Condensed Consolidated Interim Financial Statements of

POLLARD BANKNOTE LIMITED

(unaudited)

Three months ended March 31, 2016

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

Pollard Banknote Limited

Condensed Consolidated Statements of Financial Position

(*In thousands of Canadian dollars*)

(unaudited)

		March 31, 2016		December 31, 2015
Assets				
Current assets				
Cash	**$**	**5,859**	$	7,587
Restricted cash		**891**		560
Accounts receivable		**34,869**		24,151
Inventories (note 5)		**22,497**		23,739
Prepaid expenses and deposits		**3,812**		4,169
Income taxes receivable		**2,762**		3,046
Total current assets		**70,690**		63,252
Non-current assets				
Property, plant and equipment		**49,344**		50,380
Equity investments (note 6)		**728**		401
Goodwill		**37,298**		37,717
Intangible assets		**12,238**		12,340
Total non-current assets		**99,608**		100,838
Total assets	**$**	**170,298**	$	164,090
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**27,627**	$	22,290
Dividends payable		**706**		706
Current portion long-term debt (note 7)		**1,203**		1,203
Total current liabilities		**29,536**		24,199
Non-current liabilities				
Long-term debt (note 7)		**72,117**		72,083
Subordinated debt (note 8)		**6,813**		6,813
Other non-current liabilities		**148**		397
Pension liability		**11,374**		11,270
Deferred income taxes		**4,930**		5,751
Total non-current liabilities		**95,382**		96,314
Shareholders' equity				
Share capital		**73,209**		73,209
Reserves		**3,303**		4,384
Deficit		**(31,132)**		(34,016)
Total shareholders' equity		**45,380**		43,577
Total liabilities and shareholders' equity	**$**	**170,298**	$	164,090

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Income

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

(unaudited)

		Three months ended March 31, 2016		Three months ended March 31, 2015
Sales	**$**	**64,041**	$	54,431
Cost of sales		**52,639**		44,381
Gross profit		**11,402**		10,050
Administration		**5,343**		4,242
Selling		**1,925**		1,712
Other income (note 9)		**(35)**		(148)
Income from operations		**4,169**		4,244
Finance costs (note 10)		**975**		1,940
Finance income (note 10)		**(1,042)**		(80)
Income before income taxes		**4,236**		2,384
Income taxes (note 11)		**651**		987
Net income	**$**	**3,585**	$	1,397
Net income per share (basic) (note 12)	**$**	**0.15**	$	0.06
Net income per share (diluted) (note 12)	**$**	**0.15**	$	0.06

See accompanying notes to condensed consolidated interim financial statements.

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

		Three months ended March 31, 2016		Three months ended March 31, 2015
Net income	**$**	**3,585**	$	1,397
Other comprehensive income (loss)				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations		**(1,081)**		1,290
Other comprehensive income (loss)		**(1,081)**		1,290
Comprehensive income	**$**	**2,504**	$	2,687

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Changes in Equity

(*In thousands of Canadian dollars*)

(unaudited)

For the three months ended March 31, 2016

		Attributable to equity holders of Pollard Banknote Limited			
		Share capital	**Translation reserve**	**Deficit**	**Total equity**
Balance at January 1, 2016	$	73,209	4,384	(34,016)	43,577
Net income		-	-	3,585	3,585
Other comprehensive income					
Foreign currency translation differences – foreign operations		-	(1,081)	-	(1,081)
Total other comprehensive income	$	-	(1,081)	-	(1,081)
Total comprehensive income	$	-	(1,081)	3,585	2,504
Share based compensation	$	-	-	5	5
Dividends to owners of Pollard Banknote Limited (note 14)		-	-	(706)	(706)
Balance at March 31, 2016	$	73,209	3,303	(31,132)	45,380

For the three months ended March 31, 2015

		Attributable to equity holders of Pollard Banknote Limited			
		Share capital	**Translation reserve**	**Deficit**	**Total equity**
Balance at January 1, 2015	$	73,209	1,456	(40,750)	33,915
Net income		-	-	1,397	1,397
Other comprehensive income					
Foreign currency translation differences – foreign operations		-	1,290	-	1,290
Total other comprehensive income	$	-	1,290	-	1,290
Total comprehensive income	$	-	1,290	1,397	2,687
Share based compensation	$	-	-	9	9
Dividends to owners of Pollard Banknote Limited		-	-	(706)	(706)
Balance at March 31, 2015	$	73,209	2,746	(40,050)	35,905

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Cash Flows

(*In thousands of Canadian dollars*)

(unaudited)

	Three months ended March 31, 2016	Three months ended March 31, 2015
Cash increase (decrease)		
Operating activities:		
Net income	**$ 3,585**	$ 1,397
Adjustments		
Income taxes	**651**	987
Amortization and depreciation	**2,752**	1,991
Interest expense	**887**	655
Unrealized foreign exchange (gain) loss	**(1,123)**	1,770
Loss on equity investment	**93**	-
Pension expense	**1,129**	948
Mark-to-market gain on foreign currency contracts	**-**	(80)
Interest paid	**(850)**	(625)
Income tax paid	**(1,008)**	(2,552)
Pension contribution	**(803)**	(586)
Change in non-cash operating working capital (note 13)	**(5,053)**	2,188
	260	6,093
Investing activities		
Additions to property, plant and equipment	**(1,141)**	(5,169)
Equity investments (note 6)	**(389)**	-
Additions to intangible assets	**(289)**	(251)
	(1,819)	(5,420)
Financing activities		
Net proceeds from long-term debt	**1,228**	650
Change in other non-current liabilities	**(223)**	(84)
Deferred financing charges paid	**-**	(111)
Dividends paid	**(706)**	(706)
	299	(251)
Foreign exchange (loss) gain on cash held in foreign currency	**(468)**	219
Change in cash position	**(1,728)**	641
Cash position, beginning of period	**7,587**	6,287
Cash position, end of period	**$ 5,859**	$ 6,928

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity:

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

The condensed consolidated interim financial statements of Pollard as at and for the three months ended March 31, 2016, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and gaming products.

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

Pollard's consolidated financial statements as at and for the year ended December 31, 2015, are available at www.sedar.com.

The overall impact of seasonality does not have a significant impact on the operations of Pollard.

2. Basis of preparation:

(a) Statement of compliance:

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

On May 11, 2016, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Use of estimates and judgments:

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying Pollard's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2015.

3. Significant accounting policies:

These condensed consolidated interim financial statements follow the same significant accounting policies as described and used in Pollard's consolidated financial statements for the year ended December 31, 2015 and should be read in conjunction with those reports.

4. Future accounting standards:

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

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

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

In January 2016, the IASB issued IFRS 16 *Leases* which replaces IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities

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

4. Future accounting standards (continued):

that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

5. Inventories:

		March 31, 2016		December 31, 2015
Raw materials	$	**9,462**	$	9,679
Work-in-process		**713**		749
Finished goods		**12,322**		13,311
	$	**22,497**	$	23,739

During the first quarter of 2016, Pollard recorded inventory write-downs of $166 representing an increase in obsolescence reserves, and write-downs of $76 due to changes in foreign exchange rates.

During the first quarter of 2015, Pollard recorded inventory write-downs of $137 representing an increase in obsolescence reserves, and write-downs of $49 due to changes in foreign exchange rates.

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

6. Equity investments:

		Three months ended March 31, 2016		Three months ended March 31, 2015
Balance – beginning of period	$	**401**	$	-
Investment		**389**		
Equity loss		**(93)**		
Effects of movements in exchange rates		**31**		
Balance – end of period	$	**728**	$	-

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

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

6. Equity investments (continued):

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

7. Long-term debt:

		March 31, 2016		December 31, 2015
Credit facility, interest of 2.9% to 4.8%, payable monthly, maturing 2017	$	**73,444**	$	73,497
Deferred financing charges, net of amortization		**(124)**		(211)
		73,320		73,286
Less current portion		**(1,203)**		(1,203)
	$	**72,117**	$	72,083

Included in the total credit facility balance is a U.S. dollar loan balance of US$14,500 (December 31, 2015 – US$14,200).

Effective June 30, 2015, Pollard Banknote Limited renewed its credit facility. The credit facility provides loans of up to $71,827 for its Canadian operations (denominated in Canadian or U.S. dollars), $3,609 for a term facility and US$12,000 for its U.S. subsidiaries. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At March 31, 2016, the outstanding letters of guarantee drawn under the credit facility were $1,204 (December 2015 - $1,257).

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including working capital ratios, debt to income before interest, income taxes, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at March 31, 2016, Pollard is in compliance with all financial covenants.

As at March 31, 2016, $3,609 of the term facility remained outstanding. Repayment of the term facility commenced on June 30, 2015, in the form of quarterly principal repayments of $301 plus interest. Repayments permanently reduce the term facility commitment available.

As of March 31, 2016, Pollard has unused credit facility available of $13,787 (December 2015 - $17,591) and the term facility is fully drawn.

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

7. Long-term debt (continued):

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

8. Subordinated debt:

		March 31, 2016		December 31, 2015
Subordinated debt, interest of 9.00% payable quarterly, maturing 2021	**$**	**6,813**	$	6,813
	$	**6,813**	$	6,813

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

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

9. Other (income) expense:

		Three months ended March 31, 2016		Three months ended March 31, 2015
Loss on equity investment	**$**	**93**	$	-
Other income		**(128)**		(148)
	$	**(35)**	$	(148)

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

10. Finance costs and finance income:

Finance costs		Three months ended March 31, 2016		Three months ended March 31, 2015
Interest	$	887	$	655
Foreign exchange loss		-		1,230
Amortization of deferred financing costs		88		55
	$	975	$	1,940

Finance income		Three months ended March 31, 2016		Three months ended March 31, 2015
Foreign exchange gain	$	1,042	$	-
Mark-to-market gain on foreign currency contracts		-		80
	$	1,042	$	80

11. Income taxes:

Income tax expense		Three months ended March 31, 2016		Three months ended March 31, 2015
Current income tax	$	1,089	$	751
Deferred income tax (reduction)		(438)		236
	$	651	$	987

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

11. Income taxes (continued):

Reconciliation of effective tax rate			**Three months ended March 31, 2016**			Three months ended March 31, 2015
Net income for the period		**$**	**3,585**		$	1,397
Total income taxes			**651**			987
Income before income taxes		**$**	**4,236**		$	2,384
Income tax using Pollard's domestic tax rate	**26.8%**	**$**	**1,135**	26.7%	$	637
Changes in expected tax rates and other non-deductible amounts	**3.0%**		**125**	(4.0%)		(95)
Effect of non-taxable items related to foreign exchange	**(14.4%)**		**(609)**	18.7%		445
	15.4%	**$**	**651**	41.4%	$	987

12. Net income per share:

		Three months ended March 31, 2016		Three months ended March 31, 2015
Net income attributable to shareholders for basic and diluted net income per share	**$**	**3,585**	$	1,397
Weighted average number of shares (basic)		**23,543,158**		23,543,158
Weighted average impact of share options on issue		**100,000**		100,000
Weighted average number of shares (diluted)		**23,643,158**		23,643,158
Net income per share (basic)	**$**	**0.15**	$	0.06
Net income per share (diluted)	**$**	**0.15**	$	0.06

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

13. Supplementary cash flow information:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Change in non-cash operating working capital:		
Accounts receivable	$ (12,470)	$ 484
Inventories	964	3,213
Prepaid expenses and deposits	95	(469)
Income taxes receivable	(60)	-
Accounts payable and accrued liabilities	6,418	(1,040)
	$ (5,053)	$ 2,188

14. Dividends:

Dividends are paid on the common shares within 15 days of the end of each quarter and are fully discretionary, as determined by the Board of Directors of Pollard, subject to restrictions imposed under its credit facility.

On March 14, 2016, a dividend of $0.03 per share was declared, payable on April 15, 2016, to the shareholders of record on March 31, 2016.

15. Related party transactions:

During the quarter ended March 31, 2016, Pollard paid property rent of $783 (2015 - $770) and $57 (2015 - $67) in plane charter costs to affiliates of Equities. In addition, during the quarter, Pollard paid Equities $153 (2015 – $151) of interest on Pollard's subordinated debt.

During the quarter, Equities paid Pollard $18 (2015 - $18) for accounting and administration fees.

During the quarter Pollard reimbursed operating costs of $313 (2015 - $82) to its iLottery partner, which are recorded in cost of sales.

At March 31, 2016, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, interest and other expenses of $849 (December 31, 2015 - $795). Also included in accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of $2,208 (December 31, 2015 - $1,125) for reimbursement of operating costs and capital expenditures, and its share of operating profits.

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors and the Executive Committee are considered key management personnel.

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

15. Related party transactions (continued):

Key management personnel compensation comprised of:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Wages, salaries and benefits	**$ 526**	$ 579
Profit share	**4**	2
Expenses related to defined benefit plans	**118**	116
	$ 648	$ 697

At March 31, 2016, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,431,471 common shares of Pollard.

16. Financial risk management:

Pollard has exposure to the following risks from its use of financial instruments:

Credit risk
Liquidity risk
Currency risk
Interest rate risk

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Audit Committee oversees how management monitors compliance with Pollard's risk management policies and procedures. The Audit Committee is assisted in its oversight role by Internal Audit, who undertakes regular reviews of risk management controls and utilizes the annual risk assessment process as the basis for the annual internal audit plan.

Credit risk

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

	March 31, 2016	December 31, 2015
Current	**$ 31,581**	$ 19,193
Past due for 1 to 60 days	**3,008**	4,295
Past due for more than 60 days	**334**	717
Less: Allowance for doubtful accounts	**(54)**	(54)
	$ 34,869	$ 24,151

16. Financial risk management (continued):

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In addition, Pollard maintains a committed credit facility including up to $71,827 for its Canadian operations, as well as the additional term facility of $3,609 and up to US$12,000 for its U.S. subsidiaries. At March 31, 2016, the unused balance available for drawdown was $13,787 (December 31, 2015 - $17,591).

The 2016 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and the unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to some international customers where sales are denominated in U.S. dollars. In addition, a significant portion of its cost inputs are denominated in U.S. dollars. Pollard also generates revenue in currencies other than the Canadian and U.S. dollar, primarily in Euros.

A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and U.S. dollar would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $7 for the three months ended March 31, 2016 (2015 - $23). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian dollar and Euro would decrease/increase the income before income taxes due to changes in operating cashflow by $12 for three months ended March 31, 2016 (2015 - $13).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At March 31, 2016, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately $1,960 (December 31, 2015 - $4,101). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in income before income taxes of approximately $10 for the three months ended March 31, 2016 (2015 - $34).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Two manufacturing facilities are located in the U.S. and a significant amount of cost inputs for all production facilities are denominated in U.S. dollars, offsetting a large portion of the U.S. dollar revenue in a natural hedge.

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At March 31, 2016, Pollard had no outstanding foreign currency contracts.

16. Financial risk management (continued):

Interest rate risk

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

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately $92 for the three months ended March 31, 2016 (2015 - $89).