March 31, 2013

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

FOR THE THREE MONTHS ENDED MARCH 31, 2013

May 8, 2013

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three months ended March 31, 2013, is prepared as at May 8, 2013, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at March 31, 2013 and the audited consolidated financial statements of Pollard for the year ended December 31, 2012 and the notes therein. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP").

Forward-Looking Statements

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

Use of Non-GAAP Financial Measures

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

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

Basis of Presentation

The results of operations in the following discussions encompass the unaudited condensed consolidated interim consolidated results of Pollard for the three months ended March 31, 2013. All figures are in millions except for per share amounts.

POLLARD BANKNOTE LIMITED

Overview

Pollard Banknote Limited ("Pollard") is one of the leading providers of products and services to lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant-win scratch tickets ("instant tickets") based in Canada and the second largest producer of instant tickets in the world.

Pollard produces and provides a comprehensive line of instant tickets and lottery services including: licensed products, distribution, retail telephone selling ("tel-sell"), marketing, internet support, interactive gaming, Social Instants™ and instant ticket vending machines. In addition, Pollard's charitable gaming product line includes pull-tab (or break-open) tickets, bingo paper, pull-tab vending machines and ancillary products such as pull-tab counting machines. Pollard also markets products to the commercial gaming and security sector including such items as promotional scratch and win tickets, transit tickets and parking passes.

Pollard's lottery products are sold extensively throughout Canada, the United States and the rest of the world, wherever applicable laws and regulations authorize their use. Pollard serves over 50 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Three months ended March 31, 2013	Three months ended March 31, 2012
Instant Tickets	89.2%	87.2%
Charitable Gaming Products	9.3%	11.5%
Vending Machines	1.5%	1.3%

Geographic breakdown of revenue

	Three months ended March 31, 2013	Three months ended March 31, 2012
United States	51%	53%
Canada	24%	20%
International	25%	27%

The following financial information should be read in conjunction with the accompanying financial statements of Pollard and the notes therein as at and for the three months ended March 31, 2013.

SELECTED FINANCIAL INFORMATION
(millions of dollars, except per share information)

	Three months ended March 31, 2013	Three months ended March 31, 2012
Sales	$44.4	$36.6
Cost of Sales	36.3	30.0
Gross Profit	8.1	6.6
Gross Profit as a % of sales	*18.2%*	*18.0%*
Administration Expenses	3.4	3.4
Administration Expenses as a % of sales	*7.7%*	*9.3%*
Selling Expenses	1.6	1.5
Selling Expenses as a % of sales	*3.6%*	*4.1%*
Income from Operations	3.2	1.7
Income from Operations as a % of sales	*7.2%*	*4.6%*
Net Income	0.9	0.8
Net Income as a % of sales	*2.0%*	*2.2%*
Adjusted EBITDA	5.1	3.4
Adjusted EBITDA as a % of sales	*11.5%*	*9.3%*
Net Income per share	$0.04	$0.03

	March 31, 2013	December 31, 2012
Total Assets	$125.9	$127.0
Total Non-Current Liabilities	$85.0	$83.4

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

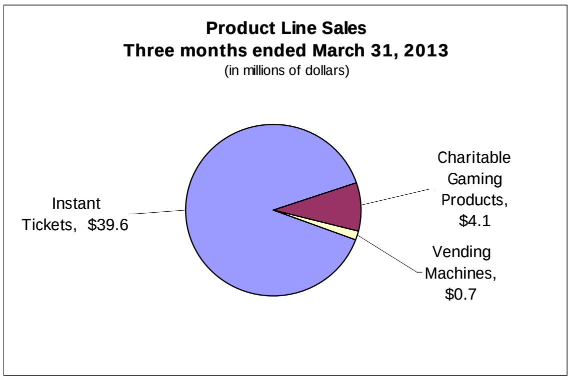
	Three months ended March 31, 2013	Three months ended March 31, 2012
Net Income	$0.9	$0.8
Adjustments:		
Amortization and depreciation	1.9	1.9
Interest	0.9	0.9
Unrealized foreign exchange (gain) loss	0.4	(0.2)
Income taxes	1.0	-
Adjusted EBITDA	$5.1	$3.4

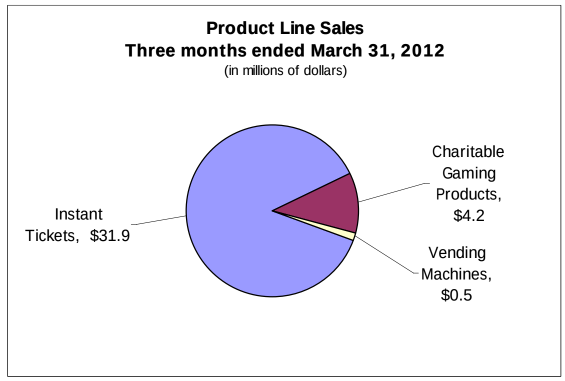
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2013

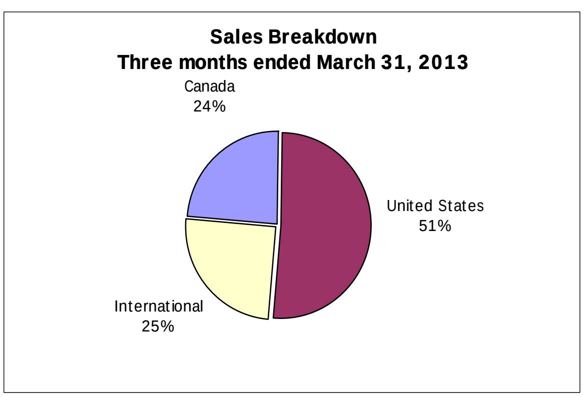
Sales

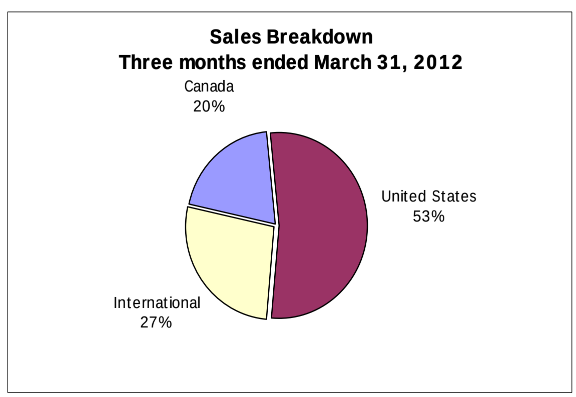




During the three months ended March 31, 2013, Pollard achieved sales of $44.4 million, compared to $36.6 million in the three months ended March 31, 2012. A number of factors impacted the $7.8 million sales increase.

Instant ticket volumes for the first quarter of 2013 were 24.5% higher than the first quarter of 2012, which combined with an increase in ancillary instant ticket products and services, increased sales by $7.7 million. Volumes increased due to significantly higher orders from existing customers and increased sales of a number of our proprietary specialty products. In addition, a slight increase in average selling price compared to 2012 further increased sales by $0.1 million. Charitable Gaming average selling prices for the quarter increased sales compared to 2012 by $0.3 million, while a decrease in volume reduced revenue by $0.1 million. An increase in the volume of machine sales in the quarter increased revenue by $0.2 million when compared to the first quarter of 2012.





During the three months ended March 31, 2013, Pollard generated approximately 64.8% (2012 - 69.5%) of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the first quarter of 2013 the actual U.S. dollar value was converted to Canadian dollars at $1.003, compared to a rate of $1.007 during the first quarter of 2012. This 0.3% decrease in the U.S. dollar value resulted in an approximate decrease of $0.1 million in revenue relative to the first quarter of 2012. Also during the quarter, the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $0.3 million in revenue relative to the first quarter of 2012.

Cost of sales and gross margin

Cost of sales was $36.3 million in the first quarter of 2013 compared to $30.0 million in the first quarter of 2012. Cost of sales was higher by $6.3 million as a result of the substantial increase in volumes, partially mitigated by continued improvements in manufacturing yields and labour efficiencies.

Gross profit earned in the first quarter of 2013 was $8.1 million (18.2% of sales) as compared to $6.6 million (18.0% of sales) earned in the first quarter of 2012. This increase was due mainly to the increase in instant ticket volumes as well as additional cost reductions, including reduced waste and improved labour efficiency.

Administration expenses

Administration expenses were $3.4 million in the first quarter of 2013 which was similar to $3.4 million in the first quarter of 2012.

Selling expenses

Selling expenses were $1.6 million in the first quarter of 2013 which was similar to $1.5 million in the first quarter of 2012.

Finance costs and income

Under IFRS included in the income statement classification “finance costs” are interest, amortization of deferred financing costs and foreign exchange losses. Included in the income statement classification “finance income” are foreign exchange gains.

Interest expense

Interest expense was $0.9 million in the first quarter of 2012 which was similar to $0.9 million in the first quarter of 2012.

Foreign exchange loss

The net foreign exchange loss was $0.2 million in the first quarter of 2013 compared to a gain of $0.2 million in the first quarter of 2012. Within the 2013 net foreign exchange loss was an unrealized foreign exchange loss of $0.4 million comprised of a $0.5 million unrealized loss on U.S. dollar denominated debt (caused by the weakening of the value of the Canadian dollar versus the U.S.) which was partially offset by an unrealized gain on U.S. denominated receivables. Partially offsetting the unrealized loss was a realized gain of $0.2 million relating to the increased value of U.S. dollar denominated receivables.

Within the 2012 foreign exchange gain was an unrealized foreign exchange gain of $0.2 million on U.S. dollar denominated debt (caused by the strengthening of the value of the Canadian dollar versus the U.S. dollar toward the end of the quarter partially offset by losses relating to the reversal of previously recorded unrealized foreign exchange gains from the strengthening of the Canadian dollar which were realized upon repayment). Also within the foreign exchange gain was a realized gain of $0.2 million relating to payments made on U.S. dollar denominated debt and an offsetting realized foreign exchange loss of $0.2 million on the decreased value of U.S. dollar denominated receivables and the conversion of U.S. dollars and Euros into Canadian dollars.

Adjusted EBITDA

Adjusted EBITDA was $5.1 million in the first quarter of 2013 compared to $3.4 million in the first quarter of 2012. The primary reason for the increase in Adjusted EBITDA was the increased gross profit due to higher sales volumes.

Income taxes

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

Income taxes were nil in the first quarter of 2012 as a result of permanent differences relating to the translation of the company’s U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries due to a strengthening Canadian dollar during the period.

Amortization and depreciation

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled $1.9 million during the first quarter of 2013 which was similar to $1.9 million during the first quarter of 2012.

Net Income

Net Income increased to $0.9 million in the first quarter of 2013 from $0.8 million in the first quarter of 2012. The primary reason for the increase was the increase in gross profit of $1.5 million, which was largely offset by the increases in foreign exchange loss of $0.4 million and income tax expense of $1.0 million.

Net Income per share increased to $0.04 per share in the first quarter of 2013 from $0.03 in the first quarter of 2012.

Liquidity and Capital Resources

Cash used by operating activities

For the three months ended March 31, 2013, cash flow used by operating activities was $1.0 million compared to cash flow provided by operating activities of $2.2 million for the comparable period in 2012. For the three months ended March 31, 2013, changes in the non-cash component of working capital decreased cash flow from operations by $3.7 million. The decrease was due primarily to decrease in accounts payable and accrued liabilities and an increase in prepaid expenses and deposits, partially offset by decreases in accounts receivable and inventories. This compares to a net change of nil for the three months ended March 31, 2012, with the decreases in accounts receivable offset by increases in inventories and prepaid expenses and deposits and decreases in accounts payable and accrued liabilities. In addition, cash used for income tax payments increased in 2013 to $0.5 million from $0.2 million in 2012 and cash used regarding the pension liability increased to $0.9 million in 2013 from $0.3 million in 2012 due to the timing of funding payments.

Cash used by investing activities

In the three months ended March 31, 2013, cash used by investing activities was $1.3 million compared to $1.0 million used in the first quarter of 2012. Capital expenditures of $1.1 million were incurred in the three months ending March 31, 2013, compared to $0.5 million for the three months ending March 31, 2012. In addition, Pollard's investment in associate in the first quarter of 2012 was $0.4 million.

Cash provided by financing activities

Cash provided by financing activities was $1.2 million in the three months ended March 31, 2013, compared to cash used by financing activities of $0.3 million in the three months ended March 31, 2012.

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

During the first quarter of 2012 dividends paid of $0.7 million and a decrease in other long-term liabilities of $0.2 was partially offset by proceeds from long-term debt of $0.6 million.

As at March 31, 2013, Pollard had unused committed debt facility of $10.5 million. This amount is available to be used for future working capital requirements, contractual obligations, capital expenditures and dividends.

Quarterly Information
(unaudited)
(millions of dollars)

	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Sales	$44.4	$40.9	$44.1	$40.8	$36.6	$44.6	$43.8	$44.4	$39.2
Adjusted EBITDA	5.1	5.6	5.9	5.3	3.4	5.2	5.9	7.7	3.9
Net Income (Loss)	0.9	1.5	3.3	1.0	0.8	1.7	(1.2)	1.7	0.9

Sales in Q1 2013 and Sales in Q3 2012 were higher primarily due to increases in volumes.

Adjusted EBITDA and Net Income in Q3 2012 were higher primarily due to higher gross profit achieved through higher sales volumes while obtaining cost efficiencies in cost of goods sold.

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

Sales in the final three quarters of 2011 were higher do to an increase in instant ticket volumes, offset partially by the strengthening of the Canadian dollar relative to the U.S. dollar.

Q2 2011 Adjusted EBITDA and Net Income include a gain on sale of property, plant and equipment of $1.5 million and a realized foreign exchange gain of $2.3 million on the repayment of U.S. dollar dominated debt.

Productive Capacity

Management has defined productive capacity as the level of operations necessary to maintain a minimum Adjusted EBITDA of $22.0 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. Recent changes to productive capacity have occurred primarily through expenditures on fixed assets and improved processes and other internal improvement measures, offset by the impacts of changes in foreign exchange relationships, primarily the strengthening of the Canadian dollar relative to the U.S. dollar and the Euro, and the closure of the Kamloops facility in February 2010. There have been no increases in productive capacity due to acquisitions since Pollard's initial public offering ("IPO") in August 2005.

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

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

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

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

Working Capital

Net non-cash working capital varies throughout the year based on the timing of individual sales transactions. 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. These factors assist in a reasonably quick turnover in net working capital. 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, although production volumes are historically slightly lower in the first quarter relative to the rest of the year.

Investment in non-cash working capital increased in the first quarter of Fiscal 2013 due to a reduction in accounts payable and accrued liabilities and an increase in prepaid expenses and deposits. These uses of non-cash working capital were partially offset by reduced accounts receivable and inventories.

	March 31, 2013	December 31, 2012
Working Capital	$30.3	$27.2
Total Assets	$125.9	$127.0
Total Non-Current Liabilities	$85.0	$83.4

Credit Facility

Pollard's credit facility, which was renewed effective June 29, 2012, consists of one committed term bank loan facility. The committed term bank loan facility provides loans of up to $70.0 million for its Canadian operations and up to US$15.3 million for its U.S. subsidiaries. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At March 31, 2013, the outstanding letters of guarantee were $1.8 million and the remaining balance available for drawdown was $10.5 million.

Under the terms and conditions of the credit facility agreement Pollard is required to maintain financial covenants including working capital ratios, debt to income before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at March 31, 2013, and May 8, 2013, Pollard is in compliance with all covenants.

Under the credit facility, Pollard has agreed not to pay dividends in excess of the current quarterly amount of $0.03 per share if the debt to Adjusted EBITDA ratio is above a certain level. As at March 31, 2013, Pollard's Adjusted EBITDA ratio is above the target level and as a result is restricted on the amount of dividends it can pay.

Under the credit facility the amount of the facility will be reduced on a quarterly basis by an amount calculated as 50% of the prior quarter's Excess Cash Flow. Excess Cash Flow is defined as Adjusted EBITDA less 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 March 31, 2013, the credit facility will be reduced by approximately $1.9 million as of May 30, 2013. In addition the credit facility will be reduced by approximately $2.4 million on May 15, 2013, based on the quarter ending December 31, 2012 requirements.

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard's operating subsidiaries. The credit facility can be prepaid without penalties. Under the terms of the agreement, the credit facility is committed for a one year period, renewable June 30, 2013 ("Facility Expiry Date"). If the credit facility is not renewed, the loans are repayable one year after the Facility Expiry Date. As such, the credit facility has effectively a two year term expiring June 30, 2014.

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

Outstanding Share Data

As at March 31, 2013 and May 8, 2013, outstanding share data was as follows:

Common shares	23,543,158

Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2012, that are outside the normal course of business.

Off-Balance Sheet Arrangements

There have been no material changes to Pollard's off-balance sheet arrangements since December 31, 2012, that are outside the normal course of business.

Financial Instruments

The financial instruments of Pollard remain substantially unchanged from those identified in the MD&A for Pollard for the year ended December 31, 2012.

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, expected rate of return on plan assets and the rate of compensation increases. These assumptions depend on underlying factors such as economic conditions, government regulations, investment performance, employee demographics and mortality rates.

Income taxes

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

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the three months ended March 31, 2013, which are not disclosed in the unaudited condensed consolidated interim financial statements.

Industry Risks and Uncertainties

The risk factors affecting Pollard remain substantially unchanged from those identified in the MD&A for Pollard for the year ended December 31, 2012.

Outlook

The instant ticket market for lotteries continues to be very robust, with year over year retail sales growth in the high single digits. We anticipate demand for our product at the retail level will continue to be strong as lotteries worldwide find ongoing success with both the existing products and developing additional features to drive demand such as second chance drawings, interactive internet related features and improved understanding of the ultimate consumer's wants. Lotteries will continue to reach out to suppliers such as Pollard to help them capitalize on the opportunities presented by this growing market.

Our expected order volume for the remainder of 2013 is strong and we anticipate our production and sales volumes over the next three quarters to be higher than the record levels achieved in 2012. Traditionally our volumes are higher in the later part of the year when compared to the first quarter and we anticipate this trend to continue, albeit in a slightly less pronounced fashion this year.

There are a number of instant ticket contracts up for bid in 2013 and we have been responding to these proposal requests during the first and second quarter. While our industry remains extremely competitive, we are selectively focusing on the critical opportunities where we can generate an appropriate return on investment and will continue to do so as our competitor contracts expire over the course of the rest of the year.

Our New Jersey Lottery contract continues to run until December 31, 2013. Recently the New Jersey Lottery announced plans to potentially award a new contract to outsource the management of the Lottery to a private consortium. While it is too early to determine how this might impact our future volumes and revenue from this contract after it expires at the end of 2013, we will continue to position ourselves as an important supplier for the years 2014 and beyond. Recently the Western Canada Lottery Corporation awarded Pollard a new five year contract (with an additional five year option to renew) to provide instant ticket products and services. We have no other material customer contracts that come due in 2013 (when extensions are considered).

Lotteries around the world continue to look to their supplier partners to provide innovative ideas and solutions to help them maximize their funds generated for good causes. One of our key success factors is our ongoing investment and development of innovative products and services, allowing us to grow our business while at the same time growing our lottery customers' business. We are investing in new and innovative product ideas such as interactive games over the internet, loyalty clubs and other tools to help our customers. While still in its infancy, these areas will offer interesting possibilities for future growth. Though we are excited about new opportunities like interactive gaming, the traditional bricks and mortar business of retail lottery distribution remains the most critical business platform for lotteries and various retail improvement strategies will continue to be an important area for Pollard to pursue.

The lottery industry continues to look towards expanding their instant ticket product lines through the use of additional distribution channels, maximizing merchandising programs and leveraging the use of the internet. Pollard will continue to pursue opportunities in these areas. Our Social Instants™, a tool allowing lotteries to maximize the use of social media to expand and grow their instant ticket sales, continues to generate interest among lotteries. A number of other innovative products and services have been developed and are being aggressively marketed to the lottery industry.

The charitable gaming market remains relatively flat compared to the past number of years and we expect this to continue. While smaller than our instant ticket operations, our business in this product line operates very efficiently and as a result earns a strong level of profitability. Bingo paper, pull-tab tickets and related vending machines are an important generator of funds for various good causes and charities and we anticipate our results from this operation will continue to yield a good return.

Our Change Initiative process generated significant achievements in 2012 and our results in the first quarter of 2013 mirror those successes. We have a number of important initiatives in our 2013 strategic plan targeted at improving our key performance indicators and believe there are many opportunities in both our direct manufacturing and our overall support operations to continue to lower our cost structures.

We anticipate our capital expenditures during 2013 to be similar to the amounts expended during 2012. Our capital improvement focus includes projects developing and modernizing our information and manufacturing systems to provide the foundation for future expansion and growth in our business. We will continue to invest in critical areas of improving manufacturing efficiencies and as well are making some further commitments to expanding capacity to produce some of our in-demand proprietary value added products.

Pollard Banknote believes that its credit facilities 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.

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

Under Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Certifying Officers regarding the design of the internal controls over financial reporting. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the internal controls over financial reporting as defined in Multilateral Instrument 52-109 will provide reasonable assurance of achieving the financial reporting objectives.

No changes were made in Pollard's internal control over financial reporting during the three months ended March 31, 2013, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

Additional Information

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

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form of Pollard for the year ended December 31, 2012, is available on SEDAR at www.sedar.com.

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Condensed Consolidated Interim Financial Statements of

POLLARD BANKNOTE LIMITED

(unaudited)

Three months ended March 31, 2013

These condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent external auditors, KPMG LLP.

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

		March 31, 2013		December 31, 2012
Assets				
Current assets				
Cash	**$**	**3,994**	$	4,982
Accounts receivable		**15,971**		16,301
Inventories (note 5)		**21,675**		21,726
Prepaid expenses and deposits		**2,836**		1,760
Total current assets		**44,476**		44,769
Non-current assets				
Property, plant and equipment		**29,931**		30,113
Equity investment (note 6)		**201**		204
Goodwill		**35,902**		35,703
Intangible assets		**11,698**		11,840
Deferred income taxes		**3,657**		4,324
Total non-current assets		**81,389**		82,184
Total assets	**$**	**125,865**	$	126,953
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**12,782**	$	16,174
Dividends payable		**706**		706
Income taxes payable		**654**		700
Total current liabilities		**14,142**		17,580
Non-current liabilities				
Long-term debt (note 7)		**73,057**		70,485
Other long-term liabilities		**231**		195
Pension liability		**9,021**		9,902
Deferred income taxes		**2,670**		2,781
Total non-current liabilities		**84,979**		83,363
Shareholders' equity				
Share capital		**73,209**		73,209
Reserves		**(327)**		(826)
Deficit		**(46,138)**		(46,373)
Total shareholders' equity		**26,744**		26,010
Total liabilities and shareholders' equity	**$**	**125,865**	$	126,953

See accompanying notes to condensed consolidated interim financial statements.

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

		Three months ended March 31, 2013		Three months ended March 31, 2012
Sales	**$**	**44,406**	$	36,562
Cost of sales		**36,319**		30,002
Gross profit		**8,087**		6,560
Administration		**3,424**		3,360
Selling		**1,613**		1,505
Other (income) expense (note 8)		**(150)**		50
Income from operations		**3,200**		1,645
Finance costs (note 9)		**1,268**		1,050
Finance income (note 9)		**-**		(201)
Income before income taxes		**1,932**		796
Income taxes (reduction) (note 10)		**991**		(16)
Net income	**$**	**941**	$	812
Basic and diluted net income per share	**$**	**0.04**	$	0.03
Weighted average number of shares outstanding		**23,543,158**		23,543,158

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Comprehensive Income

(*In thousands of Canadian dollars*)

(unaudited)

	Three months ended March 31, 2013	Three months ended March 31, 2012
Net income	**$ 941**	$ 812
Other comprehensive income (loss):		
Foreign currency translation differences – foreign operations	**499**	(394)
Other comprehensive income (loss)	**499**	(394)
Comprehensive income	**$ 1,440**	$ 418

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Changes in Equity

(*In thousands of Canadian dollars*)
(unaudited)

For the three months ended March 31, 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		-	-	941	941
Other comprehensive income					
Foreign currency translation differences – foreign operations		-	499	-	499
Total other comprehensive income	$	-	499	-	499
Total comprehensive income	$	-	499	941	1,440
Dividends to owners of Pollard Banknote Limited (note 12)		-	-	(706)	(706)
Balance at March 31, 2013	$	73,209	(327)	(46,138)	26,744

For the three months ended March 31, 2012

		Attributable to equity holders of Pollard Banknote Limited			
		Share capital	**Translation reserve**	**Deficit**	**Total equity**
Balance at January 1, 2012	$	73,209	(326)	(45,222)	27,661
Net income		-	-	812	812
Other comprehensive loss					
Foreign currency translation differences – foreign operations		-	(394)	-	(394)
Total other comprehensive loss	$	-	(394)	-	(394)
Total comprehensive income (loss)	$	-	(394)	812	418
Dividends to owners of Pollard Banknote Limited		-	-	(706)	(706)
Balance at March 31, 2012	$	73,209	(720)	(45,116)	27,373

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Cash Flows

(*In thousands of Canadian dollars*)

(unaudited)

	Three months ended March 31, 2013	Three months ended March 31, 2012
Cash increase (decrease):		
Operating activities:		
Net income	**$ 941**	$ 812
Adjustments:		
Income taxes	**991**	(16)
Amortization and depreciation	**1,903**	1,916
Interest expense	**895**	917
Unrealized foreign exchange (gain) loss	**387**	(201)
Loss on equity investment	**3**	79
Interest paid	**(972)**	(888)
Income tax paid	**(451)**	(210)
Change in pension liability	**(915)**	(285)
Change in non-cash operating working capital (note 11)	**(3,744)**	37
	(962)	2,161
Investing activities:		
Additions to property, plant and equipment	**(1,137)**	(467)
Investment in associate (note 6)	**-**	(408)
Additions to intangible assets	**(189)**	(162)
	(1,326)	(1,037)
Financing activities:		
Proceeds from long-term debt	**1,882**	571
Change in other long-term liabilities	**27**	(147)
Dividends paid	**(706)**	(706)
	1,203	(282)
Foreign exchange gain (loss) on cash held in foreign currency	**97**	(17)
Change in cash position	**(988)**	825
Cash position, beginning of period	**4,982**	5,059
Cash position, end of period	**$ 3,994**	$ 5,884

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity:

Pollard Banknote Limited ("Pollard") was incorporated under the laws of Canada on March 26, 2010.

The condensed consolidated interim financial statements of Pollard as at and for the three months ended March 31, 2013, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and gaming products.

Pollard's consolidated financial statements as at and for the year ended December 31, 2012, are available at www.sedar.com.

The overall impact of seasonality does not have a significant impact on the operations of Pollard, although instant ticket volumes are historically lower in the first quarter relative to the rest of the year.

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* and do not include all of the information required for full annual consolidated financial statements.

On May 8, 2013, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Use of estimates and judgments:

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying Pollard's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2012.

3. Significant accounting policies:

Except for the accounting policies described below, these condensed consolidated interim financial statements follow the same significant accounting policies as described and used in Pollard's

3. Significant accounting policies (continued):

consolidated financial statements for the year ended December 31, 2012 and should be read in conjunction with those reports. The following new standards and amendments did not have a material impact on the condensed consolidated interim financial statements.

In May 2011, the IASB issued the following group of new standards and amendments to existing standards relating to consolidations and joint ventures. Each of these new standards is effective for fiscal years beginning on or after January 1, 2013.

- IFRS 10 *Consolidated Financial Statements* replaces the guidance on control and consolidation in IAS 27 *Consolidated and Separate Financial Statements* and Standing Interpretations Committee ("SIC") 12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control.

- IFRS 11 *Joint Arrangements* replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 reduces the types of joint arrangements to two: joint ventures and joint operations. IFRS 11 requires the use of equity accounting for interests in joint ventures, eliminating the existing policy choice of proportionate consolidation for jointly controlled entities under IAS 31. Entities that participate in joint operations will recognize their share of the assets, liabilities, revenue and expenses of the joint operation.

- IFRS 12 *Disclosure of Interests in Other Entities* replaces the disclosure requirements currently found in IAS 28 *Investments in Associates*.

- IAS 27 has been amended and renamed *Separate Financial Statements* and deals solely with separate financial statements and the guidance for which remains unchanged.

- IAS 28 has been amended to include joint ventures in its scope and to address changes in IFRS 10 through 12 as explained above.

In May 2011, the IASB published IFRS 13 *Fair Value Measurements* which replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance, with enhanced disclosure requirements for information about fair value measurements. IFRS 13 is required for fiscal years beginning on or after January 1, 2013. Prospective application is required.

In June 2011, the IASB published amendments to IAS 1 *Financial Statement Presentation*. The amendments require items presented in other comprehensive income to be separated into two groups, based on whether or not they may be recycled to the statement of income later. The amendments are effective for fiscal years beginning on or after July 1, 2012.

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

3. Significant accounting policies (continued):

In June 2011, the IASB published an amended version of IAS 19 *Employee Benefits*. The amendments require actuarial gains and losses to be recognized immediately in other comprehensive income and past service cost must be recognized immediately in profit or loss. This amendment also requires that the expected return on plan assets recognized in profit or loss be calculated based on the rate used to discount the defined benefit obligation. Additional disclosures are also required. IAS 19 is required for fiscal years beginning on or after January 1, 2013.

In December 2011, the IASB published amendments to IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Offsetting Financial Assets and Liabilities*. These amendments are to be applied retrospectively. The amendments to IAS 32 provide clarification on the application of rules to offset financial assets and liabilities. These amendments are effective for fiscal years beginning on or after January 1, 2014. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset. These amendments are effective for fiscal years beginning on or after January 1, 2013.

4. Future accounting standards:

In November 2009, the International Accounting Standards Board ("IASB") issued 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. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

5. Inventories:

		March 31, 2013		December 31, 2012
Raw materials	**$**	**5,735**	$	5,713
Work-in-process		**848**		843
Finished goods		**15,092**		15,170
	$	**21,675**	$	21,726

During the first quarter of 2013, Pollard recorded inventory write-downs of $78 representing an increase in obsolescence reserves, and a reversal of previous write-downs of $44 due to changes in foreign exchange rates.

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

5. Inventories (continued):

During the first quarter of 2012, Pollard recorded a reversal of previous write-downs of $3 due to changes in foreign exchange rates.

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

6. Equity investment:

		Three months ended March 31, 2013		Three months ended March 31, 2012
Balance – beginning of period	**$**	**204**	$	-
Initial investment		**-**		408
Equity loss		**(3)**		(79)
Balance – end of period	**$**	**201**	$	329

In 2012 Pollard 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. In July 2012, the entity successfully completed its first system installation with its initial provincial lottery customer.

7. Long-term debt:

		March 31, 2013		December 31, 2012
Credit facility, interest of 3.5% to 5.0% payable monthly, maturing 2014	$	**73,241**	$	70,815
Deferred financing charges, net of amortization		**(184)**		(330)
	$	**73,057**	$	70,485

Included in the total credit facility balance is a U.S. dollar loan balance of US$13,597 (December 31, 2012 - US$13,597).

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

7. Long-term debt (continued):

Effective June 29, 2012, Pollard's subsidiaries Pollard Holdings Limited Partnership and Pollard Holdings, Inc. renewed their credit facility. The credit facility provides loans of up to $70,000 for its Canadian operations and up to US$15,297 for its U.S. subsidiaries. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At March 31, 2013, the outstanding letters of guarantee drawn under the credit facility were $1,849 (December 31, 2012 - $3,248).

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including working capital ratios, debt to income before interest, income taxes, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at March 31, 2013, Pollard is in compliance with all financial covenants.

Under the terms of the credit facility the amount of the facility will be reduced on a quarterly basis by an amount calculated as 50% of the prior quarter's Excess Cash Flow. Excess Cash Flow is defined as Adjusted EBITDA less scheduled principal indebtedness payments (if any), 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 March 31, 2013, the credit facility will be reduced by approximately $1,900 as of May 30, 2013. In addition the credit facility will be reduced by approximately $2,400 on May 15, 2013, based on the quarter ending December 31, 2012 requirement. As of March 31, 2013, Pollard has unused credit facility available of $10,513 (December 31, 2012 - $10,928).

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard's operating subsidiaries. The credit facility can be prepaid without penalties. Under the terms of the agreement effective June 29, 2012, the credit facility is committed for a one year period, renewable June 30, 2013 ("Facility Expiry Date"). If the credit facility is not renewed, the loans are repayable one year after the Facility Expiry Date. As such, the credit facility has effectively a two year term expiring June 30, 2014.

8. Other (income) expense:

	Three months ended March 31, 2013	Three months ended March 31, 2012
Loss on equity investment (note 6)	**$ 3**	$ 79
Other income	**(153)**	(29)
	$ (150)	$ 50

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

9. Finance costs and finance income:

Finance costs:		Three months ended March 31, 2013		Three months ended March 31, 2012
Interest	$	895	$	917
Foreign exchange loss		227		-
Amortization of deferred financing costs		146		133
	$	1,268	$	1,050

Finance income:		Three months ended March 31, 2013		Three months ended March 31, 2012
Foreign exchange gain	$	-	$	(201)
	$	-	$	(201)

10. Income taxes:

Income tax expense (reduction):		Three months ended March 31, 2013		Three months ended March 31, 2012
Current tax expense	$	371	$	351
Deferred income tax (reduction)		620		(367)
	$	991	$	(16)

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

10. Income taxes (continued):

Reconciliation of effective tax rate:		Three months ended March 31, 2013		Three months ended March 31, 2012
Net income for the period		$ 941		$ 812
Total income taxes		991		(16)
Income before income taxes		$ 1,932		$ 796
Income tax using Pollard's domestic tax rate	26.3%	$ 508	26.8%	$ 213
Withholding taxes and other non-deductable amounts	0.5%	10	3.6%	29
Effect of non-taxable items related to foreign exchange	24.5%	473	(32.4%)	(258)
	51.3%	$ 991	(2.0%)	$ (16)

11. Supplementary cash flow information:

	Three months ended March 31, 2013	Three months ended March 31, 2012
Change in non-cash operating working capital:		
Accounts receivable	$ 644	$ 3,985
Inventories	291	(2,237)
Prepaid expenses and deposits	(1,050)	(756)
Accounts payable and accrued liabilities	(3,629)	(955)
	$ (3,744)	$ 37

12. Dividends:

Dividends are paid on the Common shares within 15 days of the end of each quarter and are fully discretionary, as determined by the Board of Directors of Pollard, subject to restrictions imposed under its credit facility. Under the credit facility, Pollard has agreed not to pay dividends in excess of the current quarterly amount of $0.03 per share if the debt to Adjusted EBITDA ratio is above a certain level. As at March 31, 2013, Pollard's Adjusted EBITDA ratio is above the target level and as a result is restricted on the amount of dividends it can pay.

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

12. Dividends (continued):

On March 6, 2013, a dividend of $0.03 per share was declared, payable on April 15, 2013, to the shareholders of record on March 31, 2013.

13. Related party transactions:

During the quarter ended March 31, 2013, Pollard paid property rent of $751 (2012 - $751) and $61 (2012 - nil) in plane charter costs to affiliates of Pollard Equities Limited (“Equities”). During the quarter, Equities paid Pollard $18 (2012 - $18) for accounting and administration fees.

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 of:

		Three months ended March 31, 2013		Three months ended March 31, 2012
Wages, salaries and benefits	**$**	**628**	$	744
Profit share		**2**		1
Expenses related to defined benefit plans		**89**		54
	$	**719**	$	799

At March 31, 2013, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent and other expenses of $716 (December 31, 2012 - $1,449).

14. 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 polices 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,

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

14. Financial risk management (continued):

who undertakes regular reviews of risk management controls and utilizes the annual risk assessment process as the basis for the annual internal audit plan.

Credit risk

The following table outlines the details of the aging of Pollard's receivables and the related allowance for doubtful accounts:

		March 31, 2013		December 31, 2012
Current	**$**	**10,509**	$	13,003
Past due for 1 to 60 days		**5,148**		2,808
Past due for more than 60 days		**338**		499
Less: Allowance for doubtful accounts		**(24)**		(9)
	$	**15,971**	$	16,301

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 $70,000 for its Canadian operations and up to US$15,297 for its U.S. subsidiaries. At March 31, 2013, the unused balance available for drawdown was $10,513 (December 31, 2012 - $10,928).

The 2013 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and the unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to 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 a small amount of 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 $21 for three months ended March 31, 2013 (2012 - $11).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At March 31, 2013, the amount

14. Financial risk management (continued):

of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately $7,303 (December 31, 2012 - $5,622).

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 net income of approximately $37 for the three months ended March 31, 2013 (2012 - $32).

Interest rate risk

Pollard is exposed to interest rate risk relating to its fixed and floating rate instruments. Fluctuation in interest rates will have an effect on the valuation and repayment of these instruments.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately $92 for the three months ended March 31, 2013 (2012 - $88).