News Release

POLLARD BANKNOTE ANNOUNCES STRONG 2ND QUARTER FINANCIAL RESULTS

WINNIPEG, Manitoba, August 6, 2014 /CNW/ — Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three months ended June 30, 2014, with Adjusted EBITDA increasing to $6.4 million, up $1.5 million (30%) from the prior year.

"We are very pleased with our second quarter results," stated John Pollard, Co-Chief Executive Officer. "Continued strong revenue levels, record setting instant ticket production levels, higher margins and increasing impact from our digital and interactive products have all contributed to significant growth in sales and earnings. We continue to realize the benefits of working with our clients to improve their businesses, which in turn reflects positively in our financial results. We are particularly pleased with the recent awards of primary supply contracts with Loto-Québec and the Virginia Lottery."

"Our higher production volumes were as a result of beginning production on some of our new contracts as well as benefitting from a number of our clients generating large gains in their instant ticket product line. In addition, the overall market for instant tickets and related businesses continue to be robust and this strength has provided us with opportunities to improve our margins."

"Our net income and pre-tax income increased significantly, partially due to the reversal of our prior mark-to-market losses on our forward foreign currency contracts. However, even excluding these non-cash items our profit relating to our recurring operating business was much higher compared to last year."

"During the quarter we generated significant levels of free cash flow which was used to reduce our bank debt and lower our leverage ratio to a level not experienced at Pollard for a number of years. We will continue to focus our free cash flow on balancing further debt reduction with opportunities to invest in the future growth of our business."

"Our new press installation, targeted to be operational in the spring of 2015, is on schedule and we continue to work on a number of other exciting initiatives including the start-up of the Michigan Lottery iLottery gaming site this fall."

"We are very excited about the current state of the lottery industry and its prospects for the future, and we have reconfirmed our commitment to focus on serving our lottery customers and this industry with the energy and zeal required to help lotteries continue to increase and maximize the returns they generate for good causes."

HIGHLIGHTS	2nd Quarter ended June 30, 2014	2nd Quarter ended June 30, 2013
Sales	$ 47.1 million	$ 44.8 million
Gross Profit	$ 10.7 million	$ 8.1 million
Gross Profit % of sales	*22.7%*	*18.1%*
Administration expenses	$ 4.2 million	$ 3.6 million
Selling expenses	$ 1.7 million	$ 1.6 million
Net Income	$ 3.8 million	$ 1.0 million
Adjusted EBITDA	$ 6.4 million	$ 4.9 million
	Six months ended June 30, 2014	Six months ended June 30, 2013
Sales	$ 97.8 million	$ 89.2 million
Gross Profit	$ 20.2 million	$ 16.2 million
Gross Profit % of sales	*20.7 %*	*18.2%*
Administration expenses	$ 8.0 million	$ 7.0 million
Selling expenses	$ 3.4 million	$ 3.2 million
Net Income	$ 5.0 million	$ 2.0 million
Adjusted EBITDA	$ 12.7 million	$ 10.1 million

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 tickets based in Canada and the second largest producer of instant tickets in the world.

SELECTED FINANCIAL INFORMATION

(millions of dollars)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months Ended June 30, 2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	$47.1	$44.8	$97.8	$89.2
Cost of sales	36.4	36.7	77.6	73.0
Gross profit	10.7	8.1	20.2	16.2
Administration expenses	4.2	3.6	8.0	7.0
Selling expenses	1.7	1.6	3.4	3.2
Other income	(0.1)	(0.1)	(0.1)	(0.2)
Income from operations	4.9	3.0	8.9	6.2
Finance costs	0.8	1.0	2.6	2.2
Finance income	(0.9)	-	(1.0)	-
Income before income taxes	5.0	2.0	7.3	4.0
Income taxes:				
Current	1.4	0.5	1.7	0.9
Deferred	(0.2)	0.5	0.6	1.1
	1.2	1.0	2.3	2.0
Net Income	$3.8	$1.0	$5.0	$2.0
Adjustments:				
Amortization and depreciation	2.0	2.0	3.9	3.9
Interest	0.7	0.8	1.5	1.7
Mark-to-market gain on foreign currency contracts	(0.8)	-	(0.3)	-
Unrealized foreign exchange (gain) loss	(0.5)	0.1	0.3	0.5
Income taxes	1.2	1.0	2.3	2.0
Adjusted EBITDA	$6.4	$4.9	$12.7	$10.1

	June 30, 2014	December 31, 2013
Total Assets	$138.7	$133.4
Total Non-Current Liabilities	$80.6	$79.2

The selected financial and operating information has been derived from, and should be read in conjunction with, the condensed consolidated unaudited interim financial statements of Pollard as at and for the three and six months ended June 30, 2014. These financial statements have been prepared in accordance with the International Financial Accounting Standards (“IFRS” or “GAAP”).

Results of Operations – Three months ended June 30, 2014

During the three months ended June 30, 2014, Pollard achieved sales of $47.1 million, compared to $44.8 million in the three months ended June 30, 2013. Factors impacting the $2.3 million sales increase were:

- Instant ticket average selling price increased in the second quarter of 2014 compared to the prior year which increased sales by $0.8 million. Sales volumes, including sales of ancillary instant ticket products and services decreased slightly when compared to the second quarter of 2013, reducing sales by $1.1 million from the second quarter of 2013. Lower sales volumes to the New Jersey Lottery, as previously disclosed, were mostly offset by growth in sales volumes to a number of other customers. Charitable Gaming volume increased slightly during the quarter increasing sales by $0.4 million when compared to 2013, while a decrease in the average selling price reduced sales by $0.3 million when compared to the second quarter of 2013.

- During the three months ended June 30, 2014, Pollard generated approximately 60.5% (2013 – 70.7%) 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 2014 the actual U.S. dollar value was converted to Canadian dollars at $1.093, compared to a rate of $1.019 during the second quarter of 2013. This 7.3% increase in the U.S. dollar value resulted in an approximate increase of $1.6 million in revenue relative to the second quarter of 2013. Also during the quarter, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $0.9 million in revenue relative to the second quarter of 2013.

Cost of sales was $36.4 million in the second quarter of 2014 compared to $36.7 million in the second quarter of 2013. Cost of sales was lower in the quarter relative to 2013 as a result of increased production efficiencies and higher levels of production volumes relative to sales volumes, partially offset by higher exchange rates on U.S. dollar transactions.

Gross profit was $10.7 million (22.7% of sales) in the second quarter of 2014 compared to $8.1 million (18.1% of sales) in the second quarter of 2013. This increase was primarily the result of increased production efficiencies, a significant increase in production volumes compared to 2013 and the impact of the weakening of the Canadian dollar. The increase in production was primarily a result of increased orders from existing customers in the second quarter of 2014 compared to lower production during the quarter in 2013 due to scheduled maintenance on a major press line.

Administration expenses increased to $4.2 million in the second quarter of 2014 from $3.6 million in the second quarter of 2013 as a result of increased compensation expenses, primarily being increased incentive accruals relating to higher earnings.

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

Interest expense was $0.7 million in the second quarter of 2014 which was similar to $0.8 million in the second quarter of 2013.

The net foreign exchange gain was $0.1 million in the second quarter of 2014 compared to a net loss of $0.1 million in the second quarter of 2013. Within the 2014 net foreign exchange gain was an unrealized foreign exchange gain of $0.5 million, relating to a $0.7 million unrealized foreign exchange gain on U.S. dollar denominated debt and payables, partially offset by a $0.2 million unrealized foreign exchange loss on U.S. dollar denominated cash and receivables. Partially offsetting the unrealized gain was a realized foreign exchange loss of $0.4 million relating to the decreased value of the collections of U.S. dollar denominated receivables of $0.3 million and a $0.2 million realized loss on the conversion of U.S. dollars and Euros into Canadian dollars. These realized losses were partially offset by a $0.1 million realized gain relating to payments made on U.S. dollar and Euro denominated payables.

Within the 2013 foreign exchange loss was an unrealized foreign exchange loss of $0.1 million, relating to a $0.5 million unrealized foreign exchange loss on U.S. dollar denominated debt and payables, partially offset by a $0.4 million unrealized foreign exchange gain on U.S. dollar denominated cash and receivables.

Adjusted EBITDA was $6.4 million in the second quarter of 2014 compared to $4.9 million in the second quarter of 2013. The primary reason for the increase in Adjusted EBITDA of $1.5 million was the increase in gross profit of $2.6 million, partially offset by the increase in administration and selling expenses of $0.7 million and the increased realized foreign exchange loss of $0.4 million.

Income tax expense was $1.2 million in the second quarter of 2014, an effective rate of 23.4%, similar to our domestic tax rate of 26.7%.

Income tax expense was $1.0 million in the second quarter of 2013, an effective rate of 48.9%, as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled $2.0 million during the second quarter of 2014 which was similar to $2.0 million during the second quarter of 2013.

Net income increased to $3.8 million in the second quarter of 2014 from $1.0 million in the second quarter of 2013. The primary reasons for the increase of $2.8 million in net income were the increase in gross profit of $2.6 million and the gain of $0.8 million on the non-cash mark-to-market adjustment on foreign currency contracts. These increases were partially offset by the increase in administration and selling costs of $0.7 million and increased income tax expense of $0.2 million.

Net income per share (basic and diluted) increased to $0.16 per share in the second quarter of 2014 from $0.04 per share in the second quarter of 2013.

Results of Operations – Six months ended June 30, 2014

During the six months ended June 30, 2014, Pollard achieved sales of $97.8 million, compared to $89.2 million in the six months ended June 30, 2013. Factors impacting the $8.6 million sales increase were:

- Higher instant ticket average selling price increased sales by $1.9 million in the first six months of 2014 compared to the first six months of 2013. Sales volumes decreased slightly when compared to 2013 but higher sales of our ancillary instant ticket products and services increased sales by $0.7 million from the first half of 2013. Lower sales volumes to the New Jersey Lottery, as previously disclosed, were offset by growth in sales volumes to a number of other customers. Charitable Gaming products volumes were higher than the first six months of 2013 increasing revenues by $0.9 million. However, the decrease in the average selling price in the first six months of 2014 reduced sales by $0.7 million when compared to the first six months of 2013.

- During the six months ended June 30, 2014, Pollard generated approximately 65.5% (2013 – 69.8%) 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 2014 the actual U.S. dollar value was converted to Canadian dollars at $1.093, compared to a rate of $1.011 during the first six months of 2013. This 8.1% increase in the U.S. dollar value resulted in an approximate increase of $4.5 million in revenue relative to the six months ended June 30, 2013. Also during the first half of 2014, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $1.3 million in revenue relative to the first half of 2013.

Cost of sales was $77.6 million in the six months ended June 30, 2014, compared to $73.0 million in the six months ended June 30, 2013. Cost of sales was higher in the first half of 2014 relative to 2013 as a result of increased ancillary instant ticket sales, primarily licensed games. In addition, higher exchange rates on U.S. dollar transactions in the first half of 2014 increased cost of sales when compared to the first half of 2013.

Gross profit increased to $20.2 million (20.7% of sales) in the six months ended June 30, 2014, from $16.2 million (18.2% of sales) in the first six months of 2013. This increase was due mainly to the increase in ancillary instant ticket volumes, primarily licensed sales, increased production efficiencies as well as the weakening of the Canadian dollar relative to the U.S. dollar and Euro.

Administration expenses increased to $8.0 million in the first six months of 2014 from $7.0 million in the first six months of 2013 as a result of increased compensation expenses, primarily being increased incentive accruals relating to higher earnings.

Selling expenses increased to $3.4 million in the first six months of 2014 from $3.2 million in the first six months of 2013 as a result of increased compensation expenses.

Interest expense decreased to $1.5 million in the first six months of 2014 from $1.7 million in the first six months of 2013 as a result of lower interest rates.

The net foreign exchange loss was $0.3 million in the first six months of 2014 compared to a net loss of $0.3 million in the first half of 2013. The 2014 foreign exchange loss resulted from unrealized foreign exchange losses of $0.3 million, comprised of $0.4 million unrealized foreign exchange loss on U.S. dollar denominated cash and accounts receivables, partially offset by $0.1 million unrealized gain on U.S. dollar denominated payables.

The 2013 net foreign exchange loss was comprised of unrealized foreign exchange losses of $0.5 million, comprised of $0.8 million unrealized foreign exchange loss on U.S. dollar denominated debt and a $0.3 million unrealized loss on U.S. dollar denominated payables, partially offset by $0.6 million unrealized foreign exchange gain on U.S. dollar denominated cash and accounts receivables. Partially offsetting the unrealized loss was the realized foreign exchange gain of $0.2 million as a result of the increased value of U.S. dollar denominated accounts receivables collected.

Adjusted EBITDA was $12.7 million in the first six months of 2014 compared to $10.1 million in the first six months of 2013. The primary reason for the increase in Adjusted EBITDA of $2.6 million was an increase in gross profit of $4.0 million, partially offset by increased administration and selling expenses of $1.2 million and decreased realized foreign exchange gains of $0.2 million.

Income tax expense was $2.3 million in the first six months of 2014, an effective rate of 31.6%, similar to our domestic tax rate of 26.7%.

Income tax expense was $2.0 million in the first six months of 2013, an effective rate of 50.1%, primarily as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled $3.9 million during the first six months of 2014 which was similar to $3.9 million during the first six months of 2013.

Net income was $5.0 million in the first six months of 2014 compared to $2.0 million in the first six months of 2013. The primary reasons for the increase of $3.0 million was an increase in gross profit of $4.0 million, the decrease in interest expense of $0.2 million and the gain of $0.3 million on the non-cash mark-to-market adjustment on foreign currency contracts. These increases were partially offset by higher administration and selling costs of $1.2 million and higher income tax expense of $0.3 million.

Net income per share (basic and diluted) increased to $0.21 per share in the six months ending June 30, 2014, as compared to $0.08 per share in the six months ending June 30, 2013.

Use of Non-GAAP Financial Measures

Reference to “Adjusted EBITDA” is to earnings before interest, income taxes, amortization and depreciation, unrealized foreign exchange gains and losses, mark-to-market gains and losses on foreign currency contracts and interest rate swaps, and certain non-recurring items including Conversion expenses, warranty reserve accruals, settlement loss on pension curtailment and restructuring costs. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to Net Income, Adjusted EBITDA is a useful supplementary measure.

Adjusted EBITDA is a measure not recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, this measure may not be comparable to similar measures presented by other entities. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to Net Income determined in accordance with GAAP as an indicator of Pollard’s performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

Outlook

Consumer demand for instant lottery tickets at the retail level continues to be very strong, with many lotteries recently announcing record sales. We expect this strong demand to continue and we also expect growth in the related areas such as iLottery and other digital applications of similar gaming products. Lotteries are focused on their objectives of raising funds for their various good causes and their instant ticket product lines have been very successful in meeting these objectives. Continued use of innovative marketing and advertising campaigns, improved retailer engagement, unique specialized products such as theme games, higher and varied selling price points, increased prize payouts and increasing tie-ins with digital, internet and other social media are all factors driving this growth.

Our volume expectations for 2014 remain positive, with levels for the year to be anticipated to higher than 2013. We expect our proprietary and premium products to continue to be very popular in the lottery industry, with these higher value products historically generating higher sales levels in the third quarter in the run up to the holiday season. We continue to see strong sales from our licensed games portfolio including such iconic licenses as Frogger and we're excited to announce the recent addition of the NASCAR® brand to our suite of licensed products.

We do not foresee any major changes in our instant ticket contract portfolio in 2014 and believe our current contract mix will provide us with the foundation to achieve the expected levels of sales outlined above as well as generate opportunities for future growth.

Lotteries continue to look into newer distribution methods for their products with the internet increasingly being targeted for growth. iLottery, as it is referred to, will continue to be on the radar for a number of lotteries and Pollard will be aggressively seeking out opportunities to expand our business in this area. Our contract to provide and operate the iLottery platform for the Michigan Lottery is on schedule to roll out this fall and we will look to use this experience to successfully expand to other jurisdictions.

Longer term the installation and start up of our new press and subsequent redistribution of capacity among our other plants will provide a foundation to allow Pollard to move to a significantly higher level of instant ticket volumes. The planning for the capacity expansion continues on schedule for its commissioning in the spring of 2015.

As noted in prior disclosures our 2014 capital expenditures are expected to be significantly higher than in recent prior years due to the initiation of the approximate $20 million expansion plan regarding installation of a new state of the art press. The costs of this expansion, starting in the second quarter of 2014, will continue to be incurred over the next 15 months.

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

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.

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