Condensed Consolidated Interim Financial Statements of

POLLARD BANKNOTE LIMITED

(unaudited)

Six months ended June 30, 2014

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, 2014		December 31, 2013
Assets				
Current assets				
Cash	$	6,093	$	7,774
Accounts receivable		19,809		22,779
Inventories (note 5)		23,035		21,281
Prepaid expenses and deposits		3,534		2,012
Total current assets		52,471		53,846
Non-current assets				
Property, plant and equipment		36,547		28,918
Equity investment (note 6)		-		167
Goodwill		36,136		36,111
Intangible assets		13,483		13,532
Deferred income taxes		32		801
Total non-current assets		86,198		79,529
Total assets	$	138,669	$	133,375
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	17,599	$	18,074
Dividends payable		706		706
Income taxes payable		2,167		1,795
Current portion long-term debt (note 7)		301		-
Total current liabilities		20,773		20,575
Non-current liabilities				
Long-term debt (note 7)		69,020		73,345
Subordinated debt (note 8)		6,813		-
Other non-current liabilities		219		205
Foreign currency contracts		140		412
Pension liability		2,280		2,824
Deferred income taxes		2,168		2,374
Total non-current liabilities		80,640		79,160
Shareholders' equity				
Share capital		73,209		73,209
Reserves		272		219
Deficit		(36,225)		(39,788)
Total shareholders' equity		37,256		33,640
Commitment (note 18)				
Total liabilities and shareholders' equity	$	138,669	$	133,375

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, 2014		Three months ended June 30, 2013		Six months ended June 30, 2014		Six months ended June 30, 2013
Sales	**$**	**47,071**	$	44,809	**$**	**97,764**	$	89,215
Cost of sales		**36,337**		36,680		**77,585**		72,997
Gross profit		**10,734**		8,129		**20,179**		16,218
Administration		**4,215**		3,610		**8,027**		7,035
Selling		**1,709**		1,595		**3,363**		3,208
Other (income) expense (note 9)		**(33)**		(43)		**(73)**		(193)
Income from operations		**4,843**		2,967		**8,862**		6,168
Finance costs (note 10)		**778**		967		**2,562**		2,236
Finance income (note 10)		**(959)**		-		**(959)**		-
Income before income taxes		**5,024**		2,000		**7,259**		3,932
Income taxes (note 11)		**1,176**		978		**2,296**		1,969
Net income	**$**	**3,848**	$	1,022	**$**	**4,963**	$	1,963
Net income per share (basic) (note 12)	**$**	**0.16**	$	0.04	**$**	**0.21**	$	0.08
Net income per share (diluted) (note 12)	**$**	**0.16**	$	0.04	**$**	**0.21**	$	0.08

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, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Net income	**$ 3,848**	$ 1,022	**$ 4,963**	$ 1,963
Other comprehensive income:				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations	**(488)**	404	**53**	903
Other comprehensive income (loss) – net of income tax	**(488)**	404	**53**	903
Comprehensive income	**$ 3,360**	$ 1,426	**$ 5,016**	$ 2,866

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, 2014

		Attributable to equity holders of Pollard Banknote Limited			
		Share capital	**Translation reserve**	**Deficit**	**Total equity**
Balance at January 1, 2014	$	73,209	219	(39,788)	33,640
Net income		-	-	4,963	4,963
Other comprehensive income					
Foreign currency translation differences – foreign operations		-	53	-	53
Total other comprehensive income	$	-	53	-	53
Total comprehensive income	$	-	53	4,963	5,016
Share based compensation (note 17)		-	-	13	13
Dividends to owners of Pollard Banknote Limited (note 14)		-	-	(1,413)	(1,413)
Balance at June 30, 2014	$	73,209	272	(36,225)	37,256

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 14)		-	-	(1,413)	(1,413)
Balance at June 30, 2013	$	73,209	77	(45,823)	27,463

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, 2014		Six months ended June 30, 2013
Cash increase (decrease):				
Operating activities:				
Net income	**$**	**4,963**	$	1,963
Adjustments:				
Income taxes		**2,296**		1,969
Amortization and depreciation		**3,890**		3,851
Interest expense		**1,513**		1,750
Unrealized foreign exchange loss		**302**		527
Loss on equity investment		**167**		42
Mark-to-market gain on foreign exchange contracts		**(272)**		-
Interest paid		**(1,550)**		(1,743)
Income tax paid		**(1,386)**		(694)
Change in pension liability		**(478)**		(1,032)
Change in non-cash operating working capital (note 13)		**(1,030)**		661
		8,415		7,294
Investing activities:				
Additions to property, plant and equipment		**(10,499)**		(3,015)
Additions to intangible assets		**(668)**		(1,159)
		(11,167)		(4,174)
Financing activities:				
Net repayments on long-term debt		**(4,081)**		(111)
Proceeds from long-term subordinated debt		**6,813**		-
Change in other non-current liabilities		**13**		37
Additions to deferred financing charges		**(123)**		(137)
Dividends paid		**(1,413)**		(1,413)
		1,209		(1,624)
Foreign exchange gain (loss) on cash held in foreign currency		**(138)**		235
Change in cash position		**(1,681)**		1,731
Cash position, beginning of period		**7,774**		4,982
Cash position, end of period	**$**	**6,093**	$	6,713

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, 2014, 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, 2013, 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 August 6, 2014, 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 judgments 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, 2013.

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, 2013 and should be read in conjunction with those reports. The following amendment did not have a material impact on the condensed consolidated interim financial statements.

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

4. Future accounting standards:

In November 2009, the IASB issued International Financial Reporting Standards ("IFRS") 9 *Financial Instruments* ("IFRS 9 (2009)") and in October 2010, the IASB published amendments to IFRS 9 ("IFRS 9 (2010)"). In December 2011, the IASB issued an amendment to IFRS 9 to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. IFRS 9 (2009) uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classifications options in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities. In November 2013, a new general hedge accounting standard was issued, forming part of IFRS 9. It will more closely align with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirements to measure and recognize ineffectiveness, however it will allows more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The effective date for IFRS 9 has not yet been determined. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard specifies the steps and timing for recognizing revenue, as well as requiring more informative, relevant disclosures. IFRS 15 supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue*. IFRS 15 is required for fiscal years beginning on or after January 1, 2017 with early adoption available. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The amendments prohibit the use of revenue based depreciation for property, plant and equipment and significantly limit the use of revenue based amortization for intangibles.

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

4. Future accounting standards (continued):

These amendments are effective for fiscal years beginning on or after January 1, 2016. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

5. Inventories:

		June 30, 2014		December 31, 2013
Raw materials	**$**	**7,167**	$	7,345
Work-in-process		**1,131**		883
Finished goods		**14,737**		13,053
	$	**23,035**	$	21,281

During the second quarter of 2014, Pollard recorded inventory write-downs of $74 representing an increase in the obsolescence reserves, and a write-down of $81 due to changes in foreign exchange rates. During the six months ended June 30, 2014, Pollard recorded inventory write-downs of $135 representing an increase in the obsolescence reserves, and a write-down of $99 due to changes in foreign exchange rates.

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 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.

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, 2014		Six months ended June 30, 2013
Balance – beginning of period	**$**	**167**	$	204
Equity loss		**(167)**		(42)
Balance – end of period	**$**	**-**	$	162

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

6. Equity investment (continued):

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.

7. Long-term debt:

		June 30, 2014		December 31, 2013
Credit facility, interest of 2.91% to 4.25% payable monthly, maturing 2016	$	**69,511**	$	73,523
Deferred financing charges, net of amortization		**(190)**		(178)
		69,321		73,345
Less current portion		**(301)**		-
	$	**69,020**	$	73,345

Included in the total credit facility balance is a U.S. dollar loan balance of US$13,600 (December 31, 2013 - US$13,600).

Effective April 2, 2014, Pollard's subsidiaries Pollard Holdings Limited Partnership and Pollard Holdings, Inc. renewed their credit facility. Pollard renegotiated its credit facility under similar terms as its previous agreement, except for the addition of an additional term facility of $4,812 to assist in the financing of the new printing press. In addition to the $4,812 term facility, the credit facility provides loans of up to $71,827 for its Canadian operations and up to US$10,000 for its U.S. subsidiaries. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At June 30, 2014, the outstanding letters of guarantee drawn under the credit facility were $1,122 (December 31, 2013 - $1,632).

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including working capital ratios, debt to income before interest, income taxes, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at June 30, 2014, Pollard is in compliance with all financial covenants.

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

7. Long-term debt (continued):

As at June 30, 2014, $1,400 of the term facility had been drawn. Repayment of the term facility will commence on the earlier of the completion of the installation of the new printing press or June 30, 2015, in the form of quarterly principal repayments of $301 plus interest. Repayments will permanently reduce the term facility commitment available.

Under the terms of the credit facility the amount of the facility, excluding the term facility, will be reduced on a quarterly basis by an amount calculated as 50% of the prior quarter's Excess Cash Flow. Excess Cash Flow is defined as Adjusted EBITDA less scheduled principal indebtedness payments (if any) including, without limitation, scheduled principal payments on the term facility and the subordinated debt, maintenance capital expenditures (to a maximum of $3,500 per year), pension deficit installments (to a maximum of $2,700 for fiscal 2014), interest and cash income taxes paid. The reduction in the available facility is not required when the debt to Adjusted EBITDA ratio reaches certain target levels. For the quarter ending June 30, 2014, the target level was reached therefore no reduction is required. As of June 30, 2014, Pollard has unused credit facility available of $13,264 (December 31, 2013 - $9,425) and unused term facility available of $3,412.

Pollard's credit facility, including the term facility, is secured by a first security interest in all of the present and after acquired property of Pollard's operating subsidiaries. The facility can be prepaid without penalties. Under the terms of the agreement effective April 2, 2014, the facility was committed for an approximately 15 month period, renewable June 30, 2015 ("Facility Expiry Date"). If the facility is not renewed, the loans are repayable one year after the Facility Expiry Date, except for the scheduled principal repayments on the term facility. As such, the credit facility effectively has a two year term expiring June 30, 2016.

8. Subordinated debt:

	June 30, 2014	December 31, 2013
Subordinated debt, interest of 9.00% payable quarterly, maturing 2021	**$ 6,813**	$ -
	$ 6,813	$ -

On April 2, 2014, Pollard's subsidiary, Pollard Holdings Limited Partnership, entered into a loan agreement with Pollard Equities Limited ("Equities") for a subordinated term loan facility with a seven year term in the amount of $6,813 to assist in the purchase of the new printing press. Principal payments on the subordinated loan facility will commence the month following the later of: twenty-four months from the date of the first advance, completed on April 4, 2014, or the date of repayment in full of the additional secured term facility of $4,812. Interest on the subordinated term loan facility commences with the first draw at a rate of 9%. The loan is fully subordinated to the secured credit facility.

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

9. Other (income) expense:

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Loss on equity investment (note 6)	$ 139	$ 39	$ 167	$ 42
Other	(172)	(82)	(240)	(235)
	$ (33)	$ (43)	$ (73)	$ (193)

10. Finance costs and finance income:

Finance costs:	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Foreign exchange loss	$ -	$ 52	$ 371	$ 279
Interest	715	854	1,513	1,750
Mark-to-market loss on foreign exchange currency contracts (note 16)	-	-	567	-
Amortization of deferred financing costs	63	61	111	207
	$ 778	$ 967	$ 2,562	$ 2,236

Finance income:	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Foreign exchange gain	$ 120	$ -	$ 120	$ -
Mark-to-market gain on foreign exchange currency contracts (note 16)	839	-	839	-
	$ 959	$ -	$ 959	$ -

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

11. Income taxes:

Income tax expense:	**Three months ended June 30, 2014**	Three months ended June 30, 2013	**Six months ended June 30, 2014**	Six months ended June 30, 2013
Current	**$ 1,360**	$ 532	**$ 1,730**	$ 903
Deferred	**(184)**	446	**566**	1,066
	$ 1,176	$ 978	**$ 2,296**	$ 1,969

Reconciliation of effective tax rate:		**Three months ended June 30, 2014**		Three months ended June 30, 2013
Net income for the period		**$ 3,848**		$ 1,022
Total income taxes		**1,176**		978
Income before income taxes		**$ 5,024**		$ 2,000
Income tax using Pollard's domestic tax rate	**26.7%**	**$ 1,343**	26.3%	$ 526
Changes in expected tax rates and other non-deductible amounts	**0.0%**	**-**	2.0%	40
Effect of non-taxable items related to foreign exchange	**(3.3%)**	**(167)**	20.6%	412
	23.4%	**$ 1,176**	48.9%	$ 978

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

11. Income taxes (continued):

Reconciliation of effective tax rate:			**Six months ended June 30, 2014**			Six months ended June 30, 2013
Net income for the period		**$**	**4,963**		$	1,963
Total income taxes			**2,296**			1,969
Income before income taxes		**$**	**7,259**		$	3,932
Income tax using Pollard's domestic tax rate	**26.7%**	**$**	**1,941**	26.3%	$	1,034
Changes in expected tax rates and other non-deductible amounts	**2.4%**		**176**	1.3%		50
Effect of non-taxable items related to foreign exchange	**2.5%**		**179**	22.5%		885
	31.6%	**$**	**2,296**	50.1%	$	1,969

12. Net income per share:

		Three months ended June 30, 2014		Three months ended June 30, 2013
Net income attributable to shareholders for basic and diluted net income per share	**$**	**3,848**	$	1,022
Weighted average number of shares (basic)		**23,543,158**		23,543,158
Weighted average impact of share options on issue		**100,000**		-
Weighted average number of shares (diluted)		**23,643,158**		23,543,158

		Six months ended June 30, 2014		Six months ended June 30, 2013
Net income attributable to shareholders for basic and diluted net income per share	**$**	**4,963**	$	1,963
Weighted average number of shares (basic)		**23,543,158**		23,543,158
Weighted average impact of share options on issue		**62,431**		-
Weighted average number of shares (diluted)		**23,605,589**		23,543,158

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

13. Supplementary cash flow information:

		Six months ended June 30, 2014		Six months ended June 30, 2013
Change in non-cash operating working capital:				
Accounts receivable	**$**	**2,702**	$	1,582
Inventories		**(1,719)**		849
Prepaid expenses and deposits		**(1,730)**		(1,649)
Accounts payable and accrued liabilities		**(283)**		(121)
	$	**(1,030)**	$	661

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. On May 6, 2014, a dividend of $0.03 per share was declared, payable on July 15, 2014, to the shareholders of record on June 30, 2014.

15. Related party transactions:

During the quarter ended June 30, 2014, Pollard paid property rent of $758 (2013 - $754) and $61 (2013 - $61) in plane charter costs to an affiliate of Pollard Equities Limited. During the six months ended June 30, 2014, Pollard paid property rent of $1,516 (2013 - $1,504) and $122 (2013 - $122) in plane charter costs to an affiliate of Equities. During the quarter, Equities paid Pollard $18 (2013 - $18) for accounting and administration fees and $36 (2013 - $36) during the six months ended June 30, 2014.

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:

	Three months ended June 30, 2014	Three months ended June 30, 2013	**Six months ended June 30, 2014**	Six months ended June 30, 2013
Wages, salaries and benefits	**$ 627**	$ 564	**$ 1,257**	$ 1,192
Profit share	**4**	2	**7**	4
Expenses related to defined benefit plans	**98**	53	**195**	142
	$ 729	$ 619	**$ 1,459**	$ 1,338

At June 30, 2014, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent and other expenses of $469 (December 31, 2013 - $707). During the quarter Pollard received proceeds from a subordinated loan from Equities for $6,813 (note 8).

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.

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

16. 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, 2014		December 31, 2013
Current	**$**	**16,078**	$	17,274
Past due for 1 to 60 days		**3,174**		4,876
Past due for more than 60 days		**595**		641
Less: Allowance for doubtful accounts		**(38)**		(12)
	$	**19,809**	$	22,779

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In addition, Pollard maintains a committed credit facility including up to $71,827 for its Canadian operations, as well as the additional term facility of $4,812 available to finance the new printing press, and up to US$10,000 for its U.S. subsidiaries. At June 30, 2014, the unused balance available for drawdown under the credit facility was $13,264, (December 31, 2013 - $9,425) and $3,412 under the term facility.

The 2014 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities, the unused credit and term facilities, and the subordinated loan from Pollard Equities Limited (see note 8). 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 $26 for the second quarter of 2014 (2013 - $14) and approximately $54 for the six months ended June 30, 2014 (2013 - $35). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and Euro would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $22 for the second

16. Financial risk management (continued):

quarter of 2014 (2013 - $15) and approximately $39 for the six months ended June 30, 2014 (2013 - $29).

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, 2014, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately $4,573 (December 31, 2013 - $3,433). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in income before taxes of approximately $23 for the three and six months ended June 30, 2014 (2013 - $16).

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

In addition, Pollard has entered into foreign currency contracts to exchange US$1,000 each month for approximately $1,065 for 18 consecutive months from December 2013 to May 2015. Pollard has also entered into foreign currency contracts to exchange Euros €500 each month for approximately $693 for 12 consecutive months from September 2013 to August 2014. At June 30, 2014, the remaining open foreign currency contracts have been recognized at fair value in the statement of financial position as a $140 liability.

A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in income before income taxes of approximately $55 for the three and six months ended June 30, 2014 (2013 - nil), due to the change in value of the mark-to-market value of the U.S. foreign exchange contracts. In addition, a 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the Euro would result in a decrease/increase in income before income taxes of approximately $5 for the three and six months ended June 30, 2014 (2013 - nil), due to the change in value of the mark-to-market value of the Euro foreign exchange 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 $87 for the three months ended June 30, 2014 (2013 - $89) and approximately $174 for the six months ended June 30, 2014 (2013 - $179).

17. Share based compensation:

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 Common Shares.

On March 5, 2014, the Board of Directors approved the award of 100,000 options to purchase common shares of Pollard for certain key management personnel. The options were granted on March 10, 2014, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on March 7, 2014.

The grant date fair value of these options was determined based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The fair values were calculated as of March 10, 2014. The inputs used in the measurement of the fair values of the share based compensation granted are the following:

- Fair value at grant date $0.82
- Share price $3.63
- Exercise price $3.63
- Expected volatility (weighted average volatility) 33.7%
- Option life (expected weighted average life) 4.75 years
- Risk-free interest rate (based on Canadian government bonds) 1.7% to 2.1%

18. Commitment:

On April 4, 2014, Pollard entered into a purchase agreement for a new 22 station Tresu press line, with an approximate cost, including installation, of $20,000. The project will be financed from the additional term facility of $4,812 (note 7), the $6,813 subordinated loan from Equities (note 8) and cash generated from operations. As of June 30, 2014, expenditures relating to this project totaled $8,484 of the $10,499 additions to property, plant and equipment for the six months ended June 30, 2014. Included in these expenditures were $96 in capitalized borrowing costs.