POLLARD
banknote limited

June 30, 2013

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013

August 7, 2013

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and six months ended June 30, 2013, is prepared as at August 7, 2013, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at June 30, 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 consolidated results of Pollard for the three and six months ended June 30, 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^{TM} 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 June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Instant Tickets	88.6%	89.3%	88.9%	88.3%
Charitable Gaming Products	10.0%	9.9%	9.7%	10.7%
Vending Machines	1.4%	0.8%	1.4%	1.0%

Geographic breakdown of revenue

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
United States	55%	59%	53%	56%
Canada	19%	20%	21%	20%
International	26%	21%	26%	24%

The following financial information should be read in conjunction with the accompanying unaudited consolidated financial statements of Pollard and the notes therein as at and for the three and six months ended June 30, 2013.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Sales	$44.8	$40.8	$89.2	$77.4
Cost of Sales	36.7	32.3	73.0	62.3
Gross Profit	8.1	8.5	16.2	15.1
Gross Profit as a % of sales	*18.1%*	*20.8%*	*18.2%*	*19.5%*
Administration Expenses	3.6	3.4	7.0	6.8
Expenses as a % of sales	*8.0%*	*8.3%*	*7.8%*	*8.8%*
Selling Expenses	1.6	1.6	3.2	3.1
Expenses as a % of sales	*3.6%*	*3.9%*	*3.6%*	*4.0%*
Net Income	1.0	1.0	2.0	1.8
Net Income as a % of sales	*2.2%*	*2.5%*	*2.2%*	*2.3%*
Adjusted EBITDA	4.9	5.2	10.1	8.6
Adjusted EBITDA as a % of sales	*10.9%*	*12.7%*	*11.3%*	*11.1%*
Net Income per share	$0.04	$0.04	$0.08	$0.08

	June 30, 2013	December 31, 2012
Total Assets	$128.7	$127.0
Total Non-Current Liabilities	$83.0	$83.4

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

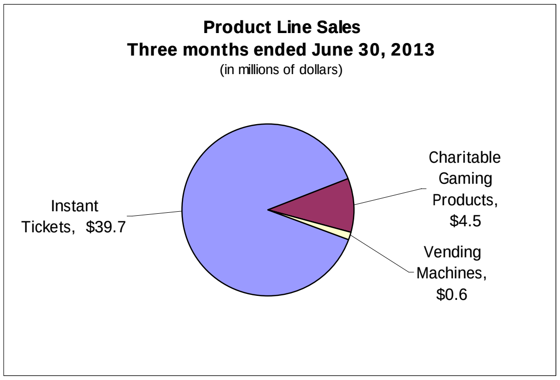
	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Net Income	$1.0	$1.0	$2.0	$1.8
Adjustments:				
Amortization and depreciation	2.0	1.8	3.9	3.8
Interest	0.8	0.8	1.7	1.7
Unrealized foreign exchange loss	0.1	0.6	0.5	0.3
Income taxes	1.0	1.0	2.0	1.0
Adjusted EBITDA	$4.9	$5.2	$10.1	$8.6

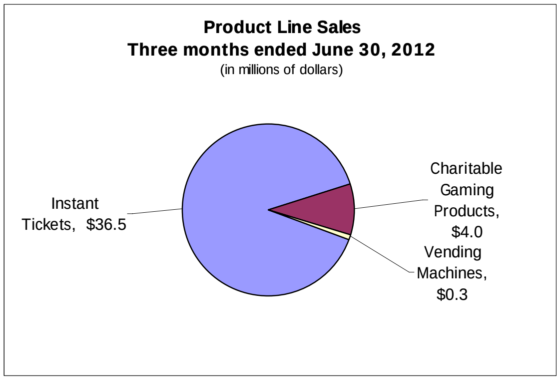
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2013

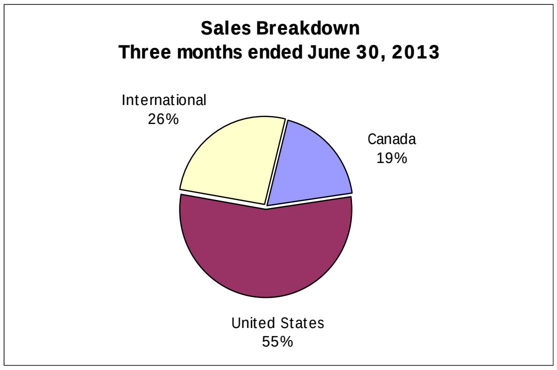
Sales

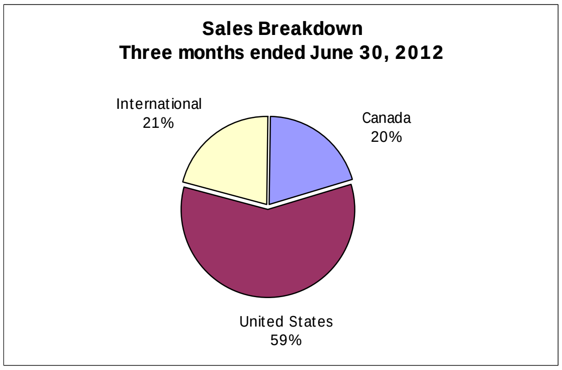




During the three months ended June 30, 2013, Pollard achieved sales of $44.8 million, compared to $40.8 million in the three months ended June 30, 2012. Factors impacting the $4.0 million sales increase were:

Instant ticket sales volumes for the second quarter of 2013 were higher than the second quarter of 2012 by 7.9% which, combined with an increase in our ancillary instant ticket products and services, increased sales by $3.8 million. A decrease in average selling price due to the mix of product sold compared to 2012 reduced sales by $0.9 million. Charitable Gaming volume increased slightly during the quarter increasing sales by $0.4 million when compared to 2012, in addition machine volumes in the quarter also increased which further increased sales by $0.3 million when compared to 2012.





During the three months ended June 30, 2013, Pollard generated approximately 70.7% (2012 – 70.0%) of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the second quarter of 2013 the actual U.S. dollar value was converted to Canadian dollars at $1.020, compared to a rate of $1.006 during the second quarter of 2012. This 1.4% increase in the U.S. dollar value resulted in an approximate increase of $0.4 million in revenue relative to the second quarter of 2012.

Cost of sales and gross profit

Cost of sales was $36.7 million in the second quarter of 2013 compared to $32.3 million in the second quarter of 2012. Cost of sales were higher in the quarter relative to 2012 as a result of the increase in instant ticket sales volumes and higher exchange rates on U.S. dollar transactions.

Gross profit was $8.1 million (18.1% of sales) in the second quarter of 2013 compared to $8.5 million (20.8% of sales) in the second quarter of 2012. This decrease is due mainly to the impact of reduced instant ticket average selling price and a reduction in production volumes compared to 2012 as a result of scheduled maintenance on a major press line. Partially offsetting this reduction was the impact of higher sales volumes in instant tickets and ancillary products and services.

Administration expenses

Administration expenses increased to $3.6 million in the second quarter of 2013 from $3.4 million in the second quarter of 2012 as a result of increased compensation expenses.

Selling expenses

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

Finance costs and income

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

Interest expense

Interest expense was $0.8 million in the second quarter of 2013 which was similar to $0.8 million in the second quarter of 2012.

Foreign exchange loss

The net foreign exchange loss was $0.1 million in the second quarter of 2013 compared to a net loss of $0.5 million in the second quarter of 2012. Within the 2013 foreign exchange loss was an unrealized foreign exchange loss of $0.1 million, relating to a $0.5 million unrealized foreign exchange loss on U.S. dollar denominated debt and payables, partially offset by a $0.4 million unrealized foreign exchange gain on U.S. dollar denominated cash and receivables.

Within the 2012 foreign exchange loss was an unrealized foreign exchange loss of $0.6 million, relating to a $0.4 million unrealized foreign exchange loss on U.S. dollar denominated debt and a $0.2 million unrealized loss on U.S. dollar denominated payables. The realized gain of $0.1 million was comprised of realized gains on the increase value of U.S. dollar denominated receivables.

Adjusted EBITDA

Adjusted EBITDA was $4.9 million in the second quarter of 2013 compared to $5.2 million in the second quarter of 2012. The primary reason for the decrease in Adjusted EBITDA of $0.3 million was the decrease in gross profit due to the impact of reduced instant ticket average selling price and a reduction in production volumes compared to 2012 as a result of scheduled maintenance on a major press line.

Income taxes

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

Income tax expense was $1.0 million in the second quarter of 2012, an effective rate of 49.4%, as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Amortization and depreciation

Amortization and depreciation, including depreciation of property and equipment and the amortization of deferred financing costs and intangible assets, totaled $2.0 million during the second quarter of 2013 as compared to $1.8 million during the second quarter of 2012, due primarily to higher amortization of property, plant and equipment.

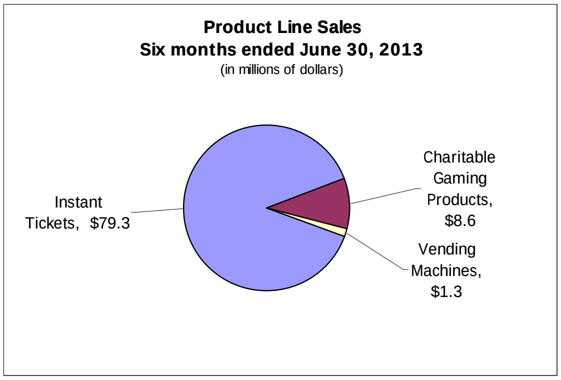
Net Income

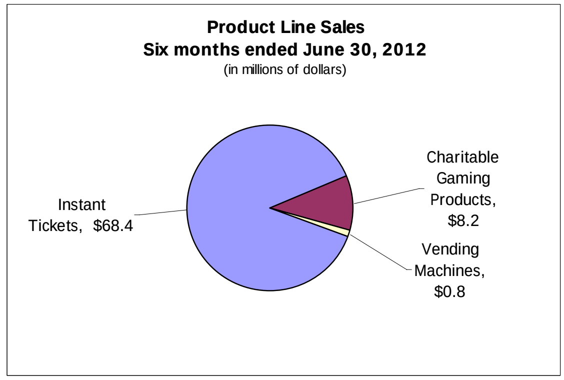
Net Income was $1.0 million in the second quarter of 2013 compared to $1.0 million in the second quarter of 2012, with the decrease in gross profit of $0.4 million being offset by the decrease in foreign exchange loss of $0.4 million.

Net income per share was $0.04 per share in the second quarter of 2013 which was similar to $0.04 per share in the second quarter of 2012.

ANALYSIS OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2013

Sales

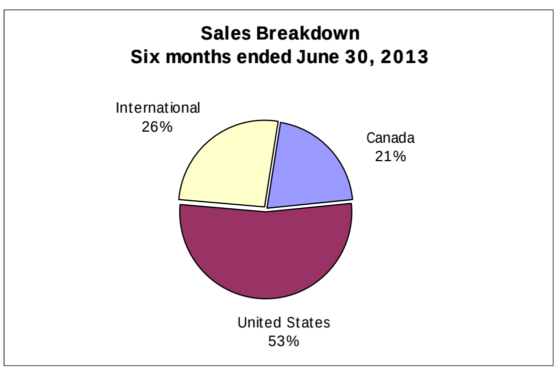


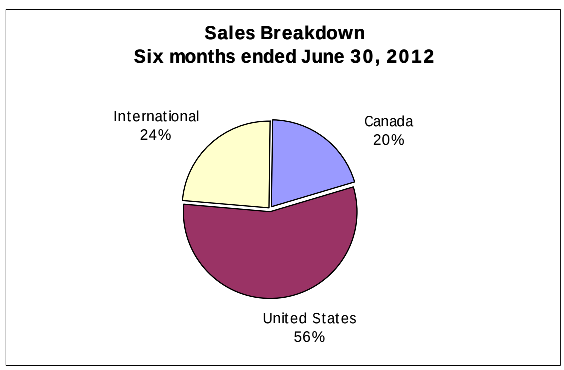


During the six months ended June 30, 2013, Pollard achieved sales of $89.2 million, compared to $77.4 million in the six months ended June 30, 2012. Factors impacting the $11.8 million sales increase were:

Instant ticket sales volumes for the first six months of 2013 were higher by 15.4% than the first six months of 2012 which, combined with an increase in our ancillary instant ticket products and services, increased sales by $11.2 million. A decrease in the average selling price of instant tickets reduced sales by $0.3 million compared to the first half of 2012. Charitable Gaming products volumes were slightly higher than the first six months of 2012 increasing revenues by $0.3 million. An increase in the average selling price further increased sales by $0.1 million when compared to the first six months of 2012. An increase in machine volumes in the first half of 2013 increased sales by $0.5 million when compared to 2012.

U.S. dollar and Euro denominated sales were translated into Canadian dollars at comparable rates between the first six months of 2013 and 2012.





Cost of sales and gross profit

Cost of sales was $73.0 million in the six months ended June 30, 2013, compared to $62.3 million in the first six months of 2012. Cost of sales were higher in the first half of 2013 relative to 2012 as a result of the increase in instant ticket sales volumes.

Gross profit increased to $16.2 million (18.2% of sales) in the first six months of 2013 from $15.1 million (19.5% of sales) in the six months ended June 30, 2012. The increased gross profit was due mainly to the increased instant ticket sales volumes. The gross profit % of sales decreased as a result of the impact of decreased production volumes during the second quarter, due to the scheduled maintenance on a major press line.

Administration expenses

Administration expenses increased to $7.0 million in the first six months of 2013 from $6.8 million in the first six months of 2012 as a result of increased compensation expenses.

Selling expenses

Selling expenses were $3.2 million in the first six months of 2013 which was similar to $3.1 million in the first six months of 2012.

Finance costs and income

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

Interest expense

Interest expense was $1.7 million in the first six months of 2013 which was similar to $1.7 million in the first six months of 2012.

Foreign exchange loss

The net foreign exchange loss was $0.3 million in the first six months of 2013 compared to a net loss of $0.3 million in the first half of 2012. The 2013 net foreign exchange loss was comprised of unrealized foreign exchange losses of $0.5 million, comprised of $0.8 million unrealized foreign exchange loss on U.S. dollar denominated debt and a $0.3 million unrealized loss on U.S. dollar denominated payables, partially offset by $0.6 million unrealized foreign exchange gain on U.S. dollar denominated cash and accounts receivables. Partially offsetting the unrealized loss was the realized foreign exchange gain of $0.2 million as a result of the increased value of U.S. dollar denominated accounts receivables.

The 2012 foreign exchange loss of $0.3 million was comprised of unrealized foreign exchange losses of $0.2 million on U.S. dollar denominated debt and $0.1 million on U.S. dollar denominated payables.

Adjusted EBITDA

Adjusted EBITDA was $10.1 million in the first six months of 2013 compared to $8.6 million in the first six months of 2012. The primary reasons for the increase in Adjusted EBITDA of $1.5 million were an increase in gross profit (net of amortization and depreciation) of $1.2 million and higher realized foreign exchange gains of $0.2 million.

Income taxes

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

Income tax expense was $1.0 million in the first six months of 2012, an effective rate of 35.0%, primarily as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Amortization and depreciation

Amortization and depreciation, including depreciation of property and equipment and amortization of deferred financing costs and intangible assets, totaled $3.9 million during the first six months of 2013 compared to $3.8 million during the first six months of 2012, due primarily to higher amortization of property, plant and equipment.

Net Income

Net Income was $2.0 million in the first six months of 2013 compared to $1.8 million in the first six months of 2012. The primary reason for the increase was an increase in gross profit of $1.1 million which was almost entirely offset by an increase in income tax expense of $1.0 million.

Net income per share was $0.08 per share in the six months ending June 30, 2013, which was similar to $0.08 per share in the first half of 2012.

Liquidity and Capital Resources

Cash provided by operating activities

For the six months ended June 30, 2013, cash flow provided by operating activities was $7.3 million compared to cash flow provided by operating activities of $1.5 million for the comparable period in Fiscal 2012. Changes in the non-cash component of working capital increased cash flow from operations of $0.7 million for the six months ended June 30, 2013 (due primarily to decreases in accounts receivables and inventories, partially offset by an increase in prepaids), compared to a decrease of $4.0 million for the six months ended June 30, 2012 (due primarily to increases in inventories and prepaids, partially offset by a decrease in accounts receivable).

Cash used by investing activities

In the six months ended June 30, 2013, cash used by investing activities was $4.2 million compared to cash used of $3.1 million in the first half of 2012. In the six months ended June 30, 2013, capital expenditures were $3.0 million. As well Pollard expended $1.2 million on additions to intangible assets.

In the six months ended June 30, 2012, capital expenditures were $2.4 million. In addition, Pollard also expended $0.4 million on its investment in associate and $0.3 million on intangible assets.

Cash used by financing activities

Cash used by financing activities was $1.6 million in the six months ended June 30, 2013, compared to cash provided by financing activities of $1.0 million in the six months ended June 30, 2012. During the first half of 2013 cash was used to pay dividends of $1.4 million, reduce long-term debt by $0.1 million and increase deferred financing by $0.1 million.

During the first half of 2012 proceeds from long-term debt of $2.6 million were partially offset by dividends paid of $1.4 million and an increase in deferred financing of $0.2 million.

As at June 30, 2013, Pollard had unused committed debt facility of $13.2 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)

	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Sales	$44.8	$44.4	$40.9	$44.1	$40.8	$36.6	$44.6	$43.8
Adjusted EBITDA	4.9	5.2	5.6	5.9	5.2	3.5	5.2	5.9
Net Income (Loss)	1.0	1.0	1.5	3.3	1.0	0.8	1.7	(1.2)

Sales in Q1 and Q2 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 two 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.

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 EBTIDA. 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.

	June 30, 2013	December 31, 2012
Working Capital	$28.4	$27.2
Total Assets	$128.7	$127.0
Total Non-Current Liabilities	$83.0	$83.4

Credit Facility

Pollard's credit facility, which was renewed effective June 28, 2013, consists of one committed term bank loan facility. The committed term bank loan facility provides loans of up to $75.0 million for its Canadian operations and up to US$11.0 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 June 30, 2013, the outstanding letters of guarantee were $1.9 million (December 31, 2012 - $3.2 million) and the remaining balance available for drawdown was $13.2 million (December 31, 2012 - $10.9 million).

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 June 30, 2013 and August 7, 2013, Pollard is in compliance with all 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), maintenance capital expenditures (to a maximum of $3.5 million per year), pension deficit installments (to a maximum of $2.0 million for fiscal 2013 and $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. Under the terms of the credit facility, the mandatory prepayment for the quarter ending June 30, 2013, was waived.

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard and its operating subsidiaries. The credit facility can be prepaid without penalties. Under the terms of the agreement effective June 28, 2013, the credit facility is committed for a one year period, renewable June 30, 2014 ("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, 2015.

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 June 30, 2013 and August 7, 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

During the second quarter Pollard has entered into foreign currency forward contracts to convert $1 million U.S. dollars per month into Canadian dollars from July 2013 to December 2014. The foreign currency contracts are recognized in the statement of financial position at fair value, with changes in fair value recognized in the statement of income.

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 six months ended June 30, 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

Our main product line of instant tickets and related services continues to benefit from the strong growth of the overall market. Many lotteries, especially in North America, have been achieving record retail sales, with a major factor being growth in instant ticket sales. We believe this trend will continue. Lotteries and their sponsoring government jurisdictions continue to look at ways to generate more funds for their designated good causes, be it health care, education or general government revenues. This focus will continue to encourage lotteries to look at all aspects of their business and apply resources to maximize their returns. In addition to strong retail growth of instant tickets themselves, opportunities will continue for suppliers such as Pollard to expand additional services such as related internet gaming.

We continue to expect our volumes for 2013 to remain higher than achieved in the comparable periods in 2012. The third and fourth quarters have traditionally seen higher volumes when compared to the first six months of the year and we continue to expect this to occur this year.

During the second quarter a number of new contracts were awarded to Pollard from existing customers including the Western Canada Lottery Corporation and the lotteries of Denmark, Oregon and Idaho. These lotteries are long standing customers of Pollard and these new contracts were won in competitive processes conducted at the conclusion of previously existing contracts. During the second quarter the New Jersey Lottery awarded a contract to a private consortium to manage the lottery on its behalf. Our contract to supply instant tickets to the New Jersey Lottery runs until December 2013 and we continue to provide our products to the Lottery. Beginning in 2014, we may see lower order quantities from this customer, however this is still to be determined and any change in quantities would not be material.

We have no other material customer contracts that come due in 2013 (when extensions are considered) and will continue to aggressively pursue requests for proposal and other opportunities within the lottery industry as they come up for bid.

We expect continued traction to come from some of our ancillary product lines including our social media related product Social Instants™. During the second quarter the Michigan Lottery launched our social media linked instant ticket product branded as "*Raise the Stakes*". One of the many key features include allowing consumers to share their winning experiences through various social media and winning additional prizes via building group teams to play instant ticket lottery games. The initial response has been very encouraging, with significant participation from a much coveted younger demographic player base. While still very small in absolute terms, revenue from internet related products will grow in the future as lotteries look for new ways to expand and engage their customer base.

Our charitable gaming segment continues to generate good results, despite a relatively flat overall market. A focus on efficient production and cost controls in this segment is the key. Sales of pull-tab vending machines and pull-tabs to the lottery and international markets have been above budget and are expected to continue at these levels through 2013.

Budgeted capital expenditures for the remainder of 2013 are expected to be slightly lower than the expenditures in the first six months of 2013.

On June 28, 2013, our bank facility was renewed for an additional year. The renewal included reductions in interest rates, as well as increased availability to support the growth of the business. Pollard believes the renewed bank 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.

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 and six months ended June 30, 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)

Six months ended June 30, 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)

	June 30, 2013	December 31, 2012
Assets		
Current assets		
Cash	$ 6,713	$ 4,982
Accounts receivable	15,362	16,301
Inventories (note 5)	21,300	21,726
Prepaid expenses and deposits	3,275	1,760
Total current assets	46,650	44,769
Non-current assets		
Property, plant and equipment	30,352	30,113
Equity investment (note 6)	162	204
Goodwill	36,052	35,703
Intangible assets	12,319	11,840
Deferred income taxes	3,187	4,324
Total non-current assets	82,072	82,184
Total assets	$ 128,722	$ 126,953
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 16,554	$ 16,174
Dividends payable	706	706
Income taxes payable	967	700
Total current liabilities	18,227	17,580
Non-current liabilities		
Long-term debt (note 7)	71,241	70,485
Other non-current liabilities	247	195
Pension liability	8,928	9,902
Deferred income taxes	2,616	2,781
Total non-current liabilities	83,032	83,363
Shareholders' equity		
Share capital	73,209	73,209
Reserves	77	(826)
Deficit	(45,823)	(46,373)
Total shareholders' equity	27,463	26,010
Total liabilities and shareholders' equity	$ 128,722	$ 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 June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Sales	**$ 44,809**	$ 40,818	**$ 89,215**	$ 77,380
Cost of sales	**36,680**	32,325	**72,997**	62,325
Gross profit	**8,129**	8,493	**16,218**	15,055
Administration	**3,610**	3,429	**7,035**	6,790
Selling	**1,595**	1,614	**3,208**	3,120
Other (income) expense (note 8)	**(43)**	(5)	**(193)**	45
Income from operations	**2,967**	3,455	**6,168**	5,100
Finance costs (note 9)	**967**	1,415	**2,236**	2,465
Finance income (note 9)	**-**	-	**-**	(201)
Income before income taxes	**2,000**	2,040	**3,932**	2,836
Income taxes (note 10)	**978**	1,008	**1,969**	992
Net income	**$ 1,022**	$ 1,032	**$ 1,963**	$ 1,844
Basic and diluted net income per share	**$ 0.04**	$ 0.04	**$ 0.08**	$ 0.08
Weighted average number of shares outstanding	**23,543,158**	23,543,158	**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 June 30, 2013	Three months ended June 30, 2012	**Six months ended June 30, 2013**	Six months ended June 30, 2012
Net income	**$ 1,022**	$ 1,032	**$ 1,963**	$ 1,844
Other comprehensive income:				
Foreign currency translation differences – foreign operations	**404**	405	**903**	11
Other comprehensive income – net of income tax	**404**	405	**903**	11
Comprehensive income	**$ 1,426**	$ 1,437	**$ 2,866**	$ 1,855

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 six months ended June 30, 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		-	-	1,963	1,963
Other comprehensive income					
Foreign currency translation differences – foreign operations		-	903	-	903
Total other comprehensive income	$	-	903	-	903
Total comprehensive income	$	-	903	1,963	2,866
Dividends to owners of Pollard Banknote Limited (note 12)		-	-	(1,413)	(1,413)
Balance at June 30, 2013	$	73,209	77	(45,823)	27,463

For the six months ended June 30, 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		-	-	1,844	1,844
Other comprehensive income					
Foreign currency translation differences – foreign operations		-	11	-	11
Total other comprehensive income	$	-	11	-	11
Total comprehensive income	$	-	11	1,844	1,855
Dividends to owners of Pollard Banknote Limited		-	-	(1,413)	(1,413)
Balance at June 30, 2012	$	73,209	(315)	(44,791)	28,103

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Cash Flows
(*In thousands of Canadian dollars*)
(unaudited)

		Six months ended June 30, 2013		Six months ended June 30, 2012
Cash increase (decrease):				
Operating activities:				
Net income	**$**	**1,963**	$	1,844
Adjustments:				
Income taxes		**1,969**		992
Amortization and depreciation		**3,851**		3,738
Interest expense		**1,750**		1,699
Unrealized foreign exchange loss		**527**		342
Loss on equity investment		**42**		108
Interest paid		**(1,743)**		(1,892)
Income tax paid		**(694)**		(707)
Change in pension liability		**(1,032)**		(580)
Change in non-cash operating working capital (note 11)		**661**		(3,995)
		7,294		1,549
Investing activities:				
Additions to property, plant and equipment		**(3,015)**		(2,381)
Investment in associate (note 6)		**-**		(408)
Additions to intangible assets		**(1,159)**		(294)
		(4,174)		(3,083)
Financing activities:				
Proceeds from (repayments of) long-term debt		**(111)**		2,619
Change in other non-current liabilities		**37**		(8)
Additions to deferred financing charges		**(137)**		(157)
Dividends paid		**(1,413)**		(1,413)
		(1,624)		1,041
Foreign exchange gain (loss) on cash held in foreign currency		**235**		(95)
Change in cash position		**1,731**		(588)
Cash position, beginning of period		**4,982**		5,059
Cash position, end of period	**$**	**6,713**	$	4,471

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 six months ended June 30, 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 August 7, 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 International Accounting Standards Board ("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 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:

	June 30, 2013	December 31, 2012
Raw materials	**$ 5,519**	$ 5,713
Work-in-process	**877**	843
Finished goods	**14,904**	15,170
	$ 21,300	$ 21,726

During the second quarter of 2013, Pollard recorded inventory write-downs of $61 representing an increase in the obsolescence reserves, and a reversal of previous write-downs of $61 due to changes in foreign exchange rates. During the six months ended June 30, 2013, Pollard recorded

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

5. Inventories (continued):

inventory write-downs of $139 representing an increase in the obsolescence reserves, and a reversal of previous write-downs of $105 due to changes in foreign exchange rates.

During the second quarter of 2012, Pollard recorded inventory write-downs of $53 representing an increase in the obsolescence reserves, and a reversal of previous write-downs of $29 due to changes in foreign exchange rates. During the six months ended June 30, 2012, Pollard recorded inventory write-downs of $53 representing an increase in the obsolescence reserves, and a reversal of previous write-downs of $32 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:

	Six months ended June 30, 2013	Six months ended June 30, 2012
Balance – beginning of period	**$ 204**	$ -
Initial investment	**-**	408
Equity loss	**(42)**	(108)
Balance – end of period	**$ 162**	$ 300

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 thousands of Canadian dollars, except for share amounts)

7. Long-term debt:

		June 30, 2013		December 31, 2012
Credit facility, interest of 3.45% to 4.75% payable monthly, maturing 2015	**$**	**71,501**	$	70,815
Deferred financing charges, net of amortization		**(260)**		(330)
	$	**71,241**	$	70,485

Included in the total credit facility balance is a U.S. dollar loan balance of US$9,493 (December 31, 2012 - US$13,597).

Effective June 28, 2013, Pollard's subsidiaries Pollard Holdings Limited Partnership and Pollard Holdings, Inc. renewed their credit facility. The credit facility provides loans of up to $75,000 for its Canadian operations and up to US$11,041 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 June 30, 2013, the outstanding letters of guarantee drawn under the credit facility were $1,922 (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 June 30, 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), maintenance capital expenditures (to a maximum of $3,500 per year), pension deficit installments (to a maximum of $2,000 for fiscal 2013 and $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. Under the terms of the credit facility, the mandatory prepayment for the quarter ending June 30, 2013, was waived. As of June 30, 2013, Pollard has unused credit facility available of $13,170 (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 28, 2013, the credit facility is committed for a one year period, renewable June 30, 2014 ("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, 2015.

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

8. Other (income) expense:

	Three months ended June 30, 2013	Three months ended June 30, 2012	**Six months ended June 30, 2013**	Six months ended June 30, 2012
Loss on equity investment (note 6)	**$ 39**	$ 29	**$ 42**	$ 108
Other	**(82)**	(34)	**(235)**	(63)
	$ (43)	$ (5)	**$ (193)**	$ 45

9. Finance costs and finance income:

Finance costs:	**Three months ended June 30, 2013**	Three months ended June 30, 2012	**Six months ended June 30, 2013**	Six months ended June 30, 2012
Foreign exchange loss	**$ 52**	$ 490	**$ 279**	$ 490
Interest	**854**	781	**1,750**	1,699
Amortization of deferred financing costs	**61**	144	**207**	276
	$ 967	$ 1,415	**$ 2,236**	$ 2,465

Finance income:	**Three months ended June 30, 2013**	Three months ended June 30, 2012	**Six months ended June 30, 2013**	Six months ended June 30, 2012
Foreign exchange gain	**$ -**	$ -	**$ -**	$ (201)
	$ -	$ -	**$ -**	$ (201)

10. Income taxes:

Income tax expense:	**Three months ended June 30, 2013**	Three months ended June 30, 2012	**Six months ended June 30, 2013**	Six months ended June 30, 2012
Current	**$ 532**	$ 279	**$ 903**	$ 630
Deferred	**446**	729	**1,066**	362
	$ 978	$ 1,008	**$ 1,969**	$ 992

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

10. Income taxes (continued):

Reconciliation of effective tax rate:			**Three months ended June 30, 2013**			Three months ended June 30, 2012
Net income for the period		**$**	**1,022**		$	1,032
Total income taxes			**978**			1,008
Income before income taxes		**$**	**2,000**		$	2,040
Income tax using Pollard's domestic tax rate	**26.3%**	**$**	**526**	26.8%	$	547
Withholding taxes and other non-deductable amounts	**2.0%**		**40**	(0.6%)		(13)
Effect of non-taxable items related to foreign exchange	**20.6%**		**412**	23.2%		474
	48.9%	**$**	**978**	49.4%	$	1,008

Reconciliation of effective tax rate:			**Six months ended June 30, 2013**			Six months ended June 30, 2012
Net income for the period		**$**	**1,963**		$	1,844
Total income taxes			**1,969**			992
Income before income taxes		**$**	**3,932**		$	2,836
Income tax using Pollard's domestic tax rate	**26.3%**	**$**	**1,034**	26.8%	$	760
Withholding taxes and other non-deductable amounts	**1.3%**		**50**	0.6%		16
Effect of non-taxable items related to foreign exchange	**22.5%**		**885**	7.6%		216
	50.1%	**$**	**1,969**	35.0%	$	992

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

11. Supplementary cash flow information:

		Six months ended June 30, 2013		Six months ended June 30, 2012
Change in non-cash operating working capital:				
Accounts receivable	**$**	**1,582**	$	378
Inventories		**849**		(3,693)
Prepaid expenses and deposits		**(1,649)**		(603)
Accounts payable and accrued liabilities		**(121)**		(77)
	$	**661**	$	(3,995)

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 June 30, 2013, Pollard's Adjusted EBITDA ratio is below the target level and as a result there are currently no restrictions on the amount of dividends.

On May 8, 2013, a dividend of $0.03 per share was declared, payable on July 15, 2013, to the shareholders of record on June 30, 2013.

13. Related party transactions:

During the quarter ended June 30, 2013, Pollard paid property rent of $754 (2012 - $751) and $61 (2012 - $70) in plane charter costs to affiliates of Pollard Equities Limited ("Equities"). During the six months ended June 30, 2013, Pollard paid property rent of $1,504 (2012 - $1,502) and $122 (2012 - $70) in plane charter costs to affiliates of Equities. During the quarter, Equities paid Pollard $18 (2012 - $18) for accounting and administration fees and $36 (2012 - $36) during the six months ended June 30, 2013.

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)

13. Related party transactions (continued):

Key management personnel compensation comprised:

	Three months ended June 30, 2013	Three months ended June 30, 2012	**Six months ended June 30, 2013**	Six months ended June 30, 2012
Wages, salaries and benefits	**$ 564**	$ 600	**$ 1,192**	$ 1,345
Profit share	**2**	2	**4**	3
Expenses related to defined benefit plans	**53**	54	**142**	107
	$ 619	$ 656	**$ 1,338**	$ 1,455

At June 30, 2013, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent and other expenses of $707 (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, who undertakes regular reviews of risk management controls and utilizes the annual risk assessment process as the basis for the annual internal audit plan.

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

14. Financial risk management (continued):

Credit risk

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

		June 30, 2013		December 31, 2012
Current	**$**	**12,011**	$	13,003
Past due for 1 to 60 days		**3,121**		2,808
Past due for more than 60 days		**271**		499
Less: Allowance for doubtful accounts		**(41)**		(9)
	$	**15,362**	$	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 $75,000 for its Canadian operations and up to US$11,041 for its U.S. subsidiaries. At June 30, 2013, the unused balance available for drawdown was $13,170 (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 portion of the 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 $14 for the second quarter of 2013 (2012 - $26) and approximately $44 for the six months ended June 30, 2013 (2012 - $36).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At June 30, 2013, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately $3,215 (December 31, 2012 - $5,622). A 50 basis point

14. Financial risk management (continued):

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 $16 for the second quarter of 2013 (2012 - $16) and approximately $32 for the six months ended June 30, 2013 (2012 - $32).

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 $1,054 for 18 consecutive months from July 2013 to December 2014. The foreign currency contracts are recognized in the balance sheet and measured at fair value, which at June 30, 2013, was equal to the contract value and therefore no asset or liability was recorded.

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 $90 for the second quarter of 2013 (2012 - nil) and approximately $90 for the six months ended June 30, 2013 (2012 - nil), due to the change in the value of the mark-to-market value of the foreign currency contracts.

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 $89 for the three months ended June 30, 2013 (2012 - $91) and approximately $179 for the six months ended June 30, 2013 (2012 - $182).