financial assets classified as available-for-sale.

Non-derivative financial liabilities

All non-derivative financial liabilities are classified as other financial liabilities and are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method and the net gain or loss is included in finance costs.

Pollard classifies accounts payable and accrued liabilities, dividends payable, long-term debt, subordinated debt and other non-current liabilities as other financial liabilities.

Share Capital

Common stock is classified as equity. Incremental costs directly attributable to the issue of common stock are recognized as a deduction from equity, net of any tax effects.

Derivatives and hedge accounting

Pollard may use certain derivative financial instruments to manage risks of fluctuation in interest rates and foreign exchange rates. On initial designation of the derivative as the hedging instrument, Pollard formally documents the relationship between the hedging instrument and the hedging item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. Pollard makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the change in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

Derivatives are recognized initially at fair value and attributable transaction costs are recognized in net income as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes are accounted for as follows:

i) Cash flow hedges

When a derivative financial instrument is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in fair value of the derivative is recognized immediately in net income. If the hedging instrument no longer meets the criteria for hedge accounting, then hedge accounting is discontinued prospectively. This results in the amortization of the respective derivative's cumulative changes in fair value in the hedging reserve, over the remaining term of the derivative. Any adjustments to fair value after discontinuing hedge accounting are recognized immediately in net income as finance income or loss.

ii) Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognized immediately in net income as finance income or loss.

(l) Translation of foreign currencies:

The functional currency for each of Pollard's subsidiaries is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the respective functional currencies of each entity within the consolidated group using the exchange rates in effect at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates prevailing at the end of the reporting period. Non-monetary items measured at historical cost in a foreign currency are translated to the functional currency using the exchange rate prevalent at the date of acquisition. Non-monetary items denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate prevalent at the date that the fair value was determined. Foreign currency differences arising from translation are recognized in net income, except for exchange differences arising on the translation of financial instruments qualifying as a cash flow hedge, which are recognized directly in other comprehensive income ("OCI").

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

The results and financial position of entities within the consolidated group that have a functional currency different from the presentation currency are translated into Canadian dollars as follows: assets and liabilities are translated at the exchange rate prevailing at the end of the reporting period; income and expenses are translated at the average rate for the reporting period; all resulting exchange differences are recognized in OCI. On disposal of a foreign operation, the deferred cumulative amount recognized in OCI relating to that particular foreign operation is recognized in net income.

(m) Employee benefits:

Share based compensation

The grant date fair value of stock options granted to employees is recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards.

Defined contribution plans

Pollard's U.S. subsidiaries maintain two defined contribution plans in the United States. The obligation to contribute to these plans is recognized as an employee benefit expense as incurred.

Defined benefit plans

Pollard maintains four non-contributory defined benefit pension plans in Canada and the United States, three being final pay plans and one being a flat benefit plan. None of the plans have indexation features.

The costs of Pollard's defined benefit plans are recognized over the period in which employees render service to Pollard in return for the benefits. The defined benefit obligations associated with the plans are actuarially determined using the projected unit credit method pro-rated on service and management's best estimate of salary escalation and retirement ages of employees. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have maturity terms approximating the maturity terms of the related obligation and that are denominated in the currency in which the benefits will be paid. The expected return on pension plan assets is calculated utilizing the discount rate used to measure the defined benefit obligation at the beginning of the annual period.

Past service costs are recognized as an expense on a straight line basis over the average period until the benefits becomes vested. If the benefits have vested, past service costs are recognized in net income immediately.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

Remeasurements that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in OCI.

Pollard's pension asset is limited to the total of any unrecognized past services costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to Pollard's plans. An economic benefit is available to Pollard if it is realizable during the life of the plan, or on settlement of the plan liabilities.

(n) Income taxes:

Current income tax and deferred income tax are recognized in the statement of income except to the extent that the tax relates to items recognized directly in equity or in OCI. Current income tax is the expected tax payable or receivable on the taxable income or loss for the period and any adjustment to tax payable in respect to previous years. Current income tax expense includes withholding taxes.

Deferred income tax is recorded to reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Deferred income tax assets and liabilities are determined based on the enacted or substantively enacted tax rates, which are expected to be in effect when the underlying items of income and expense are expected to be realized.

Deferred income tax is not recognized for: temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future, taxable temporary differences arising on the initial recognition of goodwill or temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment, except if it relates to an item previously recognized in equity, in which case the adjustment is made to equity.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax liabilities and assets, and they are levied by the same taxation authority on the same taxable entity, or on different tax entities which intend to settle their current income tax assets and liabilities on a net basis.

(o) Provisions:

Provisions are recognized when Pollard has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(p) Impairment:

Financial assets

Financial assets classified as loans and receivables, held-to-maturity and available-for-sale are assessed at each reporting period date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Evidence of impairment may include default or delinquency by a debtor, indications that a debtor will enter bankruptcy or economic conditions that correlate with defaults. Pollard has neither available-for-sale nor held-to-maturity instruments.

For loans and receivables, Pollard first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Pollard determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Individually assessed assets with an impairment loss are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. If, in a subsequent year, the amount of the estimated impairment loss

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment is increased or reduced by adjusting the allowance account, through the statement of income.

Non-financial assets

The carrying amount of Pollard's non-financial assets, other than inventories and deferred income tax assets, are reviewed at each reporting date to determine whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, Pollard estimates the asset's recoverable amount. For goodwill the recoverable amount is estimated as of December 31 each year. An impairment loss is recognized if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or CGUs.

Impairment losses are recognized in net income. Impairment losses recognized in respect to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss in respect to goodwill is not reversed. In respect to other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss can only be reversed to the extent that the asset's carrying value that would have been determined, net of amortization, if no impairment had been recognized.

(q) Finance costs and finance income:

Finance costs comprise interest expense on borrowings, amortization of deferred financing costs, mark-to-market losses on foreign exchange contracts and net foreign exchange losses.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

Borrowing costs that are not directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are expensed in the period incurred using the effective interest method.

Finance income comprises mark-to-market gains on foreign exchange contracts and net foreign exchange gains.

4. Future accounting standards:

In July 2014, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standards ("IFRS") 9 *Financial Instruments* ("IFRS 9"), which replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is required for fiscal years beginning on or after January 1, 2018. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard specifies the steps and timing for recognizing revenue, as well as requiring more informative, relevant disclosures. IFRS 15 supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue*. IFRS 15 is required for fiscal years beginning on or after January 1, 2018 with early adoption available. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The amendments prohibit the use of revenue based depreciation for property, plant and equipment and significantly limit the use of revenue based amortization for intangibles. These amendments are effective for fiscal years beginning on or after January 1, 2016. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

In May 2014, the IASB issued amendments to IAS 11 *Interests in Joint Operations*. The amendments require business combination accounting to be applied to acquisition of interest in a joint operation that constitute a business. These amendments are effective for fiscal years beginning on or after January 1, 2016, with early adoption available. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

In September 2014, the IASB issued amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

4. Future accounting standards (continued):

involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments were to be effective for fiscal years beginning on or after January 1, 2016, with early adoption available; however, in December 2015 the IASB decided to defer the effective date for these amendments indefinitely. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

In December 2014, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*. The amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. These amendments are effective for fiscal years beginning on or after January 1, 2016, with early adoption available. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

In January 2016, the 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. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

5. Inventories:

	December 31, 2015	December 31, 2014
Raw materials	\$ 9,679	\$ 7,602
Work-in-process	749	641
Finished goods	13,311	16,665
	<u>\$ 23,739</u>	<u>\$ 24,908</u>

During 2015 Pollard recorded inventory write-downs of \$359 representing an increase in the obsolescence reserves and write-downs of \$11 due to changes in foreign exchange rates.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

5. Inventories (continued):

During 2014 Pollard recorded inventory write-downs of \$257 representing an increase in the obsolescence reserves and reversals of previous write-downs of \$32 due to changes in foreign exchange rates.

The cost of sales reflects the costs of inventory including direct material, direct labour and manufacturing overheads.

6. Property, plant and equipment:

Cost	Land	Buildings	Leasehold improvements	Equipment	Spare parts	Furniture, fixture and computers	Assets in progress	Total
Balance at January 1, 2014	\$ 803	9,258	1,962	120,515	983	3,956	-	137,477
Additions/net transfers	-	133	140	2,079	40	33	15,148	17,573
Disposals	-	-	-	(15)	-	-	-	(15)
Effect of movements in exchange rates	-	-	57	377	-	-	-	434
Balance at December 31, 2014	\$ 803	9,391	2,159	122,956	1,023	3,989	15,148	155,469
Additions/net transfers	-	2,488	295	26,807	223	173	(14,610)	15,376
Disposals	-	-	-	(34)	-	-	-	(34)
Effect of movements in exchange rates	-	-	160	924	-	6	-	1,090
Balance at December 31, 2015	\$ 803	11,879	2,614	150,653	1,246	4,168	538	171,901

Accumulated depreciation	Land	Buildings	Leasehold improvements	Equipment	Spare parts	Furniture, fixture and computers	Assets in progress	Total
Balance at January 1, 2014	\$ -	3,915	1,147	100,235	-	3,262	-	108,559
Depreciation for the year	-	312	165	5,164	-	187	-	5,828
Disposals	-	-	-	(15)	-	-	-	(15)
Effect of movements in exchange rates	-	-	53	321	-	-	-	374
Balance at December 31, 2014	\$ -	4,227	1,365	105,705	-	3,449	-	114,746
Depreciation for the year	-	323	193	5,217	-	184	-	5,917
Disposals	-	-	-	(34)	-	-	-	(34)
Effect of movements in exchange rates	-	-	130	761	-	1	-	892
Balance at December 31, 2015	\$ -	4,550	1,688	111,649	-	3,634	-	121,521

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

6. Property, plant and equipment (continued):

Carrying amounts	Land	Buildings	Leasehold improvements	Equipment	Spare parts	Furniture, fixture and computers	Assets in progress	Total
At December 31, 2014	\$ 803	5,164	794	17,251	1,023	540	15,148	40,723
At December 31, 2015	\$ 803	7,329	926	39,004	1,246	534	538	50,380

In 2014 Pollard commenced the installation of a new printing press which was reflected in the assets in progress category. The press was put into service in 2015. Included in the 2015 expenditures were \$390 in capitalized borrowing costs (2014 - \$478).

7. Equity investments:

Interest in joint venture	December 31, 2015	December 31, 2014
Balance – beginning of year	\$ -	\$ -
Investment	433	-
Equity loss	(32)	-
Balance – end of year	\$ 401	\$ -

Pollard has entered into an agreement with NeoGames US, LLP for the establishment of NeoPollard Interactive LLC. The entity was established to provide iLottery services in the United States and Canada, excluding the State of Michigan.

Pollard and Neogames S.à r.l. operate the iLottery operation for the Michigan Lottery under a separate joint operating agreement. Pollard recognizes its interest in the joint operation by including its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

Interest in associate	December 31, 2015	December 31, 2014
Balance – beginning of year	\$ -	\$ 167
Equity loss	-	(167)
Balance – end of year	\$ -	\$ -

Pollard has entered into an agreement with Palm Commerce Information and Technology (China) Co., Ltd. for the establishment of Shenzhen Palm Commerce & Pollard Banknote Technology Co., Ltd.. As per the agreement, Pollard completed its capital investment of US\$400, representing 40%

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

7. Equity investments (continued):

of the registered capital of the corporation, in January 2012. The entity was established to provide distribution and validation systems to provincial lottery operations in China.

Shenzhen Palm Commerce & Pollard Banknote Technology Co. continues to operate at a loss. Pollard is not required to provide further funding and therefore has limited its loss to its initial investment.

8. Goodwill:

Goodwill is comprised of \$30,620 (2014 - \$30,620), representing the excess purchase price over the underlying carrying amount of the net assets sold, as at August 5, 2005, as a result of the 26.7% of Pollard LP sold as part of Pollard Banknote Income Fund's IPO with the remaining \$7,097 (2014 - \$5,980) from Pollard's purchase of its U.S. subsidiaries. Goodwill has been allocated to CGUs for impairment testing in this manner, as described in the table below.

	December 31, 2015		December 31, 2014	
Lottery	\$	30,620	\$	30,620
Charitable games		7,097		5,980
	\$	37,717	\$	36,600

During 2015 the value of goodwill increased \$1,117 (2014 - \$489) as a result of changes in foreign exchange rates.

For both the Lottery and Charitable games CGUs the recoverable amounts have been determined based on a value in use calculation using cash flow projections from financial forecasts approved by senior management. These forecasts cover a period of five years and reflect an estimate of a terminal value. Included in these forecasts is an assumption of a 3% growth rate which was based on historical trend and expected future performance.

The calculation of value in use for the CGUs described above are most sensitive to the following key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Revenue and related gross profit
- Foreign exchange rates
- Discount rates
- Growth rates

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

8. Goodwill (continued):

Revenue and related gross profit

Projected cash flows from revenue assumes the continuation of recent historical trends adjusted for expected new contract wins, anticipated contract renewal pricing pressures and the expected impact of sales initiatives in conjunction with certain production efficiencies that are being developed or are expected to be developed.

Foreign exchange rates

A significant portion of revenue is denominated in U.S. dollars and Euros, partially offset by U.S. dollar denominated costs. In addition, certain financial assets and liabilities are denominated in U.S. currency. Projected cash flows assume an estimated exchange rate between Canadian dollars to U.S. dollars and Euros based on expected exchange rates during the forecast period.

Discount rates

Discount rates were calculated based on the estimated cost of equity capital and debt capital considering data and factors relevant to the economy, the industry and the CGUs. These costs were then weighted in terms of a typical industry capital structure to arrive at an estimated weighted average cost of capital. The after-tax discount rates applied to the cash flow projections for the CGUs described above were as follows:

Lottery	10.0%
Charitable games	11.0%

Growth rates

Growth rates are based on estimated sustainable long-term growth rates of the CGUs.

Management believes that any reasonable possible change in any of the key assumptions on which the cash generating unit's recoverable amounts are based would not cause the unit's carrying amounts to exceed its recoverable amount.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

9. Intangible assets:

Cost		Customer assets	Patents	Deferred development	Computer software and licenses	Total
Balance at January 1, 2014	\$	18,645	5,013	1,398	4,021	29,077
Additions (net of investment tax credits)		-	38	(86)	905	857
Additions – internally developed (net of investment tax credits)		-	-	(141)	505	364
Balance at December 31, 2014	\$	18,645	5,051	1,171	5,431	30,298
Additions (net of investment tax credits)		-	81	-	346	427
Additions – internally developed (net of investment tax credits)		-	-	(30)	285	255
Effect of movements in exchange rates		-	-	-	15	15
Balance at December 31, 2015	\$	18,645	5,132	1,141	6,077	30,995

Accumulated amortization		Customer assets	Patents	Deferred development	Computer software and licenses	Total
Balance at January 1, 2014	\$	9,801	4,361	618	765	15,545
Amortization for the year		1,166	54	190	51	1,461
Balance at December 31, 2014	\$	10,967	4,415	808	816	17,006
Amortization for the year		1,165	252	147	81	1,645
Effect of movements in exchange rates		-	-	-	4	4
Balance at December 31, 2015	\$	12,132	4,667	955	901	18,655

Carrying amounts		Customer assets	Patents	Deferred development	Computer software and licenses	Total
At December 31, 2014	\$	7,678	636	363	4,615	13,292
At December 31, 2015	\$	6,513	465	186	5,176	12,340

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

9. Intangible assets (continued):

Customer assets, \$3,874 of patents and \$229 of computer software were recognized as a result of the excess purchase price over the underlying carrying amount of the intangible assets acquired as at August 5, 2005, as part of the 26.7% of Pollard LP sold in conjunction with the IPO. As at December 31, 2011, computer software and licenses, and patents recognized at IPO were fully amortized. Customer assets will continue to be amortized until fiscal 2021.

The majority of the non-IPO computer software relates to the implementation, over 2014 and 2015, of a new ERP platform. The amortization period for these costs is 10 years and commenced in January 2016.

Amortization of intangible assets in 2015 of \$1,645 (2014 – \$1,461), was included in cost of sales.

10. Income taxes:

Income tax expense

	2015		2014	
Current income tax expense (recovery)	\$	(677)	\$	3,072
Deferred income tax expense		5,410		678
Total income tax expense	\$	4,733	\$	3,750

Income tax recognized in other comprehensive income (loss)

	Amount before tax	Tax expense	2015 Amount net of tax	Amount before tax	Tax benefit	2014 Amount net of tax
Defined benefit plans remeasurement gain (loss)	\$ 2,843	(773)	2,070	\$ (9,620)	2,704	(6,916)
	\$ 2,843	(773)	2,070	\$ (9,620)	2,704	(6,916)

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

10. Income taxes (continued):

Reconciliation of effective tax rate

	2015	2015	2014	2014
Net income for the year		\$ 7,463		\$ 8,746
Total income tax expense		4,733		3,750
Income before income taxes		\$ 12,196		\$ 12,496
Income tax using Pollard's domestic tax rate	26.8%	3,266	26.7%	3,341
Changes in expected tax rates and other non-deductible amounts	(3.3%)	(401)	(2.9%)	(360)
Effect of non-taxable items related to foreign exchange	15.3%	1,868	6.2%	769
	38.8%	\$ 4,733	30.0%	\$ 3,750

Deferred income tax assets and liabilities

Recognized deferred income tax assets and liabilities

Deferred income tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2015	2014	2015	2014	2015	2014
Property, plant and equipment	\$ 148	149	\$ (6,347)	(1,389)	\$ (6,199)	(1,240)
Intangible assets	-	994	(3,515)	(4,322)	(3,515)	(3,328)
Inventories	325	304	-	-	325	304
Employee benefits	5,477	5,758	(1,734)	(2,102)	3,743	3,656
Unrealized foreign exchange (gains) and losses	1,869	672	(1,631)	-	238	672
Unused tax losses	-	520	-	-	-	520
Other	28	144	(371)	(269)	(343)	(125)
Tax assets (liabilities)	\$ 7,847	8,541	\$ (13,598)	(8,082)	\$ (5,751)	459

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

10. Income taxes (continued):

Movement in temporary differences during the year

	Balance January 1, 2014	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2014	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2015
Property, plant and equipment	\$ (949)	(291)	-	(1,240)	(4,959)	-	(6,199)
Intangible assets	(3,210)	(118)	-	(3,328)	(187)	-	(3,515)
Inventories	209	95	-	304	21	-	325
Employee benefits	978	(26)	2,704	3,656	860	(773)	3,743
Unrealized foreign exchange (gains) and losses	908	(236)	-	672	(434)	-	238
Unused tax losses	301	219	-	520	(520)	-	-
Other	190	(315)	-	(125)	(218)	-	(343)
Tax assets (liabilities)	\$ (1,573)	(672)	2,704	459	(5,437)	(773)	(5,751)

Recognized in the consolidated statements of financial position as follows:

	December 31, 2015		December 31, 2014	
Deferred income tax - asset	\$	-	\$	2,304
Deferred income tax - liability		(5,751)		(1,845)
	\$	(5,751)	\$	459

Recognized in the consolidated statements of income as follows:

	2015		2014	
Deferred income tax expense	\$	(5,410)	\$	(678)
Finance income		(27)		6
	\$	(5,437)	\$	(672)

Amounts included in finance income relate to unrealized foreign exchange.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

11. Long-term debt:

	December 31, 2015	December 31, 2014
Credit facility, interest of 2.9% to 3.7%, payable monthly, maturing 2017	\$ 73,497	\$ 69,316
Deferred financing charges, net of amortization	(211)	(172)
	73,286	69,144
Less current portion	(1,203)	(902)
	\$ 72,083	\$ 68,242

Included in the total credit facility balance is a U.S. dollar loan balance of US\$14,200 (2014 - US\$13,600).

Effective June 30, 2015, Pollard Banknote Limited renewed its credit facility. The credit facility provides loans of up to \$71,827 for its Canadian operations (denominated in Canadian or U.S. dollars), \$3,910 for a term facility and US\$12,000 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 December 31, 2015, the outstanding letters of guarantee drawn under the credit facility were \$1,257 (2014 - \$1,106).

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, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at December 31, 2015, Pollard is in compliance with all financial covenants.

As at December 31, 2015, \$3,910 of the term facility remained outstanding. Repayment of the term facility commenced on June 30, 2015, in the form of quarterly principal repayments of \$301 plus interest. Repayments permanently reduce the term facility commitment available.

As of December 31, 2015, Pollard has unused credit facility available of \$17,591 (2014 - \$17,816) and the term facility is fully drawn.

Pollard's credit facility, including the term facility, is secured by a first security interest in all of the present and after acquired property of Pollard. The facility can be prepaid without penalties. Under the terms of the agreement the facility was committed for a period, renewable June 30, 2016 ("Facility Expiry Date"). If the facility is not renewed, the loans are repayable one year after the Facility Expiry Date, except for the scheduled principal repayments on the term facility. As such, the credit facility effectively has a two year term expiring June 30, 2017.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

12. Subordinated debt:

	December 31, 2015	December 31, 2014
Subordinated debt, interest of 9.00% payable quarterly, maturing 2021	\$ 6,813	\$ 6,813
	\$ 6,813	\$ 6,813

On April 2, 2014, Pollard's former subsidiary, Pollard Holdings Limited Partnership, entered into a loan agreement with Equities for a subordinated term loan facility with a seven year term in the amount of \$6,813 to assist in the purchase of the new printing press. Effective January 1, 2015, Pollard Banknote Limited assumed the subordinated debt on completion of the amalgamation of the Canadian entities.

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, completed on April 4, 2014, or the date of repayment in full of the additional secured term facility. Based on the current repayment schedule, the term facility will be repaid in full in March 2019, at which time principal payments on the subordinated debt will commence. Interest on the subordinated term loan facility commenced with the first draw at a rate of 9%. The loan is fully subordinated to the secured credit facility.

13. Pension liability:

	December 31, 2015	December 31, 2014
Fair value of benefit plan assets	\$ 40,073	\$ 37,460
Present value of benefit plan obligations	(51,343)	(49,402)
Net pension liability	\$ (11,270)	\$ (11,942)

Pollard sponsors non-contributory defined benefit plans providing pension benefits to its employees. Pollard has four pension plans of which three are final pay plans and one is a flat benefit plan. None of the plans have indexation features. The measurement date for all the plans is December 31. The two plans of the U.S. subsidiaries require valuations annually with the last valuations being as of January 1, 2015. One of the Canadian plans of Pollard currently requires valuation every three years with the last valuation as of December 31, 2013. Pollard's other Canadian plan's last valuation was as of January 1, 2013. Pollard's U.S. subsidiaries also maintain two defined contribution plans. The pension expense for these defined contribution plans is the annual funding contribution by the subsidiaries.

Pollard expects to contribute approximately \$2.6 million to its defined benefit plans in 2016.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

13. Pension liability (continued):

The benefit plan assets are held in trust and are invested as follows:

	December 31, 2015	December 31, 2014
Equities	62.3%	62.4%
Bonds	37.2%	37.1%
Cash and cash equivalents	0.5%	0.5%
	100.0%	100.0%

Information about Pollard's defined benefit plans, in aggregate, is as follows:

	2015	2014
<i>Benefit plan assets</i>		
Fair value, beginning of year	\$ 37,460	\$ 32,528
Expected return on plan assets	1,534	1,686
Employer contributions	2,387	3,154
Benefits paid	(1,765)	(1,273)
Remeasurement (losses) gains	(311)	1,047
Effect of movements in exchange rates	768	318
Fair value, end of year	\$ 40,073	\$ 37,460
<i>Accrued benefit plan obligations</i>		
Balance, beginning of year	\$ 49,402	\$ 35,352
Current service cost	3,595	2,491
Interest cost	1,979	1,774
Benefits paid	(1,765)	(1,273)
Remeasurement (gains) losses	(3,154)	10,667
Effect of movements in exchange rates	1,286	391
Balance, end of year	\$ 51,343	\$ 49,402
Net pension liability	\$ (11,270)	\$ (11,942)

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

13. Pension liability (continued):

The total net cost for Pollard's defined benefit and defined contribution pension plans recognized in cost of sales is as follows:

	2015	2014
<i>Net defined benefit plans cost</i>		
Current service cost	\$ 3,595	\$ 2,491
Interest on plan obligations	1,979	1,774
Actual return on plan assets	(1,223)	(2,733)
Difference between expected return and actual return on plan assets	(64)	1,261
Net defined benefit plans cost	4,287	2,793
Defined contribution plans cost	245	186
Net pension plans cost	\$ 4,532	\$ 2,979

Actuarial assumptions

The principal actuarial assumptions used in measuring at the reporting date are as follows:

	2015	2014
Discount rate	4.3% to 4.7%	4.0% to 4.2%
Rate of compensation increase	0% to 3.0%	0% to 3.0%

Assumptions regarding future mortality have been based on published statistics and mortality tables. As of December 31, 2015, Pollard used CPM2014 Private projected with Scale B mortality table for its Canadian subsidiary's pension plans and the RP-2015 healthy mortality tables for its U.S. subsidiary's pension plans. As of December 31, 2014, Pollard used CPM2014 Private projected with Scale B mortality table for its Canadian subsidiary's pension plans and the RP-2014 healthy mortality tables for its U.S. subsidiary's pension plans.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

13. Pension liability (continued):

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts show below:

	Increase		Decrease	
Discount rate (1% movement)	\$	(9,468)	\$	12,581
Rate of compensation increase (1% movement)	\$	1,027	\$	(1,048)
Future mortality (one year)	\$	1,602	\$	(1,457)

Remeasurements

	2015		2014	
Remeasurement (losses) gains arising on plan assets	\$	(311)	\$	1,047
Remeasurement (gains) losses arising on plan liabilities from:				
Demographic assumptions	\$	(268)	\$	934
Financial assumptions		(3,110)		9,497
Experience adjustments		224		236
Remeasurement (gains) losses arising on plan liabilities	\$	(3,154)	\$	10,667

Remeasurements recognized in other comprehensive income

	2015		2014	
Amount accumulated in deficit, beginning of year	\$	(13,329)	\$	(6,413)
Recognized during the year		2,070		(6,916)
Amount accumulated in deficit, end of year	\$	(11,259)	\$	(13,329)

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

14. Share capital:

	December 31, 2015	December 31, 2014
Authorized		
Unlimited common shares		
Unlimited preferred shares		
Issued		
23,543,158 common shares	\$ 73,209	\$ 73,209
	\$ 73,209	\$ 73,209

Ownership restrictions:

The holders of the common shares are entitled to one vote in respect to each common share held, subject to the Board of Directors ability to take constraint actions when a person, or group of persons acting in concert acquires, agrees to acquire, holds, beneficially owns or controls, either directly or indirectly, a number of shares equal to or in excess of 5% of the common shares (on a non-diluted basis) issued and outstanding ("Ownership Threshold"). The Board of Directors, in its sole discretion, can take the following constraint actions:

- place a stop transfer on all or any of the common shares believed to be in excess of the Ownership Threshold;
- suspend all voting and/or dividend rights on all or any of common share held believed to be in excess of the Ownership Threshold;
- apply to a court seeking an injunction to prevent a person from acquiring, holding, owning, controlling and/or directing, directly or indirectly, common shares in excess of the Ownership Threshold; and/or
- make application to the relevant securities commission to effect a cease trading order or such similar restriction, until the person no longer controls common shares equal to or in excess of the Ownership Threshold.

In addition, if a Gaming Regulatory Authority has determined that ownership by a holder of common shares is inconsistent with its declared policies, the Board of Directors is entitled to take constraint action against such shareholder. Any person who controls common shares equal to or in excess of the Ownership Threshold, may be required to file an application, be investigated and have suitability as a shareholder determined by a Gaming Regulatory Authority, if such Gaming Regulatory Authority has reason to believe such ownership would otherwise be inconsistent with its declared policies. The shareholder must pay all the costs of the investigation incurred by any such Gaming Regulatory Authority.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

14. Share capital (continued):

Capital management:

Pollard's objectives in managing capital are to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Pollard also strives to maintain an optimal capital structure to reduce the overall cost of capital.

In the management of capital, Pollard includes long-term debt, subordinated debt, share capital and deficit, but excludes reserves. The Board of Directors regularly monitors the levels of debt, equity and dividends.

Pollard monitors capital on the basis of funded debt to Adjusted EBITDA, working capital ratio and debt service coverage. Pollard has externally imposed capital requirements as determined through its bank credit facility. As at December 31, 2015, Pollard is in compliance with all financial covenants.

Dividends:

Dividends are paid on the common shares within 15 days of the end of each quarter and are fully discretionary, as determined by the Board of Directors of Pollard.

On November 4, 2015, a dividend of \$0.03 per share was declared, payable on January 15, 2016, to the shareholders of record on December 31, 2015.

There were no other changes in Pollard's approach to capital management during the current period.

Share based compensation:

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 Common Shares.

On March 5, 2014, the Board of Directors approved the award of 100,000 options to purchase common shares of Pollard for certain key management personnel. The options were granted on March 10, 2014, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on March 7, 2014.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

14. Share capital (continued):

The grant date fair value of these options was determined based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The fair values were calculated as \$0.82 as at March 10, 2014. The inputs used in the measurement of the fair values of the share based compensation granted are the following:

- Share price \$3.63
- Exercise price \$3.63
- Expected volatility (weighted average volatility) 33.7%
- Option life (expected weighted average life) 4.75 years
- Risk-free interest rate (based on Canadian government bonds) 1.7% to 2.1%

15. Commitments and contingencies:

Certain Pollard subsidiaries rent premises and equipment under long-term operating leases. The following is a schedule by fiscal year of rental payment commitments under operating leases outstanding:

2016	\$	4,919
2017		4,356
2018		3,949
2019		2,889
2020		2,607
Thereafter		6,483

Pollard is contingently liable for outstanding letters of guarantee in the amount of \$1,257 at December 31, 2015 (2014 - \$1,106). These letters of guarantee are part of Pollard's credit facility and are secured as disclosed in note 11.

During 2008 Pollard entered into a sale leaseback with an affiliate of Equities for land and building in Council Bluffs, Iowa. The property was sold for \$4,081 and leased back for ten years at an annual lease rate of approximately US\$260. The sale value was determined through independent appraisal.

Also in 2008 Pollard entered into a lease with an affiliate of Equities for a manufacturing facility in Winnipeg, Manitoba. The lease was for a 12 year 6 month period, ending March 31, 2021, at an annual base rate of approximately \$2,453. In 2015, Pollard agreed to exercise its renewal clause which extended the lease until September 30, 2023. See note 21 for further details.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

15. Commitments and contingencies (continued):

During 2011 Pollard entered into a sale leaseback with an affiliate of Equities for land and building in Winnipeg, Manitoba. The property was sold for \$3,473 and leased back for five years (with an option to renew for an additional five year term) at an annual lease rate of approximately \$313. The sale value was determined through independent appraisal.

Pollard is involved in litigation and claims associated with operations, the aggregate amounts of which are not determinable. While it is not possible to estimate the outcome of the proceedings, management is of the opinion that any resulting settlements would not materially affect the financial position of Pollard. Should a loss occur on resolution of these claims, such loss would be accounted for as a charge to income in the period in which the settlement occurs.

Pollard has agreed to indemnify Pollard's current and former directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain usual limitations. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

16. Other (income) expense:

	2015		2014	
Loss on equity investment (note 7)	\$	32	\$	167
Other income		(316)		(470)
	\$	(284)	\$	(303)

17. Finance costs and finance income:

Finance costs	2015		2014	
Foreign exchange loss	\$	3,120	\$	2,015
Interest		2,917		2,875
Mark-to-market loss on foreign currency contracts		-		910
Amortization of deferred financing costs		345		198
	\$	6,382	\$	5,998

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

17. Finance costs and finance income (continued):

Finance income	2015		2014	
Foreign exchange gain	\$	(7)	\$	(120)
Mark-to-market gain on foreign currency contracts		(483)		(839)
	\$	(490)	\$	(959)

18. Net income per share:

	2015		2014	
Net income attributable to shareholders for basic and diluted net income per share	\$	7,463	\$	8,746
Weighted average number of shares (basic)		23,543,158		23,543,158
Weighted average impact of share options		100,000		81,370
Weighted average number of shares (diluted)		23,643,158		23,624,528
Net income per share (basic)	\$	0.32	\$	0.37
Net income per share (diluted)	\$	0.32	\$	0.37

19. Personnel expenses:

	2015		2014	
Wages and salaries	\$	66,716	\$	60,659
Benefits and government payroll remittances		10,571		9,416
Profit share		1,432		1,527
Expenses related to defined contribution plans		252		186
Expenses related to defined benefit plans		4,288		2,793
	\$	83,259	\$	74,581

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

20. Supplementary cash flow information:

	2015	2014
Change in non-cash operating working capital:		
Accounts receivable	\$ (1,290)	\$ 1,240
Inventories	2,356	(3,084)
Prepaid expenses and deposits	(1,117)	(1,612)
Income taxes receivable	(2,199)	-
Accounts payable and accrued liabilities	(565)	2,806
	\$ (2,815)	\$ (650)

21. Related party transactions:

During the year ended December 31, 2015, Pollard agreed to exercise its renewal clause on one of its Winnipeg properties leased from an affiliate of Equities. The renewal covers the period from April 2021 to September 2023 with an approximate annual lease rate of \$2,400, including an annual amortization of a leasehold improvement allowance of approximately \$1,000. The total leasehold allowance is \$2,500.

During the year ended December 31, 2015, Pollard paid property rent of \$3,092 (2014 - \$3,037) and \$272 (2014 - \$230) in plane charter costs to affiliates of Equities. In addition, during the year, Pollard paid Equities \$613 (2014 - \$405) interest on Pollard's subordinated debt.

During the year, Equities paid Pollard \$72 (2014 - \$72) for accounting and administration fees.

During the year ended December 31, 2015, Pollard reimbursed operating costs of \$484 (2014 - \$46) to its iLottery partner, which are recorded in cost of sales.

At December 31, 2015, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, interest and other expenses of \$795 (2014 - \$1,155). Also included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of \$1,125 (2014 - \$2) for reimbursement of operating costs and capital expenditures, and its share of operating profits.

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors and the Executive Committee are considered key management personnel.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

21. Related party transactions (continued):

Key management personnel compensation comprised:

	2015		2014	
Wages, salaries and benefits	\$	2,571	\$	2,549
Profit share		9		14
Expenses related to defined benefit plans		483		368
	\$	3,063	\$	2,931

As at December 31, 2015, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,428,571 common shares of Pollard.

22. Sales to major customers:

For the year ended December 31, 2015, no customer's sales amounted to 10 percent of consolidated sales, in 2014 one customer amounted to 10 percent.

23. Segmented information:

Pollard's operations consist of one reporting segment principally in the manufacturing, development and sale of lottery and charitable gaming products. The manufacturing, development and sale of lottery and charitable products have been aggregated as one reportable segment as they have similar economic characteristics, including similar gross profit margins. Geographic distribution of sales, property, plant and equipment and goodwill are as follows:

	2015		2014	
Sales:				
Canada	\$	52,530	\$	42,880
U.S.		108,969		96,536
Other		59,531		55,055
	\$	221,030	\$	194,471

	December 31, 2015		December 31, 2014	
Property, plant and equipment and goodwill:				
Canada	\$	44,266	\$	46,538
U.S.		43,831		30,785
	\$	88,097	\$	77,323

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

24. Financial instruments:

The fair value of a financial instrument is the estimated amount that Pollard would receive or pay to terminate the instrument agreement at the reporting date. The following methods and assumptions were used to estimate the fair value of each type of financial instrument by reference to various market value data and other valuation techniques as appropriate.

The fair values of accounts receivable, accounts payable and accrued liabilities and dividends payable approximate their carrying values given their short-term maturities.

The fair value of the long-term debt approximates the carrying value due to the variable interest rate of the debt.

The fair value of the subordinated debt approximates the carrying value based on the terms associated with the debt.

The fair value of the other non-current liabilities approximates the carrying value based on the expected settlement amount of these liabilities.

The fair value of foreign currency forward contracts is estimated utilizing market forward rates of exchange.

Certain financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on the quoted prices observed in active markets for identical assets or liabilities

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 - valuation techniques with significant unobservable market inputs

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

As at December 31, 2015, the cash and restricted cash recorded at fair value was classified as level one of the fair value hierarchy.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

25. Financial risk management:

Pollard has exposure to the following risks from its use of financial instruments:

Credit risk
Liquidity risk
Currency risk
Interest rate risk

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls and 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.

Credit risk

The following table outlines the details of the aging of Pollard's receivables and the related allowance for doubtful accounts:

	December 31, 2015		December 31, 2014	
Current	\$	19,193	\$	17,258
Past due for 1 to 60 days		4,295		3,887
Past due for more than 60 days		717		861
Less: Allowance for doubtful accounts		(54)		(76)
	\$	24,151	\$	21,930

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In addition, Pollard maintains a committed credit facility including up to \$71,827 for its Canadian operations, as well as the additional term facility of \$3,910 and up to US\$12,000 for its U.S. subsidiaries. At December 31, 2015, the unused balance available for drawdown under the credit facility was \$17,591 (2014 - \$17,816) and the term facility was fully drawn.

The 2016 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and the unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2015 and 2014

25. Financial risk management (continued):

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to some 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 the Canadian and U.S. dollar, primarily in Euros.

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 due to changes in operating cashflow by approximately \$47 for year ended December 31, 2015 (2014 - \$85). 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 \$52 for year ended December 31, 2015 (2014 - \$24).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. As at December 31, 2015, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately \$4,101 (2014 - \$7,936). 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 taxes of approximately \$21 for the year ended December 31, 2015 (2014 - \$40).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Two 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.

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At December 31, 2015, Pollard had no outstanding foreign currency contracts.

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.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately \$367 for the year ended December 31, 2015 (2014 - \$347).

**The Board
of Directors
of Pollard
Banknote
Limited**

Gordon Pollard EXECUTIVE CHAIR
Del Crewson¹
Jerry Gray^{1,2}
Garry Leach¹
John Pollard
Douglas Pollard

¹ Member of the Audit Committee, Compensation Committee and the Governance and Nominating Committee

² Lead Director

**Senior
Management**

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Douglas Pollard
CO-CHIEF EXECUTIVE OFFICER

Doug Kozak
VICE PRESIDENT, INFORMATION TECHNOLOGY

Riva Richard
GENERAL COUNSEL AND EXECUTIVE VICE PRESIDENT,
LEGAL AFFAIRS

Robert Rose
EXECUTIVE VICE PRESIDENT, FINANCE AND CHIEF
FINANCIAL OFFICER

Jennifer Westbury
EXECUTIVE VICE PRESIDENT, SALES AND CUSTOMER
DEVELOPMENT

Robert Young
EXECUTIVE VICE PRESIDENT, OPERATIONS

**Investor
Relations**

Robert Rose
140 Otter Street
t: 204-474-2323
e: winnipeg@pollardbanknote.com

**Stock
Exchange Listing**

The Toronto Stock Exchange - PBL

**Independent
Auditors**

KPMG LLP,
Winnipeg, Manitoba

**Transfer
Agent**

Computershare Trust Company of Canada,
Toronto, Ontario

Bankers

Toronto-Dominion Bank,
Winnipeg, Manitoba

Bank of Montreal,
Calgary, Alberta

Canadian Western Bank,
Edmonton, Alberta

Head Office

140 Otter Street
Winnipeg, Manitoba, R3T 0M8
t: 204-474-2323
f: 204-453-1375

**Manufacturing
Facilities**

Winnipeg, Manitoba, Canada
1499 Buffalo Place, R3T 1L7
140 Otter Street, R3T 0M8

Barrhead, Alberta, Canada
6203 46th Street, T7N 1A1

Sault Ste. Marie, Ontario, Canada
300-45 White Oak Drive East, P6B 4J7

Ypsilanti, Michigan, USA
775 James L. Hart Parkway, 48197

Council Bluffs, Iowa, USA
504 34th Avenue, 51501

POLLARD
banknote limited



POLLARD
banknote limited

140 Otter Street
Winnipeg, Manitoba R3T 0M8
(204) 474 - 2323
www.pollardbanknote.com

ANNUAL REPORT

2015

POLLARD **banknote** limited

March 31, 2016

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

FOR THE THREE MONTHS ENDED MARCH 31, 2016

May 11, 2016

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three months ended March 31, 2016, is prepared as at May 11, 2016, 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, 2016 and the audited consolidated financial statements of Pollard for the year ended December 31, 2015 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 certain non-recurring items including start-up 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, 2016. 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, SureTrack® lottery management system, retail telephone selling ("tel-sell"), marketing, iLottery, interactive gaming, Social Instants™, retail management services 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 60 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Three months ended March 31, 2016	Three months ended March 31, 2015
Instant Tickets	88.9%	89.8%
Charitable Gaming Products	11.1%	10.2%

Geographic breakdown of revenue

	Three months ended March 31, 2016	Three months ended March 31, 2015
United States	56%	48%
Canada	20%	23%
International	24%	29%

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, 2016.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended March 31, 2016	Three months ended March 31, 2015
Sales	\$64.0	\$54.4
Cost of sales	52.6	44.4
Gross profit	11.4	10.0
<i>Gross profit as a % of sales</i>	<i>17.8%</i>	<i>18.4%</i>
Administration expenses	5.3	4.2
<i>Administration expenses as a % of sales</i>	<i>8.3%</i>	<i>7.7%</i>
Selling expenses	1.9	1.7
<i>Selling expenses as a % of sales</i>	<i>3.0%</i>	<i>3.1%</i>
Net income	3.6	1.4
<i>Net income as a % of sales</i>	<i>5.6%</i>	<i>2.6%</i>
Adjusted EBITDA	6.8	6.7
<i>Adjusted EBITDA as a % of sales</i>	<i>10.6%</i>	<i>12.3%</i>
Net income per share (basic and diluted)	\$0.15	\$0.06
	March 31, 2016	December 31, 2015
Total Assets	\$170.3	\$164.1
Total Non-Current Liabilities	\$95.4	\$96.3

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

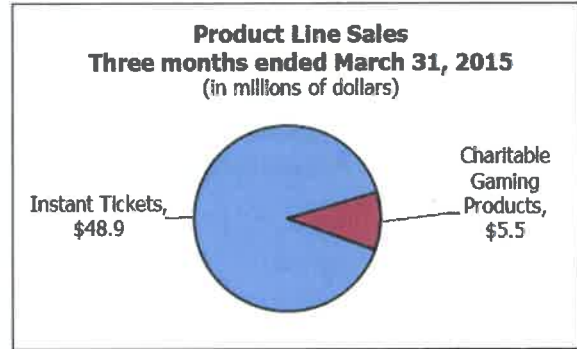
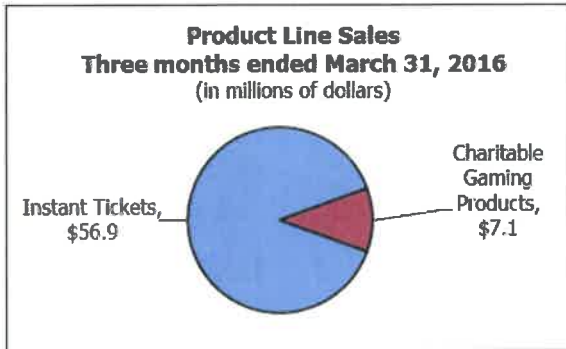
	Three months ended March 31, 2016	Three months ended March 31, 2015
Net income	\$3.6	\$1.4
Adjustments:		
Amortization and depreciation	2.8	2.0
Interest	0.9	0.6
Mark-to-market gain on foreign currency contracts	-	(0.1)
Unrealized foreign exchange (gain) loss	(1.1)	1.8
Income taxes	0.6	1.0
Adjusted EBITDA	\$6.8	\$6.7

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.

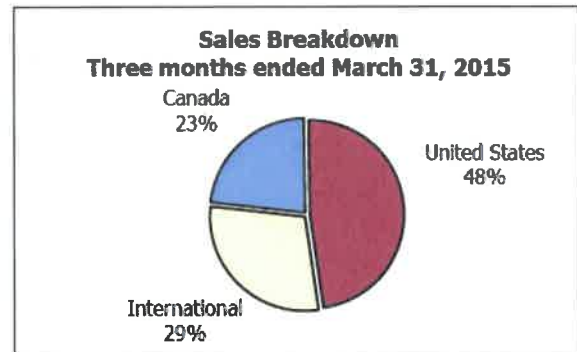
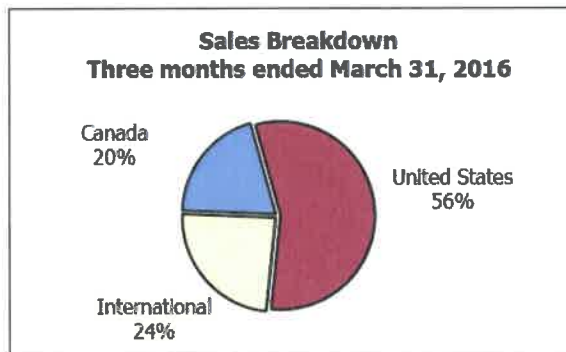
ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2016

Sales



During the three months ended March 31, 2016, Pollard achieved sales of \$64.0 million, compared to \$54.4 million in the three months ended March 31, 2015. A number of factors resulted in the \$9.6 million sales increase.

Sales of ancillary instant ticket products and services for the first quarter of 2016 were higher than the first quarter of 2015 by \$3.2 million due primarily to increased sales from iLottery and lottery management systems. Instant ticket volumes for the first quarter of 2016 were lower than the first quarter of 2015 by 2.5% which decreased sales by \$1.2 million. Sales volumes in the first quarter of 2015 were unusually high due to a large amount of goods in transit to international customers at December 31, 2014, which were recognized in sales in the first quarter 2015. Excluding these goods in transit, first quarter 2016 instant ticket sales volumes would have been higher by approximately 9%. In addition, an increase in average selling price compared to 2015 further increased sales by \$1.1 million. Charitable gaming volumes were higher in the quarter by \$0.7 million.



During the three months ended March 31, 2016, Pollard generated approximately 70.7% (2015 – 67.9%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first quarter of 2016 the actual U.S. dollar value was converted to Canadian dollars at \$1.383, compared to a rate of \$1.214 during the first quarter of 2015. This 13.9% increase in the U.S. dollar value resulted in an approximate increase of \$5.5 million in revenue relative to the first quarter of 2015.

Also during the quarter the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of \$0.3 million in revenue relative to the first quarter of 2015.

Cost of sales and gross profit

Cost of sales was \$52.6 million in the first quarter of 2016 compared to \$44.4 million in the first quarter of 2015. Higher exchange rates on U.S. dollar transactions in the first quarter of 2016 increased cost of sales approximately \$4.4 million when compared to the first quarter of 2015. In addition, higher production costs due to the startup of the new press line and higher sales of charitable games and iLottery increased cost of goods sold in the first quarter of 2016.

Gross profit earned in the first quarter of 2016 was \$11.4 million (17.8% of sales) as compared to \$10.0 million (18.4% of sales) earned in the first quarter of 2015. This increase in gross profit dollars was due to the impact of the weakening Canadian dollar and the higher sales of ancillary instant ticket sales products including higher iLottery sales. The decrease in gross profit percentage was due to the instant ticket sales mix weighted to lower margin products and the impact of additional production costs related to the ramp up of the new press.

Administration expenses

Administration expenses increased to \$5.3 million in the first quarter of 2016 from \$4.2 million in the first quarter of 2015 primarily as a result of higher professional fees, increased compensation expenses, which primarily related to expansion of lottery management systems and ancillary lottery product sales, and the increased Canadian dollar equivalent of U.S. dollar denominated expenses. Sequentially, administration expenses were lower than the fourth quarter of 2015 administration expenses of \$5.7 million.

Selling expenses

Selling expenses increased to \$1.9 million in the first quarter of 2016 from \$1.7 million in the first quarter of 2015 primarily as a result of the increased cost of U.S. dollar denominated expenses due to the strengthening against the Canadian dollar and were similar to the fourth quarter of 2015 selling expenses of \$2.0 million.

Interest expense

Interest expense increased to \$0.9 million in the first quarter of 2016 from \$0.6 million in the first quarter of 2015 primarily as a result of no longer capitalizing borrowing costs related to the new press project.

Foreign exchange

The net foreign exchange gain was \$1.0 million in the first quarter of 2016 compared to a loss of \$1.2 million in the first quarter of 2015. Within the 2016 net foreign exchange gain was an unrealized foreign exchange gain of \$1.1 million predominately as a result of unrealized gain on U.S. dollar denominated debt (caused by the strengthening of the value of the Canadian dollar versus the U.S. dollar during the first quarter of 2016) in addition to an unrealized gain on other U.S. dollar denominated accounts payable. Partially offsetting the unrealized gain was a realized loss of \$0.1 million, predominately as a result of the decreased value of U.S. denominated receivables at collection.

Within the 2015 net foreign exchange loss was an unrealized foreign exchange loss of \$1.8 million predominately a result of 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 on other U.S. dollar denominated accounts payable. Partially offsetting the unrealized loss was a realized gain of \$0.6 million primarily relating to the increased value of U.S. dollar denominated accounts receivable at collection.

Adjusted EBITDA

Adjusted EBITDA was \$6.8 million in the first quarter of 2016 compared to \$6.7 million in the first quarter of 2015. The primary reasons for the increase in Adjusted EBITDA were the increase in gross profit (net of amortization and depreciation) of \$2.2 million, partially offset by higher administration expenses of \$1.1 million, higher selling expenses of \$0.2 million and a decrease in realized foreign exchange gain of \$0.7 million.

Income taxes

Income tax expense was \$0.6 million in the first quarter of 2016, an effective rate of 15.4%, lower than our expected effective rate of 26.8% 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 strengthening of the Canadian dollar versus the U.S. dollar results in a future loss on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax recovery with no related income (as the loss is eliminated on consolidation). This decreased the effective tax rate by approximately 28 percentage points. Other differences relating to changes in the expected income tax rate, including permanent difference relating to the foreign exchange translation of property, plant and equipment, increased the effective tax rate by approximately 14 percentage points on a net basis.

Income tax expense was \$1.0 million in the first quarter of 2015, an effective rate of 41.4%, higher than our expected effective rate of 26.7% 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 effective tax rate by approximately 34 percentage points. Other differences relating to changes in the expected income tax rate, including permanent difference relating to the foreign exchange translation of property, plant and equipment, decreased the effective tax rate by approximately 19 percentage points on a net basis.

Amortization and depreciation

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled \$2.7 million during the first quarter of 2016 which increased from \$2.0 million during the first quarter of 2015 primarily as a result of increased depreciation of property, plant and equipment due to the commissioning of the new press.

Net income

Net income increased to \$3.6 million in the first quarter of 2016 from \$1.4 million in the first quarter of 2015. The primary reasons were the \$1.4 million increase in gross profit, the \$2.2 million increase in

foreign exchange gains and the decrease in income tax expense of \$0.4 million. These increases were partially offset by the increase in higher administration expenses of \$1.1 million, higher selling expenses of \$0.2 million and increased interest expense of \$0.3 million.

Net income per share (basic and diluted) increased to \$0.15 per share in the first quarter of 2016 from \$0.06 per share in the first quarter of 2015.

Liquidity and Capital Resources

Cash provided by operating activities

For the three months ended March 31, 2016, cash flow provided by operating activities was \$0.3 million compared to \$6.1 million provided in 2015. Slightly higher net income before income taxes after non-cash adjustments in the first quarter of 2016 contributed to the cash provided by operating activities compared to 2015. For the three months ended March 31, 2016, changes in the non-cash component of working capital decreased cash flow from operations by \$5.1 million. The decrease was due primarily to an increase in accounts receivable, which was partially offset by an increase in accounts payable and accrued liabilities. For the three months ended March 31, 2015, changes in the non-cash component of working capital increased cash flow from operations by \$2.2 million. The increase was due primarily to decreases in accounts receivable and inventory, partially offset by an increase in prepaid expenses and a decrease in accounts payable and accrued liabilities.

Cash used for interest increased to \$0.9 million in 2016 as compared to \$0.6 million in 2015 and cash used for pension plan contributions increased to \$0.8 million in 2016 as compared to \$0.6 million in 2015. Cash used for income tax payments decreased to \$1.0 million in 2016 from \$2.6 million in 2015. Taxable income in Canada increased in 2014 due to improved operating results. Pollard was not required to make installments during 2014, therefore the income taxes due for 2014 were payable at the end of February 2015.

Cash used for investing activities

In the three months ended March 31, 2016, cash used for investing activities was \$1.8 million compared to \$5.4 million used in the first quarter of 2015. In the three months ending March 31, 2016, capital expenditures were \$1.1 million. In addition, Pollard expended \$0.4 million on its investment in its iLottery joint venture and \$0.3 million on additions to intangible assets. These intangible additions primarily related to implementation costs, including capitalized internal costs, for ERP software.

In the three months ending March 31, 2015, capital expenditures were \$5.2 million, including \$4.7 million in payments relating to the new printing press project. In addition, Pollard also expended \$0.2 million on additions to intangible assets, primarily related to implementation costs, including capitalized internal costs, for ERP software.

Cash provided by financing activities

Cash provided by financing activities was \$0.3 million in the three months ended March 31, 2016, compared to \$0.3 million used in the three months ended March 31, 2015.

During the first quarter of 2016 proceeds from long-term debt of \$1.2 million were partially offset by dividends paid of \$0.7 million.

During the first quarter of 2015 proceeds from long-term debt of \$0.6 million were offset by \$0.1 million of financing costs and dividends paid of \$0.7 million.

As at March 31, 2016, Pollard had unused committed debt facility of \$13.8 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 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Sales	\$64.0	\$57.2	\$57.9	\$51.5	\$54.4	\$43.2	53.5	47.1	\$50.7
Adjusted EBITDA	6.8	6.3	7.5	6.3	6.7	5.6	7.3	6.4	6.3
Net Income	3.6	1.2	1.9	3.0	1.4	2.2	1.7	3.7	1.1

Q1 2016 sales were higher due to the weakening of the Canadian dollar relative to the U.S. dollar and higher sales of ancillary lottery products. Net income was higher due to higher foreign exchange gain.

Productive Capacity

Management has defined the current productive capacity, factoring in the new press becoming fully operational, as the level of operations necessary to maintain a minimum Adjusted EBITDA of \$30.0 to \$35.0 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 significant impact on our Adjusted EBITDA capacity will be the timing of the ramp up of our new press and how quickly increased volumes will be attained through the relatively long sales cycle of the lottery industry. 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. 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.

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, 2016, Pollard's investment in non-cash working capital increased \$5.1 million compared to December 31, 2015, primarily as a result of increased investment in accounts receivable as a result of increased sales in the first quarter of 2016, partially offset by increase in accounts payable and accrued liabilities.

	March 31, 2016	December 31, 2015
Working Capital	\$41.2	\$39.1
Total Assets	\$170.3	\$164.1
Total Non-Current Liabilities	\$95.4	\$96.3

Credit Facility

Pollard's credit facility was renewed effective June 30, 2015. The credit facility provides loans of up to \$71.8 million for its Canadian operations (denominated in Canadian and U.S. dollars), \$3.6 million for a term facility and up to US\$12.0 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, 2016, the outstanding letters of guarantee were \$1.2 million. The remaining balance available for drawdown under the credit facility was \$13.8 million.

As at March 31, 2016, \$3.6 million of the term facility remained outstanding. Repayment of the term facility commenced on June 30, 2015, in the form of quarterly principal repayments of \$0.3 million plus interest. Repayments permanently reduce the term facility commitment available.

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, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at March 31, 2016, Pollard is in compliance with all covenants.

Pollard's credit facility, including the term facility, is secured by a first security interest in all of the present and after acquired property of Pollard's operating subsidiaries. The facility can be prepaid without penalties. Under the terms of the agreement the facility was committed for a period, renewable June 30, 2016 ("Facility Expiry Date"). If the facility is not renewed, the loans are repayable one year after the Facility Expiry Date, except for the scheduled principal repayments on the term facility. As such, the credit facility has effectively a two year term expiring June 30, 2017.

Pollard believes that its credit facility, including the term 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 existing business levels.

Subordinated Loan

On April 2, 2014, Pollard's former subsidiary, Pollard Holdings Limited Partnership, entered into a loan agreement with Pollard Equities Limited ("Equities") for a subordinated term loan facility with a seven year term in the amount of \$6.8 million. Equities owns approximately 73.5% of Pollard's outstanding shares. Effective January 1 2015, Pollard Banknote Limited assumed the subordinated debt on completion of the amalgamation of the Canadian entities. 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, completed on April 4, 2014, or the date of repayment in full of the additional term facility. Based on the current repayment schedule, the term facility will be repaid in full in March 2019, at which time principal payments on the subordinated debt will commence. Interest on the subordinated term loan facility commences with the first draw at a rate of 9%. The loan is fully subordinated to the secured credit facilities.

Outstanding Share Data

As at March 31, 2016 and May 11, 2016, outstanding share data was as follows:

Common shares	23,543,158
---------------	------------

Share Options

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares.

On March 5, 2014, the Board of Directors approved the award of 100,000 options to purchase common shares of Pollard for certain key management personnel. The options were granted on March 10, 2014, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on March 7, 2014.

Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2015, that are outside the normal course of business.

Off-Balance Sheet Arrangements

There have been no material changes to Pollard's off-balance sheet arrangements since December 31, 2015, 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, 2015.

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 test. 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, 2016, 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, 2015.

Outlook

Consumer demand for lottery products continues to be very strong, with lotteries in many jurisdictions achieving record revenue and distributions of proceeds to their good causes. In particular instant tickets, with their variety of games, unique play formats and multiple price points among other features, are a key driver of the lotteries' higher sales. We anticipate this positive trend to carry on for the foreseeable future. This presents opportunities to utilize our increasing capacity through organic growth of existing clients and winning new contracts. However, the opportunity to win new contracts is impacted by the long sales cycle in the lottery world.

Our existing contract portfolio is strong and generates a level of volume consistent with our levels from the last number of quarters. Within this business level, the timing of orders can vary from quarter to quarter as evidenced from the higher volumes experienced in the first quarter of 2016.

An important part of our business is our ancillary product lines including sales of our SureTrack® lottery management systems and our licensed games. We will continue to develop and explore opportunities to expand our sales in these areas, however, by their nature sales of these items tends to be a bit uneven.

The U.S. lottery industry continues to cautiously study the opportunities in the developing iLottery area. Our Michigan iLottery operation is performing very well on all fronts and we will be bringing on our second contract for the Virginia Lottery later in 2016. New developments in the lottery sector like iLottery can be relatively slow to evolve and our focus is to be well positioned when opportunities become available.

The ramp up of our new press in our Ypsilanti facility is ongoing and we are making progress in bringing the press to its expected productivity standards. The learning curve on such a large and complex platform is significant and this has been partially reflected in our margins in the first quarter of 2016. Over the remainder of 2016 we will continue to refine our processes and gain experience to move toward maximizing our efficiency and productivity on the press, and ultimately improving our gross margin.

The overall weaker Canadian dollar benefits our operating results due to our net exposure to U.S. dollar denominated cash flow. Recently the Canadian dollar has shown some relative strength compared to the trends experienced in 2015. Continuation of the strengthening trend would have a negative impact on our cash flow.

Lower budgeted capital expenditures will result in higher levels of free cash flow during 2016, subject to changes in investment in working capital. Increasing investments in accounts receivable due to higher sales volumes during the first quarter should reverse in the near future, resulting in stronger free cash flow to redeploy in the business, including the reduction of bank debt.

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

Under National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Certifying Officers regarding the design of the internal controls over financial reporting. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) as the control framework in designing its internal controls over financial reporting. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the internal controls over financial reporting as defined in National Instrument 52-109 will provide reasonable assurance of achieving the financial reporting objectives.

No changes were made in Pollard's internal control over financial reporting during the three months ended March 31, 2016, 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, 2015, is available on SEDAR at www.sedar.com.

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

POLLARD **banknote limited**

June 30, 2016

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

August 10, 2016

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and six months ended June 30, 2016, is prepared as at August 10, 2016, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at June 30, 2016, and the audited consolidated financial statements of Pollard for the year ended December 31, 2015, 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 certain non-recurring items including start-up costs. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to net income, Adjusted EBITDA is a useful supplementary measure.

Adjusted EBITDA is a measure not recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, this measure may not be comparable to similar measures presented by other entities. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to net income determined in accordance with GAAP as an indicator of Pollard's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

Basis of Presentation

The results of operations in the following discussions encompass the unaudited consolidated results of Pollard for the three and six months ended June 30, 2016. 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, SureTrack® lottery management system, retail telephone selling ("tel-sell"), marketing, iLottery, interactive gaming, Social Instants™, retail management services 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 60 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Instant Tickets	87.6%	88.4%	88.3%	89.1%
Charitable Gaming Products	12.4%	11.6%	11.7%	10.9%

Geographic breakdown of revenue

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
United States	58%	58%	57%	53%
Canada	17%	20%	19%	21%
International	25%	22%	24%	26%

The following financial information should be read in conjunction with the accompanying unaudited consolidated financial statements of Pollard and the notes therein as at and for the three and six months ended June 30, 2016.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Sales	\$54.0	\$51.4	\$118.0	\$105.9
Cost of sales	43.1	40.7	95.7	85.1
Gross profit	10.9	10.7	22.3	20.8
<i>Gross profit as a % of sales</i>	<i>20.2%</i>	<i>20.8%</i>	<i>18.9%</i>	<i>19.6%</i>
Administration expenses	5.1	4.3	10.4	8.5
<i>Administration expenses as a % of sales</i>	<i>9.4%</i>	<i>8.4%</i>	<i>8.8%</i>	<i>8.0%</i>
Selling expenses	1.8	1.6	3.7	3.4
<i>Selling expenses as a % of sales</i>	<i>3.3%</i>	<i>3.1%</i>	<i>3.1%</i>	<i>3.2%</i>
Net income	2.0	3.0	5.6	4.4
<i>Net income as a % of sales</i>	<i>3.7%</i>	<i>5.8%</i>	<i>4.7%</i>	<i>4.2%</i>
Adjusted EBITDA	6.0	6.3	12.8	13.0
<i>Adjusted EBITDA as a % of sales</i>	<i>11.1%</i>	<i>12.3%</i>	<i>10.8%</i>	<i>12.3%</i>
Adjusted EBITDA excluding realized foreign exchange (loss) gain	7.2	6.8	14.1	13.0
<i>As a % of sales</i>	<i>13.3%</i>	<i>13.2%</i>	<i>11.9%</i>	<i>12.3%</i>
Net income per share (basic and diluted)	\$0.09	\$0.13	\$0.24	\$0.18
	June 30, 2016	December 31, 2015		
Total Assets	\$170.1	\$164.1		
Total Non-Current Liabilities	\$95.3	\$96.3		

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

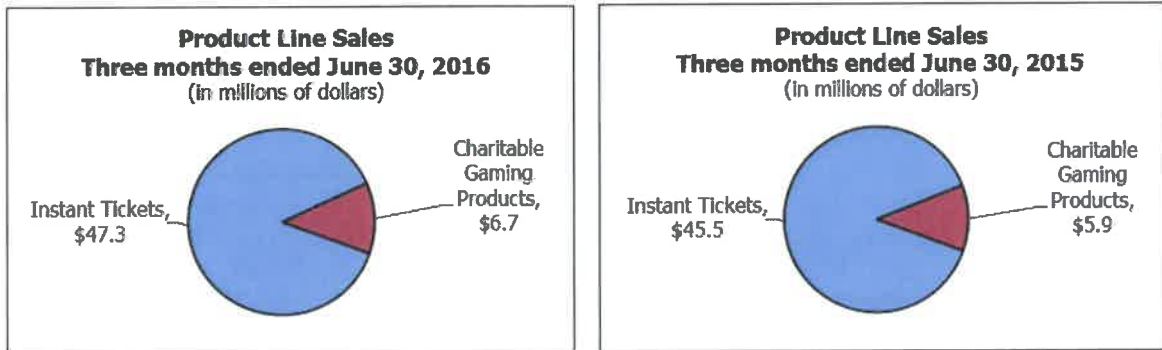
	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net income	\$2.0	\$3.0	\$5.6	\$4.4
Adjustments:				
Amortization and depreciation	2.9	2.0	5.6	4.0
Interest	0.8	0.6	1.7	1.3
Mark-to-market gain on foreign currency contracts	-	(0.4)	-	(0.5)
Unrealized foreign exchange (gain) loss	(0.9)	(0.5)	(2.0)	1.2
Income taxes	1.2	1.6	1.9	2.6
Adjusted EBITDA	\$6.0	\$6.3	\$12.8	\$13.0
Realized foreign exchange loss	(1.2)	(0.5)	(1.3)	-
Adjusted EBITDA excluding realized foreign exchange loss	\$7.2	\$6.8	\$14.1	\$13.0

REVIEW OF OPERATIONS

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

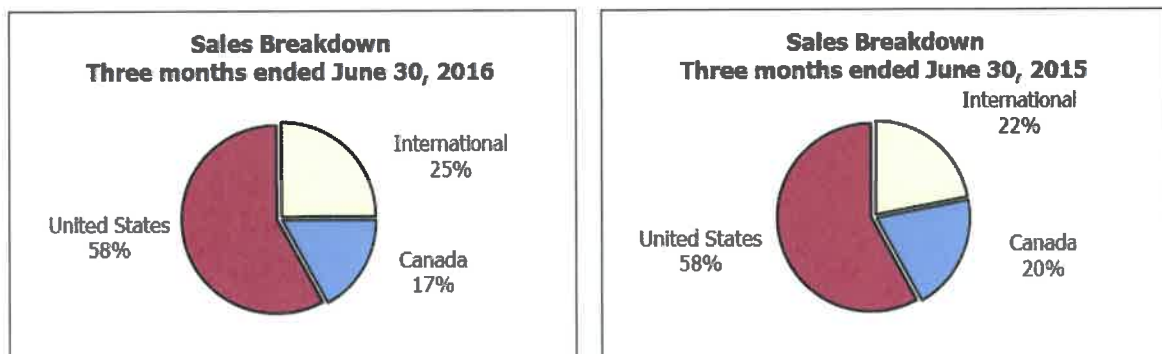
ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2016

Sales



During the three months ended June 30, 2016, Pollard achieved sales of \$54.0 million, compared to \$51.4 million in the three months ended June 30, 2015. Factors impacting the \$2.6 million sales increase were:

Instant ticket average selling price increased in the second quarter of 2016 compared to the prior year which increased sales by \$3.4 million. Sales of ancillary instant ticket products and services increased in 2016, increasing sales by \$0.8 million due primarily to increased sales from iLottery. An increase in the charitable gaming average selling price increased sales by \$0.4 million when compared to the second quarter of 2015. Partially offsetting these increases, instant ticket sales volumes in the quarter decreased when compared to the second quarter of 2015 decreasing sales by \$3.8 million due to a significant increase in volume of international customers' tickets produced in the second quarter in transit as at June 30, 2016.



During the three months ended June 30, 2016, Pollard generated approximately 69.0% (2015 – 68.5%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the second quarter of 2016 the actual U.S. dollar value was converted to Canadian dollars at \$1.288, compared to a rate of \$1.238 during the second quarter of 2015. This 4.1% increase in the U.S. dollar value resulted in an approximate increase of \$1.5 million in revenue relative to the second quarter of 2015. Also during the quarter, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of \$0.3 million in revenue relative to the second quarter of 2015.

Cost of sales and gross profit

Cost of sales was \$43.1 million in the second quarter of 2016 compared to \$40.7 million in the second quarter of 2015. Cost of sales were higher in the quarter relative to 2015 as a result of higher amortization, increased ancillary instant ticket products and services sales and higher exchange rates on U.S. dollar transactions.

Gross profit was \$10.9 million (20.2% of sales) in the second quarter of 2016 compared to \$10.7 million (20.8% of sales) in the second quarter of 2015. This increase in gross profit was primarily the result of the increase in ancillary instant ticket products and services sales and higher exchange rates on U.S. dollar transactions. The lower gross profit percentage was due to the instant ticket sales mix weighted to lower margin products and the impact of additional production costs related to the ramp up of the new press. Sequentially the second quarter gross profit percentage (20.2% of sales) was higher than the first quarter of 2016 gross margin percentage (17.8% of sales) due partially to improved manufacturing efficiencies.

Administration expenses

Administration expenses increased to \$5.1 million in the second quarter of 2016 from \$4.3 million in the second quarter of 2015 primarily as a result of higher professional fees, increased compensation expenses (which primarily related to expansion of lottery management systems and ancillary lottery product sales) and the increased Canadian dollar equivalent of U.S. dollar denominated expenses. Sequentially administration expenses have declined from \$5.3 million in the first quarter of 2016 and \$5.7 million in the fourth quarter of 2015 primarily due to lower professional fees. Pollard anticipates lower professional fees for the remainder of 2016.

Selling expenses

Selling expenses of \$1.8 million in the second quarter of 2016 were similar to \$1.6 million in the second quarter of 2015.

Interest expense

Interest expense increased to \$0.8 million in the second quarter of 2016 from \$0.6 million in the second quarter of 2015 primarily as a result of no longer capitalizing borrowing costs related to the new press project.

Foreign exchange loss

The net foreign exchange loss was \$0.3 million in the second quarter of 2016 compared to a net loss of nil in the second quarter of 2015. The 2016 net foreign exchange loss was due to the strengthening of

the Canadian dollar. Partially offsetting the realized foreign exchange loss of \$1.2 million, relating to the decreased value on the collections of U.S. dollar denominated receivables, was the reversal of \$0.9 million unrealized loss recognized in prior quarters.

Within the 2015 net foreign exchange loss was an unrealized foreign exchange gain of \$0.5 million, predominately a result of unrealized gain on U.S. dollar denominated debt (caused by the strengthening of the value of the Canadian dollar versus the U.S. dollar) in addition to an unrealized gain on other U.S. dollar denominated accounts payable. Offsetting the unrealized gain was a realized foreign exchange loss of \$0.5 million relating to the decreased value on the collections of U.S. dollar denominated receivables and a realized loss on the conversion of U.S. dollars and Euros into Canadian dollars.

Adjusted EBITDA

Adjusted EBITDA was \$6.0 million in the second quarter of 2016 compared to \$6.3 million in the second quarter of 2015. The primary reason for the decrease in Adjusted EBITDA of \$0.3 million was the increase in administration expenses of \$0.8 million and realized foreign exchange loss of \$0.7 million. These decreases were partially offset by the increase in gross profit (net of amortization and depreciation) of \$1.1 million.

Adjusted EBITDA excluding realized foreign exchange (loss) gain was \$7.2 million in the second quarter of 2016 compared to \$6.8 million in the second quarter of 2015.

Income taxes

Income tax expense was \$1.2 million in the second quarter of 2016, an effective rate of 36.9%, which was higher than our expected effective rate of 27.0% due primarily to differences relating to the foreign exchange impact relating to permanent differences on the foreign exchange translation of property, plant and equipment and other net liabilities.

Income tax expense was \$1.6 million in the second quarter of 2015, an effective rate of 35.7%, which was higher than our expected effective rate of 26.7% 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 overall 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 loss is eliminated on consolidation).

Amortization and depreciation

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled \$2.9 million during the second quarter of 2016 which increased from \$2.0 million during the second quarter of 2015 primarily as a result of increased depreciation of property, plant and equipment due to the commissioning of the new press.

Net income

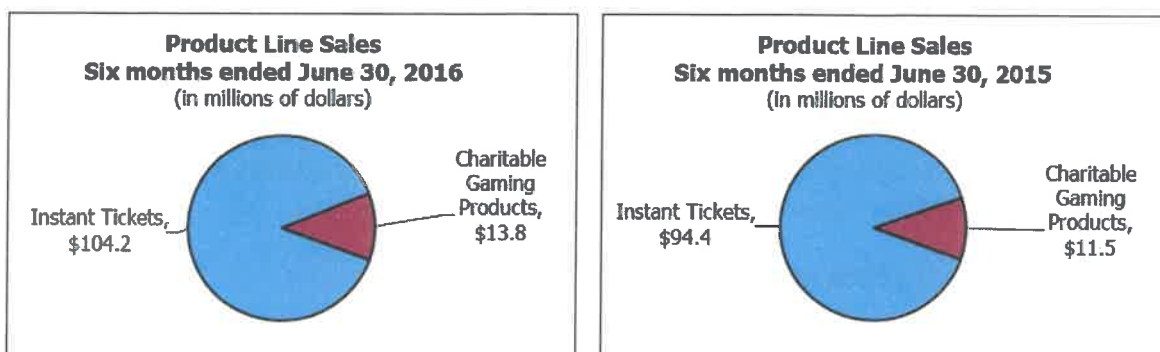
Net income decreased to \$2.0 million in the second quarter of 2016 from \$3.0 million in the second quarter of 2015. The primary reasons for the decrease of \$1.0 million in net income were the increase in administration expenses of \$0.8 million, the reduction in the gain on the non-cash mark-to-market adjustment on foreign currency contracts of \$0.4 million and the increase in foreign exchange loss of

\$0.3 million. These decreases were partially offset by the \$0.3 million increase in other income and the reduction in income tax expense of \$0.4 million.

Net income per share (basic and diluted) decreased to \$0.09 per share in the second quarter of 2016 from \$0.13 per share in the second quarter of 2015.

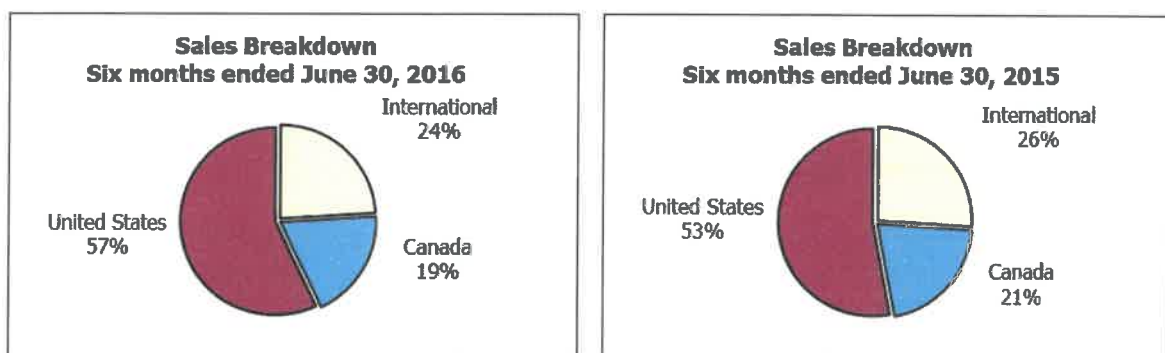
ANALYSIS OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2016

Sales



During the six months ended June 30, 2016, Pollard achieved sales of \$118.0 million, compared to \$105.9 million in the six months ended June 30, 2015. Factors impacting the \$12.1 million sales increase were:

Higher instant ticket average selling price increased sales by \$4.3 million in the first six months of 2016 compared to the first six months of 2015. Higher sales of our ancillary instant ticket products and services increased sales by \$3.9 million from the first half of 2015. Charitable gaming products volumes were higher in the first six months of 2016 which increased sales by \$0.7 million. An increase in the charitable gaming average selling price increased sales by \$0.4 million when compared to the first half of 2015. Partially offsetting these increases, lower instant ticket sales volumes decreased sales by \$4.8 million when compared to 2015 due to a significant increase in volume of international customers' tickets produced in the second quarter in transit as at June 30, 2016.



During the six months ended June 30, 2016, Pollard generated approximately 70.0% (2015 – 68.2%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first six months of 2016 the actual U.S. dollar value was converted to Canadian dollars at \$1.339, compared to a rate of \$1.226 during the first six months of 2015. This 9.2% increase in the U.S. dollar

value resulted in an approximate increase of \$7.0 million in revenue relative to the six months ended June 30, 2015. Also during the first half of 2016, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of \$0.6 million in revenue relative to the first half of 2015.

Cost of sales and gross profit

Cost of sales was \$95.7 million in the six months ended June 30, 2016, compared to \$85.1 million in the six months ended June 30, 2015. Cost of sales was higher in the first half of 2016 relative to 2015 as a result of higher amortization, increased ancillary instant ticket products and services sales and higher exchange rates on U.S. dollar transactions.

Gross profit increased to \$22.3 million (18.9% of sales) in the six months ended June 30, 2016, from \$20.8 million (19.6% of sales) in the six months ended June 30, 2015. This increase in gross profit was primarily the result of the increase in ancillary instant ticket products and services sales and higher exchange rates on U.S. dollar transactions. The lower gross profit percentage was due to the instant ticket sales mix weighted to lower margin products and the impact of additional production costs related to the ramp up of the new press.

Administration expenses

Administration expenses increased to \$10.4 million in the first six months of 2016 from \$8.5 million in the first six months of 2015 due primarily to higher professional fees, increased compensation expenses (which primarily related to expansion of lottery management systems and ancillary lottery product sales) and the increased Canadian dollar equivalent of U.S. dollar denominated expenses. Sequentially administration expenses have declined from \$10.7 million in the final six months of 2015 primarily due to lower professional fees. Pollard anticipates lower professional fees for the remainder of 2016.

Selling expenses

Selling expenses increased to \$3.7 million in the first six months of 2016 from \$3.4 million in the first six months of 2015 due primarily to the increased Canadian dollar equivalent of U.S. dollar denominated expenses and higher compensation expense in our charitable gaming division to support increased sales.

Interest expense

Interest expense increased to \$1.7 million in the first six months of 2016 from \$1.3 million in the first six months of 2015 primarily as a result of no longer capitalizing borrowing costs related to the new press project.

Foreign exchange (gain) loss

The net foreign exchange gain was \$0.7 million in the first six months of 2016 compared to a net loss of \$1.2 million in the first half of 2015. The 2016 foreign exchange gain resulted from unrealized foreign exchange gain of \$2.0 million, comprised predominately of an unrealized gain on U.S. dollar denominated debt (caused by the strengthening of the value of the Canadian dollar versus the U.S. dollar) in addition to an unrealized gain on other U.S. dollar denominated accounts payable. The unrealized gain was partially offset by a realized loss of \$1.3 million, relating to the decreased value on the collections of U.S. dollar denominated receivables.

The 2015 foreign exchange loss resulted from unrealized foreign exchange losses of \$1.2 million, comprised predominately of an 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 on other U.S. dollar denominated accounts payable.

Adjusted EBITDA

Adjusted EBITDA was \$12.8 million in the first six months of 2016 compared to \$13.0 million in the first six months of 2015. The primary reason for the decrease in Adjusted EBITDA of \$0.2 million was the increase in administration expenses of \$1.9 million and realized foreign exchange loss of \$1.3 million. These decreases were offset by the increase in gross profit (net of amortization and depreciation) of \$3.1 million.

Adjusted EBITDA excluding realized foreign exchange (loss) gain was \$14.1 million in the first six months of 2016 compared to \$13.0 million in the first six months of 2015.

Income taxes

Income tax expense was \$1.9 million in the first six months of 2016, an effective rate of 24.7%, which was lower than our expected effective rate of 27.0% 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 strengthening of the Canadian dollar versus the U.S. dollar results in a future loss on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax recovery with no related income (as the loss is eliminated on consolidation). This decreased the effective tax rate by about 13 percentage points. Other differences relating to permanent differences on the foreign exchange translation of property, plant and equipment, and other net liabilities increased the effective tax rate by approximately 10 percentage points on a net basis.

Income tax expense was \$2.6 million in the first six months of 2015, an effective rate of 37.7%, which was higher than our expected effective rate of 26.7% 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 effective tax rate by about 16 percentage points. Other differences relating to permanent differences on the foreign exchange translation of property, plant and equipment, and other net liabilities decreased the effective tax rate by approximately 4 percentage points on a net basis.

Amortization and depreciation

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled \$5.6 million during the first six months of 2016 which increased from \$4.0 million during the first six months of 2015 primarily as a result of increased depreciation of property, plant and equipment due to the commissioning of the new press.

Net income

Net income increased to \$5.6 million in the first six months of 2016 from \$4.4 million in the first six months of 2015. The primary reasons for the increase were the \$1.5 million increase in gross profit, the \$1.9 million increase in foreign exchange gains and the decrease in income tax expense of \$0.7 million.

These increases were partially offset by higher administration expenses of \$1.9 million, higher selling expenses of \$0.3 million and increased interest expense of \$0.4 million, as well as the reduction in the gain on the non-cash mark-to-market adjustment on foreign currency contracts of \$0.5 million.

Net income per share (basic and diluted) increased to \$0.24 per share in the six months ending June 30, 2016, as compared to \$0.18 per share in the six months ending June 30, 2015.

Liquidity and Capital Resources

Cash provided by operating activities

For the six months ended June 30, 2016, cash flow provided by operating activities was \$4.6 million compared to cash flow provided by operating activities of \$10.5 million for the first six months of 2015. For the six months ended June 30, 2016, changes in the non-cash component of working capital decreased cash by \$5.5 million. The decrease was due primarily to the increased investment in accounts receivables and inventories, partially offset by increased accounts payable and accrued liabilities. For the six months ended June 30, 2015, changes in the non-cash component of working capital increased cash by \$0.9 million. The increase was due primarily to the decrease in inventories, partially offset by increased accounts receivables and prepaids.

Cash used for interest increased to \$1.6 million in 2016 as compared to \$1.4 million in 2015. Cash used for pension plan contributions increased to \$1.5 million in 2016 as compared to \$1.1 million in 2015. Cash used for income tax payments decreased to \$1.3 million in 2016 from \$2.8 million in 2015. Taxable income in Canada increased in 2014 due to improved operating results. Pollard was not required to make installments during 2014, therefore the income taxes due for 2014 were payable at the end of February 2015.

Cash used for investing activities

In the six months ended June 30, 2016, cash used for investing activities was \$3.0 million compared to cash used of \$9.4 million in the first half of 2015. In the six months ended June 30, 2016, capital expenditures were \$2.3 million. In addition, Pollard expended \$0.6 million on its investment in its iLottery joint venture and \$0.5 million on additions to intangible assets. These intangible additions primarily related to implementation costs, including capitalized internal costs, for ERP software. Proceeds from the sale of Pollard's investment in associate provided cash of \$0.5 million.

In the six months ended June 30, 2015, capital expenditures were \$9.1 million, including \$7.9 million in payments relating to the new printing press. As well Pollard expended \$0.3 million on additions to intangible assets, primarily related to implementation costs, including capitalized internal costs, for ERP software.

Cash used for financing activities

Cash used for financing activities was \$0.1 million in the six months ended June 30, 2016, compared to cash provided by financing activities of \$0.2 million in the six months ended June 30, 2015.

During the first half of 2016 cash proceeds from long-term debt of \$1.6 million were offset by \$0.1 million of financing costs and dividends paid of \$1.4 million.

During the first half of 2015 cash proceeds from long-term debt of \$1.9 million were offset by \$0.3 million of financing costs and dividends paid of \$1.4 million.

As at June 30, 2016, Pollard had unused credit facility of \$15.6 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)

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Sales	\$54.0	\$64.0	\$57.2	\$57.9	\$51.5	\$54.4	\$43.2	\$53.5	\$47.1
Adjusted EBITDA	6.0	6.8	6.3	7.5	6.3	6.7	5.6	7.3	6.4
Net Income	2.0	3.6	1.2	1.9	3.0	1.4	2.2	1.7	3.7

Q2 2016 sales were lower due to reduced instant ticket volumes due to a significant increase in volume of international customers' tickets produced in the second quarter in transit as at June 30, 2016.

Productive Capacity

Management has defined the current productive capacity, factoring in the new press becoming fully operational, as the level of operations necessary to maintain a minimum Adjusted EBITDA of \$30.0 to \$35.0 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 significant impact on our Adjusted EBITDA capacity will be the timing of the ramp up of our new press and how quickly increased volumes will be attained through the relatively long sales cycle of the lottery industry. 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. 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.

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 June 30, 2016, Pollard's investment in non-cash working capital increased \$5.5 million compared to December 31, 2015 primarily as a result of increased investment in accounts receivables and inventory partially offset by an increase in accounts payable and accrued liabilities.

	June 30, 2016	December 31, 2015
Working Capital	\$43.4	\$39.1
Total Assets	\$170.1	\$164.1
Total Non-Current Liabilities	\$95.3	\$96.3

Credit Facility

Pollard's credit facility was renewed effective June 24, 2016. As part of the renewal, the outstanding balance of the term facility was repaid. The credit facility provides loans of up to \$75.0 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 \$75,000 Canadian equivalent. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At June 30, 2016, the outstanding letters of guarantee were \$1.2 million. The remaining balance available for drawdown under the credit facility was \$15.6 million.

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, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at June 30, 2016, 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's operating subsidiaries. The facility can be prepaid without penalties. Under the terms of the agreement effective June 24, 2016, the facility was committed for a two year period, renewable June 24, 2018.

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 existing business levels.

Subordinated Loan

On April 2, 2014, Pollard's former subsidiary, Pollard Holdings Limited Partnership, entered into a loan agreement with Pollard Equities Limited ("Equities") for a subordinated term loan facility with a seven year term in the amount of \$6.8 million. Equities owns approximately 73.5% of Pollard's outstanding shares. Effective January 1 2015, Pollard Banknote Limited assumed the subordinated debt on completion of the amalgamation of the Canadian entities.

Quarterly principal payments on the subordinated loan facility commenced the month following the repayment in full of the additional secured term facility, which occurred June 30, 2016. Interest on the subordinated term loan facility commenced with the first draw at a rate of 9%. The loan is fully subordinated to the secured credit facility.

Outstanding Share Data

As at June 30, 2016 and August 10, 2016, outstanding share data was as follows:

Common shares	23,543,158
---------------	------------

Share Options

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The

aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares.

On March 5, 2014, the Board of Directors approved the award of 100,000 options to purchase common shares of Pollard for certain key management personnel. The options were granted on March 10, 2014, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on March 7, 2014.

Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2015, that are outside the normal course of business, other than noted below.

Off-Balance Sheet Arrangements

There have been no material changes to Pollard's off-balance sheet arrangements since December 31, 2015, 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, 2015.

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 six months ended June 30, 2016, 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, 2015.

Outlook

Lotteries continue to look to grow their revenue and maximize their net proceeds for distribution to various good causes, and this presents opportunities for suppliers like Pollard to likewise increase their role in supporting these initiatives. The lottery market continues to grow and, in particular, the instant ticket and related services product lines remains a key driver of lotteries' success and we expect this trend to continue. Greater instant ticket product variety at retail continues to generate solid growth in retail sales.

Lotteries are increasingly looking to new methods to support and strengthen this growth, including utilizing more active social media, enriched consumer engagement and better retail methodology to lay the foundation for more ticket sales. Pollard is aggressively marketing these ancillary products and services including second chance draws, free-to-play downloadable internet games, VIP clubs and enhanced retail management. These additional services expand our revenue base and, as importantly, increase the sales of the actual instant tickets.

Our Michigan iLottery operation continues to grow and is the cornerstone in our overall on-line gaming strategy. With our second iLottery contract on pace to go live later in 2016, we are actively marketing the benefits of a successful, integrated iLottery strategy to lotteries throughout North America. As noted before, the lottery industry remains cautious as it relates to on-line gaming and we do not anticipate a dramatic change in the number of iLottery opportunities in the short term.

Our manufacturing platform, and specifically our new press, continues to improve its productivity and efficiency. This progress will continue throughout 2016 and into 2017 as the complexity of the technology, depth of training required and the intricacy of the instant ticket product itself dictates a significant learning curve. We are confident this positive trend will continue and result in a very efficient manufacturing platform capable of producing higher volumes of product.

We do not anticipate any material changes to our contract portfolio throughout 2016. Historically our third and fourth quarter have generated slightly higher selling prices due to increased production of specialty products in anticipation of the yearend holiday season. These products generally carry slightly higher prices due to the greater value proposition they provide our lottery customers and we would expect that to continue this year. Actual timing of the related revenue recognition is dependent on such factors as the actual receipt of shipment.

As we saw in the second quarter, fluctuations in the relationship between the Canadian dollar and the U.S. dollar can impact the short term financial results. We continue to have a net exposure to the U.S. dollar and some exposure to the Euro, and depending on the timing of cash inflows and outflows, coupled with changes in the actual exchange rates, cash flow, EBITDA and net income can all be impacted. We continue to utilize a number of internal and natural hedges to help lessen or mitigate the variability of the fluctuations, however the effectiveness of these policies can be limited. We do not anticipate implementing any financial hedges in the near future.

Although small in absolute terms, our charitable gaming business, operating as American Games, continues to exceed expectations and should improve on last year's revenue and profits. Higher sales in pull-tabs and vending machines have led the way and, despite a relatively flat overall market, we anticipate maintaining these positive results.

Our anticipated capital expenditures for the remainder of 2016 should continue to be low and, barring any unusual investments in non-cash working capital, strong positive cash flow should be generated going forward. We are also actively looking at strategic alliances to augment and expand our expertise as it relates to our core lottery customer base. Whether through joint venture, partnerships or outright acquisitions we are very open to adding the appropriate resources to Pollard in order to remain the partner of choice for successful lotteries worldwide.

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

Under National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Certifying Officers regarding the design of the internal controls over financial reporting. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) as the control framework in designing its internal controls over financial reporting. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the internal controls over financial reporting as defined in National Instrument 52-109 will provide reasonable assurance of achieving the financial reporting objectives.

No changes were made in Pollard's internal control over financial reporting during the three and six months ended June 30, 2016, 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, 2015, is available on SEDAR at www.sedar.com.

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

POLLARD **banknote limited**

September 30, 2016

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

November 14, 2016

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and nine months ended September 30, 2016, is prepared as at November 14, 2016, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at September 30, 2016 and the audited consolidated financial statements of Pollard for the year ended December 31, 2015 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 certain non-recurring items including start-up costs. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to net income, Adjusted EBITDA is a useful supplementary measure.

Adjusted EBITDA is a measure not recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, this measure may not be comparable to similar measures presented by other entities. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to net income determined in accordance with GAAP as an indicator of Pollard's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

Basis of Presentation

The results of operations in the following discussions encompass the unaudited consolidated results of Pollard for the three and nine months ended September 30, 2016. 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, SureTrack® lottery management system, retail telephone selling ("tel-sell"), marketing, iLottery, interactive gaming, Social Instants™, retail management services 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 60 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Instant Tickets	90.0%	90.3%	88.9%	89.6%
Charitable Gaming Products	10.0%	9.7%	11.1%	10.4%

Geographic breakdown of revenue

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
United States	51%	48%	55%	53%
Canada	21%	26%	20%	21%
International	28%	26%	25%	26%

The following financial information should be read in conjunction with the accompanying unaudited consolidated financial statements of Pollard and the notes therein as at and for the three and nine months ended September 30, 2016.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Sales	\$62.7	\$57.9	\$180.7	\$163.8
Cost of sales	50.1	46.0	145.8	131.1
Gross profit	12.6	11.9	34.9	32.7
<i>Gross profit as a % of sales</i>	<i>20.1%</i>	<i>20.6%</i>	<i>19.3%</i>	<i>20.0%</i>
Administration expenses	5.5	5.0	15.9	13.5
<i>Administration expenses as a % of sales</i>	<i>8.8%</i>	<i>8.6%</i>	<i>8.8%</i>	<i>8.2%</i>
Selling expenses	2.1	2.0	5.8	5.4
<i>Selling expenses as a % of sales</i>	<i>3.3%</i>	<i>3.5%</i>	<i>3.2%</i>	<i>3.3%</i>
Net income	2.8	1.9	8.5	6.2
<i>Net income as a % of sales</i>	<i>4.5%</i>	<i>3.3%</i>	<i>4.7%</i>	<i>3.8%</i>
Adjusted EBITDA	7.8	7.5	20.6	20.5
<i>Adjusted EBITDA as a % of sales</i>	<i>12.4%</i>	<i>13.0%</i>	<i>11.4%</i>	<i>12.5%</i>
Adjusted EBITDA excluding realized foreign exchange (loss) gain	7.7	7.0	21.9	20.0
<i>As a % of sales</i>	<i>12.3%</i>	<i>12.1%</i>	<i>12.1%</i>	<i>12.2%</i>
Net income per share (basic and diluted)	\$0.12	\$0.08	\$0.36	\$0.26
	September 30, 2016	December 31, 2015		
Total Assets	\$173.9	\$164.1		
Total Non-Current Liabilities	\$96.0	\$96.3		

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

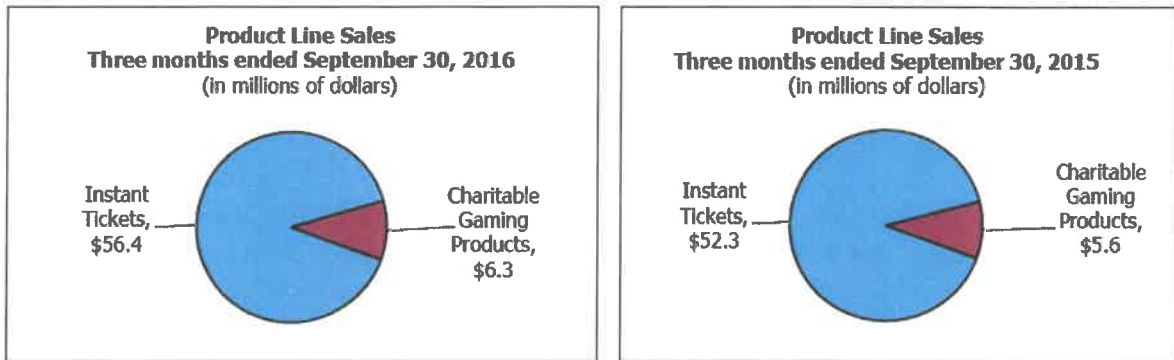
	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net Income	\$2.8	\$1.9	\$8.5	\$6.2
Adjustments:				
Amortization and depreciation	2.8	2.0	8.5	6.0
Interest	0.9	0.8	2.6	2.1
Mark-to-market gain on foreign currency contracts	-	-	-	(0.5)
Unrealized foreign exchange (gain)loss	0.1	1.5	(2.0)	2.7
Income taxes	1.2	1.3	3.0	4.0
Adjusted EBITDA	\$7.8	\$7.5	\$20.6	\$20.5
Realized foreign exchange (loss) gain	0.1	0.5	(1.3)	0.5
Adjusted EBITDA excluding realized foreign exchange (loss) gain	\$7.7	\$7.0	\$21.9	\$20.0

REVIEW OF OPERATIONS

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

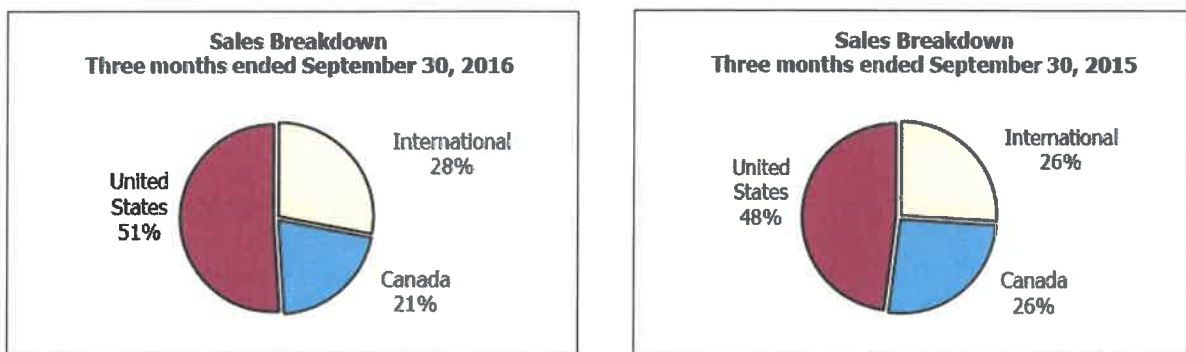
ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016

Sales



During the three months ended September 30, 2016, Pollard achieved sales of \$62.7 million, compared to \$57.9 million in the three months ended September 30, 2015. Factors impacting the \$4.8 million sales increase were:

Instant ticket volumes for the third quarter of 2016 were higher than the third quarter of 2015 which increased sales by \$1.9 million. Sales of ancillary lottery products and services were higher in 2016, improving sales by \$1.6 million due primarily to better iLottery sales. In addition, the instant ticket average selling price was higher than in 2015 which increased sales by \$0.3 million. The higher charitable gaming volumes during the quarter increased sales by \$0.4 million when compared to 2015, while an improved average selling price increased sales by \$0.2 million when compared to the third quarter of 2015.



During the three months ended September 30, 2016, Pollard generated approximately 67.3% of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the third quarter of 2016 the actual U.S. dollar value was converted to Canadian dollars at \$1.303, compared to a rate of \$1.295 during the third quarter of 2015. This 0.6% increase in the U.S. dollar value resulted in an approximate increase of \$0.3 million in revenue relative to the third quarter of 2015. Also during the quarter, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of \$0.1 million in revenue relative to the third quarter of 2015.

Cost of sales and gross profit

Cost of sales was \$50.1 million in the third quarter of 2016 compared to \$46.0 million in the third quarter of 2015. Cost of sales were higher in the quarter relative to 2015 as a result of increased instant ticket volumes, increased ancillary lottery products and services sales, higher amortization and higher exchange rates on U.S. dollar transactions.

Gross profit was \$12.6 million (20.1% of sales) in the third quarter of 2016 compared to \$11.9 million (20.6% of sales) in the third quarter of 2015. This increase in gross profit was due primarily to the increase in sales of instant ticket and ancillary lottery products and services. The lower gross profit percentage was due to the impact of higher amortization, primarily relating to the new press, and additional production costs related to the ramp up of the new press.

Administration expenses

Administration expenses increased to \$5.5 million in the third quarter of 2016 compared to \$5.0 million in the third quarter of 2015 primarily as a result of increased compensation expenses, which primarily related to expansion of our lottery management system and ancillary lottery product sales.

Selling expenses

Selling expenses of \$2.1 million in the third quarter of 2016 were similar to \$2.0 million in the third quarter of 2015.

Interest expense

Interest expense of \$0.9 million in the third quarter of 2016 was similar to \$0.8 million in the third quarter of 2015.

Foreign exchange (gain) loss

The net foreign exchange impact was nil in the third quarter of 2016 compared to a net loss was \$1.0 million in the third quarter of 2015. The 2016 net foreign exchange impact consisted of an unrealized foreign exchange loss of \$0.1 million primarily as a result of the increased Canadian equivalent value of U.S. denominated debt due to the weakening of the Canadian dollar relative to the U.S. dollar. This loss was offset by a realized foreign exchange gain of \$0.1 million, predominately a result of foreign currency denominated account receivables collected in the quarter being converted into Canadian dollars at favorable foreign exchange rates.

The 2015 net foreign exchange loss consisted of an unrealized foreign exchange loss of \$1.5 million primarily as a result of the increased Canadian equivalent value of U.S. denominated debt due to the

weakening of the Canadian dollar relative to the U.S. dollar. This loss was partially offset by a realized foreign exchange gain of \$0.5 million, predominately a result of foreign currency denominated account receivables collected in the quarter being converted into Canadian dollars at favorable foreign exchange rates.

Adjusted EBITDA

Adjusted EBITDA was \$7.8 million in the third quarter of 2016 compared to \$7.5 million in the third quarter of 2015. The primary reason for the increase in Adjusted EBITDA of \$0.3 million was the increase in gross profit (net of amortization and depreciation) of \$1.5 million. Partially offsetting the increase was the increase in administration expenses of \$0.5 million, the decrease in realized foreign exchange gain of \$0.4 million and the decrease in other income of \$0.2 million.

Income taxes

Income tax expense was \$1.2 million in the third quarter of 2016, an effective rate of 28.5%, which was similar to our expected effective rate of 27.0%.

Income tax expense was \$1.3 million in the third quarter of 2015, an effective rate of 41.8%, which was higher than our expected effective rate of 26.7% 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).

Amortization and depreciation

Amortization and depreciation, including amortization of deferred financing costs and intangible assets, and depreciation of property and equipment, totaled \$2.8 million during the third quarter of 2016 which increased from \$2.0 million during the third quarter of 2015 primarily as a result of increased depreciation of property, plant and equipment due to the commissioning of the new press in our Ypsilanti facility.

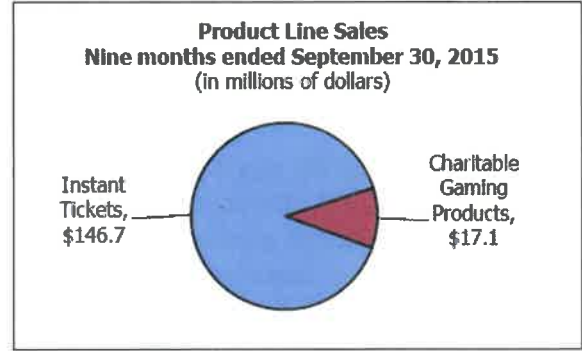
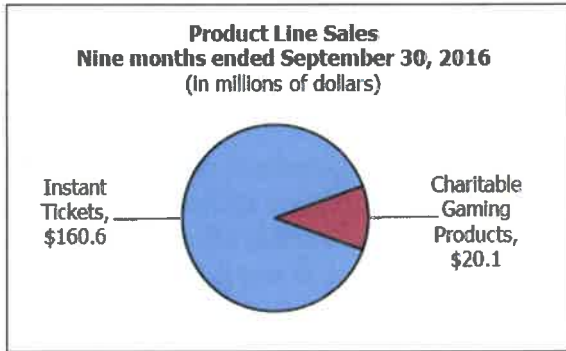
Net income

Net income was \$2.8 million in the third quarter of 2016 compared to a net income of \$1.9 million in the third quarter of 2015. The primary reasons for the \$0.9 million increase were an increase in gross profit of \$0.7 million and the decrease in the net foreign exchange loss of \$1.0 million. These increases were partially offset by an increase of \$0.5 million in administration expenses and the decrease in other income of \$0.2 million.

Net income per share (basic and diluted) increased to \$0.12 per share in the third quarter of 2016 from \$0.08 in the third quarter of 2015.

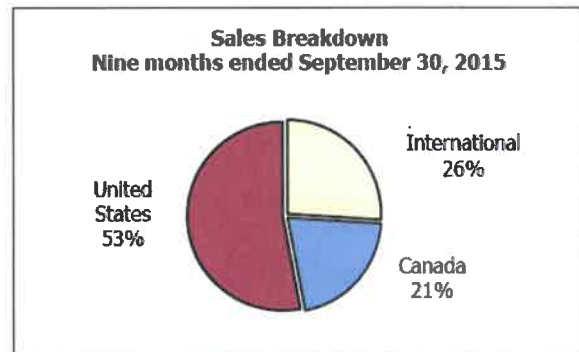
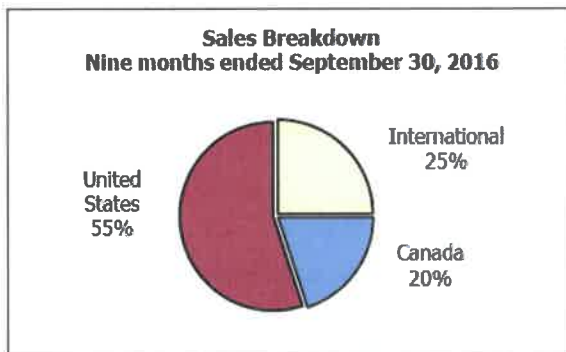
ANALYSIS OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

Sales



During the nine months ended September 30, 2016, Pollard achieved sales of \$180.7 million, compared to \$163.8 million in the nine months ended September 30, 2015. Factors impacting the \$16.9 million sales increase were:

Higher instant ticket average selling price increased sales by \$5.5 million in the first nine months of 2016 compared to the first nine months of 2015. Also higher sales of our ancillary lottery products and services increased sales by \$4.6 million from the first nine months of 2015 due primarily to increased sales from iLottery. Charitable gaming volumes were higher in the first nine months of 2016 which increased sales by \$1.1 million. An increase in the charitable gaming average selling price increased sales by \$0.7 million when compared to the first nine months of 2015. Partially offsetting these increases, lower instant ticket sales volumes decreased sales by \$3.1 million when compared to 2015.



During the nine months ended September 30, 2016, Pollard generated approximately 69.0% of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first nine months of 2016 the actual U.S. dollar value was converted to Canadian dollars at \$1.327, compared to a rate of \$1.248 during the first nine months of 2015. This 6.3% increase in the U.S. dollar value resulted in an approximate increase of \$7.4 million in revenue relative to the first nine months of 2015. In addition, during the nine months ended September 30, 2016, the strengthening of the Euro against the Canadian dollar resulted in an approximate increase of \$0.7 million in revenue relative to the first nine months of 2015.

Cost of sales and gross profit

Cost of sales was \$145.8 million in the nine months ended September 30, 2016, compared to \$131.1 million in the nine months ended September 30, 2015. Cost of sales was higher in the first nine months of 2016 relative to 2015 as a result of higher amortization, increased ancillary lottery products and services sales and higher exchange rates on U.S. dollar transactions.

Gross profit increased to \$34.9 million (19.3% of sales) in the first nine months of 2016 from \$32.7 million (20.0% of sales) in the first nine months of 2015. This increase in gross profit was due primarily to the increase in ancillary lottery products and services sales and the positive impact from higher exchange rates on net U.S. dollar transactions. The lower gross profit percentage was due to the impact of higher amortization and additional production costs related to the ramp up of the new press.

Administration expenses

Administration expenses increased to \$15.9 million in the first nine months of 2016 from \$13.5 million in the first nine months of 2015 due primarily to higher professional fees, increased compensation expenses (which primarily related to expansion of our lottery management system and ancillary lottery product and services sales) and the increased Canadian dollar equivalent of U.S. dollar denominated expenses.

Selling expenses

Selling expenses increased to \$5.8 million in the first nine months of 2016 compared to \$5.4 million in the first nine months of 2015 due primarily to higher compensation expense in our charitable gaming division to support increased sales and the increased Canadian dollar equivalent of U.S. dollar denominated expenses.

Interest expense

Interest expense increased to \$2.6 million in the first nine months of 2016 from \$2.1 million in the first nine months of 2015 primarily as a result of no longer capitalizing borrowing costs related to the new press project.

Foreign exchange (gain) loss

The net foreign exchange gain was \$0.7 million in the first nine months of 2016 compared to a loss of \$2.2 million in the first nine months of 2015. The 2016 net foreign exchange gain consisted of an unrealized foreign exchange gain of \$2.0 million primarily as a result of the decreased Canadian equivalent value of U.S. denominated debt and accounts payable 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 \$1.3 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2015 net foreign exchange loss consists of an unrealized foreign exchange loss of \$2.7 million primarily as a result of the increased Canadian equivalent value of U.S. denominated debt with the weakening of the Canadian dollar relative to the U.S. dollar. This loss was partially 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 exchange rates.

Adjusted EBITDA

Adjusted EBITDA was \$20.6 million in the first nine months of 2016 compared to \$20.5 million in the first nine months of 2015. The primary reason for the increase in Adjusted EBITDA of \$0.1 million was the increase in gross profit (net of amortization and depreciation) of \$4.7 million. Partially offsetting the increase was the increase in administration expenses of \$2.4 million, the increase in realized foreign exchange loss of \$1.8 million and the increase in selling expenses of \$0.4 million.

Income taxes

Income tax expense was \$3.0 million in the first nine months of 2016, an effective rate of 26.0%, which was similar to our expected effective rate of 27.0%.

Income tax expense was \$4.0 million in the first nine months of 2015, an effective rate of 39.0%, which was higher than our expected effective rate of 26.7% 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).

Amortization and depreciation

Amortization and depreciation, including amortization of deferred financing costs and intangible assets, and depreciation of property and equipment, totaled \$8.5 million during the first nine months of 2016 which increased from \$6.0 million during the first nine months of 2015 primarily as a result of increased depreciation of property, plant and equipment due to the commissioning of the new press in our Ypsilanti facility.

Net income

Net income was \$8.5 million in the first nine months of 2016 compared to \$6.2 million in the first nine months of 2015. The primary reasons for the higher net income of \$2.3 million were the \$2.2 million increase in gross profit, the \$2.9 million additional foreign exchange gains and the decrease in income tax expense of \$1.0 million. These increases were partially offset by higher administration expenses of \$2.4 million, higher selling expenses of \$0.4 million and increased interest expense of \$0.5 million, as well as the reduction in the gain on the non-cash mark-to-market adjustment on foreign currency contracts of \$0.5 million.

Net income per share (basic and diluted) increased to \$0.36 per share in the nine months ended September 30, 2016, from \$0.26 in the first nine months of 2015.

Liquidity and Capital Resources

Cash provided by operating activities

For the nine months ended September 30, 2016, cash flow provided by operating activities was \$6.1 million compared to cash flow provided of \$13.4 million for the first nine months of 2015. Higher net income after non-cash adjustments in the first nine months of 2016 increased the cash provided by operating activities compared to the first nine months of 2015. Changes in the non-cash component of working capital decreased cash flow from operations by \$10.9 million for the nine months ended September 30, 2016 due primarily to the increase in accounts receivable, compared to a decreased cash flow from operations by \$3.3 million for the nine months ended September 30, 2015 due primarily to the increase in accounts receivable.

Cash used for interest payments increased to \$2.4 million in 2016 as compared to \$2.1 million in 2015. Cash used for pension plan contributions increased to \$2.3 million in 2016 as compared to \$1.8 million in 2015. Cash used for income tax payments decreased to \$1.9 million in 2016 from \$2.8 million in 2015. Taxable income in Canada increased in 2014 due to improved operating results. Pollard was not required to make installments during 2014, therefore the income taxes due for 2014 were payable at the end of February 2015.

Cash used for investing activities

In the nine months ended September 30, 2016, cash used for investing activities was \$4.3 million compared to cash used of \$12.9 million in the first nine months of 2015. In the nine months ended September 30, 2016, capital expenditures were \$3.3 million. In addition, Pollard invested \$0.8 million in its iLottery joint venture and \$0.8 million on additions to intangible assets. These intangible additions primarily related to implementation costs, including capitalized internal costs, for ERP software. Proceeds from the sale of Pollard's investment in associate provided cash of \$0.5 million.

In the nine months ended September 30, 2015, capital expenditures were \$12.3 million, including \$10.0 million in payments relating to the new printing press project. In addition, Pollard expended \$0.5 million on additions to intangible assets, primarily related to implementation costs, including capitalized internal costs, for ERP software.

Cash used for financing activities

Cash used for financing activities was \$0.7 million in the nine months ended September 30, 2016, compared to cash used of \$0.6 million in the nine months ended September 30, 2015. During the first nine months of 2016 proceeds from long-term debt of \$2.0 million were offset by the \$0.3 million repayment on subordinated debt, \$0.1 million of financing costs and dividends paid of \$2.1 million.

During the first nine months of 2015 proceeds from long-term debt of \$2.0 million were offset by \$0.3 million of financing costs and dividends paid of \$2.1 million.

As at September 30, 2016, Pollard had unused debt facility of \$15.1 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)

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Sales	62.7	54.0	64.0	57.2	\$57.9	\$51.4	\$54.5	\$43.2	\$53.5
Adjusted EBITDA	7.8	6.0	6.8	6.3	7.5	6.3	6.7	5.6	7.3
Net Income	2.8	2.1	3.6	1.2	1.9	3.0	1.4	2.1	1.7

Q3 2016 Adjusted EBITDA was higher due to increased gross profit (net of amortization and depreciation) due to increased sales volumes of instant tickets and ancillary lottery products and services.

Productive Capacity

Management has defined the current productive capacity, factoring in the new press becoming fully operational, as the level of operations necessary to maintain a minimum Adjusted EBITDA of \$30.0 to \$35.0 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 significant impact on our Adjusted EBITDA capacity will be the timing of the ramp up of our new press and how quickly increased volumes will be attained through the relatively long sales cycle of the lottery industry. 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. 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.

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 September 30, 2016, Pollard's investment in non-cash working capital increased \$10.9 million compared to December 31, 2015, primarily as a result of an increased investment in accounts receivable. Increased sales volumes, particularly in the third quarter, resulted in the large increase in accounts receivable.

	September 30, 2016	December 31, 2015
Working Capital	\$47.9	\$39.1
Total Assets	\$173.9	\$164.1
Total Non-Current Liabilities	\$96.0	\$96.3

Credit Facility

Pollard's credit facility was renewed effective June 24, 2016. As part of the renewal, the outstanding balance of the term facility was repaid. The credit facility provides loans of up to \$75.0 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 \$75.0 million Canadian equivalent. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At September 30, 2016, the outstanding letters of guarantee were \$1.2 million. The remaining balance available for drawdown under the credit facility was \$15.1 million.

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, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at September 30, 2016, 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's operating subsidiaries. The facility can be prepaid without penalties. Under the terms of the agreement effective June 24, 2016, the facility was committed for a two year period, renewable June 24, 2018.

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 existing business levels.

Subordinated Loan

On April 2, 2014, Pollard's former subsidiary, Pollard Holdings Limited Partnership, entered into a loan agreement with Pollard Equities Limited ("Equities") for a subordinated term loan facility with a seven year term in the amount of \$6.8 million. Equities owns approximately 73.5% of Pollard's outstanding shares. Effective January 1 2015, Pollard Banknote Limited assumed the subordinated debt on completion of the amalgamation of the Canadian entities.

Quarterly principal payments on the subordinated loan facility commenced the month following the repayment in full of the additional secured term facility, which occurred June 30, 2016. Interest on the subordinated term loan facility commenced with the first draw at a rate of 9%. The loan is fully subordinated to the secured credit facility.

Pension

One of Pollard's Canadian pension plans will be subject to a solvency valuation as of December 31, 2016. We anticipate the valuation will result in a deficit due the low current levels of the mandated interest rate used to discount the future liabilities. We estimate the valuation will generate an estimated deficit of between \$12.0 million to \$15.0 million. As a result Pollard will be subject to additional special pension plan payments beginning in 2017 of approximately \$2.4 million to \$3.0 million per year through to 2021. These additional solvency payments do not impact pension expense and therefore will not affect our net income or EBITDA. Pollard was subject to additional solvency payments from 2011 to 2013, when Pollard was required to make additional pension contributions of approximately \$2.0 million per year. These additional pension solvency payments will be funded from operating cash flows.

Outstanding Share Data

As at September 30, 2016 and November 14, 2016, outstanding share data was as follows:

Common shares	23,543,158
---------------	------------

Share Options

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares.

On March 5, 2014, the Board of Directors approved the award of 100,000 options to purchase common shares of Pollard for certain key management personnel. The options were granted on March 10, 2014, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on March 7, 2014.

On September 7, 2016, the Board of Directors approved the award of 25,000 options to purchase common shares of Pollard for a key management member. The options were granted on October 3, 2016, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on September 30, 2016.

Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2015, that are outside the normal course of business.

Off-Balance Sheet Arrangements

There have been no material changes to Pollard's off-balance sheet arrangements since December 31, 2015, 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, 2015.

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with Canadian 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 nine months ended September 30, 2016, 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, 2015.

Outlook

The lottery market, and specifically the market for instant tickets, continues to be robust, with numerous lotteries recently announcing record sales and proceeds for good causes for their most recent fiscal years. Consumer demand for instant lottery tickets remains strong and is expected to remain a growth product for lotteries.

Lotteries continue to look to expand their operations including related activities to increase their customer engagement. Using technology to connect with their customers through social media, interactive apps and loyalty programs are increasingly important to help drive growth in both the instant ticket and draw games product lines. Opportunities for Pollard to provide expertise in this space will increase as lotteries expand their focus in these areas. Other programs supporting lotteries, including technology

infrastructure, distribution services and warehousing, retail support, CRM and promotional and licensed games, continue to be important and represent opportunities to expand our footprint with lotteries.

iLottery continues to be a much talked about opportunity throughout the lottery world, particularly in the United States. State lotteries continue to be cautious in their approach however, and we do not anticipate a significant number of request for proposal prospects in the short term. In the longer term we believe lotteries will ultimately avail themselves of this additional sales channel in order to achieve their mandates. Our Michigan iLottery joint venture continues to perform very well and our second iLottery installation just went live in Virginia this month. We continue to monitor the environment and educate the lottery industry on the benefits of iLottery in order to position ourselves as a top of mind resource for iLottery implementation and operation.

Work on improving the efficiencies and integration of our new press continues and while significant progress has been achieved, the process is ongoing and incremental in nature. Objectives in spoilage reduction, operating cost enhancements, improved scheduling and achieving lower per-unit fixed costs through increasing production volumes have been identified. As our operator experience increases, we expect our cost structure to improve. We believe these improvements will be realized throughout the remainder of 2016 and 2017.

Our existing contract portfolio provides a solid foundation supporting our current level of volumes and we are focused on strategically bidding on new contract opportunities as they come due. Our only major existing contract that expires in the next year is our contract with the Michigan Lottery (which expires December 31, 2016) and we are confident of maintaining our strong relationship with the lottery in the future.

Timing of individual orders and the related revenue can vary quarter to quarter and as noted our third quarter tends to have slightly higher revenue as lotteries order higher value specialty work in the pre-holiday period. Fourth quarter volumes and product mix may generate slightly lower revenue streams as the level of higher value specialty products returns to more normal levels. Similarly the first half of the year generally will reflect a more balanced mix of products with selling prices more consistent with our long term averages and we would expect that trend to continue in 2017. The exact timing of revenue recognition can also be impacted between quarters based on the timing of receipt of the product by our customers.

During the third quarter, the Canadian dollar remained relatively stable against the U.S. dollar. As a result, the impact on our financial statements in the third quarter from foreign exchange gains and losses was very small. In the future, fluctuations in this relationship can impact the short term financial results including the operating cash flow and creating gains/losses on our monetary assets and liabilities on our balance sheet. We maintain a significant array of internal hedges to offset our net exposure to the U.S. dollar and do not anticipate utilizing any financial hedges in the near future. We also maintain a small net exposure to the Euro, therefore major fluctuations in this currency will also impact our financial results.

American Games, our charitable gaming division, continues to generate solid returns in the market for pull-tab tickets, bingo paper and vending machines. We expect the market for these products, and American Games financial results, to remain stable.

We anticipate having to initiate additional special pension plan payments likely in the later part of 2017 in the range of between \$2.4 million to \$3.0 million annually, as a result of historically low mandated discount rates. These payments will not have any direct impact on our net income or EBITDA and will

be funded through our existing organic cash flow. Our budgeted capital expenditures for the remainder of 2016 and expected levels of capital expenditures in 2017 should remain at similar levels as experienced in the first three quarters of 2016. Assuming no additional significant investments in non-cash working capital, strong positive cash flow is still expected going forward notwithstanding our ongoing pension and capital expenditure obligations.

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

Under National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Certifying Officers regarding the design of the internal controls over financial reporting. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) as the control framework in designing its internal controls over financial reporting. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the internal controls over financial reporting as defined in National Instrument 52-109 will provide reasonable assurance of achieving the financial reporting objectives.

No changes were made in Pollard's internal control over financial reporting during the three and nine months ended September 30, 2016, 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, 2015, is available on SEDAR at www.sedar.com.

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

POLLARD **banknote** limited

December 31, 2016

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

FOR THE YEAR ENDED DECEMBER 31, 2016

March 13, 2017

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the year ended December 31, 2016, is prepared as at March 13, 2017, and should be read in conjunction with the accompanying audited financial statements of Pollard and the notes therein as at December 31, 2016. 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, unrealized foreign exchange gains and losses, mark-to-market gains and losses on foreign currency contracts, and certain non-recurring items including start-up 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, 2016. 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 the 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, SureTrack® lottery management system, retail telephone selling ("tel-sell"), marketing, iLottery, digital products, Social Instants™, retail management services 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 60 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Year ended December 31, 2016	Year ended December 31, 2015
Instant Tickets	89%	90%
Charitable Gaming Products	11%	10%

Geographic breakdown of revenue

	Year ended December 31, 2016	Year ended December 31, 2015
United States	54%	49%
Canada	20%	24%
International	26%	27%

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, 2016.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Sales	\$246.4	\$221.0	\$194.5	\$184.9
Cost of sales	197.2	176.7	153.4	149.7
Gross profit	49.2	44.3	41.1	35.2
<i>Gross profit as a % of sales</i>	20.0%	20.0%	21.1%	19.0%
Administration expenses	20.9	19.2	17.0	15.2
<i>Expenses as a % of sales</i>	8.5%	8.7%	8.7%	8.2%
Selling expenses	8.0	7.4	6.9	6.8
<i>Expenses as a % of sales</i>	3.2%	3.3%	3.5%	3.7%
Net income	12.3	7.5	8.7	5.4
<i>Net income as a % of sales</i>	5.0%	3.4%	4.5%	2.9%
Adjusted EBITDA	29.7	26.8	25.6	22.7
<i>Adjusted EBITDA as a % of sales</i>	12.1%	12.1%	13.2%	12.3%
Earnings per share (basic)	\$0.52	\$0.32	\$0.37	\$0.23
Earnings per share (diluted)	\$0.52	\$0.32	\$0.37	\$0.23
	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
Total Assets	\$176.8	\$164.1	\$149.3	\$133.4
Total Non-Current Liabilities	\$94.4	\$96.3	\$89.2	\$79.2

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

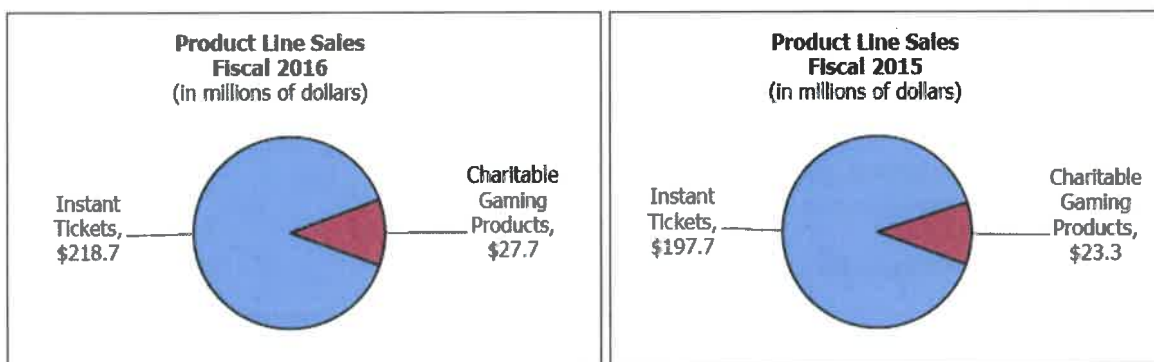
	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Net income	\$12.3	\$7.5	\$8.7	\$5.4
Adjustments:				
Amortization and depreciation	10.8	8.4	7.9	8.6
Interest	3.4	2.9	2.9	3.4
Unrealized foreign exchange (gain) loss	(1.6)	3.8	1.7	1.0
Mark-to-market (gain) loss on foreign currency contracts	-	(0.5)	0.1	0.4
Start-up costs – Michigan ILottery	-	-	0.6	-
Income taxes	4.8	4.7	3.7	3.9
Adjusted EBITDA	\$29.7	\$26.8	\$25.6	\$22.7

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.

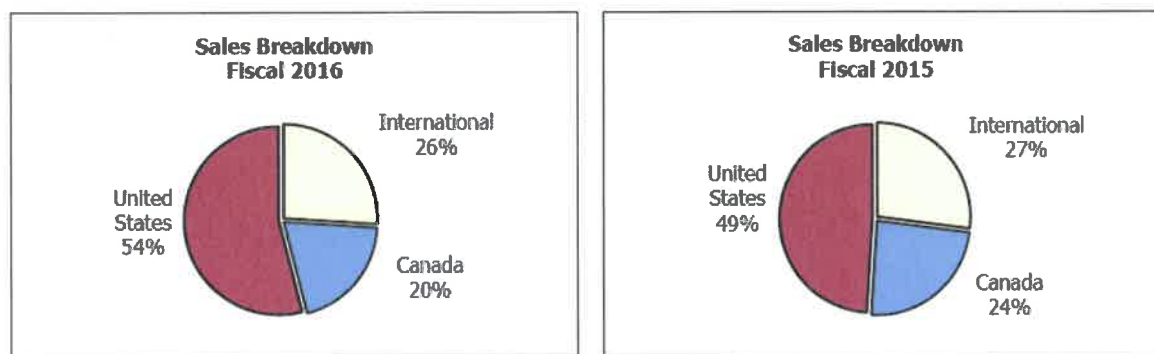
ANALYSIS OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2016

Sales



During the year ended December 31, 2016 ("Fiscal 2016" or "2016"), Pollard achieved sales of \$246.4 million, compared to \$221.0 million in the year ended December 31, 2015 ("Fiscal 2015" or "2015"). Factors impacting the \$25.4 million sales increase were:

Higher instant ticket average selling prices for 2016 increased sales by \$4.3 million compared to 2015, primarily as a result of greater proprietary product sales, while higher instant ticket volumes increased sales by \$3.2 million. Improved sales of our ancillary lottery products and services further increased sales by \$6.5 million from Fiscal 2015 due primarily to increased revenues from iLottery. Charitable gaming volumes were also higher than Fiscal 2015 increasing sales by \$2.4 million, primarily as a result of greater vending machine sales, while the increase in average selling price increased sales of charitable gaming products by \$0.8 million.



During Fiscal 2016, Pollard generated approximately 68.8% (2015 – 65.0%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2016 the actual U.S. dollar value was converted to Canadian dollars at an average rate of \$1.328 compared to an average rate of \$1.269 during Fiscal 2015. This 4.7% increase in the U.S. dollar value resulted in an approximate increase of \$7.6 million in revenue relative to Fiscal 2015. Also during Fiscal 2016, the Canadian dollar

weakened against the Euro resulting in an approximate increase of \$0.6 million in revenue relative to Fiscal 2015.

Cost of sales and gross profit

Cost of sales was \$197.2 million in Fiscal 2016 compared to \$176.7 million in Fiscal 2015. Cost of sales was higher in Fiscal 2016 relative to Fiscal 2015 as a result of an increase in instant ticket volumes, increased ancillary lottery products and services sales, higher exchange rates on U.S. dollar transactions in 2016, which increased cost of sales approximately \$5.8 million, and higher amortization relating to our new press.

Gross profit was \$49.2 million (20.0% of sales) in Fiscal 2016 compared to \$44.3 million (20.0% of sales) in Fiscal 2015. This higher gross profit was due primarily to the increase in ancillary lottery products and services sales, increased average selling price of instant tickets and the positive impact from higher exchange rates on net U.S. dollar transactions.

Administration expenses

Administration expenses increased to \$20.9 million in Fiscal 2016 from \$19.2 million in Fiscal 2015 due primarily to higher professional fees, increased compensation expenses (which primarily related to expansion of our lottery management system and ancillary lottery product and services sales) including incentive accruals.

Selling expenses

Selling expenses increased to \$8.0 million in Fiscal 2016 from \$7.4 million in Fiscal 2015 due primarily to higher compensation expense in our charitable gaming division to support increased sales, higher contract support costs and the increased Canadian dollar equivalent of U.S. dollar denominated expenses.

Other income

Other income in Fiscal 2016 consisted of a \$0.7 million loss on equity investment, which was fully offset by a \$0.7 million miscellaneous gain, primarily consisting of a \$0.5 million gain on the sale of an associate.

Interest expense

Interest expense increased to \$3.4 million in Fiscal 2016 from \$2.9 million in Fiscal 2015 primarily as a result of no longer capitalizing borrowing costs related to the new press project, which ended after the second quarter in 2015.

Foreign exchange gain

The net foreign exchange gain was \$0.4 million in Fiscal 2016 compared to a net loss of \$3.1 million in Fiscal 2015. The 2016 net foreign exchange gain consisted of a \$1.6 million unrealized gain primarily a result of the decreased Canadian equivalent value of U.S. 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 \$1.2 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2015 net foreign exchange loss consisted of a \$3.8 million unrealized loss which was primarily a result of the increased Canadian equivalent value of U.S. denominated debt with the significant weakening of the Canadian dollar relative to the U.S. dollar. This loss was partially offset by the realized foreign exchange gain of \$0.7 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchange rates.

Amortization and depreciation

Amortization and depreciation, including depreciation of property and equipment and the amortization of deferred financing costs and intangible assets, totaled \$10.8 million during Fiscal 2016 which increased from \$8.4 million during Fiscal 2015 primarily as a result of increased depreciation of property, plant and equipment due to the commissioning of the new press in our Ypsilanti facility.

Adjusted EBITDA

Adjusted EBITDA was \$29.7 million in Fiscal 2016 compared to \$26.8 million in Fiscal 2015. The primary reason for the increase in Adjusted EBITDA of \$2.9 million was the increase in gross profit of \$7.3 million (net of amortization and depreciation). This increase was partially offset by higher administration expenses of \$1.7 million, an increase in selling expenses of \$0.6 million and the increase in realized foreign exchange loss of \$1.9 million.

Income taxes

Income tax expense was \$4.8 million in Fiscal 2016, an effective rate of 28.1%, which was similar to our expected effective rate of 27.0%.

Income tax expense was \$4.7 million in Fiscal 2015, an effective rate of 38.8%, which was higher than our expected effective rate of 26.8% 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 approximately 30%. Other permanent differences relating to the foreign exchange translation of property, plant and equipment decreased the provision by approximately 15%. Current income tax expense was in a recovery position due to accelerated tax depreciation on capital expenditures.

Net income

Net income was \$12.3 million in Fiscal 2016 compared to net income of \$7.5 million in Fiscal 2015. The primary reasons for the increase in net income were the increase gross profit of \$4.9 million and the decrease in net foreign exchange loss of \$3.5 million. Partially offsetting these increases in net income were the increase in administration expense of \$1.7 million, the increase in selling expenses of \$0.6 million, the increase in interest expense of \$0.5 million and the decrease in the non-cash mark-to-market gain on foreign currency contracts of \$0.5 million.

Earnings per share (basic and diluted) increased to \$0.52 per share in Fiscal 2016 from \$0.32 per share in Fiscal 2015.

Liquidity and Capital Resources

Cash provided by operating activities

For the year ended December 31, 2016, cash flow provided by operating activities was \$11.7 million compared to \$19.7 million in Fiscal 2015. Higher net income before income taxes after non-cash adjustments in Fiscal 2016 contributed to an increase in cash provided by operating activities compared to Fiscal 2015. Changes in the non-cash component of working capital decreased cash flow from operations by \$16.9 million for Fiscal 2016 (due primarily to increases in accounts receivable and inventory, partially offset by an increase in accounts payable and accrued liabilities), compared to a decrease of \$2.8 million for Fiscal 2015 (due primarily to increases in accounts receivable, prepaid expenses and income taxes receivable, and a decrease in accounts payable and accrued liabilities, partially offset by a decrease in inventory). The significant increase in the investment in accounts receivables in 2016 was a result of increased sales volumes.

Cash used for interest payments increased to \$3.3 million in 2016 as compared to \$2.8 million in 2015. As well, cash used for pension plan contributions increased to \$3.1 million in 2016 as compared to \$2.9 million in 2015. Cash received for income taxes recovered was \$0.7 million in 2016 compared to \$3.1 million of income taxes paid in 2015. Income taxes were recovered as a result of tax loss carrybacks generated from accelerated depreciation on U.S. based equipment.

Cash used for investing activities

In the year ended December 31, 2016, cash used for investing activities was \$6.4 million compared to \$16.5 million in the year ended December 31, 2015. In Fiscal 2016, capital expenditures were \$5.0 million. Pollard expended \$0.8 million on its investment in its iLottery joint venture and \$1.1 million on additions to intangible assets. These intangible additions primarily related to implementation costs, including capitalized internal costs, for ERP software. Proceeds from the sale of Pollard's investment in associate provided cash of \$0.5 million.

In Fiscal 2015, capital expenditures were \$15.4 million, with \$12.0 million in expenditures relating to the new press project including various auxiliary equipment. Pollard expended \$0.4 million on its investment in its iLottery joint venture and \$0.7 million on additions to intangible assets, net of investment tax credits. These intangible additions primarily related to implementation costs, including capitalized internal costs, for ERP software.

Cash used for financing activities

Cash used for financing activities was \$5.4 million in the year ended December 31, 2016, compared to cash used for financing activities of \$2.3 million in the year ended December 31, 2015.

During Fiscal 2016, cash was used to repay \$1.8 million of long-term debt, \$0.7 million of subordinated debt, \$0.2 million of financing costs and dividends paid of \$2.8 million.

During Fiscal 2015 proceeds from long-term debt of \$1.0 million were offset by \$0.4 million of financing costs and dividends paid of \$2.8 million.

As at December 31, 2016, Pollard had unused committed credit facility of \$18.9 million. This amount is available to be used for future working capital requirements, contractual obligations, capital expenditures and dividends.

**ANALYSIS OF RESULTS FOR THE PERIOD OCTOBER 1, 2016 TO DECEMBER 31, 2016
FOURTH QUARTER OF 2016**

SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Three months ended December 31, 2016	Three months ended December 31, 2015
	(unaudited)	(unaudited)
Sales	\$65.7	\$57.2
Cost of sales	51.5	45.6
Gross profit	14.2	11.6
Administration	4.9	5.7
Selling	2.2	2.0
Other expense	0.3	0.1
Income from operations	6.8	3.8
Finance costs	1.2	1.8
Income before income taxes	5.6	2.0
Income taxes:		
Current (recovery)	1.2	(4.5)
Future	0.6	5.3
	1.8	0.8
Net income	\$3.8	\$1.2
Adjustments:		
Amortization and depreciation	2.3	2.4
Interest	0.8	0.8
Unrealized foreign exchange loss	0.4	1.1
Income taxes	1.8	0.8
Adjusted EBITDA	\$9.1	\$6.3

Sales

During the three months ended December 31, 2016, Pollard achieved sales of \$65.7 million, compared to \$57.2 million in the three months ended December 31, 2015. Factors impacting the \$8.5 million sales increase were:

Instant ticket sales volumes for the fourth quarter of 2016 were higher than the fourth quarter of 2015 by 14.1%, which increased sales by \$6.7 million, due to higher volumes from existing customers. In addition, an increase in our ancillary instant ticket products and services volumes, primarily sales from iLottery, increased sales by \$1.1 million. Higher volumes of charitable game sales added \$1.5 million in sales compared to the fourth quarter of 2015, primarily as a result of higher vending machine sales. Partially offsetting these increases in sales was a slight decrease in average selling price of instant tickets compared to 2015 which reduced sales by \$0.6 million.

During the three months ended December 31, 2016, Pollard generated approximately 68.2% (2015 – 62.0%) 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 2016 the actual U.S. dollar value was converted to Canadian dollars at an average rate of \$1.332, compared to an average rate of \$1.336 during the fourth quarter of 2015. This 0.3% decrease in the value of the U.S. dollar resulted in an approximate decrease of \$0.1 million in revenue relative to 2015. Also during the fourth quarter of 2016, the Canadian dollar strengthened against the Euro resulting in an approximate decrease of \$0.1 million in revenue relative to 2015.

Cost of sales and gross profit

Cost of sales was \$51.5 million in the fourth quarter of 2016 compared to \$45.6 million in the fourth quarter of 2015. Cost of sales was higher in the quarter relative to the fourth quarter of 2015 as a result of an increase in instant ticket volumes and higher ancillary instant ticket products and services volumes.

Gross profit was \$14.2 million (21.6% of sales) in the fourth quarter of 2016 compared to \$11.6 million (20.3% of sales) in the fourth quarter of 2015. This increase in gross profit dollars was due to the higher instant ticket sales volumes and higher ancillary instant ticket products and services volumes. The increase in gross profit percentage was due to a favorable instant ticket sales mix.

Administration expenses

Administration expenses were \$4.9 million in the fourth quarter of 2016 which was lower compared to \$5.7 million in the fourth quarter of 2015 primarily as a result of lower professional fees, including a settlement generating a recovery of previous legal expenses.

Selling expenses

Selling expenses increased to \$2.2 million in the fourth quarter of 2016 from \$2.0 million in the fourth quarter of 2015 primarily as a result of an increase in contract support costs.

Other expense

Other expense of \$0.3 million in the fourth quarter of 2016 consisted of \$0.4 million loss on equity investment, which was partially offset by a \$0.1 million miscellaneous gain.

Interest expense

Interest expense of \$0.8 million in the fourth quarter of 2016 was similar to \$0.8 million in the fourth quarter of 2015.

Foreign exchange loss

The net foreign exchange loss was \$0.3 million in the fourth quarter of 2016 compared to a net loss of \$0.9 million in the fourth quarter of 2015. The 2016 net foreign exchange loss consisted of a \$0.4 million unrealized loss which was primarily a result of the increased Canadian equivalent value of U.S. denominated debt with the weakening of the Canadian dollar relative to the U.S. dollar. This 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 exchange rates.

The 2015 net foreign exchange loss consisted of a \$1.1 million unrealized loss which was primarily a result of the increased Canadian equivalent value of U.S. denominated debt with the weakening of the Canadian dollar relative to the U.S. dollar. This loss was partially offset by the realized foreign exchange gain of \$0.2 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchange rates.

Amortization and depreciation

Amortization and depreciation, including depreciation of property, plant and equipment and the amortization of deferred financing costs and intangible assets, totaled \$2.3 million during the fourth quarter of 2016 which was similar to \$2.4 million during the fourth quarter of 2015.

Adjusted EBITDA

Adjusted EBITDA was \$9.1 million in the fourth quarter of 2016 compared to \$6.3 million in the fourth quarter of 2015. The primary reasons for the increase in Adjusted EBITDA were the increase in gross profit (net of amortization and depreciation) of \$2.6 million and the decrease in administration expenses of \$0.8 million, partially offset by higher selling expenses of \$0.2 million and an increase in other expenses of \$0.2 million.

Income taxes

Income tax expense was \$1.8 million in the fourth quarter of 2016, an effective rate of 32.5% which was higher than our expected effective rate of 27.0% 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 significant weakening of the Canadian dollar versus the U.S. dollar in the fourth quarter 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 8%. Other permanent differences relating to the foreign exchange translation of property, plant and equipment decreased the provision by approximately 4%.

Income tax expense was \$0.8 million in the fourth quarter of 2015, an effective rate of 37.8% which was higher than our expected effective rate of 26.8% 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 significant weakening of the Canadian dollar versus the U.S. dollar in the fourth quarter 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 31%. Other permanent differences relating to the foreign exchange translation of property, plant and equipment decreased the provision by approximately 21%. Current income tax expense was in a recovery position due to accelerated tax depreciation on capital expenditures.

Net income

Net income was \$3.8 million in the fourth quarter of 2016 compared to \$1.2 million in the fourth quarter of 2015. The primary reasons for the increase in net income were the higher gross profit of \$2.6 million, the decrease in administration expenses of \$0.8 million and the decrease in net foreign exchange loss of \$0.6 million. Partially offsetting these increases were the increase in income taxes of \$1.0 million, the increase in selling expenses of \$0.2 million and higher other expenses of \$0.2 million.

Earnings per share (basic and diluted) increased to \$0.16 per share in the fourth quarter of 2016 from \$0.05 per share in the fourth quarter of 2015.

Quarterly Information

(unaudited)

(millions of dollars)

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Sales	\$65.7	\$62.7	\$54.0	\$64.0	\$57.2	\$57.9	\$51.4	\$54.5
Adjusted EBITDA	9.1	7.8	6.0	6.8	6.3	7.5	6.3	6.7
Net income	3.8	2.8	2.1	3.6	1.2	1.9	3.0	1.4

Q4 2016 sales and adjusted EBITDA were higher due to increased sales volumes and favorable sales mix.

Productive Capacity

Management has defined the current productive capacity, factoring in the new press becoming fully operational, as the level of operations necessary to maintain a minimum Adjusted EBITDA of \$30.0 to \$35.0 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 significant impact on our Adjusted EBITDA capacity will be the timing of the ramp up of our new press and how quickly increased volumes will be attained through the relatively long sales cycle of the lottery industry. 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. 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.

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 December 31, 2016, Pollard's investment in non-cash working capital increased \$16.9 million compared to December 31, 2015, primarily as a result of an increased investments in accounts receivables and inventories, which were partially offset by an increase in accounts payable and accrued liabilities. Increased sales volumes, particularly in the fourth quarter, resulted in the large increase in accounts receivable.

	December 31, 2016	December 31, 2015
Working Capital	\$49.5	\$39.1
Total Assets	\$176.8	\$164.1
Total Non-Current Liabilities	\$94.4	\$96.3

Credit Facility

Pollard's credit facility was renewed effective June 24, 2016. The credit facility provides loans of up to \$75.0 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 \$75.0 million Canadian equivalent. 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, 2016, the outstanding letters of guarantee were \$1.2 million. The remaining balance available for drawdown under the credit facility was \$18.9 million.

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, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at December 31, 2016, 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's operating subsidiaries. The facility can be prepaid without penalties. Under the terms of the agreement effective June 24, 2016, the facility was committed for a two year period, renewable June 24, 2018.

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 existing business levels.

Subordinated Debt

On April 2, 2014, Pollard entered into a loan agreement with Pollard Equities Limited ("Equities") for a subordinated term loan facility with a seven year term in the amount of \$6.8 million. Equities owns approximately 73.5% of Pollard's outstanding shares.

Quarterly principal payments on the subordinated loan facility commenced the quarter following June 30, 2016. Interest on the subordinated debt commenced with the first draw at a rate of 9%. The loan is fully subordinated to the secured credit facility.

Outstanding Share Data

As at December 31, 2016 and March 13, 2017, outstanding share data was as follows:

Common shares	23,543,158
---------------	------------

Share Options

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares.

On March 5, 2014, the Board of Directors approved the award of 100,000 options to purchase common shares of Pollard for certain key management personnel. The options were granted on March 10, 2014, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on March 7, 2014.

On September 7, 2016, the Board of Directors approved the award of 25,000 options to purchase common shares of Pollard for a key management member. The options were granted on October 3, 2016, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on September 30, 2016.

Subsequent to year end, on March 13, 2017, the Board of Directors approved the award of 125,000 options to purchase common shares of Pollard for key management personnel. The options will be granted on March 16, 2017, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options will be equal to the closing price of the common shares on March 15, 2017.

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	<1 Year	2-3 Years	4-5 Years	Thereafter
Long-term debt	\$74.7	\$2.3	\$72.4	-	-
Subordinated debt	\$7.3	\$1.8	\$3.3	\$2.2	-
Pension liability	\$13.5	\$1.3	\$2.6	\$2.6	\$7.0
Operating leases	\$22.7	\$4.9	\$7.9	\$5.8	\$4.1
Total	\$118.2	\$10.3	\$86.2	\$10.6	\$11.1

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, 2016, the aggregate fair value of the assets of Pollard's defined benefit pension plans was \$44.4 million and the accrued benefit plan obligations were \$57.9 million. Pollard's total annual funding contribution for all pension plans in 2017 is expected to be approximately \$4.1 million, compared to \$2.6 million in 2016, including estimated solvency payments.

One of Pollard's Canadian pension plans will be subject to a solvency valuation as of December 31, 2016. We anticipate the valuation will result in a deficit due the low current levels of the mandated interest rate used to discount the future liabilities. We estimate the valuation will generate an estimated deficit of approximately \$13.0 million. As a result Pollard will be subject to additional special pension plan payments beginning in 2017 of approximately \$1.3 million per year through to 2026. These additional solvency payments do not impact pension expense and therefore will not affect our net income or EBITDA. Pollard was subject to additional solvency payments from 2011 to 2013, when Pollard was required to make additional pension contributions of approximately \$2.0 million per year. These additional pension solvency payments 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

During the year ended December 31, 2016, Pollard paid property rent of \$3.1 million (2015 - \$3.1 million) and \$0.4 million (2015 - \$0.3 million) in plane charter costs to affiliates of Equities. In addition, Pollard paid Equities \$0.6 million (2015 - \$0.6 million) of interest on Pollard's subordinated debt.

During the year ended December 31, 2016, Equities paid Pollard \$0.07 million (2015 - \$0.07 million) for accounting and administration fees.

During the year ended December 31, 2016, Pollard reimbursed operating costs and paid software royalties of \$1.8 million (2015 - \$0.5 million) to its iLottery partner which are recorded in cost of sales and \$0.6 million (2015 - \$0.1 million) of development costs.

At December 31, 2016, Pollard owes Equities and its affiliates \$0.9 million (2015 - \$0.8 million) for rent, interest and other expenses. Also included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of \$0.8 million (2015 - \$1.1 million) for reimbursement of operating costs and capital expenditures, and its share of operating profits.

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 test. 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.

Future Changes in Accounting Policies

In July 2014, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standards ("IFRS") 9 *Financial Instruments* ("IFRS 9"), which replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is required for fiscal years beginning on or after January 1, 2018. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard specifies the steps and timing for recognizing revenue, as well as requiring more informative, relevant disclosures. IFRS 15 supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue*. IFRS 15 is required for fiscal years beginning on or after January 1, 2018 with early adoption available. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In September 2014, the IASB issued amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business

(whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments were to be effective for fiscal years beginning on or after January 1, 2016, with early adoption available; however, in December 2015 the IASB decided to defer the effective date for these amendments indefinitely. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

In January 2016, the 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. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows*. The amendments were issued to improve information provided to users of financial statements about an entity's changes in liabilities arising from financing activities. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 12 *Income Taxes*. The amendments were regarding the recognition of deferred tax assets for unrealized losses relating to debt instruments measured at fair value. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

In June 2016, the IASB issued amendments to IAS 2 *Share-Based Payments*. The amendments clarify how to account for certain types of share-based payment transactions. These amendments are effective for annual periods beginning on or after January 1, 2018. Retrospective or earlier application is permitted under certain conditions. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

In December 2016, the IASB issued IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*. The interpretation clarifies the date of the transaction for the purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after January 1, 2018. Retrospective or earlier application is permitted under certain conditions. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

Industry Risks and Uncertainties

Pollard is exposed to a variety of business and industry risks. A summary of the major risks faced by Pollard is noted below.

Dependence on Key Products

Instant lottery tickets and related services accounted for approximately 89% of Pollard's Fiscal 2016 revenues. Pollard's financial results and condition are substantially dependent on the continued success and growth in sales of this product and the profitability of such sales. Competitive efforts by other manufacturers of similar or substitute products, shifts in consumer preferences or the introduction and acceptance of alternative product offerings could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Economic Uncertainty

Considerable economic uncertainty and concern over possible recessions and economic downturns have dominated the news in the past few years. Instant lottery tickets account for approximately 89% of revenue and Pollard's financial results and condition are substantially dependent on the continued success and growth in sales of this product and the profitability of such sales. Historically the lottery industry, and particularly the instant ticket product lines, has not shown any significant negative impact during downturns in the economic cycles. However, lotteries, similar to many government agencies, are increasingly under pressure to reduce costs and expenditures. As such, Pollard has witnessed downward pressure on its selling prices. Continued pressure on lotteries to reduce their costs may further negatively impact Pollard's selling prices. Significant shifts in consumer preferences or the introduction and acceptance of alternative product offerings could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Inability to Sustain Sales or EBITDA Margins

Pollard's income depends upon its ability to generate sales to customers and to sustain its EBITDA margins. These margins are dependent upon Pollard's ability to continue to profitably sell lottery tickets and gaming products and to continue to provide products and services that make it the supplier of choice to its customers. If Pollard's costs of sales or operating costs increase, or other manufacturers of gaming products could compete more favourably with it, Pollard may not be able to sustain its level of sales or EBITDA margins.

Dependence on Major Customers

Pollard's 10 largest customers accounted for approximately 54% of its revenue during Fiscal 2016. Pollard's largest customer accounted for approximately 17% of Pollard's revenues during Fiscal 2016.

The nature of the worldwide lottery industry limits the absolute number of lottery operations. As is customary in the industry, Pollard does have long-term contracts with most of its customers. However, most allow the customer to cancel the contract at will and none guarantee volumes or order levels. A significant reduction of purchases by any of Pollard's largest customers could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations including the amount of cash available for dividends to shareholders.

Exchange Rate Fluctuation

A significant portion of Pollard's revenues are denominated in foreign currencies, primarily U.S. dollars and Euros, as well as expenses, principally related to its U.S. operations and to the purchase of raw materials, which are denominated in U.S. dollars. Furthermore, although certain raw materials may be purchased in Canadian dollars, they may have inputs that are denominated in foreign currencies. Any changes in the exchange rate between the Canadian dollar and these foreign currencies could have a material effect on the results of Pollard.

For the purposes of financial reporting, any change in the value of the Canadian dollar against the U.S. dollar and Euro during a given financial reporting period would result in a foreign exchange loss or gain on their translation into Canadian dollar equivalent. Further, Pollard's reported earnings could fluctuate materially as a result of revenues and expenses denominated in foreign currencies under GAAP. There can be no assurance that changes in the currency exchange rate will not have a material adverse effect on Pollard or on its ability to maintain a consistent level of dividends in Canadian dollars.

Additional Capital Requirements

Pollard believes that its future operating income will be sufficient to fund operations and planned capital expenditures. However, Pollard may be required to raise additional capital in the future if it decides to make additional acquisitions or significant additional capital expenditures.

The availability of future borrowings and access to capital markets for longer-term future financing depends on prevailing conditions and the acceptability of financing terms offered. There can be no assurances that future borrowings or equity financing will be available or available on acceptable terms.

Competition

The instant ticket and charitable gaming business is highly competitive, and Pollard faces competition from a number of domestic and foreign instant ticket manufacturers and other competitors. Pollard currently has two instant ticket competitors in North America: Scientific Games Corporation and IGT. Charitable gaming competitors include a number of manufacturers such as Arrow International, Inc. and International Gamco, Inc. Internationally, there are a number of lottery instant ticket vendors which compete with Pollard including Scientific Games, IGT, and the Eagle Press Group of Companies.

Some of Pollard's competitors have longer operating histories, greater name recognition, larger customer bases and greater financial, technical and marketing resources than Pollard. These resources may allow them to respond more quickly than Pollard can to new or emerging technologies and to changes in customer requirements. It may also allow them to devote greater resources than Pollard can to the development, promotion and sale of their products. Pollard's competitors may also engage in more extensive research and development, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies. The market for Pollard's products is highly competitive at both the lottery and charitable gaming levels. Pollard expects competition to continue to be intense. Pollard also faces competition from emerging and existing lottery and charitable gaming products, such as internet gaming products and video lottery terminals. Competition from these and other gaming products may weaken demand for Pollard's products.

Licensing and Regulatory Requirements

Pollard is subject to regulation in most jurisdictions in which its products are sold or used by persons or entities licensed to conduct gaming activities. The gaming regulatory requirements vary from jurisdiction to jurisdiction and licensing, other approval or finding of suitability processes with respect to Pollard, its personnel and its products, can be lengthy and expensive. Many jurisdictions have comprehensive licensing, reporting and operating requirements with respect to the sale and manufacture of bingo and bingo related products, including bingo paper and pull-tab tickets. These licensing requirements have a direct impact on the conduct of the day-to-day operations of Pollard. Generally, gaming regulatory authorities may deny applications for licenses, other approvals or findings of suitability for any cause they may deem reasonable. There can be no assurance that Pollard, its products or its personnel will receive or be able to maintain any necessary gaming licenses, other approvals or findings of suitability. The loss of a license in a particular jurisdiction will prohibit Pollard from selling products in that jurisdiction and may prohibit Pollard from selling its products in other jurisdictions. The loss of one or more licenses held by Pollard could have an adverse effect on the business.

Certain jurisdictions require extensive personal and financial disclosure and background checks from persons and entities beneficially owning a specific percentage (typically five percent or more) of a vendor's securities. The failure of beneficial owners of Pollard's securities to submit to background checks and provide such disclosure could result in the imposition of penalties upon these beneficial owners and could jeopardize the award of a lottery contract to Pollard or provide grounds for termination of an existing lottery contract.

Income and Other Taxes

Pollard and its incorporated subsidiaries are subject to Canadian federal and provincial, and U.S. federal, state and withholding taxes. As taxing regimes change their tax basis and rates or initiate reviews of prior tax returns, Pollard could be exposed to increased costs of taxation, which would reduce the amount of funds available for operations.

Intellectual Property

Pollard's commercial success depends, in part, on its ability to secure and protect intellectual property rights that are important to its business, including patent, trademark, copyright and trade secret rights, to operate without infringing third party intellectual property rights and to avoid having third parties circumvent the intellectual property rights that Pollard owns or licenses. In particular, the patents and trademarks Pollard owns or licenses may not be valid or enforceable. In addition, Pollard cannot be certain that its proprietary technology affords a competitive advantage, does not infringe third party rights, or will not need to be altered in response to competing technologies. Pollard also cannot be certain that technologies developed in the future will be the subject of valid and enforceable intellectual property rights.

In addition, litigation may be necessary to determine the scope, enforceability and validity of third party intellectual property rights or to establish Pollard's intellectual property rights. Regardless of merit, any such litigation could be time consuming and expensive, divert management's time and attention, subject Pollard to significant liabilities, require Pollard to enter into costly royalty or licensing agreements, or require Pollard to modify or stop using intellectual property that it owns or licenses.

Interest Rates

Pollard has certain floating rate loans and may be negatively impacted by increases in interest rates, the effects of which would be to reduce net income and the amount of cash available for operations and on its ability to maintain a consistent level of dividends in Canadian dollars.

Future Acquisition and Integration Risks

To grow by acquisition, Pollard must identify and acquire suitable acquisition candidates at attractive prices and successfully integrate any acquired businesses with its existing operations. If the expected synergies from acquisitions do not materialize or Pollard fails to successfully integrate any new businesses into its existing business, Pollard's financial performance could be significantly impacted. To the extent that businesses acquired by Pollard or their prior owners failed to comply with or otherwise violated applicable laws, Pollard, as a successor owner, may be financially responsible for these violations.

In connection with future acquisitions by Pollard, there may be liabilities that Pollard failed or was unable to discover in its due diligence prior to the consummation of the acquisition. The discovery of any material liabilities could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations or future prospects.

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 due to changes in operating cashflow by approximately \$0.06 million for year ended December 31, 2016 (2015 - \$0.05 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 \$0.06 million for year ended December 31, 2016 (2015 - \$0.05 million).

Two 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, 2016, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately \$1.6 million (\$2015 - \$4.1 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 \$0.01 million (2015 - \$0.02 million).

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At December 31, 2016, 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 \$0.4 million for the year ended December 31, 2016 (2015 - \$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.

The carrying amount of accounts receivable is reduced through the use of an allowance account and any adjustment to the allowance account is recognized in the statement of income within selling and

administration expenses. When a receivable balance is considered uncollectible, it is written off against the allowance account.

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 \$75.0 million for its Canadian operations and up to US\$12.0 million for its U.S. subsidiaries. At December 31, 2016, the unused balance available for drawdown was \$18.9 million (2015 - \$17.6 million).

The 2017 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 continues to grow in a number of areas, particularly relating to instant tickets and ancillary services. Lotteries are looking to grow the amount of funds they can raise for good causes by meeting consumer demand for gaming products. This includes refreshing their core products in addition to expanding into alternative channels such as digital products. Retail consumer demand for instant tickets remains very robust and we believe this underlying product strength will continue.

The outlook for our instant ticket volumes in 2017 remains positive and we expect it to grow, due to overall growth in the market, higher underlying retail sales in our existing customer base and strategically increasing our market share utilizing additional available capacity generated through our recent investments in new capacity. As is the nature of our business, quarter to quarter variations in our volumes will continue, as timing of orders and the variability of the mix of our work over short term periods will impact our quarterly results. Historically our product mix during the first half of the year involves fewer higher value-added proprietary products and we expect this trend to continue. The timing of revenue recognition can also be impacted between quarters based on the timing of receipt of the product by our customers.

Our additional press capacity in Ypsilanti continues to produce increasing volumes of high quality product, evidenced in both the fourth quarter of 2016 and the first quarter of 2017. Our efficiencies and related cost structure are improving and we are confident that as our experience grows we will be able to continue to lower our cost platform. Improvement will be incremental and continue throughout 2017 with focus on such critical areas as reduced spoilage, improved set up time, lower machine costs and more efficient labour costs.

Our contract portfolio remains very strong, with the renewal of a number of key contracts occurring in 2016. In January 2017 we were awarded a new three year contract (with five one-year renewal options available) to provide instant tickets to the Michigan lottery, an important and long served customer of Pollard. We do not have any significant contracts coming due in 2017 when renewal options are considered, while a number of lottery contracts where we do not provide significant product are up for bid this upcoming year. We will bid strategically to enhance our product mix and grow our market share while at the same time focusing on growth of our profit margins.

Lotteries are increasing their focus on ancillary services such as: developing player loyalty programs to improve engagement with lottery consumers; expanding digital options for extending interactions with players and providing greater entertainment value; improving the efficiency of their product distribution

to ensure products are easily accessible to players; refreshing their retail point of sale programs; and investigating the appropriate internet and iLottery strategy for each respective jurisdiction. These trends will continue to progress and provide additional opportunities for Pollard to expand our business within the lottery market.

iLottery business remains an important initiative within the lottery industry, particularly in the North American market. Lotteries are taking a cautious approach to expanding in this area and, although we do not anticipate many new opportunities to open up in the short term, there are several jurisdictions currently investigating taking this step in the near term. We continue to monitor developments and assist the industry in realizing the potential of working through this channel. Our Michigan iLottery operation continues to be the industry leader and adds significantly to the Michigan Lottery's contribution to its good causes. Our second iLottery contract with the Virginia Lottery began operation in the fall of 2016 and while available only for subscriptions for draw based games, it demonstrates another successful iLottery implementation.

The market for charitable games products (bingo paper and pull-tabs) remains stable and our American Games operation continues to be an important contributor to our financial success. Our focus will be on incrementally building market share through growth of specific product initiatives such as pull-tabs for specific events and the lottery market.

We continue to review strategic initiatives to increase our expertise to serve the market as lotteries expand their products and services. This includes looking at strategic acquisitions to both add to our core competencies and develop additional areas of expertise. Our strong organic cash flow allows us the flexibility to pursue opportunities to grow our organization while maintaining a sound financial foundation.

The nature of the international focus of our business results in a net positive exposure to U.S. dollar cash flows. Changes in the foreign exchange relationship between the Canadian and U.S. dollar can impact the short term financial results including the operating cash flow and creation of gains and/or losses in monetary assets and liabilities on the balance sheet. We maintain a significant array of internal hedges to offset our net exposure to the U.S. dollar and do not anticipate utilizing any financial hedges in the near future. We also maintain a net exposure to the Euro, major fluctuations in this currency will also impact our financial results.

Our budgeted capital expenditures for 2017 should remain at similar levels as experienced in 2016, with no major projects anticipated. Assuming no additional significant investments in non-cash working capital, strong positive operating cash flow is expected going forward.

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.

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.

No changes were made in Pollard's internal control over financial reporting during the year ended December 31, 2016, 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, 2016, is available on SEDAR at www.sedar.com.

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

Condensed Consolidated Interim Financial Statements of

**POLLARD BANKNOTE
LIMITED**

(unaudited)

Three months ended March 31, 2016

These condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent external auditors, KPMG LLP.

Pollard Banknote Limited
Condensed Consolidated Statements of Financial Position
(In thousands of Canadian dollars)
(unaudited)

	March 31, 2016	December 31, 2015
Assets		
Current assets		
Cash	\$ 5,859	\$ 7,587
Restricted cash	891	560
Accounts receivable	34,869	24,151
Inventories (note 5)	22,497	23,739
Prepaid expenses and deposits	3,812	4,169
Income taxes receivable	2,762	3,046
Total current assets	70,690	63,252
Non-current assets		
Property, plant and equipment	49,344	50,380
Equity investments (note 6)	728	401
Goodwill	37,298	37,717
Intangible assets	12,238	12,340
Total non-current assets	99,608	100,838
Total assets	\$ 170,298	\$ 164,090
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 27,627	\$ 22,290
Dividends payable	706	706
Current portion long-term debt (note 7)	1,203	1,203
Total current liabilities	29,536	24,199
Non-current liabilities		
Long-term debt (note 7)	72,117	72,083
Subordinated debt (note 8)	6,813	6,813
Other non-current liabilities	148	397
Pension liability	11,374	11,270
Deferred income taxes	4,930	5,751
Total non-current liabilities	95,382	96,314
Shareholders' equity		
Share capital	73,209	73,209
Reserves	3,303	4,384
Deficit	(31,132)	(34,016)
Total shareholders' equity	45,380	43,577
Total liabilities and shareholders' equity	\$ 170,298	\$ 164,090

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Income
(In thousands of Canadian dollars, except for share amounts)
(unaudited)

	Three months ended March 31, 2016	Three months ended March 31, 2015
Sales	\$ 64,041	\$ 54,431
Cost of sales	52,639	44,381
Gross profit	11,402	10,050
Administration	5,343	4,242
Selling	1,925	1,712
Other income (note 9)	(35)	(148)
Income from operations	4,169	4,244
Finance costs (note 10)	975	1,940
Finance income (note 10)	(1,042)	(80)
Income before income taxes	4,236	2,384
Income taxes (note 11)	651	987
Net income	\$ 3,585	\$ 1,397
Net income per share (basic) (note 12)	\$ 0.15	\$ 0.06
Net income per share (diluted) (note 12)	\$ 0.15	\$ 0.06

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Comprehensive Income
(In thousands of Canadian dollars)
(unaudited)

	Three months ended March 31, 2016	Three months ended March 31, 2015
Net income	\$ 3,585	\$ 1,397
Other comprehensive income (loss)		
Items that are or may be reclassified to profit and loss		
Foreign currency translation differences – foreign operations	(1,081)	1,290
Other comprehensive income (loss)	(1,081)	1,290
Comprehensive income	\$ 2,504	\$ 2,687

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Changes in Equity
(In thousands of Canadian dollars)
(unaudited)

For the three months ended March 31, 2016

	Attributable to equity holders of Pollard Banknote Limited				Total equity
	Share capital	Translation reserve	Deficit		
Balance at January 1, 2016	\$ 73,209	4,384	(34,016)		43,577
Net income	-	-	3,585		3,585
Other comprehensive income					
Foreign currency translation differences – foreign operations	-	(1,081)	-		(1,081)
Total other comprehensive income	\$ -	(1,081)	-		(1,081)
Total comprehensive income	\$ -	(1,081)	3,585		2,504
Share based compensation	\$ -	-	5		5
Dividends to owners of Pollard Banknote Limited (note 14)	-	-	(706)		(706)
Balance at March 31, 2016	\$ 73,209	3,303	(31,132)		45,380

For the three months ended March 31, 2015

	Attributable to equity holders of Pollard Banknote Limited				Total equity
	Share capital	Translation reserve	Deficit		
Balance at January 1, 2015	\$ 73,209	1,456	(40,750)		33,915
Net income	-	-	1,397		1,397
Other comprehensive income					
Foreign currency translation differences – foreign operations	-	1,290	-		1,290
Total other comprehensive income	\$ -	1,290	-		1,290
Total comprehensive income	\$ -	1,290	1,397		2,687
Share based compensation	\$ -	-	9		9
Dividends to owners of Pollard Banknote Limited	-	-	(706)		(706)
Balance at March 31, 2015	\$ 73,209	2,746	(40,050)		35,905

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)
(unaudited)

	Three months ended March 31, 2016	Three months ended March 31, 2015
Cash increase (decrease)		
Operating activities:		
Net income	\$ 3,585	\$ 1,397
Adjustments		
Income taxes	651	987
Amortization and depreciation	2,752	1,991
Interest expense	887	655
Unrealized foreign exchange (gain) loss	(1,123)	1,770
Loss on equity investment	93	-
Pension expense	1,129	948
Mark-to-market gain on foreign currency contracts	-	(80)
Interest paid	(850)	(625)
Income tax paid	(1,008)	(2,552)
Pension contribution	(803)	(586)
Change in non-cash operating working capital (note 13)	(5,053)	2,188
	260	6,093
Investing activities		
Additions to property, plant and equipment	(1,141)	(5,169)
Equity investments (note 6)	(389)	-
Additions to intangible assets	(289)	(251)
	(1,819)	(5,420)
Financing activities		
Net proceeds from long-term debt	1,228	650
Change in other non-current liabilities	(223)	(84)
Deferred financing charges paid	-	(111)
Dividends paid	(706)	(706)
	299	(251)
Foreign exchange (loss) gain on cash held in foreign currency	(468)	219
Change in cash position	(1,728)	641
Cash position, beginning of period	7,587	6,287
Cash position, end of period	\$ 5,859	\$ 6,928

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, except for share amounts)
(unaudited)

1. Reporting entity:

Pollard Banknote Limited ("Pollard") was incorporated under the laws of Canada on March 26, 2010. The address of Pollard's registered office is 140 Otter Street, Winnipeg, Manitoba, Canada, R3T 0M8.

The condensed consolidated interim financial statements of Pollard as at and for the three months ended March 31, 2016, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and gaming products.

The controlling entity of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owns approximately 73.5% of Pollard's outstanding shares.

Pollard's consolidated financial statements as at and for the year ended December 31, 2015, are available at www.sedar.com.

The overall impact of seasonality does not have a significant impact on the operations of Pollard.

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* and do not include all of the information required for full annual consolidated financial statements.

On May 11, 2016, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Use of estimates and judgments:

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying Pollard's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2015.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

3. Significant accounting policies:

These condensed consolidated interim financial statements follow the same significant accounting policies as described and used in Pollard's consolidated financial statements for the year ended December 31, 2015 and should be read in conjunction with those reports.

4. Future accounting standards:

In July 2014, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standards ("IFRS") 9 *Financial Instruments* ("IFRS 9"), which replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is required for fiscal years beginning on or after January 1, 2018. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard specifies the steps and timing for recognizing revenue, as well as requiring more informative, relevant disclosures. IFRS 15 supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue*. IFRS 15 is required for fiscal years beginning on or after January 1, 2018 with early adoption available. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In September 2014, the IASB issued amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments were to be effective for fiscal years beginning on or after January 1, 2016, with early adoption available; however, in December 2015 the IASB decided to defer the effective date for these amendments indefinitely. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

In January 2016, the 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. Earlier application is permitted for entities

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

4. Future accounting standards (continued):

that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

5. Inventories:

	March 31, 2016	December 31, 2015
Raw materials	\$ 9,462	\$ 9,679
Work-in-process	713	749
Finished goods	12,322	13,311
	\$ 22,497	\$ 23,739

During the first quarter of 2016, Pollard recorded inventory write-downs of \$166 representing an increase in obsolescence reserves, and write-downs of \$76 due to changes in foreign exchange rates.

During the first quarter of 2015, Pollard recorded inventory write-downs of \$137 representing an increase in obsolescence reserves, and write-downs of \$49 due to changes in foreign exchange rates.

The cost of sales reflects the costs of inventory including direct material, direct labour and manufacturing overheads.

6. Equity investments:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Balance – beginning of period	\$ 401	\$ -
Investment	389	
Equity loss	(93)	
Effects of movements in exchange rates	31	
Balance – end of period	\$ 728	\$ -

Pollard has entered into an agreement with NeoGames US, LLP for the establishment of NeoPollard Interactive LLC. The entity was established to provide iLottery services in the United States and Canada, excluding the State of Michigan.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

6. Equity investments (continued):

Pollard and Neogames S.à r.l. operate the iLottery operation for the Michigan Lottery under a separate joint operating agreement. Pollard recognizes its interest in the joint operation by including its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

7. Long-term debt:

	March 31, 2016	December 31, 2015
Credit facility, interest of 2.9% to 4.8%, payable monthly, maturing 2017	\$ 73,444	\$ 73,497
Deferred financing charges, net of amortization	(124)	(211)
	73,320	73,286
Less current portion	(1,203)	(1,203)
	\$ 72,117	\$ 72,083

Included in the total credit facility balance is a U.S. dollar loan balance of US\$14,500 (December 31, 2015 – US\$14,200).

Effective June 30, 2015, Pollard Banknote Limited renewed its credit facility. The credit facility provides loans of up to \$71,827 for its Canadian operations (denominated in Canadian or U.S. dollars), \$3,609 for a term facility and US\$12,000 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, 2016, the outstanding letters of guarantee drawn under the credit facility were \$1,204 (December 2015 - \$1,257).

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, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at March 31, 2016, Pollard is in compliance with all financial covenants.

As at March 31, 2016, \$3,609 of the term facility remained outstanding. Repayment of the term facility commenced on June 30, 2015, in the form of quarterly principal repayments of \$301 plus interest. Repayments permanently reduce the term facility commitment available.

As of March 31, 2016, Pollard has unused credit facility available of \$13,787 (December 2015 - \$17,591) and the term facility is fully drawn.

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except for share amounts)*

(unaudited)

7. Long-term debt (continued):

Pollard's credit facility, including the term facility, is secured by a first security interest in all of the present and after acquired property of Pollard. The facility can be prepaid without penalties. Under the terms of the agreement the facility was committed for a period, renewable June 30, 2016 ("Facility Expiry Date"). If the facility is not renewed, the loans are repayable one year after the Facility Expiry Date, except for the scheduled principal repayments on the term facility. As such, the credit facility effectively has a two year term expiring June 30, 2017.

8. Subordinated debt:

	March 31, 2016	December 31, 2015
Subordinated debt, interest of 9.00% payable quarterly, maturing 2021	\$ 6,813	\$ 6,813
	\$ 6,813	\$ 6,813

On April 2, 2014, Pollard's former subsidiary, Pollard Holdings Limited Partnership, entered into a loan agreement with Equities for a subordinated term loan facility with a seven year term in the amount of \$6,813 to assist in the purchase of a printing press. Effective January 1, 2015, Pollard Banknote Limited assumed the subordinated debt on completion of the amalgamation of the Canadian entities.

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, completed on April 4, 2014, or the date of repayment in full of the additional secured term facility. Based on the current repayment schedule, the term facility will be repaid in full in March 2019, at which time principal payments on the subordinated debt will commence. Interest on the subordinated term loan facility commenced with the first draw at a rate of 9%. The loan is fully subordinated to the secured credit facility.

9. Other (income) expense:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Loss on equity investment	\$ 93	\$ -
Other income	(128)	(148)
	\$ (35)	\$ (148)

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except for share amounts)*

(unaudited)

10. Finance costs and finance income:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Finance costs		
Interest	\$ 887	\$ 655
Foreign exchange loss	-	1,230
Amortization of deferred financing costs	88	55
	\$ 975	\$ 1,940

	Three months ended March 31, 2016	Three months ended March 31, 2015
Finance income		
Foreign exchange gain	\$ 1,042	\$ -
Mark-to-market gain on foreign currency contracts	-	80
	\$ 1,042	\$ 80

11. Income taxes:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Income tax expense		
Current income tax	\$ 1,089	\$ 751
Deferred income tax (reduction)	(438)	236
	\$ 651	\$ 987

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except for share amounts)*

(unaudited)

11. Income taxes (continued):

Reconciliation of effective tax rate	Three months ended March 31, 2016	Three months ended March 31, 2015
Net income for the period	\$ 3,585	\$ 1,397
Total income taxes	651	987
Income before income taxes	\$ 4,236	\$ 2,384
Income tax using Pollard's domestic tax rate	26.8% \$ 1,135	26.7% \$ 637
Changes in expected tax rates and other non-deductible amounts	3.0% 125	(4.0%) (95)
Effect of non-taxable items related to foreign exchange	(14.4%) (609)	18.7% 445
	15.4% \$ 651	41.4% \$ 987

12. Net income per share:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Net income attributable to shareholders for basic and diluted net income per share	\$ 3,585	\$ 1,397
Weighted average number of shares (basic)	23,543,158	23,543,158
Weighted average impact of share options on issue	100,000	100,000
Weighted average number of shares (diluted)	23,643,158	23,643,158
Net income per share (basic)	\$ 0.15	\$ 0.06
Net income per share (diluted)	\$ 0.15	\$ 0.06

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

13. Supplementary cash flow information:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Change in non-cash operating working capital:		
Accounts receivable	\$ (12,470)	\$ 484
Inventories	964	3,213
Prepaid expenses and deposits	95	(469)
Income taxes receivable	(60)	-
Accounts payable and accrued liabilities	6,418	(1,040)
	\$ (5,053)	\$ 2,188

14. Dividends:

Dividends are paid on the common shares within 15 days of the end of each quarter and are fully discretionary, as determined by the Board of Directors of Pollard, subject to restrictions imposed under its credit facility.

On March 14, 2016, a dividend of \$0.03 per share was declared, payable on April 15, 2016, to the shareholders of record on March 31, 2016.

15. Related party transactions:

During the quarter ended March 31, 2016, Pollard paid property rent of \$783 (2015 - \$770) and \$57 (2015 - \$67) in plane charter costs to affiliates of Equities. In addition, during the quarter, Pollard paid Equities \$153 (2015 - \$151) of interest on Pollard's subordinated debt.

During the quarter, Equities paid Pollard \$18 (2015 - \$18) for accounting and administration fees.

During the quarter Pollard reimbursed operating costs of \$313 (2015 - \$82) to its iLottery partner, which are recorded in cost of sales.

At March 31, 2016, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, interest and other expenses of \$849 (December 31, 2015 - \$795). Also included in accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of \$2,208 (December 31, 2015 - \$1,125) for reimbursement of operating costs and capital expenditures, and its share of operating profits.

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors and the Executive Committee are considered key management personnel.

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except for share amounts)*

(unaudited)

15. Related party transactions (continued):

Key management personnel compensation comprised of:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Wages, salaries and benefits	\$ 526	\$ 579
Profit share	4	2
Expenses related to defined benefit plans	118	116
	\$ 648	\$ 697

At March 31, 2016, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,431,471 common shares of Pollard.

16. Financial risk management:

Pollard has exposure to the following risks from its use of financial instruments:

Credit risk
Liquidity risk
Currency risk
Interest rate risk

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls and 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.

Credit risk

The following table outlines the details of the aging of Pollard's receivables and the related allowance for doubtful accounts:

	March 31, 2016	December 31, 2015
Current	\$ 31,581	\$ 19,193
Past due for 1 to 60 days	3,008	4,295
Past due for more than 60 days	334	717
Less: Allowance for doubtful accounts	(54)	(54)
	\$ 34,869	\$ 24,151

Pollard Banknote Limited
Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)
(unaudited)

16. Financial risk management (continued):

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In addition, Pollard maintains a committed credit facility including up to \$71,827 for its Canadian operations, as well as the additional term facility of \$3,609 and up to US\$12,000 for its U.S. subsidiaries. At March 31, 2016, the unused balance available for drawdown was \$13,787 (December 31, 2015 - \$17,591).

The 2016 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and the unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to some 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 the Canadian and U.S. dollar, primarily in Euros.

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 due to changes in operating cashflow by approximately \$7 for the three months ended March 31, 2016 (2015 - \$23). 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 \$12 for three months ended March 31, 2016 (2015 - \$13).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At March 31, 2016, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately \$1,960 (December 31, 2015 - \$4,101). 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 \$10 for the three months ended March 31, 2016 (2015 - \$34).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Two 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.

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At March 31, 2016, Pollard had no outstanding foreign currency contracts.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

16. Financial risk management (continued):

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.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately \$92 for the three months ended March 31, 2016 (2015 - \$89).

Condensed Consolidated Interim Financial Statements of

**POLLARD BANKNOTE
LIMITED**

(unaudited)

Six months ended June 30, 2016

These condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent external auditors, KPMG LLP.

Pollard Banknote Limited
Condensed Consolidated Statements of Financial Position
(In thousands of Canadian dollars)
(unaudited)

	June 30, 2016	December 31, 2015
Assets		
Current assets		
Cash	\$ 9,029	\$ 7,587
Restricted cash	985	560
Accounts receivable	28,789	24,151
Inventories (note 4)	26,709	23,739
Prepaid expenses and deposits	4,418	4,169
Income taxes receivable	1,718	3,046
Total current assets	71,648	63,252
Non-current assets		
Property, plant and equipment	48,253	50,380
Equity investments (note 5)	843	401
Goodwill	37,248	37,717
Intangible assets	12,095	12,340
Total non-current assets	98,439	100,838
Total assets	\$ 170,087	\$ 164,090
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 26,157	\$ 22,290
Dividends payable	706	706
Current portion long-term debt (note 6)	-	1,203
Current portion subordinated debt (note 7)	1,363	-
Total current liabilities	28,226	24,199
Non-current liabilities		
Long-term debt (note 6)	73,490	72,083
Subordinated debt (note 7)	5,450	6,813
Other non-current liabilities	201	397
Pension liability	11,654	11,270
Deferred income taxes	4,490	5,751
Total non-current liabilities	95,285	96,314
Shareholders' equity		
Share capital	73,209	73,209
Reserves	3,158	4,384
Deficit	(29,791)	(34,016)
Total shareholders' equity	46,576	43,577
Total liabilities and shareholders' equity	\$ 170,087	\$ 164,090

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Income
(In thousands of Canadian dollars, except for share amounts)
(unaudited)

	Three months ended June 30, 2016		Three months ended June 30, 2015		Six months ended June 30, 2016		Six months ended June 30, 2015	
Sales	\$	54,002	\$	51,467	\$	118,043	\$	105,898
Cost of sales		43,090		40,726		95,727		85,105
Gross profit		10,912		10,741		22,316		20,793
Administration		5,080		4,284		10,423		8,526
Selling		1,792		1,660		3,718		3,372
Other income (note 8)		(391)		(138)		(425)		(286)
Income from operations		4,431		4,935		8,600		9,181
Finance costs (note 9)		1,193		749		2,168		2,690
Finance income (note 9)		-		(411)		(1,042)		(490)
Income before income taxes		3,238		4,597		7,474		6,981
Income taxes (note 10)		1,193		1,645		1,844		2,632
Net income	\$	2,045	\$	2,952	\$	5,630	\$	4,349
Net income per share (basic) (note 11)	\$	0.09	\$	0.13	\$	0.24	\$	0.18
Net income per share (diluted) (note 11)	\$	0.09	\$	0.13	\$	0.24	\$	0.18

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Comprehensive Income
(In thousands of Canadian dollars)
(unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net income	\$ 2,045	\$ 2,952	\$ 5,630	\$ 4,349
Other comprehensive income (loss):				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations	(145)	(191)	(1,226)	1,099
Other comprehensive income (loss)	(145)	(191)	(1,226)	1,099
Comprehensive income	\$ 1,900	\$ 2,761	\$ 4,404	\$ 5,448

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Changes in Equity
(In thousands of Canadian dollars)
(unaudited)

For the six months ended June 30, 2016

	Attributable to equity holders of Pollard Banknote Limited			
	Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2016	\$ 73,209	4,384	(34,016)	43,577
Net income	-	-	5,630	5,630
Other comprehensive loss				
Foreign currency translation differences – foreign operations	-	(1,226)	-	(1,226)
Total other comprehensive loss	\$ -	(1,226)	-	(1,226)
Total comprehensive income (loss)	\$ -	(1,226)	5,630	4,404
Share based compensation	\$ -	-	8	8
Dividends to owners of Pollard Banknote Limited (note 12)	-	-	(1,413)	(1,413)
Balance at June 30, 2016	\$ 73,209	3,158	(29,791)	46,576

For the six months ended June 30, 2015

	Attributable to equity holders of Pollard Banknote Limited			
	Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2015	\$ 73,209	1,456	(40,750)	33,915
Net income	-	-	4,349	4,349
Other comprehensive income				
Foreign currency translation differences – foreign operations	-	1,099	-	1,099
Total other comprehensive income	\$ -	1,099	-	1,099
Total comprehensive income	\$ -	1,099	4,349	5,448
Share based compensation	\$ -	-	14	14
Dividends to owners of Pollard Banknote Limited	-	-	(1,413)	(1,413)
Balance at June 30, 2015	\$ 73,209	2,555	(37,800)	37,964

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)
(unaudited)

	Six months ended June 30, 2016		Six months ended June 30, 2015	
Cash increase (decrease):				
Operating activities:				
Net income	\$	5,630	\$	4,349
Adjustments:				
Income taxes		1,844		2,632
Amortization and depreciation		5,621		4,019
Interest expense		1,701		1,307
Unrealized foreign exchange (gain) loss		(2,040)		1,220
Loss on equity investment		178		-
Pension expense		2,171		1,895
Gain on sale of investment in associate		(516)		-
Mark-to-market gain on foreign exchange contracts		-		(483)
Interest paid		(1,625)		(1,400)
Income tax paid		(1,313)		(2,826)
Pension contributions		(1,545)		(1,118)
Change in non-cash operating working capital (note 13)		(5,470)		856
		4,636		10,451
Investing activities:				
Additions to property, plant and equipment		(2,342)		(9,069)
Equity investments (note 5)		(597)		-
Proceeds from sales of investment in associate		516		-
Additions to intangible assets		(538)		(352)
		(2,961)		(9,421)
Financing activities:				
Net proceeds from long-term debt		1,578		1,948
Change in other non-current liabilities		(170)		(11)
Deferred financing charges paid		(98)		(329)
Dividends paid		(1,413)		(1,413)
		(103)		195
Foreign exchange gain (loss) on cash held in foreign currency		(130)		273
Change in cash position		1,442		1,498
Cash position, beginning of period		7,587		6,287
Cash position, end of period	\$	9,029	\$	7,785

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, except for share amounts)
(unaudited)

1. Reporting entity:

Pollard Banknote Limited ("Pollard") was incorporated under the laws of Canada on March 26, 2010. The address of Pollard's registered office is 140 Otter Street, Winnipeg, Manitoba, Canada, R3T 0M8.

The condensed consolidated interim financial statements of Pollard as at and for the six months ended June 30, 2016, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and gaming products.

The controlling entity of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owns approximately 73.5% of Pollard's outstanding shares.

Pollard's consolidated financial statements as at and for the year ended December 31, 2015, are available at www.sedar.com.

The overall impact of seasonality does not have a significant impact on the operations of Pollard.

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* and do not include all of the information required for full annual consolidated financial statements.

On August 10, 2016, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Use of estimates and judgments:

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying Pollard's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2015.

Pollard Banknote Limited
Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)
(unaudited)

2. Basis of preparation (continued):

(c) Significant accounting policies::

These condensed consolidated interim financial statements follow the same significant accounting policies as described and used in Pollard's consolidated financial statements for the year ended December 31, 2015 and should be read in conjunction with those reports.

3. Future accounting standards:

In July 2014, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standards ("IFRS") 9 *Financial Instruments* ("IFRS 9"), which replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is required for fiscal years beginning on or after January 1, 2018. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard specifies the steps and timing for recognizing revenue, as well as requiring more informative, relevant disclosures. IFRS 15 supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue*. IFRS 15 is required for fiscal years beginning on or after January 1, 2018 with early adoption available. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In September 2014, the IASB issued amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments were to be effective for fiscal years beginning on or after January 1, 2016, with early adoption available; however, in December 2015 the IASB decided to defer the effective date for these amendments indefinitely. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

In January 2016, the 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

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

3. Future accounting standards (continued):

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. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows*. The amendments were issued to improve information provided to users of financial statements about an entity's changes in liabilities arising from financing activities. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 12 *Income Taxes*. The amendments were regarding the recognition of deferred tax assets for unrealized losses relating to debt instruments measured at fair value. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In June 2016, the IASB issued amendments to IAS 2 *Share-Based Payments*. The amendments clarify how to account for certain types of share-based payment transactions. These amendments are effective for annual periods beginning on or after January 1, 2018. Retrospective or earlier application is permitted under certain conditions. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

4. Inventories:

	June 30, 2016	December 31, 2015
Raw materials	\$ 9,305	\$ 9,679
Work-in-process	785	749
Finished goods	16,619	13,311
	\$ 26,709	\$ 23,739

During the second quarter of 2016, Pollard recorded inventory write-downs of \$77 representing an increase in the obsolescence reserves, and a reversal of previous write-downs of \$33 due to changes in foreign exchange rates. During the six months ended June 30, 2016, Pollard recorded inventory write-downs of \$243 representing an increase in the obsolescence reserves, and write-downs of \$44 due to changes in foreign exchange rates.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

4. Inventories (continued):

During the second quarter of 2015, Pollard recorded inventory write-downs of \$97 representing an increase in the obsolescence reserves, and a reversal of previous write-downs of \$21 due to changes in foreign exchange rates. During the six months ended June 30, 2015, Pollard recorded inventory write-downs of \$235 representing an increase in the obsolescence reserves, and a reversal of previous write-downs of \$29 due to changes in foreign exchange rates.

The cost of sales reflects the costs of inventory including direct material, direct labour and manufacturing overheads.

5. Equity investments:

	Six months ended June 30, 2016	Six months ended June 30, 2015
Interest in joint venture		
Balance – beginning of period	\$ 401	\$ -
Investment	597	-
Equity loss	(178)	-
Effects of movements in exchange rates	23	-
Balance – end of period	\$ 843	\$ -

Pollard has entered into an agreement with NeoGames US, LLP for the establishment of NeoPollard Interactive LLC. The entity was established to provide iLottery services in the United States and Canada, excluding the State of Michigan.

Pollard and Neogames S.à r.l. operate the iLottery operation for the Michigan Lottery under a separate joint operating agreement. Pollard recognizes its interest in the joint operation by including its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

6. Long-term debt:

	June 30, 2016	December 31, 2015
Credit facility, interest of 2.97% to 3.70% payable monthly, maturing 2018	\$ 73,660	\$ 73,497
Deferred financing charges, net of amortization	(170)	(211)
	73,490	73,286
Less current portion	-	(1,203)
	\$ 73,490	\$ 72,083

Included in the total credit facility balance is a U.S. dollar loan balance of US\$13,400 (December 31, 2015 - US\$14,200).

Effective June 24, 2016, Pollard Banknote Limited renewed its credit facility. As part of the renewal, the outstanding balance of the term facility was repaid. The credit facility provides loans of up to \$75,000 for its Canadian operations and US\$12,000 for its U.S. subsidiaries. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of \$75,000 Canadian equivalent. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At June 30, 2016, the outstanding letters of guarantee drawn under the credit facility were \$1,205 (December 31, 2015 - \$1,257).

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, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at June 30, 2016, Pollard is in compliance with all financial covenants.

As of June 30, 2016, Pollard has unused credit facility available of \$15,614 (December 31, 2015 - \$17,591).

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. The facility can be prepaid without penalties. Under the terms of the agreement the facility was committed for a two year period, renewable June 24, 2018.

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except for share amounts)*

(unaudited)

7. Subordinated debt:

	June 30, 2016	December 31, 2015
Subordinated debt, interest of 9.00% payable quarterly, maturing 2021	\$ 6,813	\$ 6,813
Less current portion	(1,363)	-
	\$ 5,450	\$ 6,813

On April 2, 2014, Pollard's former subsidiary, Pollard Holdings Limited Partnership, entered into a loan agreement with Equities for a subordinated term loan facility with a seven year term in the amount of \$6,813 to assist in the purchase of a printing press. Effective January 1, 2015, Pollard Banknote Limited assumed the subordinated debt on completion of the amalgamation of the Canadian entities.

Quarterly principal payments on the subordinated loan facility commenced the month following the repayment in full of the additional secured term facility, which occurred June 30, 2016. Interest on the subordinated term loan facility commenced with the first draw at a rate of 9%. The loan is fully subordinated to the secured credit facility.

8. Other (income) expense:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Loss on equity investment	\$ 84	\$ -	\$ 178	\$ -
Gain on sale of investment in associate	(516)	-	(516)	-
Other	41	(138)	(87)	(286)
	\$ (391)	\$ (138)	\$ (425)	\$ (286)

During the second quarter, Pollard sold its investment in Shenzhen Palm Commerce & Pollard Banknote Technology Co., Ltd. to Palm Commerce Information and Technology (China) Co., Ltd., the majority shareholder, for proceeds of US\$400.

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except for share amounts)*

(unaudited)

9. Finance costs and finance income:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Finance costs				
Foreign exchange loss	\$ 327	\$ -	\$ 327	\$ 1,230
Interest	814	651	1,701	1,307
Amortization of deferred financing costs	52	98	140	153
	\$ 1,193	\$ 749	\$ 2,168	\$ 2,690

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Finance income				
Foreign exchange gain	\$ -	\$ 7	\$ 1,042	\$ 7
Mark-to-market gain on foreign exchange currency contracts	-	404	-	483
	\$ -	\$ 411	\$ 1,042	\$ 490

10. Income taxes:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Income tax expense				
Current	\$ 1,561	\$ 1,507	\$ 2,650	\$ 2,258
Deferred (recovery)	(368)	138	(806)	374
	\$ 1,193	\$ 1,645	\$ 1,844	\$ 2,632

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except for share amounts)*

(unaudited)

10. Income taxes (continued):

	Three months ended June 30, 2016	Three months ended June 30, 2015
Reconciliation of effective tax rate		
Net income for the period	\$ 2,045	\$ 2,952
Total income taxes	1,193	1,645
Income before income taxes	\$ 3,238	\$ 4,597
Income tax using Pollard's domestic tax rate	27.0% \$ 874	26.7% \$ 1,229
Changes in expected tax rates and other non-deductible amounts	1.9% 62	0.5% 24
Effect of non-taxable items related to foreign exchange	8.0% 257	8.5% 392
	36.9% \$ 1,193	35.7% \$ 1,645

	Six months ended June 30, 2016	Six months ended June 30, 2015
Reconciliation of effective tax rate		
Net income for the period	\$ 5,630	\$ 4,349
Total income taxes	1,844	2,632
Income before income taxes	\$ 7,474	\$ 6,981
Income tax using Pollard's domestic tax rate	27.0% \$ 2,018	26.7% \$ 1,867
Changes in expected tax rates and other non-deductible amounts	2.5% 187	(1.0%) (71)
Effect of non-taxable items related to foreign exchange	(4.8%) (361)	12.0% 836
	24.7% \$ 1,844	37.7% \$ 2,632

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except for share amounts)*

(unaudited)

11. Net income per share:

	Three months ended June 30, 2016	Three months ended June 30, 2015
Net income attributable to shareholders for basic and diluted net income per share	\$ 2,045	\$ 2,952
Weighted average number of shares (basic)	23,543,158	23,543,158
Weighted average impact of share options on issue	100,000	100,000
Weighted average number of shares (diluted)	23,643,158	23,643,158
Net income per share (basic)	\$ 0.09	\$ 0.13
Net income per share (diluted)	\$ 0.09	\$ 0.13

	Six months ended June 30, 2016	Six months ended June 30, 2015
Net income attributable to shareholders for basic and diluted net income per share	\$ 5,630	\$ 4,349
Weighted average number of shares (basic)	23,543,158	23,543,158
Weighted average impact of share options on issue	100,000	100,000
Weighted average number of shares (diluted)	23,643,158	23,643,158
Net income per share (basic)	\$ 0.24	\$ 0.18
Net income per share (diluted)	\$ 0.24	\$ 0.18

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

12. Dividends:

Dividends are paid on the common shares within 15 days of the end of each quarter and are fully discretionary, as determined by the Board of Directors of Pollard. On May 11, 2016, a dividend of \$0.03 per share was declared, payable on July 15, 2016, to the shareholders of record on June 30, 2016.

13. Supplementary cash flow information:

	Six months ended June 30, 2016	Six months ended June 30, 2015
Change in non-cash operating working capital:		
Accounts receivable	\$ (5,345)	\$ (1,153)
Inventories	(3,427)	3,262
Prepaid expenses and deposits	(535)	(963)
Income taxes receivable	(292)	-
Accounts payable and accrued liabilities	4,129	(290)
	<u>\$ (5,470)</u>	<u>\$ 856</u>

14. Related party transactions:

During the quarter ended June 30, 2016, Pollard paid property rent of \$777 (2015 - \$770) and \$57 (2015 - \$57) in plane charter costs to an affiliate of Pollard Equities Limited. During the six months ended June 30, 2016, Pollard paid property rent of \$1,561 (2015 - \$1,540) and \$113 (2015 - \$113) in plane charter costs to an affiliate of Equities. In addition, during the quarter, Pollard paid Equities \$153 (2015 - \$153) of interest on Pollard's subordinated debt and \$306 (2015 - \$304) for the six months ended June 30, 2016.

During the quarter, Equities paid Pollard \$18 (2015 - \$18) for accounting and administration fees and \$36 (2015 - \$36) during the six months ended June 30, 2016.

During the quarter Pollard reimbursed operating costs of \$234 (2015 - \$111) to its iLottery partner, which are recorded in cost of sales and \$547 (2015 - \$192) during the six months ended June 30, 2016.

At June 30, 2016, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, interest and other expenses of \$534 (December 31, 2015 - \$795). Also included in accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of \$1,192 (December 31, 2015 - \$1,125) for reimbursement of operating costs and capital expenditures, and its share of operating profits.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

14. Related party transactions (continued):

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors and the Executive Committee are considered key management personnel.

Key management personnel compensation comprised:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Wages, salaries and benefits	\$ 527	\$ 555	\$ 1,052	\$ 1,135
Profit share	2	3	6	5
Expenses related to defined benefit plans	118	116	237	231
	\$ 647	\$ 674	\$ 1,295	\$ 1,371

At June 30, 2016, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,444,771 common shares of Pollard.

15. Financial risk management:

Pollard has exposure to the following risks from its use of financial instruments:

Credit risk

Liquidity risk

Currency risk

Interest rate risk

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls and 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.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

15. Financial risk management (continued):

Credit risk

The following table outlines the details of the aging of Pollard's receivables and the related allowance for doubtful accounts:

	June 30, 2016	December 31, 2015
Current	\$ 25,521	\$ 19,193
Past due for 1 to 60 days	2,887	4,295
Past due for more than 60 days	535	717
Less: Allowance for doubtful accounts	(154)	(54)
	\$ 28,789	\$ 24,151

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In addition, Pollard maintains a committed credit facility including up to \$75,000 for its Canadian operations and US\$12,000 for its U.S. subsidiaries. At June 30, 2016, the unused balance available for drawdown under the credit facility was \$15,614, (December 31, 2015 - \$17,591).

The 2016 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and the unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to some 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 the Canadian and U.S. dollar, primarily in Euros.

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 due to changes in operating cashflow by approximately \$32 for the second quarter of 2016 (2015 - \$10) and approximately \$39 for the six months ended June 30, 2016 (2015 - \$33). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and Euro would decrease/increase the income before income taxes due to changes in operating cashflow by approximately \$15 for the second quarter of 2016 (2015 - \$9) and approximately \$26 for the six months ended June 30, 2016 (2015 - \$23).

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

15. Financial risk management (continued):

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At June 30, 2016, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately \$4,860 (December 31, 2015 - \$4,101). 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 taxes of approximately \$24 for the three and six months ended June 30, 2016 (2015 - \$27).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Two 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.

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At June 30, 2016, Pollard had no outstanding foreign currency contracts.

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.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately \$92 for the three months ended June 30, 2016 (2015 - \$91) and approximately \$184 for the six months ended June 30, 2016 (2015 - \$182).

Condensed Consolidated Interim Financial Statements of

**POLLARD BANKNOTE
LIMITED**

(unaudited)

Nine months ended September 30, 2016

These condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent external auditors, KPMG LLP.

Pollard Banknote Limited
Condensed Consolidated Statements of Financial Position
(In thousands of Canadian dollars)
(unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets		
Cash	\$ 8,530	\$ 7,587
Restricted cash	1,000	560
Accounts receivable	34,164	24,151
Inventories (note 4)	27,469	23,739
Prepaid expenses and deposits	4,594	4,169
Income taxes receivable	1,097	3,046
Total current assets	76,854	63,252
Non-current assets		
Property, plant and equipment	46,913	50,380
Equity investment (note 5)	861	401
Goodwill	37,348	37,717
Intangible assets	11,968	12,340
Total non-current assets	97,090	100,838
Total assets	\$ 173,944	\$ 164,090
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 26,921	\$ 22,290
Dividends payable	706	706
Current portion long-term debt (note 6)	-	1,203
Current portion subordinated debt (note 7)	1,363	-
Total current liabilities	28,990	24,199
Non-current liabilities		
Long-term debt (note 6)	74,226	72,083
Subordinated debt (note 7)	5,110	6,813
Other non-current liabilities	190	397
Pension liability	12,007	11,270
Deferred income taxes	4,436	5,751
Total non-current liabilities	95,969	96,314
Shareholders' equity		
Share capital	73,209	73,209
Reserves	3,426	4,384
Deficit	(27,650)	(34,016)
Total shareholders' equity	48,985	43,577
Total liabilities and shareholders' equity	\$ 173,944	\$ 164,090

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Income
(In thousands of Canadian dollars, except for share amounts)
(unaudited)

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Sales	\$ 62,676	\$ 57,890	\$ 180,719	\$ 163,788
Cost of sales	50,059	45,967	145,792	131,075
Gross profit	12,617	11,923	34,927	32,713
Administration	5,541	4,981	15,958	13,507
Selling	2,070	2,004	5,788	5,376
Other (income) expense (note 8)	57	(144)	(369)	(431)
Income from operations	4,949	5,082	13,550	14,261
Finance costs (note 9)	973	1,852	3,142	4,541
Finance income (note 9)	-	-	(1,042)	(490)
Income before income taxes	3,976	3,230	11,450	10,210
Income taxes (note 10)	1,132	1,351	2,976	3,982
Net income	\$ 2,844	\$ 1,879	\$ 8,474	\$ 6,228
Net income per share (basic) (note 11)	\$ 0.12	\$ 0.08	\$ 0.36	\$ 0.26
Net income per share (diluted) (note 11)	\$ 0.12	\$ 0.08	\$ 0.36	\$ 0.26

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Comprehensive Income
(In thousands of Canadian dollars)
(unaudited)

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net income	\$ 2,844	\$ 1,879	\$ 8,474	\$ 6,228
Other comprehensive income (loss):				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations	268	1,143	(958)	2,242
Other comprehensive income (loss)	268	1,143	(958)	2,242
Comprehensive income	\$ 3,112	\$ 3,022	\$ 7,516	\$ 8,470

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Changes in Equity
(In thousands of Canadian dollars)
(unaudited)

For the nine months ended September 30, 2016

	Attributable to equity holders of Pollard Banknote Limited			
	Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2016	\$ 73,209	4,384	(34,016)	43,577
Net income	-	-	8,474	8,474
Other comprehensive loss				
Foreign currency translation differences – foreign operations	-	(958)	-	(958)
Total other comprehensive loss	\$ -	(958)	-	(958)
Total comprehensive income (loss)	\$ -	(958)	8,474	7,516
Share based compensation	\$ -	-	11	11
Dividends to owners of Pollard Banknote Limited (note 12)	-	-	(2,119)	(2,119)
Balance at September 30, 2016	\$ 73,209	3,426	(27,650)	48,985

For the nine months ended September 30, 2015

	Attributable to equity holders of Pollard Banknote Limited			
	Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2015	\$ 73,209	1,456	(40,750)	33,915
Net income	-	-	6,228	6,228
Other comprehensive income				
Foreign currency translation differences – foreign operations	-	2,242	-	2,242
Total other comprehensive income	\$ -	2,242	-	2,242
Total comprehensive income	\$ -	2,242	6,228	8,470
Share based compensation	-	-	20	20
Dividends to owners of Pollard Banknote Limited	-	-	(2,119)	(2,119)
Balance at September 30, 2015	\$ 73,209	3,698	(36,621)	40,286

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)
(unaudited)

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Cash increase (decrease)		
Operating activities		
Net income	\$ 8,474	\$ 6,228
Adjustments		
Income taxes	2,976	3,982
Amortization and depreciation	8,473	6,006
Interest expense	2,586	2,103
Unrealized foreign exchange (gain) loss	(1,936)	2,671
Loss on equity investment	307	-
Pension expense	3,224	2,926
Gain on sale of investment in associate	(516)	-
Mark-to-market gain on foreign exchange contracts	-	(483)
Interest paid	(2,422)	(2,156)
Income tax paid	(1,872)	(2,830)
Pension contributions	(2,321)	(1,813)
Change in non-cash operating working capital (note 13)	(10,913)	(3,270)
	6,060	13,364
Investing activities		
Additions to property, plant and equipment	(3,275)	(12,333)
Equity investment (note 5)	(765)	-
Proceeds from sales of investment in associate	516	-
Additions to intangible assets	(798)	(528)
	(4,322)	(12,861)
Financing activities		
Net proceeds from long-term debt	2,023	1,987
Repayment of subordinated debt	(340)	-
Change in other non-current liabilities	(184)	(150)
Deferred financing charges paid	(118)	(336)
Dividends paid	(2,119)	(2,119)
	(738)	(618)
Foreign exchange gain (loss) on cash held in foreign currency	(57)	479
Change in cash position	943	364
Cash position, beginning of period	7,587	6,287
Cash position, end of period	\$ 8,530	\$ 6,651

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, except for share amounts)
(unaudited)

1. Reporting entity:

Pollard Banknote Limited ("Pollard") was incorporated under the laws of Canada on March 26, 2010. The address of Pollard's registered office is 140 Otter Street, Winnipeg, Manitoba, Canada, R3T 0M8.

The condensed consolidated interim financial statements of Pollard as at and for the nine months ended September 30, 2016, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and gaming products.

The controlling entity of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owns approximately 73.5% of Pollard's outstanding shares.

Pollard's consolidated financial statements as at and for the year ended December 31, 2015, are available at www.sedar.com.

The overall impact of seasonality does not have a significant impact on the operations of Pollard.

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* and do not include all of the information required for full annual consolidated financial statements.

On November 14, 2016, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Use of estimates and judgements:

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying Pollard's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2015.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

2. Basis of preparation (continued):

(c) Significant accounting policies:

These condensed consolidated interim financial statements follow the same significant accounting policies as described and used in Pollard's consolidated financial statements for the year ended December 31, 2015 and should be read in conjunction with those reports.

3. Future accounting standards:

In July 2014, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standards ("IFRS") 9 *Financial Instruments* ("IFRS 9"), which replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is required for fiscal years beginning on or after January 1, 2018. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard specifies the steps and timing for recognizing revenue, as well as requiring more informative, relevant disclosures. IFRS 15 supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue*. IFRS 15 is required for fiscal years beginning on or after January 1, 2018 with early adoption available. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In September 2014, the IASB issued amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments were to be effective for fiscal years beginning on or after January 1, 2016, with early adoption available; however, in December 2015 the IASB decided to defer the effective date for these amendments indefinitely. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

In January 2016, the 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

Pollard Banknote Limited
Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)
(unaudited)

3. Future accounting standards (continued):

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. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows*. The amendments were issued to improve information provided to users of financial statements about an entity's changes in liabilities arising from financing activities. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 12 *Income Taxes*. The amendments were regarding the recognition of deferred tax assets for unrealized losses relating to debt instruments measured at fair value. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

In June 2016, the IASB issued amendments to IAS 2 *Share-Based Payments*. The amendments clarify how to account for certain types of share-based payment transactions. These amendments are effective for annual periods beginning on or after January 1, 2018. Retrospective or earlier application is permitted under certain conditions. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

4. Inventories:

	September 30, 2016	December 31, 2015
Raw materials	\$ 11,220	\$ 9,679
Work-in-process	642	749
Finished goods	15,607	13,311
	\$ 27,469	\$ 23,739

During the third quarter of 2016 Pollard recorded inventory write-downs of \$160 representing an increase in the obsolescence reserves and inventory write-downs of \$16 due to changes in foreign exchange rates. During the nine months ended September 30, 2016, Pollard recorded inventory write-downs of \$403 representing an increase in the obsolescence reserves and inventory write-downs of \$56 due to changes in foreign exchange rates.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

4. Inventories (continued):

During the third quarter of 2015 Pollard recorded inventory write-downs of \$101 representing an increase in the obsolescence reserves and a reversal of previous write-downs of \$8 due to changes in foreign exchange rates. During the nine months ended September 30, 2015, Pollard recorded inventory write-downs of \$336 representing an increase in the obsolescence reserves and inventory write-downs of \$21 due to changes in foreign exchange rates.

The cost of sales reflects the costs of inventory including direct material, direct labour and manufacturing overheads.

5. Equity investment:

	Nine months ended	
Interest in joint venture	September 30, 2016	September 30, 2015
Balance – beginning of period	\$ 401	\$ -
Investment	765	-
Equity loss	(307)	-
Effects of movements in exchange rates	2	-
Balance – end of period	\$ 861	\$ -

Pollard has entered into an agreement with NeoGames US, LLP for the establishment of NeoPollard Interactive LLC. The entity was established to provide iLottery services in the United States and Canada, excluding the State of Michigan.

Pollard and Neogames S.à r.l. operate the iLottery operation for the Michigan Lottery under a separate joint operating agreement. Pollard recognizes its interest in the joint operation by including its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

Pollard Banknote Limited
Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)
(unaudited)

6. Long-term debt:

	September 30, 2016	December 31, 2015
Credit facility, interest of 3.28% to 3.95% payable monthly, maturing 2018	\$ 74,373	\$ 73,497
Deferred financing charges, net of amortization	(147)	(211)
	74,226	73,286
Less current portion	-	(1,203)
	\$ 74,226	\$ 72,083

Included in the total credit facility balance is a U.S. dollar loan balance of US\$13,400 (December 31, 2015 - US\$14,200).

Effective June 24, 2016, Pollard Banknote Limited renewed its credit facility. As part of the renewal, the outstanding balance of the term facility was repaid. The credit facility provides loans of up to \$75,000 for its Canadian operations and US\$12,000 for its U.S. subsidiaries. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of \$75,000 Canadian equivalent. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At September 30, 2016, the outstanding letters of guarantee drawn under the credit facility were \$1,208 (December 31, 2015 - \$1,257).

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, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at September 30, 2016, Pollard is in compliance with all financial covenants.

As at September 30, 2016, Pollard had unused credit facility available of \$15,138 (December 31, 2015 - \$17,591).

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. The facility can be prepaid without penalties. Under the terms of the agreement the facility was committed for a two year period, renewable June 24, 2018.

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except for share amounts)*

(unaudited)

7. Subordinated debt:

	September 30, 2016	December 31, 2015
Subordinated debt, interest of 9.00% payable quarterly, maturing 2021	\$ 6,473	\$ 6,813
Less current portion	(1,363)	-
	\$ 5,110	\$ 6,813

On April 2, 2014, Pollard's former subsidiary, Pollard Holdings Limited Partnership, entered into a loan agreement with Equities for a subordinated term loan facility with a seven year term in the amount of \$6,813 to assist in the purchase of a printing press. Effective January 1, 2015, Pollard Banknote Limited assumed the subordinated debt on completion of the amalgamation of the Canadian entities.

Quarterly principal payments on the subordinated loan facility commenced the month following the repayment in full of the additional secured term facility, which occurred June 30, 2016. Interest on the subordinated term loan facility commenced with the first draw at a rate of 9%. The loan is fully subordinated to the secured credit facility.

8. Other (income) expense:

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Loss on equity investment	\$ 130	\$ -	\$ 307	\$ -
Gain on sale of investment in associate	-	-	(516)	-
Other	(73)	(144)	(160)	(431)
	\$ 57	\$ (144)	\$ (369)	\$ (431)

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except for share amounts)*

(unaudited)

9. Finance costs and finance income:

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Finance costs				
Foreign exchange loss	\$ 46	\$ 959	\$ 374	\$ 2,189
Interest	885	797	2,586	2,103
Amortization of deferred financing costs	42	96	182	249
	\$ 973	\$ 1,852	\$ 3,142	\$ 4,541

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Finance income				
Foreign exchange gain	\$ -	\$ -	\$ 1,042	\$ 7
Mark-to-market gain on foreign exchange currency contracts	-	-	-	483
	\$ -	\$ -	\$ 1,042	\$ 490

10. Income taxes:

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Income tax expense				
Current	\$ 1,276	\$ 1,636	\$ 3,926	\$ 3,893
Deferred (recovery)	(144)	(285)	(950)	89
	\$ 1,132	\$ 1,351	\$ 2,976	\$ 3,982

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except for share amounts)*

(unaudited)

10. Income taxes (continued):

	Three months ended September 30, 2016	Three months ended September 30, 2015
Reconciliation of effective tax rate		
Net income for the period	\$ 2,844	\$ 1,879
Total income taxes	1,132	1,351
Income before income taxes	\$ 3,976	\$ 3,230
Income tax using Pollard's domestic tax rate	27.0% \$ 1,074	26.7% \$ 864
Changes in expected tax rates and other non-deductible amounts	(0.2%) (9)	(0.0%) (1)
Effect of non-taxable items related to foreign exchange	1.7% 67	15.1% 488
	28.5% \$ 1,132	41.8% \$ 1,351

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Reconciliation of effective tax rate		
Net income for the period	\$ 8,474	\$ 6,228
Total income taxes	2,976	3,982
Income before income taxes	\$ 11,450	\$ 10,210
Income tax using Pollard's domestic tax rate	27.0% \$ 3,092	26.7% \$ 2,730
Changes in expected tax rates and other non-deductible amounts	1.6% 178	(0.7%) (72)
Effect of non-taxable items related to foreign exchange	(2.6%) (294)	13.0% 1,324
	26.0% \$ 2,976	39.0% \$ 3,982

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except for share amounts)*

(unaudited)

11. Net income per share:

	Three months ended September 30, 2016	Three months ended September 30, 2015
Net income attributable to shareholders for basic and diluted net income per share	\$ 2,844	\$ 1,879
Weighted average number of shares (basic)	23,543,158	23,543,158
Weighted average impact of share options on issue	100,000	100,000
Weighted average number of shares (diluted)	23,643,158	23,643,158
Net income per share (basic)	\$ 0.12	\$ 0.08
Net income per share (diluted)	\$ 0.12	\$ 0.08

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net income attributable to shareholders for basic and diluted net income per share	\$ 8,474	\$ 6,228
Weighted average number of shares (basic)	23,543,158	23,543,158
Weighted average impact of share options on issue	100,000	100,000
Weighted average number of shares (diluted)	23,643,158	23,643,158
Net income per share (basic)	\$ 0.36	\$ 0.26
Net income per share (diluted)	\$ 0.36	\$ 0.26

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

12. Dividends:

Dividends are paid on the common shares within 15 days of the end of each quarter and are fully discretionary, as determined by the Board of Directors of Pollard.

On August 10, 2016, a dividend of \$0.03 per share was declared, payable on October 14, 2016, to the shareholders of record on September 30, 2016.

13. Supplementary cash flow information:

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Change in non-cash operating working capital:		
Accounts receivable	\$ (10,409)	\$ (7,365)
Inventories	(4,083)	3,356
Prepaid expenses and deposits	(987)	(1,578)
Income taxes receivable	(356)	-
Accounts payable and accrued liabilities	4,922	2,317
	\$ (10,913)	\$ (3,270)

14. Related party transactions:

During the quarter ended September 30, 2016, Pollard paid property rent of \$777 (2015 - \$773) and \$57 (2015 - \$47) in plane charter costs to affiliates of Equities. In addition, during the quarter, Pollard paid Equities \$147 (2015 - \$155) of interest on Pollard's subordinated debt. During the nine months ended September 30, 2016, Pollard paid property rent of \$2,338 (2015 - \$2,313) and \$170 (2015 - \$170) in plane charter costs to affiliates of Equities. In addition, during the nine months ended September 30, 2016, Pollard paid Equities \$452 (2015 - \$459) of interest on Pollard's subordinated debt.

During the quarter Equities paid Pollard \$18 (2015 - \$18) for accounting and administration fees and \$54 (2015 - \$54) during the nine months ended September 30, 2016.

During the quarter Pollard reimbursed operating costs of \$247 (2015 - \$150) to its iLottery partner, which are recorded in cost of sales and \$794 (2015 - \$342) during the nine months ended September 30, 2016.

Pollard Banknote Limited
Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)
(unaudited)

14. Related party transactions (continued):

At September 30, 2016, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, interest and other expenses of \$520 (December 31, 2015 - \$795). Also included in accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of \$395 (December 31, 2015 - \$1,125) for reimbursement of operating costs and capital expenditures, and its share of operating profits.

Effective July 1, 2016, Pollard exercised its option to renew its lease for a building in Winnipeg, Manitoba from an affiliate of Equities for an additional five year term for annual rent of \$360 per year. The rental rate was based on current market value as determined through independent appraisal.

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors and the Executive Committee are considered key management personnel.

Key management personnel compensation comprised:

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Wages, salaries and benefits	\$ 701	\$ 730	\$ 1,753	\$ 1,865
Profit share	4	3	9	8
Expenses related to defined benefit plans	118	116	355	347
	\$ 823	\$ 849	\$ 2,117	\$ 2,220

At September 30, 2016, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,444,771 common shares of Pollard.

15. Financial risk management:

Pollard has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Currency risk
- Interest rate risk

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

15. Financial risk management (continued):

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls and 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.

Credit risk

The following table outlines the details of the aging of Pollard's receivables and the related allowance for doubtful accounts:

	September 30, 2016	December 31, 2015
Current	\$ 31,587	\$ 19,193
Past due for 1 to 60 days	2,055	4,295
Past due for more than 60 days	620	717
Less: Allowance for doubtful accounts	(98)	(54)
	\$ 34,164	\$ 24,151

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In addition, Pollard maintains a committed credit facility including up to \$75,000 for its Canadian operations and US\$12,000 for its U.S. subsidiaries. As at September 30, 2016, the unused balance available for drawdown under the credit facility was \$15,138, (December 31, 2015 - \$17,591).

The 2016 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and the unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to some 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 the Canadian and U.S. dollar, primarily in Euros.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except for share amounts)

(unaudited)

15. Financial risk management (continued):

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 due to changes in operating cash flow by approximately \$8 for the third quarter of 2016 (2015 - \$11) and approximately \$47 for the nine months ended September 30, 2016 (2015 - \$44). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and Euro would decrease/increase the income before income taxes due to changes in operating cash flow by approximately \$14 for the third quarter of 2016 (2015 - \$10) and approximately \$40 for the nine months ended September 30, 2016 (2015 - \$33).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At September 30, 2016, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately \$1,793 (December 31, 2015 - \$4,101). 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 taxes of approximately \$9 for the three and nine months ended September 30, 2016 (2015 - \$32).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Two 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.

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At September 30, 2016, Pollard had no outstanding foreign currency contracts.

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.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately \$93 for the three months ended September 30, 2016 (2015 - \$92) and approximately \$279 for the nine months ended September 30, 2016 (2015 - \$277).

Consolidated Financial Statements of

**POLLARD BANKNOTE
LIMITED**

Years ended December 31, 2016 and 2015



KPMG LLP
Suite 2000 – One Lombard Place
Winnipeg MB R3B 0X3
Canada

Telephone (204) 957-1770
Fax (204) 957-0808
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pollard Banknote Limited

We have audited the accompanying consolidated financial statements of Pollard Banknote Limited, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pollard Banknote Limited as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 13, 2017

Winnipeg, Canada

Pollard Banknote Limited
Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

	December 31, 2016	December 31, 2015
Assets		
Current assets		
Cash	\$ 7,500	\$ 7,587
Restricted cash	3,203	560
Accounts receivable	38,585	24,151
Inventories (note 5)	27,232	23,739
Prepaid expenses and deposits	3,437	4,169
Income taxes receivable	-	3,046
Total current assets	79,957	63,252
Non-current assets		
Property, plant and equipment (note 6)	46,906	50,380
Equity investment (note 7)	468	401
Goodwill (note 8)	37,513	37,717
Intangible assets (note 9)	11,916	12,340
Total non-current assets	96,803	100,838
Total assets	\$ 176,760	\$ 164,090

	December 31, 2016	December 31, 2015
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 25,864	\$ 22,290
Dividends payable	706	706
Income taxes payable	2,541	-
Current portion long-term debt (note 11)	-	1,203
Current portion subordinated debt (note 12)	1,363	-
Total current liabilities	30,474	24,199
Non-current liabilities		
Long-term debt (note 11)	70,852	72,083
Subordinated debt (note 12)	4,769	6,813
Other non-current liabilities	395	397
Pension liability (note 13)	13,524	11,270
Deferred income taxes (note 10)	4,909	5,751
Total non-current liabilities	94,449	96,314
Shareholders' equity		
Share capital (note 14)	73,209	73,209
Reserves	3,917	4,384
Deficit	(25,289)	(34,016)
Total shareholders' equity	51,837	43,577
Commitments and contingencies (note 15)		
Total liabilities and shareholders' equity	\$ 176,760	\$ 164,090

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Jerry Gray" Director
"John Pollard" Director

Pollard Banknote Limited
Consolidated Statements of Income
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31

	2016	2015
Sales	\$ 246,414	\$ 221,030
Cost of sales	197,177	176,675
Gross profit	49,237	44,355
Administration	20,919	19,177
Selling	8,037	7,374
Other income (note 16)	(32)	(284)
Income from operations	20,313	18,088
Finance costs (note 17)	4,281	6,382
Finance income (note 17)	(1,042)	(490)
Income before income taxes	17,074	12,196
Income taxes (note 10)		
Current (recovery)	5,144	(677)
Deferred (reduction)	(339)	5,410
	4,805	4,733
Net income	\$ 12,269	\$ 7,463
Net income per share (basic) (note 18)	\$ 0.52	\$ 0.32
Net income per share (diluted) (note 18)	\$ 0.52	\$ 0.32

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited
Consolidated Statements of Comprehensive Income
(In thousands of Canadian dollars)

Years ended December 31

	2016	2015
Net income	\$ 12,269	\$ 7,463
Other comprehensive income (loss)		
Items that are or may be reclassified to profit and loss		
Foreign currency translation differences – foreign operations	(467)	2,928
Items that will never be reclassified to profit and loss		
Defined benefit plans remeasurements, net of income tax (reduction) of (\$291) and \$773 (note 10 & note 13)	(737)	2,070
Other comprehensive income (loss) – net of income tax	(1,204)	4,998
Comprehensive income	\$ 11,065	\$ 12,461

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited
Consolidated Statements of Changes in Equity
(In thousands of Canadian dollars)

Year ended December 31, 2016

	Attributable to equity holders of Pollard Banknote Limited			
	Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2016	\$ 73,209	4,384	(34,016)	43,577
Net income	-	-	12,269	12,269
Other comprehensive loss				
Foreign currency translation differences – foreign operations	-	(467)	-	(467)
Defined benefit plans remeasurements, net of income tax reduction of (\$291)	-	-	(737)	(737)
Total other comprehensive loss	\$ -	(467)	(737)	(1,204)
Total comprehensive income (loss)	\$ -	(467)	11,532	11,065
Share based compensation (note 14)	-	-	20	20
Dividends to owners of Pollard Banknote Limited	-	-	(2,825)	(2,825)
Balance at December 31, 2016	\$ 73,209	3,917	(25,289)	51,837

Year ended December 31, 2015

	Attributable to equity holders of Pollard Banknote Limited			
	Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2015	\$ 73,209	1,456	(40,750)	33,915
Net income	-	-	7,463	7,463
Other comprehensive income				
Foreign currency translation differences – foreign operations	-	2,928	-	2,928
Defined benefit plans remeasurements, net of income tax of \$773	-	-	2,070	2,070
Total other comprehensive income	\$ -	2,928	2,070	4,998
Total comprehensive income	\$ -	2,928	9,533	12,461
Share based compensation (note 14)	-	-	26	26
Dividends to owners of Pollard Banknote Limited	-	-	(2,825)	(2,825)
Balance at December 31, 2015	\$ 73,209	4,384	(34,016)	43,577

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited
Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

Years ended December 31

	2016	2015
Cash increase (decrease)		
Operating activities		
Net income	\$ 12,269	\$ 7,463
Adjustments		
Income taxes	4,805	4,733
Amortization and depreciation	10,799	8,351
Interest expense	3,374	2,917
Unrealized foreign exchange (gain) loss	(1,532)	3,776
Loss on equity investment	730	32
Pension expense	4,417	4,532
Gain on sale of investment in associate	(516)	-
Mark-to-market gain on foreign currency contracts	-	(483)
Interest paid	(3,270)	(2,828)
Income tax recovered (paid)	672	(3,141)
Pension contributions	(3,102)	(2,879)
Change in non-cash operating working capital (note 20)	(16,920)	(2,815)
	<u>11,726</u>	<u>19,658</u>
Investing activities		
Additions to property, plant and equipment	(4,996)	(15,376)
Equity investment (note 7)	(807)	(433)
Proceeds from sale of investment in associate	516	-
Additions to intangible assets	(1,124)	(682)
	<u>(6,411)</u>	<u>(16,491)</u>
Financing activities		
Net proceeds from (repayments of) long-term debt	(1,789)	989
Repayments of subordinated debt	(681)	-
Change in other non-current liabilities	16	(46)
Deferred financing charges paid	(165)	(384)
Dividends paid	(2,825)	(2,825)
	<u>(5,444)</u>	<u>(2,266)</u>
Foreign exchange gain on cash held in foreign currency	42	474
Change in cash position	(87)	1,375
Cash position, beginning of year	7,587	6,212
Cash position, end of year	<u>\$ 7,500</u>	<u>\$ 7,587</u>

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited
Notes to Consolidated Financial Statements
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

1. Reporting entity:

Pollard Banknote Limited ("Pollard") was incorporated under the laws of Canada on March 26, 2010. The address of Pollard's registered office is 140 Otter Street, Winnipeg, Manitoba, Canada, R3T 0M8.

The consolidated financial statements of Pollard as at and for the year ended December 31, 2016, comprise Pollard and its subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture, development and sale of lottery and gaming products.

The controlling party of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owns approximately 73.5% of Pollard's outstanding shares.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

On March 13, 2017, Pollard's Board of Directors approved these consolidated financial statements.

(b) Basis of preparation:

These consolidated financial statements have been prepared on a historical cost basis, except for the following material items in the statement of financial position:

- The pension liability is recognized as the net total of the fair value of plan assets less the present value of the defined benefit obligation.

These statements are presented in Canadian dollars, Pollard's functional currency, and all values are rounded to the nearest thousand (except share and per share amounts) unless otherwise indicated.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

2. Basis of preparation (continued):

(c) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Actual results may differ from these estimates.

Information about judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next period are as follows:

Impairment of goodwill:

Pollard determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units ("CGUs") to which goodwill is allocated. Estimating a value in use requires Pollard to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Judgment is required in determining the level at which to test goodwill, including the grouping of assets that generate cash inflows. Further details are provided in note 8.

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. See note 13 for further information.

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. Further details are provided in note 10.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Principles of consolidation:

These consolidated financial statements include the accounts of Pollard and all its subsidiaries. Subsidiaries are entities which are under Pollard's control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefits from its activities. Pollard holds 100% of the voting rights in, and therefore controls, its subsidiaries.

Significant subsidiaries:	Percent Ownership Interest	
	December 31, 2016	December 31, 2015
Pollard Holdings, Inc.	100	100
Pollard (U.S.) Ltd.	100	100
Pollard Games, Inc.	100	100
Pollard iLottery Inc.	100	100

Pollard has entered into a contractual joint agreement with Neogames S.à r.l. for the operation of iLottery gaming for the Michigan Lottery. As such Pollard has recognized in relation to its interest in the joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

Pollard, in conjunction with NeoGames US, LLP, established NeoPollard Interactive LLC ("NPI"). Pollard accounts for its investment in NPI as a joint venture. Under the equity method of accounting Pollard recognizes its share of the income and expenses and equity movements of NPI.

All inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, have been eliminated.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

(b) Restricted cash:

Under the terms of Pollard's iLottery contract with the Michigan Lottery, Pollard holds iLottery players' deposits in a bank account for the benefit of the lottery and therefore the cash is not available for use by Pollard. Pollard records an equal, offsetting liability within accounts payable and accrued liabilities. Pollard has excluded changes in the restricted cash and related liability from its calculation of the change in cash position in the statements of cash flows.

(c) Revenue recognition:

Revenue is recognized when persuasive evidence of an arrangement exists, significant risks and benefits of ownership are transferred, the sales price to the customer is fixed or is determined and collection of the resulting receivable is reasonably assured. The significant risks of ownership and benefits of ownership are normally transferred in accordance with the shipping terms agreed to with the customer. In some instances, revenue is recognized when the customers' tickets are sold at retail. Volume rebates are accrued and recorded as a reduction to sales based on historical experience and management's expectations regarding sales volume.

Revenues relating to license and royalty sales, iLottery services, loyalty programs, digital and lottery management services are recognized pursuant to the terms of the applicable contracts. Where Pollard provides software and related infrastructure, revenue is recognized in proportion to the stage of completion of the contracted work.

(d) Inventories:

Raw materials, work-in-process and finished goods are valued at the lower of cost and net realizable value. The cost of raw material inventory is based on its weighted average cost and includes all costs incurred to acquire the materials. In addition to the direct costs of conversion, the cost of work-in-process and finished goods, which Pollard manufactures, also includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion.

(e) Goodwill:

Goodwill is comprised of the excess sale price over the underlying carrying amount of the net assets sold as at August 5, 2005, as part of the 26.7% of Pollard sold in conjunction with the Initial Public Offering ("IPO") and the excess purchase price over the underlying carrying amount of the net assets acquired of Pollard's U.S. subsidiaries. Goodwill is not amortized but is subject

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

to an annual impairment test to ensure its recoverable value remains greater than, or equal to, book value.

(f) Intangible assets:

Deferred development:

Development expenditures are recognized as an intangible asset only if Pollard can demonstrate that the development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and Pollard has sufficient resources to complete development and to use or sell the asset. The expenditures capitalized include the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use and borrowing costs incurred in respect of qualifying assets. Other development expenditures are expensed as incurred.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

Computer software and licenses:

Computer software consists of the cost of acquiring and implementing these systems. Cost of implementation include third party costs as well as direct labour and related overhead costs attributable to the asset. Minimum license fees incurred in connection with our licensing agreements for our use of third-party brands are capitalized and amortized over the estimated life of the asset.

Capitalized computer software costs and licenses are measured at cost less accumulated amortization and accumulated impairment losses.

Other intangible assets:

Intangible assets that are acquired by Pollard and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

Intangible assets are amortized, on a straight-line basis, over their estimated useful lives as follows:

Asset	Rate
Customer assets	16 years
Patents	Term of patent
Computer software and licenses	5 to 10 years or term of license
Deferred development	2 to 7 years

Amortization methods, estimated useful lives and residual value are reviewed each annual reporting date and adjusted prospectively if appropriate.

(g) Property, plant and equipment:

Property, plant and equipment ("PP&E") are stated at cost less investment tax credits (including SR&ED credits), accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and related fringes, other costs directly attributable to bringing the assets to working condition for their intended use and borrowing costs incurred in respect to qualifying assets. Major spare parts are treated as PP&E when they have a useful life greater than a year. Once major spare parts are put in service, they are transferred into equipment and amortized accordingly.

An item of PP&E is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on disposal of an item of PP&E is determined by comparing the proceeds from disposal with the carrying value of the PP&E and is recognized in the statement of income on a net basis.

The cost of each component of an item of PP&E is depreciated over its estimated useful life on a straight-line basis, commencing the date it is ready for use. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Asset	Rate
Buildings	10 to 30 years
Leasehold improvements	Term of lease
Equipment	2 to 11 years
Furniture, fixtures and computers	3 to 9 years

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

Depreciation methods, useful lives and residual values are reviewed each annual reporting date and adjusted prospectively if appropriate.

The carrying value of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(h) Investment in associate:

Pollard accounts for its investment in associate using the equity method of accounting as it has significant influence, but not control. Significant influence is presumed to exist when Pollard holds between 20 and 50 percent of the voting power of another entity. The consolidated financial statements include Pollard's share of the income and expenses and equity movements of the entity accounted for under the equity method of accounting.

(i) Investment in joint venture:

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, rather than rights to the assets and obligations for the liabilities. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require consent of both parties.

The consolidated financial statements include Pollard's share of the income and expenses and equity movements of the entity accounted for under the equity method of accounting.

(j) Investment in joint operation:

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require consent of both parties.

The consolidated financial statements include Pollard's interest in the Michigan Lottery iLottery joint operations: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

(k) Financial instruments:

Non-derivative financial assets

Pollard initially recognizes loans and receivables on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which Pollard becomes a party to the contractual provisions of the instrument. Pollard derecognizes a financial asset when the contractual rights to the cash flows from the asset expire.

Financial assets and liabilities are offset and the net amount presented on the statement of financial position when, and only when, Pollard has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Pollard classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Attributable transaction costs are recognized in net income as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income. Pollard has no non-derivative financial assets classified as financial assets at fair value through profit or loss.

ii) Held-to-maturity financial assets

If Pollard has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Pollard has no financial assets classified as held-to-maturity.

iii) Loans and receivables

Loans and receivables are financial assets with fixed or determined payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses, and the net gain or loss is included in finance income. Pollard has classified cash, restricted cash and accounts receivable as loans and receivables.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign exchange differences, are recognized in other comprehensive income and are presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to net income. Pollard has no financial assets classified as available-for-sale.

Non-derivative financial liabilities

All non-derivative financial liabilities are classified as other financial liabilities and are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method and the net gain or loss is included in finance costs.

Pollard classifies accounts payable and accrued liabilities, dividends payable, long-term debt, subordinated debt and other non-current liabilities as other financial liabilities.

Share Capital

Common stock is classified as equity. Incremental costs directly attributable to the issue of common stock are recognized as a deduction from equity, net of any tax effects.

Derivatives and hedge accounting

Pollard may use certain derivative financial instruments to manage risks of fluctuation in interest rates and foreign exchange rates. On initial designation of the derivative as the hedging instrument, Pollard formally documents the relationship between the hedging instrument and the hedging item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. Pollard makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the change in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

Derivatives are recognized initially at fair value and attributable transaction costs are recognized in net income as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes are accounted for as follows:

i) Cash flow hedges

When a derivative financial instrument is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in fair value of the derivative is recognized immediately in net income. If the hedging instrument no longer meets the criteria for hedge accounting, then hedge accounting is discontinued prospectively. This results in the amortization of the respective derivative's cumulative changes in fair value in the hedging reserve, over the remaining term of the derivative. Any adjustments to fair value after discontinuing hedge accounting are recognized immediately in net income as finance income or loss.

ii) Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognized immediately in net income as finance income or loss.

(l) Translation of foreign currencies:

The functional currency for each of Pollard's subsidiaries is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the respective functional currencies of each entity within the consolidated group using the exchange rates in effect at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates prevailing at the end of the reporting period. Non-monetary items measured at historical cost in a foreign currency are translated to the functional currency using the exchange rate prevalent at the date of acquisition. Non-monetary items denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate prevalent at the date that the fair value was determined. Foreign currency differences arising from translation are recognized in net income, except for exchange differences arising on the translation of financial instruments qualifying as a cash flow hedge, which are recognized directly in other comprehensive income ("OCI").

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

The results and financial position of entities within the consolidated group that have a functional currency different from the presentation currency are translated into Canadian dollars as follows: assets and liabilities are translated at the exchange rate prevailing at the end of the reporting period; income and expenses are translated at the average rate for the reporting period; all resulting exchange differences are recognized in OCI. On disposal of a foreign operation, the deferred cumulative amount recognized in OCI relating to that particular foreign operation is recognized in net income.

(m) Employee benefits:

Share based compensation

The grant date fair value of stock options granted to employees is recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards.

Defined contribution plans

Pollard's U.S. subsidiaries maintain two defined contribution plans in the United States. The obligation to contribute to these plans is recognized as an employee benefit expense as incurred.

Defined benefit plans

Pollard maintains four non-contributory defined benefit pension plans in Canada and the United States, three being final pay plans and one being a flat benefit plan. None of the plans have indexation features.

The costs of Pollard's defined benefit plans are recognized over the period in which employees render service to Pollard in return for the benefits. The defined benefit obligations associated with the plans are actuarially determined using the projected unit credit method pro-rated on service and management's best estimate of salary escalation and retirement ages of employees. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have maturity terms approximating the maturity terms of the related obligation and that are denominated in the currency in which the benefits will be paid. The expected return on pension plan assets is calculated utilizing the discount rate used to measure the defined benefit obligation at the beginning of the annual period.

Past service costs are recognized as an expense on a straight line basis over the average period until the benefits becomes vested. If the benefits have vested, past service costs are recognized in net income immediately.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

Remeasurements that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in OCI.

Pollard's pension asset is limited to the total of any unrecognized past services costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to Pollard's plans. An economic benefit is available to Pollard if it is realizable during the life of the plan, or on settlement of the plan liabilities.

(n) Income taxes:

Current income tax and deferred income tax are recognized in the statement of income except to the extent that the tax relates to items recognized directly in equity or in OCI. Current income tax is the expected tax payable or receivable on the taxable income or loss for the period and any adjustment to tax payable in respect to previous years. Current income tax expense includes withholding taxes.

Deferred income tax is recorded to reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Deferred income tax assets and liabilities are determined based on the enacted or substantively enacted tax rates, which are expected to be in effect when the underlying items of income and expense are expected to be realized.

Deferred income tax is not recognized for: temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future, taxable temporary differences arising on the initial recognition of goodwill or temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment, except if it relates to an item previously recognized in equity, in which case the adjustment is made to equity.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax liabilities and assets, and they are levied by the same taxation authority on the same taxable entity, or on different tax entities which intend to settle their current income tax assets and liabilities on a net basis.

(o) Provisions:

Provisions are recognized when Pollard has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(p) Impairment:

Financial assets

Financial assets classified as loans and receivables, held-to-maturity and available-for-sale are assessed at each reporting period date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Evidence of impairment may include default or delinquency by a debtor, indications that a debtor will enter bankruptcy or economic conditions that correlate with defaults. Pollard has neither available-for-sale nor held-to-maturity instruments.

For loans and receivables, Pollard first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Pollard determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Individually assessed assets with an impairment loss are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. If, in a subsequent year, the amount of the estimated impairment loss

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment is increased or reduced by adjusting the allowance account, through the statement of income.

Non-financial assets

The carrying amount of Pollard's non-financial assets, other than inventories and deferred income tax assets, are reviewed at each reporting date to determine whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, Pollard estimates the asset's recoverable amount. For goodwill the recoverable amount is estimated as of December 31 each year. An impairment loss is recognized if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or CGUs.

Impairment losses are recognized in net income. Impairment losses recognized in respect to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss in respect to goodwill is not reversed. In respect to other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss can only be reversed to the extent that the asset's carrying value that would have been determined, net of amortization, if no impairment had been recognized.

(q) Finance costs and finance income:

Finance costs comprise interest expense on borrowings, amortization of deferred financing costs, mark-to-market losses on foreign exchange contracts and net foreign exchange losses.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

Borrowing costs that are not directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are expensed in the period incurred using the effective interest method.

Finance income comprises mark-to-market gains on foreign exchange contracts and net foreign exchange gains.

4. Future accounting standards:

In July 2014, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standards ("IFRS") 9 *Financial Instruments* ("IFRS 9"), which replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is required for fiscal years beginning on or after January 1, 2018. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard specifies the steps and timing for recognizing revenue, as well as requiring more informative, relevant disclosures. IFRS 15 supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue*. IFRS 15 is required for fiscal years beginning on or after January 1, 2018 with early adoption available. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In September 2014, the IASB issued amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments were to be effective for fiscal years beginning on or after January 1, 2016, with early adoption available; however, in December 2015 the IASB decided to defer the effective date for these amendments indefinitely. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

4. Future accounting standards (continued):

In January 2016, the 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. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows*. The amendments were issued to improve information provided to users of financial statements about an entity's changes in liabilities arising from financing activities. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 12 *Income Taxes*. The amendments were regarding the recognition of deferred tax assets for unrealized losses relating to debt instruments measured at fair value. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

In June 2016, the IASB issued amendments to IAS 2 *Share-Based Payments*. The amendments clarify how to account for certain types of share-based payment transactions. These amendments are effective for annual periods beginning on or after January 1, 2018. Retrospective or earlier application is permitted under certain conditions. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

In December 2016, the IASB issued IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*. The interpretation clarifies the date of the transaction for the purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after January 1, 2018. Retrospective or earlier application is permitted under certain conditions. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

5. Inventories:

	December 31, 2016	December 31, 2015
Raw materials	\$ 11,246	\$ 9,679
Work-in-process	784	749
Finished goods	15,202	13,311
	<u>\$ 27,232</u>	<u>\$ 23,739</u>

During 2016 Pollard recorded inventory write-downs of \$622 representing an increase in the obsolescence reserves and write-downs of \$22 due to changes in foreign exchange rates.

During 2015 Pollard recorded inventory write-downs of \$359 representing an increase in the obsolescence reserves and write-downs of \$11 due to changes in foreign exchange rates.

The cost of sales reflects the costs of inventory including direct material, direct labour and manufacturing overheads.

6. Property, plant and equipment:

Cost	Land	Buildings	Leasehold improvements	Equipment	Spare parts	Furniture, fixture and computers	Assets in progress	Total
Balance at January 1, 2015	\$ 803	9,391	2,159	122,956	1,023	3,989	15,148	155,469
Additions/net transfers	-	2,488	295	26,807	223	173	(14,610)	15,376
Disposals	-	-	-	(34)	-	-	-	(34)
Effect of movements in exchange rates	-	-	160	924	-	6	-	1,090
Balance at December 31, 2015	\$ 803	11,879	2,614	150,653	1,246	4,168	538	171,901
Additions/net transfers	-	189	722	3,578	107	712	(312)	4,996
Effect of movements in exchange rates	-	-	(30)	(177)	-	(1)	-	(208)
Balance at December 31, 2016	\$ 803	12,068	3,306	154,054	1,353	4,879	226	176,689

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

6. Property, plant and equipment (continued):

Accumulated depreciation	Land	Buildings	Leasehold improvements	Equipment	Spare parts	Furniture, fixture and computers	Assets in progress	Total
Balance at January 1, 2015	\$ -	4,227	1,365	105,705	-	3,449	-	114,746
Depreciation for the year	-	323	193	5,217	-	184	-	5,917
Disposals	-	-	-	(34)	-	-	-	(34)
Effect of movements in exchange rates	-	-	130	761	-	1	-	892
Balance at December 31, 2015	\$ -	4,550	1,688	111,649	-	3,634	-	121,521
Depreciation for the year	-	362	250	7,574	-	237	-	8,423
Effect of movements in exchange rates	-	-	(23)	(138)	-	-	-	(161)
Balance at December 31, 2016	\$ -	4,912	1,915	119,085	-	3,871	-	129,783

Carrying amounts	Land	Buildings	Leasehold improvements	Equipment	Spare parts	Furniture, fixture and computers	Assets in progress	Total
At December 31, 2015	\$ 803	7,329	926	39,004	1,246	534	538	50,380
At December 31, 2016	\$ 803	7,156	1,391	34,969	1,353	1,008	226	46,906

In 2014 Pollard commenced the installation of a new printing press which was reflected in the assets in progress category. The press was put into service in 2015. Included in the 2015 expenditures were \$390 of capitalized borrowing costs (2016 - nil).

7. Equity investment:

Interest in joint venture	December 31, 2016	December 31, 2015
Balance – beginning of year	\$ 401	\$ -
Investment	807	433
Equity loss	(730)	(32)
Effects of movements in exchange rates	(10)	-
Balance – end of year	\$ 468	\$ 401

Pollard has entered into an agreement with NeoGames US, LLP for the establishment of NeoPollard Interactive LLC. The entity was established to provide iLottery services in the United States and Canada, excluding the State of Michigan.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

7. Equity investment (continued):

Pollard and Neogames S.à r.l. operate the iLottery operation for the Michigan Lottery under a separate joint operating agreement. Pollard recognizes its interest in the joint operation by including its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

8. Goodwill:

Goodwill is comprised of \$30,620 (2015 - \$30,620), representing the excess purchase price over the underlying carrying amount of the net assets sold, as at August 5, 2005, as a result of the 26.7% of Pollard sold as part of its IPO with the remaining \$6,893 (2015 - \$7,097) from Pollard's purchase of its U.S. subsidiaries. Goodwill has been allocated to CGUs for impairment testing in this manner, as described in the table below.

	December 31, 2016		December 31, 2015	
Lottery	\$	30,620	\$	30,620
Charitable games		6,893		7,097
	\$	37,513	\$	37,717

During 2016 the value of goodwill decreased \$204 (2015 – increased \$1,117) as a result of changes in foreign exchange rates.

For both the lottery and charitable games CGUs the recoverable amounts have been determined based on a value in use calculation using cash flow projections from financial forecasts approved by senior management. These forecasts cover a period of five years and reflect an estimate of a terminal value. Included in these forecasts is an assumption of a 3% growth rate which was based on historical trend and expected future performance.

The calculation of value in use for the CGUs described above are most sensitive to the following key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Revenue and related gross profit
- Foreign exchange rates
- Discount rates
- Growth rates

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

8. Goodwill (continued):

Revenue and related gross profit

Projected cash flows from revenue assumes the continuation of recent historical trends adjusted for expected new contract wins, anticipated contract renewal pricing pressures and the expected impact of sales initiatives in conjunction with certain production efficiencies that are being developed or are expected to be developed.

Foreign exchange rates

A significant portion of revenue is denominated in U.S. dollars and Euros, partially offset by U.S. dollar denominated costs. In addition, certain financial assets and liabilities are denominated in U.S. currency. Projected cash flows assume an estimated exchange rate between Canadian dollars to U.S. dollars and Euros based on expected exchange rates during the forecast period.

Discount rates

Discount rates were calculated based on the estimated cost of equity capital and debt capital considering data and factors relevant to the economy, the industry and the CGUs. These costs were then weighted in terms of a typical industry capital structure to arrive at an estimated weighted average cost of capital. The after-tax discount rates applied to the cash flow projections for the CGUs described above were as follows:

Lottery	10.0%
Charitable games	11.0%

Growth rates

Growth rates are based on estimated sustainable long-term growth rates of the CGUs.

Management believes that any reasonable possible change in any of the key assumptions on which the cash generating unit's recoverable amounts are based would not cause the unit's carrying amounts to exceed its recoverable amount.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

9. Intangible assets:

Cost		Customer assets	Patents	Deferred development	Computer software and licenses	Total
Balance at January 1, 2015	\$	18,645	5,051	1,171	5,431	30,298
Additions (net of investment tax credits)		-	81	-	346	427
Additions – internally developed (net of investment tax credits)		-	-	(30)	285	255
Effect of movements in exchange rates		-	-	-	15	15
Balance at December 31, 2015	\$	18,645	5,132	1,141	6,077	30,995
Additions (net of investment tax credits)		-	55	-	898	953
Additions – internally developed (net of investment tax credits)		-	-	7	164	171
Balance at December 31, 2016	\$	18,645	5,187	1,148	7,139	32,119

Accumulated amortization		Customer assets	Patents	Deferred development	Computer software and licenses	Total
Balance at January 1, 2015	\$	10,967	4,415	808	816	17,006
Amortization for the year		1,165	252	147	81	1,645
Effect of movements in exchange rates		-	-	-	4	4
Balance at December 31, 2015	\$	12,132	4,667	955	901	18,655
Amortization for the year		1,165	114	151	118	1,548
Balance at December 31, 2016	\$	13,297	4,781	1,106	1,019	20,203

Carrying amounts		Customer assets	Patents	Deferred development	Computer software and licenses	Total
At December 31, 2015	\$	6,513	465	186	5,176	12,340
At December 31, 2016	\$	5,348	406	42	6,120	11,916

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

9. Intangible assets (continued):

Customer assets, \$3,874 of patents and \$229 of computer software were recognized as a result of the excess purchase price over the underlying carrying amount of the intangible assets acquired as at August 5, 2005, as part of the 26.7% of Pollard sold in conjunction with the IPO. As at December 31, 2011, computer software and licenses, and patents recognized at IPO were fully amortized. Customer assets will continue to be amortized until fiscal 2021.

The majority of the non-IPO computer software additions relate to the on-going implementation, starting in 2014, of a new ERP platform. A portion of the platform went live January 2016, at which time amortization pertaining to that portion commenced.

Amortization of intangible assets in 2016 of \$1,548 (2015 – \$1,645), was included in cost of sales.

10. Income taxes:

Income tax expense

	2016		2015	
Current (recovery)	\$	5,144	\$	(677)
Deferred (reduction)		(339)		5,410
Total	\$	4,805	\$	4,733

Income tax recognized in other comprehensive income (loss)

	Amount before tax	Tax benefit	2016 Amount net of tax	Amount before tax	Tax expense	2015 Amount net of tax
Defined benefit plans remeasurement gain (loss)	\$ (1,028)	291	(737)	\$ 2,843	(773)	2,070
	\$ (1,028)	291	(737)	\$ 2,843	(773)	2,070

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

10. Income taxes (continued):

Reconciliation of effective tax rate

	2016	2016	2015	2015
Net income for the year		\$ 12,269		\$ 7,463
Total income tax expense		4,805		4,733
Income before income taxes		\$ 17,074		\$ 12,196
Income tax using Pollard's domestic tax rate	27.0%	4,610	26.8%	3,266
Changes in expected tax rates and other non-deductible amounts	1.5%	259	(3.3%)	(401)
Effect of non-taxable items related to foreign exchange	(0.4%)	(64)	15.3%	1,868
	28.1%	\$ 4,805	38.8%	\$ 4,733

Deferred income tax assets and liabilities

Recognized deferred income tax assets and liabilities

Deferred income tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Property, plant and equipment	\$ 19	148	\$ (6,926)	(6,347)	\$ (6,907)	(6,199)
Intangible assets	108	-	(3,265)	(3,515)	(3,157)	(3,515)
Inventories	364	325	-	-	364	325
Employee benefits	5,758	5,477	(1,458)	(1,734)	4,300	3,743
Unrealized foreign exchange (gains) and losses	1,611	1,869	(1,192)	(1,631)	419	238
Other	72	28	-	(371)	72	(343)
Tax assets (liabilities)	\$ 7,932	7,847	\$ (12,841)	(13,598)	\$ (4,909)	(5,751)

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

10. Income taxes (continued):

Movement in temporary differences during the year

	Balance January 1, 2015	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2015	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2016
Property, plant and equipment	\$ (1,240)	(4,959)	-	(6,199)	(708)	-	(6,907)
Intangible assets	(3,328)	(187)	-	(3,515)	358	-	(3,157)
Inventories	304	21	-	325	39	-	364
Employee benefits	3,656	860	(773)	3,743	266	291	4,300
Unrealized foreign exchange (gains) and losses	672	(434)	-	238	181	-	419
Unused tax losses	520	(520)	-	-	-	-	-
Other	(125)	(218)	-	(343)	415	-	72
Tax assets (liabilities)	\$ 459	(5,437)	(773)	(5,751)	551	291	(4,909)

Recognized in the consolidated statements of income as follows:

	2016	2015
Deferred income tax expense (reduction)	\$ (339)	\$ 5,410
Finance income	(212)	27
	\$ (551)	\$ 5,437

Amounts included in finance income relate to unrealized foreign exchange.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

11. Long-term debt:

	December 31, 2016	December 31, 2015
Credit facility, interest of 3.1% to 3.4%, payable monthly, maturing 2018	\$ 71,003	\$ 73,497
Deferred financing charges, net of amortization	(151)	(211)
	70,852	73,286
Less current portion	-	(1,203)
	\$ 70,852	\$ 72,083

Included in the total credit facility balance is a U.S. dollar loan balance of US\$13,400 (2015 - US\$14,200).

Effective June 24, 2016, Pollard Banknote Limited renewed its credit facility. The credit facility provides loans of up to \$75,000 for its Canadian operations and US\$12,000 for its U.S. subsidiaries. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of \$75,000 Canadian equivalent. 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, 2016, the outstanding letters of guarantee drawn under the credit facility were \$1,205 (2015 - \$1,257).

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, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at December 31, 2016, Pollard is in compliance with all financial covenants.

As of December 31, 2016, Pollard has unused credit facility available of \$18,908 (2015 - \$17,591).

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. The facility can be prepaid without penalties. Under the terms of the agreement the facility was committed for a two year period, renewable June 24, 2018.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

12. Subordinated debt:

	December 31, 2016	December 31, 2015
Subordinated debt, interest of 9.00% payable quarterly, maturing 2021	\$ 6,132	\$ 6,813
Less current portion	(1,363)	-
	<u>\$ 4,769</u>	<u>\$ 6,813</u>

On April 2, 2014, Pollard entered into a loan agreement with Equities for a subordinated term loan facility with a seven year term in the amount of \$6,813 to assist in the purchase of a printing press.

Quarterly principal payments on the subordinated loan facility commenced the quarter following June 30, 2016. Interest on the subordinated debt commenced with the first draw at a rate of 9%. The loan is fully subordinated to the secured credit facility.

13. Pension liability:

	December 31, 2016	December 31, 2015
Fair value of benefit plan assets	\$ 44,372	\$ 40,073
Present value of benefit plan obligations	(57,896)	(51,343)
Net pension liability	\$ (13,524)	\$ (11,270)

Pollard sponsors non-contributory defined benefit plans providing pension benefits to its employees. Pollard has four pension plans of which three are final pay plans and one is a flat benefit plan. None of the plans have indexation features. The measurement date for all the plans is December 31. The two plans of the U.S. subsidiaries require valuations annually with the last valuations being as of January 1, 2016. One of the Canadian plans of Pollard currently requires valuation every three years with the next valuation to be completed in fiscal 2017 as of December 31, 2016. Pollard's other Canadian plan's last valuation was as of January 1, 2013. A new valuation of this plan will also be completed in fiscal 2017 as of December 31, 2016. Pollard's U.S. subsidiaries also maintain two defined contribution plans. The pension expense for these defined contribution plans is the annual funding contribution by the subsidiaries.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

13. Pension liability (continued):

Pollard expects to contribute approximately \$4,100 to its defined benefit plans in 2017. Included in the 2017 estimated contributions is \$1,300 in additional solvency payments.

The benefit plan assets are held in trust and are invested as follows:

	December 31, 2016	December 31, 2015
Equities	61.5%	62.3%
Bonds	35.8%	37.2%
Cash and cash equivalents	2.7%	0.5%
	100.0%	100.0%

Information about Pollard's defined benefit plans, in aggregate, is as follows:

	2016	2015
<i>Benefit plan assets</i>		
Fair value, beginning of year	\$ 40,073	\$ 37,460
Expected return on plan assets	1,733	1,534
Employer contributions	2,577	2,387
Benefits paid	(1,743)	(1,765)
Remeasurement (losses) gains	1,866	(311)
Effect of movements in exchange rates	(134)	768
Fair value, end of year	\$ 44,372	\$ 40,073
<i>Accrued benefit plan obligations</i>		
Balance, beginning of year	\$ 51,343	\$ 49,402
Current service cost	3,464	3,595
Interest cost	2,161	1,979
Benefits paid	(1,743)	(1,765)
Remeasurement (gains) losses	2,894	(3,154)
Effect of movements in exchange rates	(223)	1,286
Balance, end of year	\$ 57,896	\$ 51,343
Net pension liability	\$ (13,524)	\$ (11,270)

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

13. Pension liability (continued):

The total net cost for Pollard's defined benefit and defined contribution pension plans recognized in cost of sales is as follows:

	2016	2015
<i>Net defined benefit plans cost</i>		
Current service cost	\$ 3,464	\$ 3,595
Interest on plan obligations	2,161	1,979
Actual return on plan assets	(3,599)	(1,223)
Difference between expected return and actual return on plan assets	2,142	(64)
Net defined benefit plans cost	4,168	4,287
Defined contribution plans cost	249	245
Net pension plans cost	\$ 4,417	\$ 4,532

Actuarial assumptions

The principal actuarial assumptions used in measuring at the reporting date are as follows:

	2016	2015
Discount rate	4.0% to 4.3%	4.3% to 4.7%
Rate of compensation increase	0% to 3.0%	0% to 3.0%

Assumptions regarding future mortality have been based on published statistics and mortality tables. As of December 31, 2016, Pollard used CPM2014 Private Sector projected CPM-B mortality table for its Canadian subsidiary's pension plans and the RP-2016 healthy mortality tables for its U.S. subsidiary's pension plans. As of December 31, 2015, Pollard used CPM2014 Private Sector projected with Scale B mortality table for its Canadian subsidiary's pension plans and the RP-2015 healthy mortality tables for its U.S. subsidiary's pension plans.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

13. Pension liability (continued):

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts show below:

	Increase		Decrease	
Discount rate (1% movement)	\$	(11,083)	\$	14,722
Rate of compensation increase (1% movement)	\$	1,949	\$	(1,774)
Future mortality (one year)	\$	1,247	\$	(1,282)

Remeasurements

	2016		2015	
Remeasurement (losses) gains arising on plan assets	\$	1,866	\$	(311)
Remeasurement (gains) losses arising on plan liabilities from:				
Demographic assumptions	\$	(81)	\$	(268)
Financial assumptions		3,223		(3,110)
Experience adjustments		(248)		224
Remeasurement (gains) losses arising on plan liabilities	\$	2,894	\$	(3,154)

Remeasurements recognized in other comprehensive income

	2016		2015	
Amount accumulated in deficit, beginning of year	\$	(11,259)	\$	(13,329)
Recognized during the year		(737)		2,070
Amount accumulated in deficit, end of year	\$	(11,996)	\$	(11,259)

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

14. Share capital:

	December 31, 2016	December 31, 2015
Authorized		
Unlimited common shares		
Unlimited preferred shares		
Issued		
23,543,158 common shares	\$ 73,209	\$ 73,209
	\$ 73,209	\$ 73,209

Ownership restrictions:

The holders of the common shares are entitled to one vote in respect to each common share held, subject to the Board of Directors ability to take constraint actions when a person, or group of persons acting in concert acquires, agrees to acquire, holds, beneficially owns or controls, either directly or indirectly, a number of shares equal to or in excess of 5% of the common shares (on a non-diluted basis) issued and outstanding ("Ownership Threshold"). The Board of Directors, in its sole discretion, can take the following constraint actions:

- place a stop transfer on all or any of the common shares believed to be in excess of the Ownership Threshold;
- suspend all voting and/or dividend rights on all or any of common share held believed to be in excess of the Ownership Threshold;
- apply to a court seeking an injunction to prevent a person from acquiring, holding, owning, controlling and/or directing, directly or indirectly, common shares in excess of the Ownership Threshold; and/or
- make application to the relevant securities commission to effect a cease trading order or such similar restriction, until the person no longer controls common shares equal to or in excess of the Ownership Threshold.

In addition, if a Gaming Regulatory Authority has determined that ownership by a holder of common shares is inconsistent with its declared policies, the Board of Directors is entitled to take constraint action against such shareholder. Any person who controls common shares equal to or in excess of the Ownership Threshold, may be required to file an application, be investigated and have suitability as a shareholder determined by a Gaming Regulatory Authority, if such Gaming Regulatory Authority has reason to believe such ownership would otherwise be inconsistent with its declared policies. The shareholder must pay all the costs of the investigation incurred by any such Gaming Regulatory Authority.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

14. Share capital (continued):

Capital management:

Pollard's objectives in managing capital are to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Pollard also strives to maintain an optimal capital structure to reduce the overall cost of capital.

In the management of capital, Pollard includes long-term debt, subordinated debt, share capital and deficit, but excludes reserves. The Board of Directors regularly monitors the levels of debt, equity and dividends.

Pollard monitors capital on the basis of funded debt to Adjusted EBITDA, working capital ratio and debt service coverage. Pollard has externally imposed capital requirements as determined through its bank credit facility. As at December 31, 2016, Pollard is in compliance with all financial covenants.

Dividends:

Dividends are paid on the common shares within 15 days of the end of each quarter and are fully discretionary, as determined by the Board of Directors of Pollard.

On November 14, 2016, a dividend of \$0.03 per share was declared, payable on January 13, 2017, to the shareholders of record on December 31, 2016.

There were no other changes in Pollard's approach to capital management during the current period.

Share based compensation:

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares.

On March 5, 2014, the Board of Directors approved the award of 100,000 options to purchase common shares of Pollard for certain key management personnel. The options were granted on March 10, 2014, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on March 7, 2014.

On September 7, 2016, the Board of Directors approved the award of 25,000 options to purchase common shares of Pollard for a key management member. The options were granted on October 3, 2016, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on September 30, 2016.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

14. Share capital (continued):

The grant date fair value of these options was determined based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values of the share based compensation granted are the following:

Option grant date	October 3, 2016	March 10, 2014
Fair value at grant date	\$ 1.87	\$ 0.82
Share price	\$ 8.12	\$ 3.63
Exercise price	\$ 8.12	\$ 3.63
Expected volatility	30.7%	33.7%
Option life (expected weighted average life)	4.75 years	4.75 years
Risk-free interest rate (based on Canadian government bonds)	0.6% to 0.7%	1.7% to 2.1%

As of December 31, 2016, no share options had been exercised or expired. Of the 125,000 options outstanding at December 31, 2016, 50,000 were exercisable. The weighted average exercise price for the outstanding options was \$4.53.

Subsequent to year end, on March 13, 2017, the Board of Directors approved the award of 125,000 options to purchase common shares of Pollard for key management personnel. The options will be granted on March 16, 2017, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options will be equal to the closing price of the common shares on March 15, 2017.

15. Commitments and contingencies:

Pollard and certain subsidiaries rent premises and equipment under long-term operating leases. The following is a schedule by fiscal year of rental payment commitments under operating leases outstanding:

2017	\$	4,930
2018		4,450
2019		3,381
2020		3,093
2021		2,716
Thereafter		4,107

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

15. Commitments and contingencies (continued):

Pollard is contingently liable for outstanding letters of guarantee in the amount of \$1,205 at December 31, 2016 (2015 - \$1,257). These letters of guarantee are part of Pollard's credit facility and are secured as disclosed in note 11.

During 2008 Pollard entered into a sale leaseback with an affiliate of Equities for land and building in Council Bluffs, Iowa. The property was sold for \$4,081 and leased back for ten years at an annual lease rate of approximately US\$260. The sale value was determined through independent appraisal.

Also in 2008 Pollard entered into a lease with an affiliate of Equities for a manufacturing facility in Winnipeg, Manitoba. The lease was for a 12 year 6 month period, ending March 31, 2021, at an annual base rate of approximately \$2,453. In 2015, Pollard agreed to exercise its renewal clause. The renewal covers the period from April 2021 to September 2023 with an approximate annual lease rate of \$2,400, including an annual amortization of a leasehold improvement allowance of approximately \$1,000. The total leasehold allowance is \$2,500. The base rental rate was based on current market value as determined through independent appraisal.

During 2011 Pollard entered into a sale leaseback with an affiliate of Equities for land and building in Winnipeg, Manitoba. The property was sold for \$3,473 and leased back for five years (with an option to renew for an additional five year term) at an annual lease rate of approximately \$313. The sale value was determined through independent appraisal. During 2016, Pollard exercised its option to renew its lease for an additional five year term for annual rent of \$363 per year. The rental rate was based on current market value as determined through independent appraisal.

Pollard is involved in litigation and claims associated with operations, the aggregate amounts of which are not determinable. While it is not possible to estimate the outcome of the proceedings, management is of the opinion that any resulting settlements would not materially affect the financial position of Pollard. Should a loss occur on resolution of these claims, such loss would be accounted for as a charge to income in the period in which the settlement occurs.

Pollard has agreed to indemnify Pollard's current and former directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain usual limitations. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

16. Other (income) expense:

	2016		2015	
Loss on equity investment (note 7)	\$	730	\$	32
Gain on sale of investment in associate		(516)		-
Other income		(246)		(316)
	\$	(32)	\$	(284)

During 2016, Pollard entered into an agreement to sell its investment in Shenzhen Palm Commerce & Pollard Banknote Technology Co., Ltd. to Palm Commerce Information and Technology (China) Co., Ltd., the majority shareholder, for proceeds of US\$400, which are recorded in accounts receivable as at December 31, 2016.

17. Finance costs and finance income:

Finance costs	2016		2015	
Foreign exchange loss	\$	681	\$	3,120
Interest		3,374		2,917
Amortization of deferred financing costs		226		345
	\$	4,281	\$	6,382

Finance income	2016		2015	
Foreign exchange gain	\$	1,042	\$	7
Mark-to-market gain on foreign currency contracts		-		483
	\$	1,042	\$	490

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

18. Net income per share:

	2016		2015	
Net income attributable to shareholders for basic and diluted net income per share	\$	12,269	\$	7,463
Weighted average number of shares (basic)		23,543,158		23,543,158
Weighted average impact of share options		106,216		100,000
Weighted average number of shares (diluted)		23,649,374		23,643,158
Net income per share (basic)	\$	0.52	\$	0.32
Net income per share (diluted)	\$	0.52	\$	0.32

19. Personnel expenses:

	2016		2015	
Wages and salaries	\$	70,851	\$	66,716
Benefits and government payroll remittances		11,645		10,571
Profit share		2,028		1,432
Expenses related to defined contribution plans		249		252
Expenses related to defined benefit plans		4,168		4,288
	\$	88,941	\$	83,259

20. Supplementary cash flow information:

	2016		2015	
Change in non-cash operating working capital:				
Accounts receivable	\$	(14,724)	\$	(1,290)
Inventories		(3,657)		2,356
Prepaid expenses and deposits		182		(1,117)
Income taxes receivable		(417)		(2,199)
Accounts payable and accrued liabilities		1,696		(565)
	\$	(16,920)	\$	(2,815)

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

21. Related party transactions:

During the year ended December 31, 2016, Pollard paid property rent of \$3,146 (2015 - \$3,092) and \$357 (2015 - \$272) in plane charter costs to affiliates of Equities. In addition, during the year, Pollard paid Equities \$592 (2015 - \$613) interest on Pollard's subordinated debt.

During the year, Equities paid Pollard \$72 (2015 - \$72) for accounting and administration fees.

During the year ended December 31, 2016, Pollard reimbursed operating costs and paid software royalties of \$1,755 (2015 - \$484) to its iLottery partner, which are recorded in cost of sales and \$633 (2015 - \$115) of development costs.

At December 31, 2016, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, interest and other expenses of \$907 (2015 - \$795). Also included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of \$789 (2015 - \$1,125) for reimbursement of operating costs and capital expenditures, and its share of operating profits.

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors and the Executive Committee are considered key management personnel.

Key management personnel compensation comprised:

		2016		2015
Wages, salaries and benefits	\$	2,631	\$	2,571
Profit share		14		9
Expenses related to defined benefit plans		447		483
	\$	3,092	\$	3,063

As at December 31, 2016, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,444,771 common shares of Pollard.

22. Sales to major customers:

For the year ended December 31, 2016, sales to one customer amounted to 17 percent of consolidated sales, in 2015 no customer amounted to 10 percent.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

23. Segmented information:

Pollard's operations consist of one reporting segment principally in the manufacturing, development and sale of lottery and charitable gaming products. The manufacturing, development and sale of lottery and charitable products have been aggregated as one reportable segment as they have similar economic characteristics, including similar gross profit margins. Geographic distribution of sales, property, plant and equipment and goodwill are as follows:

	2016		2015	
Sales:				
Canada	\$	49,399	\$	52,530
U.S.		134,130		108,969
Other		62,885		59,531
	\$	246,414	\$	221,030

	December 31, 2016		December 31, 2015	
Property, plant and equipment and goodwill:				
Canada	\$	43,893	\$	44,266
U.S.		40,526		43,831
	\$	84,419	\$	88,097

24. Financial instruments:

The fair value of a financial instrument is the estimated amount that Pollard would receive or pay to terminate the instrument agreement at the reporting date. The following methods and assumptions were used to estimate the fair value of each type of financial instrument by reference to various market value data and other valuation techniques as appropriate.

The fair values of accounts receivable, accounts payable and accrued liabilities and dividends payable approximate their carrying values given their short-term maturities.

The fair value of the long-term debt approximates the carrying value due to the variable interest rate of the debt.

The fair value of the subordinated debt approximates the carrying value based on the terms associated with the debt.

The fair value of the other non-current liabilities approximates the carrying value based on the expected settlement amount of these liabilities.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

24. Financial instruments (continued):

Certain financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on the quoted prices observed in active markets for identical assets or liabilities

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 - valuation techniques with significant unobservable market inputs

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

As at December 31, 2016, the cash and restricted cash recorded at fair value was classified as level one of the fair value hierarchy.

25. Financial risk management:

Pollard has exposure to the following risks from its use of financial instruments:

Credit risk

Liquidity risk

Currency risk

Interest rate risk

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls and 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.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

25. Financial risk management (continued):

Credit risk

The following table outlines the details of the aging of Pollard's receivables and the related allowance for doubtful accounts:

	December 31, 2016		December 31, 2015	
Current	\$	36,670	\$	19,193
Past due for 1 to 60 days		1,530		4,295
Past due for more than 60 days		449		717
Less: Allowance for doubtful accounts		(64)		(54)
	\$	38,585	\$	24,151

Liquidity risk

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

The following table outlines Pollard's maturity analysis of the undiscounted cash flows, including related interest payments, of certain non-current financial liabilities and leases as of December 31, 2016:

	Total	2017	2018 - 2019	2020 - 2021	After
Long-term debt	\$ 74,695	2,271	72,424	-	-
Subordinated debt	7,306	1,839	3,309	2,158	-
Pension liability	13,524	1,300	2,600	2,600	7,024
Operating leases	22,677	4,930	7,831	5,809	4,107
	\$ 118,202	10,340	86,164	10,567	11,131

Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In addition, Pollard maintains a committed credit facility including up to \$75,000 for its Canadian operations and up to US\$12,000 for its U.S. subsidiaries. At December 31, 2016, the unused balance available for drawdown under the credit facility was \$18,908 (2015 - \$17,591).

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2016 and 2015

25. Financial risk management (continued):

The 2017 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and the unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to some 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 the Canadian and U.S. dollar, primarily in Euros.

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 due to changes in operating cashflow by approximately \$64 for year ended December 31, 2016 (2015 - \$47). 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 \$64 for year ended December 31, 2016 (2015 - \$52).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. As at December 31, 2016, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately \$1,552 (2015 - \$4,101). 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 taxes of approximately \$8 for the year ended December 31, 2016 (2015 - \$21).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Two 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.

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At December 31, 2016, Pollard had no outstanding foreign currency contracts.

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.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately \$355 for the year ended December 31, 2016 (2015 - \$367).