POLLARD banknote limited

ANNUAL REPORT

2014

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LETTER TO SHAREHOLDERS

We are very pleased to present to you our 2014 Annual Report. The results of our hard work over the past few years was evident with record annual revenue and a 60% improvement in net income. We are very proud of these results as they reflect the contribution of a number of initiatives. Our business continues to grow and generate strong returns and we will highlight some of these achievements throughout this letter.

Over the last few years our letter to shareholders has noted how strong the instant ticket product line has been for the lottery industry, and we are happy to report this trend has continued. Measured at the retail level, data shows annual percentage growth continuing in the high single digits during the past year, with consumer demand for these products remaining very robust. This increasing retail demand for the lotteries translates into growth opportunities for Pollard.

The foundation for two major developments in the evolution of Pollard was established during 2014. During the year our first iLottery operation went live with the successful launch of the Michigan Lottery's iLottery site. The early results have been very encouraging from both a financial and an operational perspective and we are looking forward to the future development of this product.

In addition, in the spring of 2014 we initiated the purchase of a large new in-line printing press. When completed in 2015, this state of the art press will increase our capacity significantly and provide a more efficient platform for the production of our instant tickets.

Sales

Our total revenue increased by almost $10 million, or greater than 5% (which follows a 14% increase achieved in 2013). Our volumes were down slightly in 2014 compared to last year, primarily due to a large volume of product in transit at year end (which will be recorded as sales in Q1 2015). Also impacting our 2014 volumes negatively was the previous decision of the New Jersey Lottery to outsource the management of their lottery at the end of 2013, with the new management organization taking over as primary instant ticket supplier. However, significant volume growth in our remaining and new customers allowed us to offset this reduction.

A second year in a row of higher average selling prices increased revenue by over $5 million, reflective of significantly higher sales of our premium proprietary products, primarily involving our Scratch FX™ and Playbook™ products. These print innovations have gained significant traction in the market place and have allowed us to make important sales gains with key customers.

The weakening Canadian dollar also contributed to higher average selling prices, generating approximately $9.0 million in additional revenue due to improved exchange rates relative to the U.S. dollar and the Euro.

Sales of licensed games continued their success by equaling the record levels achieved in 2013. Key licensed properties such as Frogger and Tetris® and ongoing sales of Cadillac® were able to maintain our momentum in this important product category.

Our charitable gaming product line contributed similar revenue levels compared to 2013 (after factoring out the impact of the weaker Canadian dollar) despite the ongoing challenges in the overall charitable gaming market. Slightly higher volumes were offset by slightly lower average selling prices.

Our contract portfolio remains strong, including new primary contracts with the lotteries of Quebec, Virginia and Vermont being acquired through RFP wins during 2014. The impact of these contracts will be fully felt in 2015 after their startup midway through 2014. The rest of our contract portfolio is solid with the average length of contract for all of our lottery contracts exceeding 4 years. Our 2014 contract renewal story was very successful with new renewal or extensions awarded by the lotteries of Florida, Colorado, Minnesota, Sweden, Poland and Belgium among several others. We also won the contract as primary ticket supplier for the new private authority operating the Irish National Lottery.

We have no major contracts up for bid in 2015 when available extensions are factored in and will have opportunities to bid strategically for additional work given the anticipated increase in available capacity in the latter half of 2015 due to the completion of the new press.

With a successful soft launch in August 2014 followed by a full roll-out in the fall, our iLottery operation for the Michigan Lottery has achieved very promising results. Sales and player registration numbers have been strong and as the marketing and player understanding increases in this new operation we are very optimistic of continued operational and financial success. While not material to our overall financial results at this early stage of development, lotteries, particularly in the U.S., remain focused on developments in internet gaming.

Operations

Our gross margin increased both in absolute dollar and percentage terms, achieving a gross margin percentage of more than 21%. These higher margins reflect a number of positive factors including the net impact of a weaker Canadian dollar, the growth of our proprietary products discussed above and ongoing improvements in the production processes including areas such as improved yields, greater up-time on our presses and ongoing efficiency improvements in our finishing processes.

Our administration and selling expenditures increased compared to 2013 as we continue to invest in areas to support our various growth initiatives. Included in our administration category are a number of manufacturing support activities including our technical and research departments as well as our large information technology support groups. These departments are directly correlated to our manufacturing and production activities and our new forays into more digital product development and the roll out of iLottery. Additional expenditures in 2014 were incurred in R & D, product development and additional personnel as we expanded the expertise of our technical and IT staffing.

The development of our new state of the art press is an important step in the ongoing growth of Pollard. Considerable financial and personnel resources have been committed to the project during 2014 and into the new year. The installation of the press continues to be on time with an expected commissioning in the second quarter of 2015. This new production platform will allow Pollard the opportunity to increase our capacity in a very efficient manner, utilizing optimum production processes and technology.

During 2014 we continued the development of our new ERP system, which is a print specific management and information system that will provide for the integration of all of our processes into a seamless platform to maximize efficiencies and support our new capacity. We are planning to start the staged roll out of the system later in 2015.

2014 was a very successful year for positive cash flow. Higher operating earnings coupled with strong management of our investment in working capital helped generate almost $19 million in positive cash flow. With this strong financial base, coupled with additional subordinated debt financing, we were able to finance $19 million in total capital expenditures, the highest amount in our company history. Even after such a large investment in our business, we maintained our dividend payout as well as reduced our long term debt by $5.5 million, an overall very solid performance.

The weakening of the Canadian dollar, particularly compared to the U.S. dollar, had a positive effect on our business in 2014. A large percentage of our sales are made in U.S. dollars and, even after offsetting for expenditures in U.S. dollars as part of our natural hedges, we remain with a positive net U.S. dollar cash inflow. In the short term a weaker Canadian dollar generates unrealized losses on our net liability position denominated in U.S. dollars as reflected in our 2014 consolidated statement of income. However on a cash flow basis the weaker Canadian dollar helped us generated greater net cash inflow and was a positive factor in our 2014 operating results.

Outlook for 2015

2015 is expected to be another strong year for lotteries highlighted by continued growth in the instant ticket product line and additional growth in new related areas such as iLottery. With the commissioning of our new press in 2015 we anticipate our volumes will begin to increase in the later part of the year. Improved manufacturing efficiencies should also start to be reflected in our results as the complete project rolls out later in 2015 and more fully in 2016.

Our proprietary products such as Scratch FX™ and Playbook™ should continue to generate strong interest in the lottery market and while still small in absolute dollar amounts, digital applications will continue to grow. The Michigan Lottery iLottery site will continue to evolve and positively impact our business.

Our free cash flow is expected to continue to be strong, based on the underlying operating earnings. We will invest this cash flow back into the business through capital expenditures related to completing the new press installation and additional auxiliary projects to support and maximize our new capacity. Any additional free cash flow will be utilized to reduce bank debt and for other investments such as strategic alliances to expand our footprint into new products and services to support our lottery customers.

2014 was a very successful year for Pollard Banknote and the basis for this success can be found in the people that support us. Above all else our employees continue to amaze us with their dedication, innovation and energy; our customers challenge us to produce great products and provide us the opportunities to help them raise funds for good causes; our suppliers exceed our demands for quality and excellence; our directors inspire us with their passion and wisdom; and of course our investors continue to encourage us in our mission to build a strong organization by becoming the partner of choice in the lottery world.

To all of our partners and colleagues we thank you and we look forward to a very exciting 2015.

Douglas Pollard
Co-Chief Executive Officer

John Pollard
Co-Chief Executive Officer

DIRECTORS OF POLLARD BANKNOTE LIMITED

Lawrence Pollard

Chair Emeritus

Lawrence Pollard joined Pollard Banknote in 1947 and served as president of the company from 1960 until 1997. Mr. Pollard has served on the board of directors of a number of public and private companies and non-profit organizations. He has served as president of the Winnipeg Chamber of Commerce and was named Manitoba's Entrepreneur of the Year in 1991.

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 Institute of Chartered Accountants of Manitoba and has been elected a "Fellow" of the Institute. Mr. Crewson serves on the Board of Directors of The Wawanesa Mutual Insurance Company, 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 Chair of the Winnipeg Regional Health Authority and is also an honorary Certified General Accountant, an honorary Certified Management Accountant and an honorary Chartered Accountant. Dr. Gray 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, 2014

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

FOR THE YEAR ENDED DECEMBER 31, 2014

March 10, 2015

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the year ended December 31, 2014, is prepared as at March 10, 2015, and should be read in conjunction with the accompanying audited financial statements of Pollard and the notes therein as at December 31, 2014. 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, settlement loss on pension curtailment and restructuring costs. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to net income, Adjusted EBITDA is a useful supplementary measure.

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

Basis of Presentation

The results of operations in the following discussions encompass the consolidated results of Pollard for the year ended December 31, 2014. All figures are in millions except for per share amounts.

POLLARD BANKNOTE LIMITED

Overview

Pollard Banknote Limited ("Pollard") is one of the leading providers of products and services to 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, 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 50 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Year ended December 31, 2014	Year ended December 31, 2013
Instant Tickets	89%	89%
Charitable Gaming Products	10%	10%
Vending Machines	1%	1%

Geographic breakdown of revenue

	Year ended December 31, 2014	Year ended December 31, 2013
United States	50%	53%
Canada	22%	22%
International	28%	25%

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, 2014.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Sales	**$194.5**	$184.9	$162.4	$172.0
Cost of sales	**153.4**	149.7	129.7	142.0
Gross profit	**41.1**	35.2	32.7	30.0
Gross profit as a % of sales	***21.1%***	*19.0%*	*20.1%*	*17.4%*
Administration expenses	**17.0**	15.2	13.6	13.8
Expenses as a % of sales	***8.7%***	*8.2%*	*8.4%*	*8.0%*
Selling expenses	**6.9**	6.8	6.1	6.3
Expenses as a % of sales	***3.5%***	*3.7%*	*3.8%*	*3.7%*
Net income	**8.7**	5.4	6.5	3.1
Net income as a % of sales	***4.5%***	*2.9%*	*4.0%*	*1.8%*
Adjusted EBITDA	**25.6**	22.7	19.9	22.5
Adjusted EBITDA as a % of sales	***13.2%***	*12.3%*	*12.3%*	*13.1%*
Adjusted EBITDA excluding gain on sale of property, plant and equipment and realized foreign exchange (loss) gain	**25.8**	21.8	20.2	17.8
As a % of sales	***13.3%***	*11.8%*	*12.4%*	*10.3%*
Earnings per share (basic)	**$0.37**	$0.23	$0.28	$0.13
Earnings per share (diluted)	**$0.37**	$0.23	$0.28	$0.13

	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Total Assets	**$149.3**	$133.4	$127.0	$121.6
Total Non-Current Liabilities	**$89.2**	$79.2	$83.4	$77.2

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

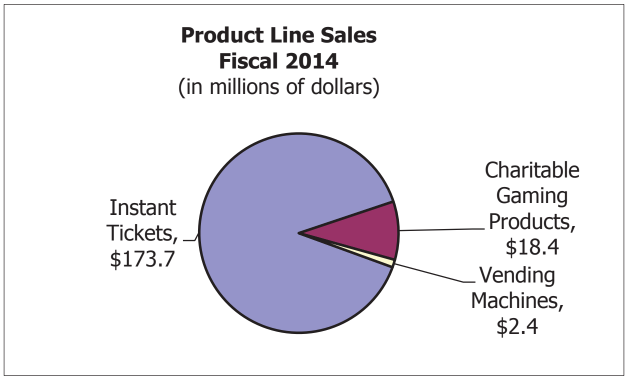
	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Net income	**$8.7**	$5.4	$6.5	$3.1
Adjustments:				
Amortization and depreciation	**7.9**	8.6	7.8	8.4
Interest	**2.9**	3.4	3.4	4.4
Unrealized foreign exchange (gain) loss	**1.7**	1.0	(0.1)	3.8
Mark-to-market loss on foreign currency contracts	**0.1**	0.4	-	-
Start-up costs – iLottery	**0.6**	-	-	-
Settlement loss on pension curtailment	**-**	-	-	0.7
Restructuring expense	**-**	-	-	0.5
Income taxes	**3.7**	3.9	2.3	1.6
Adjusted EBITDA	**$25.6**	$22.7	$19.9	$22.5
Gain on sale of property, plant and equipment	**-**	-	-	1.5
Realized foreign exchange (loss) gain	**(0.2)**	0.9	(0.3)	3.2
Adjusted EBITDA excluding gain on sale of property, plant and equipment and realized foreign exchange (loss) gain	**$25.8**	$21.8	$20.2	$17.8

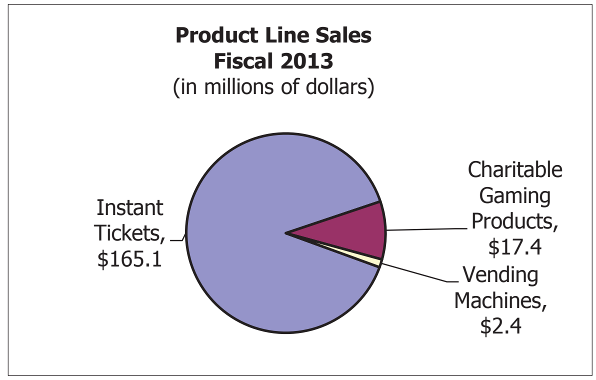
REVIEW OF OPERATIONS

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, 2014

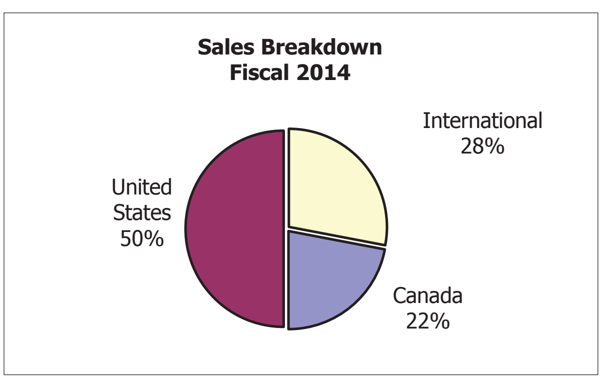
Sales

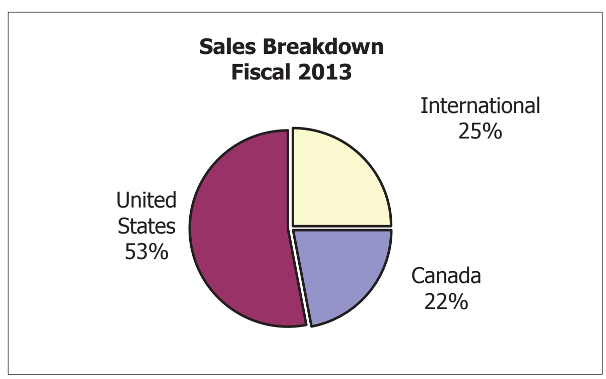




During the year ended December 31, 2014 ("Fiscal 2014" or "2014"), Pollard achieved sales of $194.5 million, compared to $184.9 million in the year ended December 31, 2013 ("Fiscal 2013" or "2013"). Factors impacting the $9.6 million sales increase were:

Higher instant ticket average selling prices for Fiscal 2014 increased sales by $5.4 million compared to Fiscal 2013. This increase was partially a result of increased sales of proprietary products including Scratch FX® and PlayBook® games in 2014. Lower instant ticket sales volumes decreased sales by $5.4 million compared to Fiscal 2013. The majority of this decrease was a result of a significant amount of goods in transit at year-end to international customers. Higher sales of our ancillary instant ticket products and services increased sales by $0.9 million from Fiscal 2013. Charitable gaming volumes were higher than Fiscal 2013 increasing sales by $0.8 million, which was offset by the decrease in average selling price which reduced sales by $0.9 million. A decrease in machine volumes in Fiscal 2014 decreased sales by $0.1 million when compared to 2013.





During Fiscal 2014, Pollard generated approximately 62.3% (2013 – 64.9%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2014 the actual U.S. dollar value was converted to Canadian dollars at $1.097 compared to a rate of $1.028 during Fiscal 2013. This 6.7% increase in the U.S. dollar value resulted in an approximate increase of $7.6 million in revenue relative to Fiscal 2013. Also during Fiscal 2014, the Canadian dollar weakened against the Euro resulting in an approximate increase of $1.4 million in revenue relative to Fiscal 2013.

Cost of sales and gross profit

Cost of sales was $153.4 million in Fiscal 2014 compared to $149.7 million in Fiscal 2013. Cost of sales was higher in Fiscal 2014 relative to Fiscal 2013 as a result of higher exchange rates on U.S. dollar transactions in 2014 which increased cost of sales approximately $6.3 million. Also included in cost of sales in Fiscal 2014 was $0.6 million of non-recurring start-up costs related to Pollard's new iLottery operations. Partially offsetting these increases were reduced costs due to lower volumes, the production mix and recognition of scientific research and experimental development ("SRED") tax credits.

Gross profit was $41.1 million (21.1% of sales) in Fiscal 2014 compared to $35.2 million (19.0% of sales) in Fiscal 2013. This increase was due mainly to increased average selling price of instant tickets, the higher value of U.S. dollars converted into Canadian dollars and increased sales of ancillary instant ticket products and services. Gross profit excluding non-recurring iLottery start-up costs was $41.7 million (21.4% of sales).

Administration expenses

Administration expenses increased to $17.0 million in Fiscal 2014 from $15.2 million in Fiscal 2013 as a result of increased compensation expenses relating to additional manufacturing support activities including technology, information systems and research and development. The increase in expense was also due to a lower amount of capitalized labour in Fiscal 2014 relating to internal projects.

Selling expenses

Selling expenses were $6.9 million in Fiscal 2014 which was similar to $6.8 million in Fiscal 2013.

Interest expense

Interest expense decreased to $2.9 million in Fiscal 2014 from $3.4 million in Fiscal 2013 primarily as a result of lower interest rates.

Foreign exchange loss

The net foreign exchange loss was $1.9 million in Fiscal 2014 compared to a net loss of $0.1 million in Fiscal 2013. 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.

Within the 2013 net foreign exchange loss were realized foreign exchange gains of $0.9 million comprised of $1.0 million realized gain on the increased value of U.S. dollar denominated receivables and the conversion of U.S. dollars and Euros into Canadian dollars, partially offset by $0.1 million of realized loss relating to payments made on U.S. dollar denominated payables. Offsetting the realized foreign exchange gains were unrealized foreign exchange losses of $1.0 million comprised of an unrealized foreign exchange loss of $0.9 million on U.S. dollar denominated debt and $0.1 million unrealized foreign exchange loss on net U.S. denominated receivables and payables.

Amortization and depreciation

Amortization and depreciation, including depreciation of property and equipment and the amortization of deferred financing costs and intangible assets, totaled $7.9 million during Fiscal 2014 which decreased from $8.6 million during Fiscal 2013 due to decreased amortization of deferred financing costs and license fees.

Adjusted EBITDA

Adjusted EBITDA was $25.6 million in Fiscal 2014 compared to $22.7 million in Fiscal 2013. The primary reasons for the increase in Adjusted EBITDA was the increase in gross profit of $5.9 million. Partially offsetting this increase were the increase in administration expenses of $1.8 million and higher realized foreign exchange losses of $1.1 million.

Income taxes

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). This increased the consolidated provision percentage by about 6%.

Income tax expense was $3.9 million in Fiscal 2013, an effective rate of 41.8%, 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 by about 9%. Other permanent differences relating to the foreign exchange translation of property, plant and equipment increased the provision by approximately 3%.

Net income

Net income was $8.7 million in Fiscal 2014 compared to net income of $5.4 million in Fiscal 2013. The primary reasons for the increase were the increase in gross profit of $5.9 million, a reduction in interest expense of $0.5 million, a reduction of $0.3 million in the non-cash mark-to-market loss on foreign currency contracts and a decrease in income taxes of $0.2 million. Partially offsetting these increases to net income were the increase in administration expenses of $1.8 million and an increase in foreign exchange loss of $1.8 million.

Earnings per share (basic and diluted) increased to $0.37 per share in Fiscal 2014 from $0.23 per share in Fiscal 2013.

Liquidity and Capital Resources

Cash provided by operating activities

For the year ended December 31, 2014, cash flow provided by operating activities was $18.9 million compared to $12.3 million in Fiscal 2013. Higher net income before income taxes in Fiscal 2014 contributed to the increase in cash provided by operating activities compared to Fiscal 2013. Changes in the non-cash component of working capital decreased cash flow from operations by $0.6 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), compared to a decrease of $4.1 million for Fiscal 2013 (due primarily to increases in accounts receivable and prepaids, partially offset by a decrease in inventory and an increase in accounts payable and accrued liabilities).

Cash used for income taxes in Fiscal 2014 increased to $2.1 million from $1.2 million in Fiscal 2013 due to higher levels of pre-tax income.

Cash used for investing activities

In the year ended December 31, 2014, cash used for investing activities was $18.8 million compared to $8.4 million in the year ended December 31, 2013. 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.

In Fiscal 2013 Pollard's capital expenditures for property, plant and equipment were $4.6 million and $3.8 million on additions to intangible assets, primarily related to licensing fees and implementation costs, including capitalized internal costs, for ERP software.

Cash used for financing activities

Cash used for financing activities was $1.6 million in the year ended December 31, 2014, compared to cash used for financing activities of $1.2 million in the year ended December 31, 2013. 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 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.

During Fiscal 2013 cash used by financing activities was comprised of $2.8 million in dividends paid and $0.2 million in deferred financing costs, which were partially offset by proceeds from long-term debt of $1.7 million.

As at December 31, 2014, Pollard had unused committed credit facility of $17.8 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, 2014 TO DECEMBER 31, 2014
FOURTH QUARTER OF 2014

SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Three months ended December 31, 2014	Three months ended December 31, 2013
	(unaudited)	(unaudited)
Sales	$43.2	$47.6
Cost of sales	33.4	38.4
Gross profit	9.8	9.2
Administration	4.6	4.2
Selling	1.7	1.7
Other income	(0.1)	(0.2)
Income from operations	3.6	3.5
Finance costs	1.5	1.6
Income before income taxes	2.1	1.9
Income taxes:		
Current	0.2	0.5
Future (recovery)	(0.2)	0.5
	-	1.0
Net income	$2.1	$0.9
Adjustments:		
Amortization and depreciation	2.0	2.7
Interest	0.6	0.8
Unrealized foreign exchange loss	0.9	0.5
Mark-to-market loss on foreign currency contracts	-	0.4
Income taxes	-	1.0
Adjusted EBITDA	$5.6	$6.3

Sales

During the three months ended December 31, 2014, Pollard achieved sales of $43.2 million, compared to $47.6 million in the three months ended December 31, 2013. Factors impacting the $4.4 million sales decrease were:

Instant ticket sales volumes for the fourth quarter of 2014 were lower than the fourth quarter of 2013 by 13.2%, which combined with a decrease in our ancillary instant ticket products and services volumes, primarily licensed games, reduced sales by $5.8 million. The majority of this decrease was a result of a significant amount of goods in transit at year-end to international customers. In addition, a decrease in average selling price of instant tickets compared to 2013 further decreased sales by $0.5 million. Lower charitable gaming volumes for the quarter decreased sales compared to 2013 by $0.3 million, while an increase in the average selling price increased sales by $0.2 million when compared to the fourth quarter of 2013.

During the three months ended December 31, 2014, Pollard generated approximately 60.8% (2013 – 59.8%) 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 2014 the actual U.S. dollar value was converted to Canadian dollars at $1.137, compared to the rate of $1.047 during the fourth quarter of 2013. This 8.6% increase in the value of the U.S. dollar resulted in an approximate increase of $2.0 million in revenue relative to 2013.

Cost of sales and gross profit

Cost of sales was $33.4 million in the fourth quarter of 2014 compared to $38.4 million in the fourth quarter of 2013. Cost of sales was lower in the quarter relative to the fourth quarter of 2013 primarily as a result of decreased sales volumes and the recognition of SRED tax credits. Partially offsetting the decrease, higher exchange rates on U.S. dollar transactions in the fourth quarter of 2014 increased cost of sales approximately $1.6 million when compared to the fourth quarter of 2013.

Gross profit was $9.8 million (22.7% of sales) in the fourth quarter of 2014 compared to $9.2 million (19.3% of sales) in the fourth quarter of 2013. This increase in gross profit dollars was due mainly to the higher value of U.S. dollars converted into Canadian dollars and the recognition of SRED tax credits, partially offset by the gross profit reduction on lower sales volumes.

Administration expenses

Administration expenses were $4.6 million in the fourth quarter of 2014 which was higher compared to $4.2 million in the fourth quarter of 2013 due in part to higher costs related to business development initiatives.

Selling expenses

Selling expense was $1.7 million in the fourth quarter of 2014 which was similar to $1.7 million in the fourth quarter of 2013.

Interest expense

Interest expense decreased to $0.6 million in the fourth quarter of 2014 from $0.8 million in the fourth quarter of 2013 primarily as a result of lower interest rates.

Foreign exchange loss

The net foreign exchange loss was $0.8 million in the fourth quarter of 2014 compared to a net loss of $0.3 million in the fourth quarter of 2013. The 2014 net foreign exchange loss consisted of an unrealized foreign exchange loss of $0.9 million which was mostly 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.

Within the 2013 fourth quarter net foreign exchange loss was an unrealized foreign exchange loss of $0.5 million consisting of $0.4 million relating to unrealized foreign exchange loss on U.S. dollar denominated debt and $0.1 million relating to the unrealized foreign exchange loss on net U.S. dollar denominated receivables and payables. Partially offsetting the unrealized foreign exchange loss was a $0.2 million realized foreign exchange gain on the increased value of U.S. and Euro denominated receivables.

Amortization and depreciation

Amortization and depreciation, including depreciation of property, plant and equipment and the amortization of deferred financing costs and intangible assets, totaled $2.0 million during the fourth quarter of 2014 which decreased from $2.7 million during the fourth quarter of 2013 as a result of decreased amortization of development costs and license fees in 2014.

Adjusted EBITDA

Adjusted EBITDA was $5.6 million in the fourth quarter of 2014 compared to $6.3 million in the fourth quarter of 2013. The primary reasons for the decrease in Adjusted EBITDA were the decrease in gross profit (net of amortization and depreciation) of $0.1 million and higher administration expenses of $0.4 million.

Income taxes

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 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 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%.

Income tax expense was $1.0 million in the fourth quarter of 2013, an effective rate of 52.6%, 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 16%. Other increases were due to permanent differences relating to the translation of the company's U.S. subsidiaries.

Net income

Net income was $2.1 million in the fourth quarter of 2014 compared to $0.9 million in the fourth quarter of 2013. The primary reasons for the increase were the increase in gross profit of $0.6 million, the $0.4 million decrease in the non-cash mark-to-market loss on foreign currency contracts, a decrease in income tax expense of $1.0 million and the $0.2 million decrease in interest expense. Partially offsetting these increases in net income were the increase in administration expenses of $0.4 million and the $0.5 million increase in net foreign exchange loss.

Earnings per share (basic and diluted) increased to $0.09 per share in the fourth quarter of 2014 from $0.04 per share in the fourth quarter of 2013.

Quarterly Information
(unaudited)
(millions of dollars)

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Sales	$43.2	$53.5	$47.1	$50.7	$47.6	$48.1	$44.8	$44.4
Adjusted EBITDA	5.6	7.3	6.4	6.3	6.3	6.3	4.9	5.2
Net income	2.1	1.7	3.7	1.2	0.9	2.6	1.0	0.9

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.

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

Productive Capacity

Management has defined productive capacity as the level of operations necessary to maintain a minimum Adjusted EBITDA of $26.0 million on an annualized basis. Due to varying factors implicit in the nature of the lottery industry and the instant ticket market, productive capacity can best be measured through a financial output such as Adjusted EBITDA and cash flow. A number of factors impact the level of Adjusted EBITDA including physical plant capacity, machine capacity, nature of product and service offerings produced and mix of customers. Changes to productive capacity have occurred primarily through expenditures on fixed assets and improved processes and other internal improvement measures. Productive capacity is also impacted by changes in foreign exchange relationships. There have been no increases in productive capacity due to acquisitions since Pollard's initial public offering ("IPO") in August 2005.

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

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

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

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

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

Working Capital

Net non-cash working capital varies throughout the year based on the timing of individual sales transactions and other investments. The nature of the lottery industry is few individual customers who generally order large dollar value transactions. As such, the change in timing of a few individual orders can impact significantly the amount required to be invested in inventory or receivables at a particular period end. The high value, low volume of transactions results in some significant volatility in non-cash working capital, particularly during a period of rising volumes. Similarly, the timing of the completion of the sales cycle through collection can significantly impact non-cash working capital.

Instant tickets are produced specifically for individual clients resulting in a limited investment in finished goods inventory. Customers are predominantly government agencies, which result in regular payments. There are a limited number of individual customers, and therefore net investment in working capital is managed on an individual customer by customer basis, without the need for company wide benchmarks.

The overall impact of seasonality does not have a material impact on the carrying amounts in working capital.

As at December 31, 2014, Pollard's investment in non-cash working capital decreased $0.6 million compared to December 31, 2013, primarily as a result of a decreased investment in accounts receivables and increased accounts payables which were partially offset by an increased investment in inventory and increased prepaid expenses.

	December 31, 2014	December 31, 2013
Working Capital	$30.2	$33.3
Total Assets	$149.3	$133.4
Total Non-Current Liabilities	$89.2	$79.2

Credit Facility

Pollard's credit facility, which was renewed effective April 2, 2014, consists of one credit facility including a separate term loan facility. In addition to the $4.8 million term facility, the credit facility provides loans of up to $71.8 million for its Canadian operations and up to US$10.0 million for its U.S. subsidiaries. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At December 31, 2014, the outstanding letters of guarantee were $1.1 million. The remaining balance available for drawdown under the credit facility was $17.8 million.

As at December 31, 2014, $4.8 million of the term facility had been drawn. Repayment of the term facility will commence on the earlier of the completion of the installation of the new printing press or June 30, 2015, in the form of quarterly principal repayments of $0.3 million plus interest. Repayments will 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, 2014 and March 10, 2015, Pollard is in compliance with all covenants.

Under the terms of the credit facility the amount of the facility, excluding the term facility, will be reduced on a quarterly basis by an amount calculated as 50% of the prior quarter's Excess Cash Flow. Excess Cash Flow is defined as Adjusted EBITDA less scheduled principal indebtedness payments (if any) including, without limitation, scheduled principal payments on the term facility and the subordinated debt, maintenance capital expenditures (to a maximum of $3.5 million per year), pension deficit installments (to a maximum of $2.7 million for fiscal 2014), interest and cash income taxes paid. The reduction in the available facility is not required when the debt to Adjusted EBITDA ratio reaches certain target levels. For the quarter ending December 31, 2014, the target level was reached therefore no reduction is required.

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 effective April 2, 2014, the facility was committed for an approximately 15 month period, renewable June 30, 2015 ("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, 2016.

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.

On January 1, 2015, the credit facility was amended to replace Pollard Holding Limited Partnership with Pollard Banknote Limited as the Canadian borrower as a result of the amalgamation of Pollard's Canadian entities with Pollard Banknote Limited.

Subordinated Loan

On April 2, 2014, Pollard's 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. 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 of $4.8 million. 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, 2014 and March 10, 2015, 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's subsidiaries rent 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	$69.1	$0.9	$68.2	-	-
Subordinated debt	$6.8	-	-	$2.5	$4.3
Other non-current liabilities	$0.4	-	$0.4	-	-
Pension liability	$11.9	-	-	-	$11.9
Interest on long-term debt	$3.8	$2.5	$1.3	-	-
Interest on subordinated debt	$3.2	$0.6	$1.2	$1.2	$0.2
Property, plant and equipment	$5.0	$5.0	-	-	-
Operating leases	$18.5	$3.6	$6.5	$5.3	$3.1
Total	$118.7	$12.6	$77.6	$9.0	$19.5

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, 2014, the aggregate fair value of the assets of Pollard's defined benefit pension plans was $37.5 million and the accrued benefit plan obligations were $49.4 million. Pollard's total annual funding contribution for all pension plans in 2015 is expected to be approximately $2.3 million, compared to $3.2 million in 2014.

The actuary valuation for the largest of Pollard's employee pension plans as at January 1, 2014, determined there was no longer a solvency deficit (due to higher discount rates, higher investment returns and the impact of accumulation of previous special funding payments). As such additional solvency payments were no longer required in 2014. The next valuation to determine status of solvency will be January 1, 2017.

Every year-end an updated accounting valuation is prepared. During the fall of 2014 interest rates declined significantly and as a result the mandated discount rate used to value the pension obligation for accounting purposes decreased from 5.0% at December 31, 2013, to 4.0% as at December 31, 2014. This change in discount rate was the main factor in the generation of a remeasurement pre-tax loss of $9.6 million, increasing Pollard's pension liability to $11.9 million from $2.8 million last year. The recording of the remeasurement loss has no impact on any future funding requirement or cash payments prior to the next remeasurement in 2017.

Pension obligations are extremely sensitive to changes in discount rates, with a 1.0% movement in discount rates resulting in a $9.5 million to $12.8 million potential swing in remeasurement of Pollard's pension liability.

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, 2014, Equities paid Pollard $0.07 million (2013 – $0.07 million) for accounting and administration fees.

During the year ended December 31, 2014, Pollard paid property rent of $3.0 million (2013 - $3.0 million) and $0.2 million (2013 – $0.2 million) in plane charter costs to affiliates of Equities. In addition, Pollard paid Equities $0.4 million (2013 – nil) of interest on Pollard's subordinated debt.

During Fiscal 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. Pollard subsequently leased the property back for a five year term (with an option to renew for an additional five year term) for an annual rent of $0.3 million. During Fiscal 2010, Pollard sold the building and land formally used in the Kamloops operation to an affiliate of Equities for total proceeds of $2.9 million resulting in a gain of $2.0 million. The selling price was based on the current fair market value determined through an independent appraisal.

Pollard has leased a building in Council Bluffs, Iowa from an affiliate of Equities for a ten year term, ending December 31, 2018, with annual lease payments of US$0.3 million.

A manufacturing facility in Winnipeg, Manitoba is leased from an affiliate of Equities for a 12 year 6 month period, ending March 31, 2021, at an annual base rate of approximately $2.4 million.

At December 31, 2014, Pollard owes Equities and its affiliates $1.2 million (2013 - $0.7 million) for rent, interest and other expenses.

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.

Future Changes in Accounting Policies

In November 2009, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standards ("IFRS") 9 *Financial Instruments* ("IFRS 9 (2009)") and in October 2010, the IASB published amendments to IFRS 9 ("IFRS 9 (2010)"). In December 2011, the IASB issued an amendment to IFRS 9 to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. IFRS 9 (2009) uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classifications options in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities. In November 2013, a new general hedge accounting standard was issued, forming part of IFRS 9 (2013). It will more closely align with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirements to measure and recognize ineffectiveness, however it will allow more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Another revised version of IFRS 9 (2014) was issued in July 2014 mainly to include impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing fair value through other comprehensive income measurement category for certain simple debt instruments. IFRS 9 (2014) 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 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, 2017 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 is currently assessing the impact of the amendments 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 are effective for fiscal years beginning on or after January 1, 2016, with early adoption available. 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 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 2014 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. At the present time Pollard foresees minimal impact on its operations or product demand due to any uncertainty and volatility in the economic landscape. 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 49% of its revenue during Fiscal 2014. Pollard's largest customer accounted for approximately 10% of Pollard's revenues during Fiscal 2014.

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 Canadian 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 Gtech Printing Corporation. 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, Gtech, 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 in 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 $0.09 million for year ended December 31, 2014 (2013 - $0.07 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 $0.02 million for year ended December 31, 2014 (2013 - $0.06 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.

In addition, Pollard has entered into foreign currency contracts to exchange US$1.0 million each month for approximately $1.065 million for 18 consecutive months from December 2013 to May 2015. At December 31, 2014, the remaining open foreign currency contracts have been recognized at fair value in the statement of financial position as a $0.5 million liability.

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 $0.03 million for the year ended December 31, 2014 (2013 - $0.09 million), due to the change in value of the mark-to-market value of the U.S. foreign currency contracts.

As at December 31, 2014, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately $7.9 million ($2013 - $3.4 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 $0.04 million (2013 - $0.02 million)

Interest rate risk

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of $0.3 million for the year ended December 31, 2014 (2013 - $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 expense. 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 $4.8 million available to finance a portion of the new printing press, and up to US$10.0 million for its U.S. subsidiaries. At December 31, 2014, the unused balance available for drawdown was $17.8 million (2013 - $9.4 million).

The 2015 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 outlook for both our industry and Pollard for 2015 is very positive. The lottery industry continues to generate robust growth, particularly in the instant ticket product line. Consumer demand for instant tickets remains strong and this trend is anticipated to continue. Government jurisdictions continue to look for ways to generate increased funds for their good causes and instant tickets continue to be a key mechanism to accomplish this goal. Recent industry data has shown retail sales growth of instant tickets in the 6-8% range in 2014.

Our current contract portfolio is strong and will support our anticipated level of business as we benefit from a full year of volumes from our new contracts won during 2014. We have no major contracts coming due in 2015 when extensions are considered and we will strategically tender for other lottery contracts that come up for bid.

We anticipate our production volumes remaining at similar levels to that of 2014 in the first half of the year prior to our new press coming on stream. We will work diligently to build our volume once the press line is fully operational. Contracts usually run on a 3-5 year cycle so the buildup of additional volumes will follow a disciplined and strategic approach.

Our average selling prices have trended positively over the last two years and we expect this to continue. Strong sales of our value added proprietary products are forecasted to continue as lotteries have recognized the additional return on investment to be earned when utilizing our key products such as Scratch FX® or our unique PlayBook® offerings. The success of these products underlines the importance of innovation in our industry and we will focus on ongoing research and development initiatives including using a structured development process to maximize our innovation success. Products such as our exclusive PlayAround™ Fold-Over ticket and our environmentally friendly Eco Scratch™ instant ticket are just two examples of recent products currently gaining traction in the marketplace.

The Michigan Lottery iLottery site will continue to evolve from start-up to a more mature operation and we are hopeful the initial success experienced in 2014 will continue going forward. We expect the iLottery market in the United States will grow as more lotteries make the decision to develop this distribution method and we will look to replicate our success in Michigan to other jurisdictions.

Licensed games sales vary based on the timing and availability of certain licensed properties and 2015 revenue for this product line is anticipated to be slightly lower than the last two years of record levels. We are actively sourcing new licensed properties that will resonate in the lottery space and will be vigorously promoting our current best sellers such as Frogger and Tetris®.

As our lottery customers expand the breadth and sophistication of their product offerings, we have renewed our focus on utilizing strategic alliances with outside organizations to expand and grow our own expertise, including more actively pursuing acquisition opportunities to bring additional value added capability to Pollard.

The weakening of the Canadian dollar has provided additional positive impacts on our net operating cash flow during 2014 and this ongoing trend will have a positive effect on future net cash flows. A weaker

Canadian dollar also allows us to be more competitive in bidding for new work which will be important as our new capacity comes on stream later in 2015.

Our new press expansion project continues to track on time with a commissioning planned for the second quarter of 2015. The new press line will add significant new capacity to our production capability and additionally will provide improved efficiencies and lower per unit costs on our existing volumes.

We will continue on our ERP system development during the next year and anticipate the initial roll out to begin during the second quarter of 2015, with a number of modules being implemented over the last half of 2015. Implementation of our ERP system and related management processes will provide a foundation to maximize returns on both our existing operations and the new press expansion.

Budgeted capital expenditures for 2015 are expected to be lower than the levels of expenditures incurred in 2014, although still higher than historical levels due to the completion of the press expansion and ERP projects.

We anticipate our internal operating cash flow over the next year generating sufficient funds to satisfy all of our requirements including the capital expenditures required to complete our new press line expansion and the implementation of our ERP system initiative. Our current credit facility provides flexibility and capacity to support our various strategic initiatives and any additional excess cash inflow will be used to reduce our senior 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. 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, 2014, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

Additional Information

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

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form for the year ended December 31, 2014, is available on SEDAR at www.sedar.com.

Pollard Banknote Limited
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Winnipeg, Manitoba R3T 1L7
(204) 474-2323
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Consolidated Financial Statements of

POLLARD BANKNOTE LIMITED

Years ended December 31, 2014 and 2013

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"	*"Robert Rose"*
JOHN POLLARD Co-Chief Executive Officer	ROBERT ROSE Chief Financial Officer

March 10, 2015

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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, 2014 and 2013, 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, 2014 and 2013, 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 Accountants

March 10, 2015

Winnipeg, Canada

Pollard Banknote Limited

Consolidated Statements of Financial Position

(*In thousands of Canadian dollars*)

	December 31, 2014	December 31, 2013
Assets		
Current assets		
Cash	$ 6,287	$ 7,774
Accounts receivable	21,930	22,779
Inventories (note 6)	24,908	21,281
Prepaid expenses and deposits	3,275	2,012
Total current assets	56,400	53,846
Non-current assets		
Property, plant and equipment (note 7)	40,723	28,918
Equity investment (note 8)	-	167
Goodwill (note 9)	36,600	36,111
Intangible assets (note 10)	13,292	13,532
Deferred income taxes (note 11)	2,304	801
Total non-current assets	92,919	79,529
Total assets	$ 149,319	$ 133,375

		December 31, 2014		December 31, 2013

Liabilities and Shareholders' Equity

Current liabilities				
Accounts payable and accrued liabilities	$	21,225	$	18,074
Dividends payable		706		706
Income taxes payable		2,871		1,795
Foreign currency contracts (note 26)		483		-
Current portion long-term debt (note 12)		902		-
Total current liabilities		26,187		20,575
Non-current liabilities				
Long-term debt (note 12)		68,242		73,345
Subordinated debt (note 13)		6,813		-
Other non-current liabilities		375		205
Foreign currency contracts (note 26)		-		412
Pension liability (note 14)		11,942		2,824
Deferred income taxes (note 11)		1,845		2,374
Total non-current liabilities		89,217		79,160
Shareholders' equity				
Share capital (note 15)		73,209		73,209
Reserves		1,456		219
Deficit		(40,750)		(39,788)
Total shareholders' equity		33,915		33,640
Commitments and contingencies (note 16)				
Total liabilities and shareholders' equity	$	149,319	$	133,375

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

		2014		2013
Sales	$	194,471	$	184,937
Cost of sales		153,401		149,745
Gross profit		41,070		35,192
Administration		16,951		15,241
Selling		6,887		6,763
Other income (note 17)		(303)		(356)
Income from operations		17,535		13,544
Finance costs (note 18)		5,998		4,697
Finance income (note 18)		(959)		(516)
Income before income taxes		12,496		9,363
Income taxes (note 11)				
Current		3,072		2,193
Deferred		678		1,722
		3,750		3,915
Net income	$	8,746	$	5,448
Net income per share (basic) (note 19)	$	0.37	$	0.23
Net income per share (diluted) (note 19)	$	0.37	$	0.23

See accompanying notes to consolidated financial statements.

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

Years ended December 31

		2014		2013
Net income	$	8,746	$	5,448
Other comprehensive income (loss)				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations		1,237		1,045
Items that will never be reclassified to profit and loss				
Defined benefit plans remeasurements, net of income tax (reduction) of ($2,704) and $1,517 (note 11 & note 14)		(6,916)		3,962
Other comprehensive income (loss) – net of income tax		(5,679)		5,007
Comprehensive income	$	3,067	$	10,455

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, 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 15)		-	-	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

Year ended December 31, 2013

		Attributable to equity holders of Pollard Banknote Limited			
		Share capital	**Translation reserve**	**Deficit**	**Total equity**
Balance at January 1, 2013	$	73,209	(826)	(46,373)	26,010
Net income		-	-	5,448	5,448
Other comprehensive income					
Foreign currency translation differences – foreign operations		-	1,045	-	1,045
Defined benefit plans remeasurements, net of income tax of $1,517		-	-	3,962	3,962
Total other comprehensive income	$	-	1,045	3,962	5,007
Total comprehensive income	$	-	1,045	9,410	10,455
Dividends to owners of Pollard Banknote Limited		-	-	(2,825)	(2,825)
Balance at December 31, 2013	$	73,209	219	(39,788)	33,640

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited

Consolidated Statements of Cash Flows

(*In thousands of Canadian dollars*)

Years ended December 31

	2014	2013
Cash increase (decrease)		
Operating activities		
Net income	$ 8,746	$ 5,448
Adjustments		
Income taxes	3,750	3,915
Amortization and depreciation	7,898	8,580
Interest expense	2,875	3,349
Unrealized foreign exchange loss	1,682	993
Loss on equity investment	167	37
Mark-to-market loss on foreign currency contracts	71	412
Interest paid	(3,066)	(3,392)
Income tax paid	(2,086)	(1,176)
Change in pension liability	(574)	(1,736)
Change in non-cash operating working capital (note 21)	(604)	(4,110)
	18,859	12,320
Investing activities		
Additions to property, plant and equipment	(17,573)	(4,604)
Additions to intangible assets	(1,221)	(3,766)
	(18,794)	(8,370)
Financing activities		
Net proceeds from (repayments of) long-term debt	(5,539)	1,787
Proceeds from subordinated debt (note 13)	6,813	-
Change in other non-current liabilities	143	(6)
Additions to deferred financing charges	(193)	(180)
Dividends paid	(2,825)	(2,825)
	(1,601)	(1,224)
Foreign exchange gain on cash held in foreign currency	49	66
Change in cash position	(1,487)	2,792
Cash position, beginning of year	7,774	4,982
Cash position, end of year	$ 6,287	$ 7,774

See accompanying notes to consolidated financial statements.

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 1499 Buffalo Place, Winnipeg, Manitoba, Canada, R3T 1L7.

The consolidated financial statements of Pollard as at and for the year ended December 31, 2014, comprise Pollard and its subsidiaries and its interest in an associate.

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 10, 2015, 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.

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 9.

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 14 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 11.

(In thousands of Canadian dollars, except for share amounts)

3. Changes in accounting policies:

Except for the change below, Pollard has consistently applied the accounting policies set out in note 4 to all periods presented in these consolidated financial statements. The following amendment did not have a material impact on the consolidated financial statements.

In December 2011, the International Accounting Standards Board ("IASB") issued an amendment to the application guidance in IAS 32 *Financial Instruments: Presentation* to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The amendments do not change the current offsetting model in IAS 32 but instead clarify that the right of offset must not be contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendments also clarify that for settlement mechanisms with features that both eliminate credit and liquidity risk and process receivables and payables in a single settlement process, are effectively equivalent to net settlement. The clarifications to the application guidance in IAS 32 are to be retrospectively applied, with an effective date for annual periods beginning on or after January 1, 2014.

4. 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, 2014	December 31, 2013
Pollard Holdings Limited Partnership	100	100
Pollard Banknote Limited Partnership	100	100
Pollard Holdings, Inc.	100	100
Pollard (U.S.) Ltd.	100	100
Pollard Games, Inc.	100	100
Pollard iLottery Inc.	100	n/a

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

4. Significant accounting policies (continued):

Pollard has entered into a contractual joint agreement with Neogames S.à r.l. for the operation of iLottery gaming. 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.

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

(b) 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 and lottery management services are recognized pursuant to the terms of the applicable contracts.

(c) Leases:

One of Pollard's subsidiaries has leasing operations which consist principally of the leasing of Pull-Tab Vending Machines ("PTVM") with various private establishments. These leases are classified as finance leases. The PTVM leases have terms of three years. The net investment in these leases consists of the present value of the future minimum lease payments. Interest income is recognized in other income based on a pattern reflecting a constant periodic return on the net investment in the finance lease.

(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.

4. Significant accounting policies (continued):

(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 ("Pollard LP") 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 to an annual impairment review 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.

4. 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	20 years
Computer software and licenses	5 to 7 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, 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

4. 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, which are recorded on a three month delayed basis.

(i) 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 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.

(j) Financial instruments:

Non-derivative financial assets

Pollard initially recognizes loans and receivables on the date that they are 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.

4. Significant accounting policies (continued):

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 and accounts receivable as loans and receivables.

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.

4. Significant accounting policies (continued):

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.

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

4. Significant accounting policies (continued):

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.

(k) 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").

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.

(l) 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.

4. Significant accounting policies (continued):

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.

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.

4. Significant accounting policies (continued):

(m) 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.

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.

(n) 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.

4. Significant accounting policies (continued):

(o) 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 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.

4. Significant accounting policies (continued):

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 of 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.

(p) 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.

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.

5. Future accounting standards:

In November 2009, the IASB issued International Financial Reporting Standards ("IFRS") 9 *Financial Instruments* ("IFRS 9 (2009)") and in October 2010, the IASB published amendments to IFRS 9 ("IFRS 9 (2010)"). In December 2011, the IASB issued an amendment to IFRS 9 to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. IFRS 9 (2009) uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classifications options in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities. In November 2013, a new general hedge accounting standard

5. Future accounting standards (continued):

was issued, forming part of IFRS 9 (2013). It will more closely align with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirements to measure and recognize ineffectiveness, however it will allow more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Another revised version of IFRS 9 (2014) was issued in July 2014 mainly to include impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing fair value through other comprehensive income measurement category for certain simple debt instruments. IFRS 9 (2014) 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 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, 2017 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 is currently assessing the impact of the amendments 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 are effective for fiscal years beginning on or after January 1, 2016, with early adoption available. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

(In thousands of Canadian dollars, except for share amounts)

5. Future accounting standards (continued):

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 is currently assessing the impact of the amendments on its consolidated financial statements.

6. Inventories:

		December 31, 2014		December 31, 2013
Raw materials	$	7,602	$	7,345
Work-in-process		641		883
Finished goods		16,665		13,053
	$	24,908	$	21,281

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.

During 2013 Pollard recorded inventory write-downs of $425 representing an increase in the obsolescence reserves and reversals of previous write-downs of $73 due to changes in foreign exchange rates.

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

(In thousands of Canadian dollars, except for share amounts)

7. Property, plant and equipment:

Cost		Land	Buildings	Leasehold improvements	Equipment	Spare parts	Furniture, fixture and computers	Assets in progress	Total
Balance at January 1, 2013	$	803	9,179	1,814	115,862	980	3,909	-	132,547
Additions/net transfers		-	79	102	4,373	3	47	-	4,604
Effect of movements in exchange rates		-	-	46	280	-	-	-	326
Balance at December 31, 2013	$	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

Accumulated depreciation		Land	Buildings	Leasehold improvements	Equipment	Spare parts	Furniture, fixture and computers	Assets in progress	Total
Balance at January 1, 2013	$	-	3,603	958	94,799	-	3,074	-	102,434
Depreciation for the year		-	312	143	5,182	-	188	-	5,825
Effect of movements in exchange rates		-	-	46	254	-	-	-	300
Balance at December 31, 2013	$	-	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

Carrying amounts		Land	Buildings	Leasehold improvements	Equipment	Spare parts	Furniture, fixture and computers	Assets in progress	Total
At December 31, 2013	$	803	5,343	815	20,280	983	694	-	28,918
At December 31, 2014	$	803	5,164	794	17,251	1,023	540	15,148	40,723

In 2014, Pollard commenced the installation of a new printing press, which is reflected in the assets in progress category. Included in these expenditures were $478 in capitalized borrowing costs.

(In thousands of Canadian dollars, except for share amounts)

8. Equity investment:

		December 31, 2014		December 31, 2013
Balance – beginning of year	$	167	$	204
Equity loss		(167)		(37)
Balance – end of year	$	-	$	167

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% 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.

9. Goodwill:

Goodwill is comprised of $30,620 (2013- $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 $5,980 (2013- $5,491) 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, 2014		December 31, 2013
Lottery	$	30,620	$	30,620
Charitable games		5,980		5,491
	$	36,600	$	36,111

During 2014 the value of goodwill increased $489 (2013 – $408) 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.

9. Goodwill (continued):

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

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.

(In thousands of Canadian dollars, except for share amounts)

10. Intangible assets:

Cost		Customer assets	Patents	Deferred development	Computer software and licenses	Total
Balance at January 1, 2013	$	18,645	4,955	1,159	552	25,311
Additions		-	58	140	3,388	3,586
Additions – internally developed		-	-	99	81	180
Balance at December 31, 2013	$	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

Accumulated amortization		Customer assets	Patents	Deferred development	Computer software and licenses	Total
Balance at January 1, 2013	$	8,636	4,304	302	229	13,471
Amortization for the year		1,165	57	316	536	2,074
Balance at December 31, 2013	$	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

Carrying amounts		Customer assets	Patents	Deferred development	Computer software and licenses	Total
At December 31, 2013	$	8,844	652	780	3,256	13,532
At December 31, 2014	$	7,678	636	363	4,615	13,292

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.

Amortization of intangible assets in 2014 of $1,461 (2013 – $2,074), was included in cost of sales.

(In thousands of Canadian dollars, except for share amounts)

11. Income taxes:

Income tax expense

		2014		2013
Current income tax expense	$	3,072	$	2,193
Deferred income tax expense		678		1,722
Total income tax expense	$	3,750	$	3,915

Income tax recognized in other comprehensive income (loss)

		Amount before tax	Tax benefit	2014 Amount net of tax		Amount before tax	Tax expense	2013 Amount net of tax
Defined benefit plans remeasurement gain (loss)	$	(9,620)	2,704	(6,916)	$	5,479	(1,517)	3,962
	$	(9,620)	2,704	(6,916)	$	5,479	(1,517)	3,962

Reconciliation of effective tax rate

	2014		2014	2013		2013
Net income for the year		$	8,746		$	5,448
Total income tax expense			3,750			3,915
Income before income taxes		$	12,496		$	9,363
Income tax using Pollard's domestic tax rate	26.7%		3,341	26.3%		2,463
Changes in expected tax rates and other non-deductible amounts	(2.9%)		(360)	1.8%		168
Effect of non-taxable items related to foreign exchange	6.2%		769	13.7%		1,284
	30.0%	$	3,750	41.8%	$	3,915

(In thousands of Canadian dollars, except for share amounts)

11. Income taxes (continued):

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	
	2014	2013	2014	2013	2014	2013
Property, plant and equipment	$ 149	89	$ (1,389)	(1,038)	$ (1,240)	(949)
Intangible assets	994	974	(4,322)	(4,184)	(3,328)	(3,210)
Inventories	304	209	-	-	304	209
Employee benefits	5,758	2,891	(2,102)	(1,913)	3,656	978
Unrealized foreign exchange (gains) and losses	672	1,332	-	(424)	672	908
Unused tax losses	520	301	-	-	520	301
Other	144	190	(269)	-	(125)	190
Tax assets (liabilities)	$ 8,541	5,986	$ (8,082)	(7,559)	$ 459	(1,573)

Movement in temporary differences during the year

	Balance January 1, 2013	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2013	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2014
Property, plant and equipment	$ (957)	8	-	(949)	(291)	-	(1,240)
Intangible assets	(3,085)	(125)	-	(3,210)	(118)	-	(3,328)
Inventories	134	75	-	209	95	-	304
Employee benefits	2,832	(337)	(1,517)	978	(26)	2,704	3,656
Unrealized foreign exchange (gains) and losses	1,164	(256)	-	908	(236)	-	672
Unused tax losses	1,266	(965)	-	301	219	-	520
Other	189	1	-	190	(315)	-	(125)
Tax assets (liabilities)	$ 1,543	(1,599)	(1,517)	(1,573)	(672)	2,704	459

(In thousands of Canadian dollars, except for share amounts)

11. Income taxes (continued):

Recognized in the consolidated statements of financial position as follows:

		December 31, 2014		December 31, 2013
Deferred income tax - asset	$	2,304	$	801
Deferred income tax - liability		(1,845)		(2,374)
	$	459	$	(1,573)

Recognized in the consolidated statements of income as follows:

		2014		2013
Deferred income tax expense	$	(678)	$	(1,722)
Finance income		6		123
	$	(672)	$	(1,599)

Amounts included in finance income relate to unrealized foreign exchange.

12. Long-term debt:

		December 31, 2014		December 31, 2013
Credit facility, interest of 2.9% to 4.0%, payable monthly, maturing 2016	$	69,316	$	73,523
Deferred financing charges, net of amortization		(172)		(178)
		69,144		73,345
Less current portion		(902)		-
	$	68,242	$	73,345

Included in the total credit facility balance is a U.S. dollar loan balance of US$13,600 (2013 – US$13,600).

12. Long-term debt (continued):

Effective April 2, 2014, Pollard's subsidiaries Pollard Holdings Limited Partnership and Pollard Holdings, Inc. renewed their credit facility. The new credit facility has similar terms as its previous agreement, except for the addition of an additional term facility of $4,812 to assist in the financing of the new printing press. In addition to the $4,812 term facility, the credit facility provides loans of up to $71,827 for its Canadian operations and up to US$10,000 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, 2014, the outstanding letters of guarantee drawn under the credit facility were $1,106 (2013 - $1,632).

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, 2014, Pollard is in compliance with all financial covenants.

As at December 31, 2014, $4,812 of the term facility had been drawn. Repayment of the term facility will commence on the earlier of the completion of the installation of the new printing press or June 30, 2015, in the form of quarterly principal repayments of $301 plus interest. Repayments will permanently reduce the term facility commitment available.

Under the terms of the credit facility the amount of the facility, excluding the term facility, will be reduced on a quarterly basis by an amount calculated as 50% of the prior quarter's Excess Cash Flow. Excess Cash Flow is defined as Adjusted EBITDA less scheduled principal indebtedness payments (if any) including, without limitation, scheduled principal payments on the term facility and the subordinated debt, maintenance capital expenditures (to a maximum of $3,500 per year), pension deficit installments (to a maximum of $2,700 for fiscal 2014), interest and cash income taxes paid. The reduction in the available facility is not required when the debt to Adjusted EBITDA ratio reaches certain target levels. For the quarter ending December 31, 2014, the target level was reached therefore no reduction is required. As of December 31, 2014, Pollard has unused credit facility available of $17,816 (2013 - $9,425) 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's operating subsidiaries. The facility can be prepaid without penalties. Under the terms of the agreement effective April 2, 2014, the facility was committed for an approximately 15 month period, renewable June 30, 2015 ("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, 2016.

On January 1, 2015, the credit facility was amended to replace Pollard Holding Limited Partnership with Pollard Banknote Limited as the Canadian borrower as a result of the amalgamation. See note 1 regarding the amalgamation.

(In thousands of Canadian dollars, except for share amounts)

13. Subordinated debt:

		December 31, 2014		December 31, 2013
Subordinated debt, interest of 9.00% payable quarterly, maturing 2021	$	6,813	$	-
	$	6,813	$	-

On April 2, 2014, Pollard's 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. 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 of $4,812. 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 facility.

14. Pension liability:

		December 31, 2014		December 31, 2013
Fair value of benefit plan assets	$	37,460	$	32,528
Present value of benefit plan obligations		(49,402)		(35,352)
Net pension liability	$	(11,942)	$	(2,824)

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, 2014. 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.

(In thousands of Canadian dollars, except for share amounts)

14. Pension liability (continued):

Pollard expects to contribute approximately $2.3 million to its defined benefit plans in 2015.

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

	December 31, 2014	December 31, 2013
Equities	62.4%	64.0%
Bonds	37.1%	35.5%
Cash and cash equivalents	0.5%	0.5%
	100.0%	100.0%

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

		2014		2013
Benefit plan assets				
Fair value, beginning of year	$	32,528	$	24,195
Expected return on plan assets		1,686		1,175
Employer contributions		3,154		4,742
Benefits paid		(1,273)		(649)
Remeasurement gains		1,047		2,835
Other		318		230
Fair value, end of year	$	37,460	$	32,528
Accrued benefit plan obligations				
Balance, beginning of year	$	35,352	$	34,097
Current service cost		2,491		2,665
Interest cost		1,774		1,539
Benefits paid		(1,273)		(649)
Remeasurement (gains) losses		10,667		(2,643)
Other		391		343
Balance, end of year	$	49,402	$	35,352
Net pension liability	$	(11,942)	$	(2,824)

(In thousands of Canadian dollars, except for share amounts)

14. 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:

	2014	2013
Net defined benefit plans cost		
Current service cost	$ 2,491	$ 2,665
Interest on plan obligations	1,774	1,539
Actual return on plan assets	(2,733)	(4,010)
Difference between expected return and actual return on plan assets	1,261	3,150
Net defined benefit plans cost	2,793	3,344
Defined contribution plans cost	186	179
Net pension plans cost	$ 2,979	$ 3,523

Actuarial assumptions

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

	2014	2013
Discount rate	4.0% to 4.2%	5.0% to 5.2%
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, 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. As of December 31, 2013, Pollard used 90% of the UP94 Generational mortality table for its Canadian subsidiary's pension plans and the 2013 PPA static tables for its U.S. subsidiary's pension plans.

(In thousands of Canadian dollars, except for share amounts)

14. 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)	$	(9,513)	$	12,765
Rate of compensation increase (1% movement)	$	1,513	$	(1,344)
Future mortality (one year)	$	1,031	$	(1,027)

Remeasurements

		2014		2013
Remeasurement gains arising on plan assets	$	(1,047)	$	(2,835)

Remeasurement (gains) losses arising on plan liabilities from:				
Demographic assumptions	$	934	$	778
Financial assumptions		9,497		(4,209)
Experience adjustments		236		788
Remeasurement (gains) losses arising on plan liabilities	$	10,667	$	(2,643)

Remeasurements recognized in other comprehensive income

		2014		2013
Amount accumulated in deficit, beginning of year	$	(6,413)	$	(10,375)
Recognized during the year		(6,916)		3,962
Amount accumulated in deficit, end of year	$	(13,329)	$	(6,413)

(In thousands of Canadian dollars, except for share amounts)

15. Share capital:

		December 31, 2014		December 31, 2013
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.

15. 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, 2014, 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 10, 2014, a dividend of $0.03 per share was declared, payable on January 15, 2015, to the shareholders of record on December 31, 2014.

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.

(In thousands of Canadian dollars, except for share amounts)

15. 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%

16. 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:

2015	$	3,642
2016		3,365
2017		3,136
2018		2,893
2019		2,441
Thereafter		3,039

Pollard's subsidiaries are contingently liable for outstanding letters of guarantee in the amount of $1,106 at December 31, 2014 (2013 - $1,632). These letters of guarantee are part of Pollard's credit facility and are secured as disclosed in note 12.

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. See note 22 for further description.

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 $2,424.

(In thousands of Canadian dollars, except for share amounts)

16. Commitments and contingencies (continued):

On April 4, 2014, Pollard entered into a purchase agreement for a new 22 station Tresu press line, with an approximate cost of $20,000. The project will be financed from the additional term facility of $4,812 (note 12), the $6,813 subordinated loan from Equities (note 13) and cash generated from operations. As of December 31, 2014, Pollard had approximately $5,000 in remaining commitments relating to the purchase of the new printing press.

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.

17. Other (income) expense:

	2014	2013
Loss on equity investment (note 8)	$ 167	$ 37
Other income	(470)	(393)
	$ (303)	$ (356)

18. Finance costs and finance income:

Finance costs	2014	2013
Foreign exchange loss	$ 2,015	$ 604
Interest	2,875	3,349
Mark-to-market loss on foreign currency contracts (note 26)	910	412
Amortization of deferred financing costs	198	332
	$ 5,998	$ 4,697

(In thousands of Canadian dollars, except for share amounts)

18. Finance costs and finance income (continued):

Finance income		2014		2013
Foreign exchange gain	$	(120)	$	(516)
Mark-to-market gain on foreign currency contracts (note 26)		(839)		-
	$	(959)	$	(516)

19. Net income per share:

		2014		2013
Net income attributable to shareholders for basic and diluted net income per share	$	8,746	$	5,448
Weighted average number of shares (basic)		23,543,158		23,543,158
Weighted average impact of share options		81,370		-
Weighted average number of shares (diluted)		23,624,528		23,543,158

Net income per share (basic)	$	0.37	$	0.23
Net income per share (diluted)	$	0.37	$	0.23

20. Personnel expenses:

		2014		2013
Wages and salaries	$	60,659	$	58,131
Benefits and government payroll remittances		9,416		8,834
Profit share		1,527		1,217
Expenses related to defined contribution plans		186		179
Expenses related to defined benefit plans		2,793		3,344
	$	74,581	$	71,705

(In thousands of Canadian dollars, except for share amounts)

21. Supplementary cash flow information:

	2014	2013
Change in non-cash operating working capital:		
Accounts receivable	$ 1,240	$ (5,946)
Inventories	(3,084)	946
Prepaid expenses and deposits	(1,612)	(542)
Accounts payable and accrued liabilities	2,852	1,432
	$ (604)	$ (4,110)

22. Related party transactions:

During the year ended December 31, 2014, Pollard paid property rent of $3,037 (2013 - $3,012) and $230 (2013 - $212) in plane charter costs to affiliates of Equities. In addition, during the year, Pollard paid Equities $405 (2013 – nil) of interest on Pollard's subordinated debt.

During the year, Equities paid Pollard $72 (2013 - $72) for accounting and administration fees.

At December 31, 2014, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, interest and other expenses of $1,155 (2013 - $690).

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:

	2014	2013
Wages, salaries and benefits	$ 2,549	$ 2,640
Profit share	14	10
Expenses related to defined benefit plans	368	355
	$ 2,931	$ 3,005

As at December 31, 2014, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,421,771 common shares of Pollard.

(In thousands of Canadian dollars, except for share amounts)

22. Related party transactions (continued):

During the second quarter of fiscal 2011, Pollard disposed of a building and land in Winnipeg, Manitoba to an affiliate of Equities for total proceeds of $3,473 resulting in a gain of $1,469. The selling price was based on the current fair market value as determined through an independent appraisal. Pollard subsequently leased the property back for a five year term (with an option to renew for an additional five year term) for annual rent of $313.23.

23. Sales to major customers:

For the year ended December 31, 2014, sales to one customer amounted to approximately 10 percent of consolidated sales (2013 - 11 percent).

24. Segmented information:

Pollard's operations consist of one reporting segment principally in the manufacturing, development and sale of lottery and charitable gaming products. Geographic distribution of sales, property, plant and equipment and goodwill are as follows:

	2014	2013
Sales:		
Canada	$ 42,880	$ 40,938
U.S.	96,536	97,018
Other	55,055	46,981
	$ 194,471	$ 184,937

	December 31, 2014	December 31, 2013
Property, plant and equipment and goodwill:		
Canada	$ 46,538	$ 49,841
U.S.	30,785	15,188
	$ 77,323	$ 65,029

25. 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.

25. Financial instruments (continued):

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, 2014, the cash recorded at fair value is classified as level one and the foreign currency forward contracts recorded at fair value are classified as level two of the fair value hierarchy.

(In thousands of Canadian dollars, except for share amounts)

26. 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, 2014	December 31, 2013
Current	$ 17,258	$ 17,274
Past due for 1 to 60 days	3,887	4,876
Past due for more than 60 days	861	641
Less: Allowance for doubtful accounts	(76)	(12)
	$ 21,930	$ 22,779

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 $4,812 available to finance the new printing press, and up to US$10,000 for its U.S. subsidiaries. At December 31, 2014, the unused balance available for drawdown under the credit facility was $17,816 (2013 - $9,425) and the term facility was fully drawn.

The 2015 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.

26. 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 $85 for year ended December 31, 2014 (2013 - $70). 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 $24 for year ended December 31, 2014 (2013 - $59).

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, 2014, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately $7,936 (2013 - $3,433). 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 $40 for the year ended December 31, 2014 (2013 - $17).

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.

In addition, Pollard has entered into foreign currency contracts to exchange US$1,000 each month for approximately $1,065 for 18 consecutive months from December 2013 to May 2015. At December 31, 2014, the remaining open foreign currency contracts have been recognized at fair value in the statement of financial position as a $483 liability.

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 $25 for the year ended December 31, 2014 (2013 - $85), due to the change in value of the mark-to-market value of the U.S. foreign currency contracts.

26. 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 $347 for the year ended December 31, 2014 (2013 - $368).

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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

1499 Buffalo Place,
Winnipeg, Manitoba, R3T 1L7
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

The Board of Directors of Pollard Banknote Limited

Lawrence Pollard CHAIR EMERITUS
Gordon Pollard EXECUTIVE CHAIR
Del Crewson [1]
Jerry Gray [1,2]
Garry Leach [1]
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

Kirsten Albo
EXECUTIVE VICE PRESIDENT, CORPORATE STRATEGY

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

POLLARD banknote limited

ANNUAL REPORT

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1499 Buffalo Place
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www.pollardbanknote.com