Pollard Banknote

News Release

POLLARD BANKNOTE ANNOUNCES STRONGER 2ND QUARTER FINANCIAL RESULTS

WINNIPEG, Manitoba, August 3, 2011 /CNW/ — Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three and six months ended June 30, 2011.

HIGHLIGHTS	2nd Quarter ended June 30, 2011	2nd Quarter ended June 30, 2010
Sales	$ 44.4 million	$ 43.1 million
Gross Profit	$ 7.7 million	$ 6.5 million
Gross Profit % of sales	*17.3 %*	*15.1%*
Administration expenses	$ 3.4 million	$ 4.4 million
Selling expenses	$ 1.6 million	$ 1.6 million
Realized F/X (Gain) Loss	$ (1.5 million)	$ 0.2 million
Net Income (Loss)	$ 1.8 million	$ (0.7 million)
Adjusted EBITDA	$ 7.7 million	$ 5.8 million
Adjusted EBITDA excluding gain on sales of property, plant and equipment	$ 6.2 million	$ 3.8 million

HIGHLIGHTS	Six months ended June 30, 2011	Six months ended June 30, 2010
Sales	$ 83.6 million	$ 84.4 million
Gross Profit	$ 13.8 million	$ 13.5 million
Gross Profit % of sales	*16.5 %*	*16.0%*
Administration expenses	$ 6.7 million	$ 7.8 million
Selling expenses	$ 3.1 million	$ 3.0 million
Realized F/X (Gain) Loss	$ (1.8 million)	$ 0.9 million
Net Income	$ 2.7 million	$ 1.0 million
Adjusted EBITDA	$ 11.5 million	$ 9.5 million
Adjusted EBITDA excluding gain on sales of property, plant and equipment	$ 10.0 million	$ 7.5 million

“We are pleased with our second quarter financial results,” stated John Pollard, Co-Chief Executive Officer. “Our underlying earnings were significantly higher than both the first quarter of 2011 as well as the second quarter in 2010.”

“Our volumes were significantly higher during the quarter reflecting two important trends. First, our sales have increased due to both higher orders from our existing clients and from new orders resulting from our recent new contract awards. Second, our production capacity has increased over the last six months allowing us to produce these additional volumes. The increased capacity was the result of improved operations of our in-line press and other projects conducted under our Change Initiative process.”

“We are also very pleased to have been recently appointed as primary instant ticket supplier to the Swedish National Lottery.”

“We are beginning our second year of our Change Initiative process which has been instrumental in allowing us to improve our operating and financial results as witnessed during this last quarter. We are confident that these changes in our business, focusing on reducing costs, improving our processes, winning new contracts, increasing our volume and driving innovation, will continue to show positive results in future quarters.”

POLLARD BANKNOTE LIMITED

On May 14, 2010, Pollard Banknote Income Fund (the “Fund”) and Pollard Holdings Limited Partnership (“Pollard LP”) completed a conversion (the “Conversion”) to a publically traded corporation, Pollard Banknote Limited (“Pollard”). Pursuant to the terms of the Conversion, holders of Fund units received, in exchange for each of their Fund units, one common share of Pollard. Pollard Equities Limited (“Equities”), the holder of the Class B and Class C Limited Partnership units (collectively, the “Exchangeable LP Units”) of Pollard LP and the associated Special Voting Units, received, in exchange for each group of one Exchangeable LP Unit (together with the accompanying Special Voting Unit), one common share of Pollard.

As a result of the Conversion, Pollard became the 100% owner of both the Fund and Pollard LP, with Pollard LP continuing to operate the business of manufacturing and selling lottery and gaming products.

Since there was no change in control as a result of the Conversion, the transaction has been accounted for as if the Conversion had occurred at the beginning of the earliest comparative period presented. These condensed consolidated financial highlights incorporate the results of both the Fund and Pollard LP with the prior to Conversion comparative figures having been restated to reflect the combined results of both entities. The assets and liabilities of the Fund and Pollard LP were combined at their carrying values. As a result of the Conversion, the Canadian operations of Pollard became taxable, under the Income Tax Act (Canada). Therefore, the difference between the tax values and the net book value of the Canadian assets and liabilities was recorded as future tax assets and liabilities in the prior to Conversion comparative figures.

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.

Results of Operations – Three and Six months ended June 30, 2011

SELECTED FINANCIAL INFORMATION

(millions of dollars)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	$44.4	$43.1	$83.6	$84.4
Cost of Sales	36.7	36.6	69.8	70.9
Gross Profit	7.7	6.5	13.8	13.5
Administration expenses	3.4	4.4	6.7	7.8
Selling expenses	1.6	1.6	3.1	3.0
Other income	(1.5)	(2.1)	(1.5)	(2.1)
Income from operations	4.2	2.6	5.5	4.9
Finance costs	1.5	2.5	2.7	4.4
Finance income	-	(0.5)	(0.8)	(2.4)
Income before income taxes	2.7	0.6	3.6	2.8
Income taxes:				
Current	0.3	0.4	0.6	0.8
Future	0.6	0.9	0.3	1.0
	0.9	1.3	0.9	1.8
Net Income (loss)	$1.8	$(0.7)	$2.7	$1.0
Adjustments:				
Interest	1.2	1.4	2.4	2.8
Unrealized foreign exchange loss (gain)	1.6	0.4	1.2	(0.9)
Mark-to-market gain on foreign currency contracts and interest rate swaps	-	(0.5)	-	(1.8)
Amortization of de-designated hedges	-	0.5	-	0.9
Conversion costs	-	0.7	-	0.7
Warranty reserve	-	0.7	-	0.7
Income taxes	0.9	1.3	0.9	1.8
Amortization	2.2	2.0	4.3	4.3
Adjusted EBITDA	$7.7	$5.8	$11.5	$9.5
Gain on sale of property, plant and equipment	1.5	2.0	1.5	2.0
Adjusted EBITDA excluding gain on sale of property, plant and equipment	$6.2	$3.8	$10.0	$7.5

	June 30, 2011	December 31, 2010
Total Assets	$130.3	$128.2
Total Long Term Liabilities	$74.0	$74.2

The previous 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 six months ended June 30, 2011. These financial statements have been prepared in accordance with the International Financial Accounting Standards ("IFRS").

Results of Operations – Three months ended June 30, 2011

During the three months ended June 30, 2011, Pollard achieved sales of $44.4 million, compared to $43.1 million in the three months ended June 30, 2010. Factors impacting the $1.3 million sales increase were:

- During the three months ended June 30, 2011, Pollard generated approximately 66% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the second quarter of 2011 the actual U.S. dollar value was converted to Canadian dollars at $0.97, compared to a rate of $1.04 during the second quarter of 2010. This 7% decrease in the U.S. dollar value resulted in an approximate decrease of $1.9 million in revenue relative to the second quarter of 2010. Also during the second quarter of 2011, the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.1 million in revenue relative to the second quarter of 2010.

- Instant ticket volumes for the second quarter of 2011 were higher than the second quarter of 2010 by 5.3% which, combined with our ancillary instant ticket products and services, increased sales by $1.6 million. Sales volumes were higher primarily due to increased sales to existing customers. In addition, an increase in average selling price compared to 2010 increased sales by $1.5 million. Charitable Gaming volume decreased slightly during the quarter reducing sales by $0.2 million when compared to 2010, which was offset by an increase in sales as a result of increased machine volumes in the quarter when compared to 2010.

Cost of sales was $36.7 million in the second quarter of 2011 compared to $36.6 million in the second quarter of 2010. Lower exchange rates on U.S. dollar transactions in the second quarter of 2011 decreased cost of sales approximately $0.8 million. Cost of sales were higher in the quarter relative to 2010 as a result of the increased instant ticket volumes, partially offset by costs savings generated by our Change Initiative process as well as the decrease in the warranty reserve of $0.7 million.

Gross profit was $7.7 million (17.3% of sales) in the second quarter of 2011 compared to $6.5 million (15.1% of sales) in the second quarter of 2010. This increase is due mainly to higher average selling prices and a decrease of the 2010 warranty reserve, partially offset by the impact of foreign exchange.

Administration expenses were $3.4 million in the second quarter of 2011 which is lower than $4.4 million in the second quarter of 2010 due to costs savings generated by our change initiative process as well as the decrease in the Conversion expenses of $0.7 million (primarily legal and accounting fees) which were expensed in the second quarter of 2010 relating to the Conversion of Pollard to a publically traded corporation.

Selling expenses were $1.6 million in the second quarter of 2011 which is similar to $1.6 million in the second quarter of 2010.

Under IFRS included in the income statement classification “finance costs” are interest, amortization of deferred financing costs, foreign exchange losses and amortization of de-designated hedges. Included in the income statement classification “finance income” are foreign exchange gains and mark-to-market gains on foreign exchange contracts and interest rate swaps.

Interest expense decreased to $1.2 million in the second quarter of 2011 from $1.4 million in the second quarter of 2010 due primarily to the elimination of higher interest rates relating to certain interest rate swaps which expired on August 31, 2010, partially offset by higher interest rates associated with the credit facility in 2011.

The foreign exchange loss was $0.1 million in the second quarter of 2011 compared to a loss of $0.6 million in the second quarter of 2010. Within the 2011 foreign exchange loss are unrealized losses of $1.6 million, relating to a $1.7 million unrealized foreign exchange loss on U.S. dollar denominated debt (caused by the reversal of previously recorded unrealized foreign exchange gains from the strengthening of the Canadian dollar which were realized upon repayment) and a $0.1 million unrealized gain on U.S. dollar denominated payables. Within the realized gain of $1.5 million was a $1.6 million realized gain relating to payments made on U.S. dollar denominated debt, partially offset by $0.1 million in realized losses on the decreased value of U.S. dollar denominated receivables.

Within the 2010 foreign exchange loss of $0.6 million are unrealized losses of $0.4 million, relating to an unrealized $0.7 million foreign exchange loss on U.S. dollar denominated debt (caused by the weakening of the Canadian dollar between the balance sheets dates of March 31, 2010 and June 30, 2010) offset by unrealized net gains of $0.3 million on U.S. dollar denominated receivables and payables, and $0.2 million in realized losses on write-downs of U.S. dollar denominated receivables.

During the quarter ended June 30, 2011, Pollard sold a building and land in Winnipeg, Manitoba to an affiliate of Equities for total proceeds of $3.5 million resulting in a gain of $1.5 million. The selling price was based on the current fair market value as determined through an independent appraisal.

During the second quarter of 2010, Pollard disposed of a surplus building and land in Kamloops, British Columbia to an affiliate of Equities for total proceeds of $2.9 million resulting in a gain of approximately $2.0 million. The selling price was based on the current fair market value determined through an independent appraisal.

Adjusted EBITDA was $7.7 million in the second quarter of 2011 compared to $5.8 million in the second quarter of 2010. The primary reasons for the increase in Adjusted EBITDA were an increase in gross margin and higher realized foreign exchange gains (relating to the repayment of U.S. dollar dominated debt), partially offset by a lower gain on sale of property, plant and equipment.

Adjusted EBITDA excluding the gain on sale of property, plant and equipment was $6.2 million in the second quarter of 2011 compared to $3.8 million in 2010.

Income tax expense was $0.9 million in the second quarter of 2011, an effective rate of 33.3%, as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Income tax expense was $1.3 million in the second quarter of 2010, an effective rate of 226.3%, as a result of permanent differences relating to the translation of the company's U.S. subsidiaries, differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries and the allocation of partnership losses and distributions to the Limited Partners prior to the Conversion.

Amortization includes amortization of property and equipment, deferred financing costs and intangible assets and totaled $2.2 million during the second quarter of 2011 as compared to $2.0 million during the second quarter of 2010, due primarily to higher amortization of deferred financing costs.

Net Income was $1.8 million in the second quarter of 2011 compared to a Net Loss of $0.7 million in the second quarter of 2010. The primary reasons for the increase were an increase in gross profit of $1.2 million, a decrease in administration expenses of $1.0 million, the elimination of amortization of de-designated hedges of $0.5 million and a decrease in foreign exchange loss of $0.5 million, partially offset by a reduction in the gain on sale of property, plant and equipment of $0.5 million and a reduction in the non-cash mark-to-market gain on interest rate swap contracts of $0.5 million.

Earnings per share increased to $0.08 per share in the second quarter of 2011 from ($0.03) in the second quarter of 2010.

Results of Operations – Six months ended June 30, 2011

During the six months ended June 30, 2011, Pollard achieved sales of $83.6 million, compared to $84.4 million in the six months ended June 30, 2010. Factors impacting the $0.8 million sales decrease were:

- During the six months ended June 30, 2011, Pollard generated approximately 70% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the first six months of 2011 the actual U.S. dollar value was converted to Canadian dollars at $0.99, compared to a rate of $1.05 during the first six months of 2010. This 6% decrease in the U.S. dollar value resulted in an approximate decrease of $3.7 million in revenue relative to the first six months of 2010. In addition, during the six months ended June 30, 2011, the strengthening of the Canadian dollar against the Euro resulted in an approximate decrease of $0.1 million in revenue relative to the first six months of 2010.

- Instant ticket volumes for the first six months of 2011 were higher by 7.3% than the first six months of 2010 which, combined with our ancillary instant ticket products and services, increased sales by $3.9 million. Sales volumes were higher primarily due to increased sales to existing customers. A decrease in the average selling price of instant tickets reduced sales by $0.8 million compared to the first half of 2010. Charitable Gaming Products volumes were slightly lower than the first six months of 2010 reducing revenues by $0.4 million, while an increase in machine volumes in the quarter increased sales by $0.3 when compared to 2010.

Cost of sales was $69.8 million in the six months ended June 30, 2011 compared to $70.9 million in the first six months of 2010. Lower exchange rates on U.S. dollar transactions in 2011 decreased cost of sales approximately $1.8 million. Cost of sales were higher as a result of the increased instant ticket volumes, partially offset by costs savings generated by our Change Initiative process as well as the decrease in the warranty reserve of $0.7 million.

Gross profit increased to $13.8 million (16.5% of sales) in the first six months of 2011 from $13.5 million (16.0% of sales) in the six months ended June 30, 2010. This increase is due mainly to the increased sales volume and decrease of the 2010 warranty reserve, partially offset by the impact of the stronger Canadian dollar and the lower average selling price.

Administration expenses were $6.7 million in the first six months of 2011 which is lower than $7.8 million in the first six months of 2010 due to costs savings generated by our change initiative process as well as the decrease in the Conversion expenses of $0.7

million (primarily legal and accounting fees) which was expensed in the second quarter of 2010 relating to the Conversion of Pollard to a publically traded corporation.

Selling expenses were $3.1 million in the first six months of 2011 which is similar to $3.0 million in the first six months of 2010.

Under IFRS included in the income statement classification "finance costs" are interest, amortization of deferred financing costs, foreign exchange losses and amortization of de-designated hedges. Included in the income statement classification "finance income" are foreign exchange gains and mark-to-market gains on foreign exchange contracts and interest rate swaps.

Interest expense decreased to $2.4 million in the first six months of 2011 from $2.8 million in the first six months of 2010 due primarily to the elimination of higher interest rates relating to certain interest rate swaps which expired on August 31, 2010, partially offset by higher interest rates associated with the credit facility in 2011.

The net foreign exchange gain was $0.6 million in the first six months of 2011. Within the 2011 net foreign exchange gain are unrealized losses of $1.2 million, relating to a $1.4 million unrealized foreign exchange loss on U.S. dollar denominated debt (caused by the reversal of previously recorded unrealized foreign exchange gains from the strengthening of the Canadian dollar which were realized upon repayment) and a $0.2 million unrealized gain on U.S. dollar denominated payables. Within the realized gain of $1.8 million is a $2.2 million realized gain relating to payments made on U.S. dollar denominated debt, partially offset by $0.4 million in realized losses on the decreased value of U.S. dollar denominated receivables and the conversion of U.S. dollars and Euros into Canadian dollars.

Within the 2010 foreign exchange gain/(loss) is an unrealized gain of $0.9 million, consisting of an unrealized $0.5 million gain on U.S. dollar denominated debt (caused by the strengthening of the Canadian dollar) and net unrealized gains of $0.4 million on U.S. dollar denominated receivables and payables. Offsetting the unrealized gains are $0.4 million in realized losses relating to forward hedge contracts (caused by a stronger Canadian dollar relative to fixed exchange rates in the hedges) and $0.5 million in realized losses on write-downs of U.S. dollar denominated accounts receivable.

During the first six months of 2011, Pollard sold a building and land in Winnipeg, Manitoba to an affiliate of Equities for total proceeds of $3.5 million resulting in a gain of $1.5 million. The selling price was based on the current fair market value as determined through an independent appraisal.

During the first six months of 2010, Pollard disposed of a surplus building and land in Kamloops, British Columbia to an affiliate of Equities for total proceeds of $2.9 million resulting in a gain of approximately $2.0 million. The selling price was based on the current fair market value as determined through an independent appraisal.

Adjusted EBITDA was $11.5 million in the first six months of 2011 compared to $9.5 million in the first six months of 2010. The primary reasons for the increase in Adjusted EBITDA were an increase in gross margin and higher realized foreign exchange gains (relating to the repayment of U.S. dollar dominated debt), partially offset by a lower gain on sale of property, plant and equipment.

Adjusted EBITDA excluding the gain on sale of property, plant and equipment was $10.0 million in the six months ending June 30, 2011 as compared to $7.5 million in 2010.

Income tax expense was $0.9 million in the first six months of 2011, an effective rate of 24.4%, 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.

Income tax expense was $1.8 million in the first six months of 2010, an effective rate of 63.4%, primarily due to the allocation of partnership losses and distributions to the Limited Partners prior to the Conversion.

Amortization includes amortization of property and equipment, deferred financing costs and intangible assets and totaled $4.3 million during the first six months of 2011 which is similar to $4.3 million during the first six months of 2010.

Net Income was $2.7 million in the first six months of 2011 compared to $1.0 million in the first six months of 2010. The primary reasons for the increase were an increase in gross profit of $0.3 million, a decrease in administration expenses of $1.1 million, an elimination of amortization of de-designated hedges of $0.9 million, a decrease in income taxes of $0.9 million and an increase in foreign exchange gains of $0.6 million, partially offset by the reduction in the gain on sale of property, plant and equipment of $0.5 million and a reduction in the non-cash mark-to-market gains on interest rate swap contracts and foreign currency contracts of $1.8 million.

Earnings per share increased to $0.11 per share in the six months ending June 30, 2011 from $0.04 in the first half of 2010.

Use of Non-GAAP Financial Measures

Reference to "Adjusted EBITDA" is to earnings before interest, income taxes, amortization, unrealized foreign exchange gains and losses, mark-to-market gains and losses on foreign currency contracts and interest rate swaps, and certain non-recurring items including Conversion expenses, warranty reserve accruals 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

Our second quarter production volumes increased significantly when compared to the same period last year as well as the first quarter in 2011. Sales volumes increased at a slightly smaller pace over the same time periods due to the timing of certain shipments to our customers. We expect our order volumes to continue at these higher levels for at least the remainder of 2011. We continue to see higher sales orders from our existing customer base. In addition, we anticipate our recent new contract wins to start generating increased new orders in the third and fourth quarter.

The overall retail market for instant tickets remains healthy, with mid-single-digit sales growth at the retail level being experienced in most major markets. Lotteries world-wide are looking at ways to grow their lottery revenue and profits which in turn generates opportunities for suppliers like Pollard. Consumer confidence is returning to the retail space in general and with regards to lottery products. We expect demand for lottery products and, in particular, instant tickets to remain strong.

Competition remains challenging within the instant ticket industry with all suppliers bidding aggressively for new work through competitive bid situations. We have been successful throughout the first half of 2011 adding a number of new lotteries to our customer portfolio, particularly in the international lottery space, and although there are no major lottery bids expected in the last half of 2011, we are hopeful that we will continue to be successful with the opportunities that are available.

Consistent with the historical sales patterns, our licensed game and merchandise sales increased during the second quarter and we expect this higher level of sales to be maintained in the remainder of 2011. The market appears to be more receptive to these unique product offerings and we will pursue both the acquisition of new licenses and increased sales from our existing licensed product portfolio.

We expect our charitable gaming product line to continue to generate favourable operating margins. The overall market for these products is fairly stable, however we expect continuing focus on increasing our mix to more profitable products and ongoing cost improvements to maintain our strong operating profits achieved in this area in 2011.

The Canadian dollar continues to show strength relative to the U.S. dollar. A strong Canadian dollar results in a negative impact on our operating results, reducing net income and free cash flow due to our net exposure to cash inflows based in U.S. dollars.

One of the reasons for the improved Net Income in the second quarter of 2011 was the impact of cost improvements achieved through our Change Initiatives process, our formal program for organizational improvement. Lower administrative and selling expenses have been achieved despite experiencing growth in volumes and we expect the cost savings achieved so far to continue. In addition, we are working diligently on many aspects of our production processes to identify further opportunities for cost improvements and increased efficiencies. Despite some cost pressures in specific areas due to the significant volume increases, we are confident further improvements will be attained in the future.

As disclosed in our year end filings, we do not anticipate any significant capital expenditures during 2011 and will use our free cash flow to reduce our long term debt and strengthen our balance sheet.

Pollard Banknote believes that its credit facility and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital 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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