

Condensed Consolidated Interim Financial Statements of

POLLARD BANKNOTE LIMITED

(unaudited)

Six months ended June 30, 2016

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

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

	June 30, 2016	December 31, 2015
Assets		
Current assets		
Cash	\$ 9,029	\$ 7,587
Restricted cash	985	560
Accounts receivable	28,789	24,151
Inventories (note 4)	26,709	23,739
Prepaid expenses and deposits	4,418	4,169
Income taxes receivable	1,718	3,046
Total current assets	71,648	63,252
Non-current assets		
Property, plant and equipment	48,253	50,380
Equity investments (note 5)	843	401
Goodwill	37,248	37,717
Intangible assets	12,095	12,340
Total non-current assets	98,439	100,838
Total assets	\$ 170,087	\$ 164,090
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 26,157	\$ 22,290
Dividends payable	706	706
Current portion long-term debt (note 6)	-	1,203
Current portion subordinated debt (note 7)	1,363	-
Total current liabilities	28,226	24,199
Non-current liabilities		
Long-term debt (note 6)	73,490	72,083
Subordinated debt (note 7)	5,450	6,813
Other non-current liabilities	201	397
Pension liability	11,654	11,270
Deferred income taxes	4,490	5,751
Total non-current liabilities	95,285	96,314
Shareholders' equity		
Share capital	73,209	73,209
Reserves	3,158	4,384
Deficit	(29,791)	(34,016)
Total shareholders' equity	46,576	43,577
Total liabilities and shareholders' equity	\$ 170,087	\$ 164,090

See accompanying notes to condensed consolidated interim financial statements.

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

(unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Sales	\$ 54,002	\$ 51,467	\$ 118,043	\$ 105,898
Cost of sales	43,090	40,726	95,727	85,105
Gross profit	10,912	10,741	22,316	20,793
Administration	5,080	4,284	10,423	8,526
Selling	1,792	1,660	3,718	3,372
Other income (note 8)	(391)	(138)	(425)	(286)
Income from operations	4,431	4,935	8,600	9,181
Finance costs (note 9)	1,193	749	2,168	2,690
Finance income (note 9)	-	(411)	(1,042)	(490)
Income before income taxes	3,238	4,597	7,474	6,981
Income taxes (note 10)	1,193	1,645	1,844	2,632
Net income	\$ 2,045	\$ 2,952	\$ 5,630	\$ 4,349
Net income per share (basic) (note 11)	\$ 0.09	\$ 0.13	\$ 0.24	\$ 0.18
Net income per share (diluted) (note 11)	\$ 0.09	\$ 0.13	\$ 0.24	\$ 0.18

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, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net income	\$ 2,045	\$ 2,952	\$ 5,630	\$ 4,349
Other comprehensive income (loss):				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations	(145)	(191)	(1,226)	1,099
Other comprehensive income (loss)	(145)	(191)	(1,226)	1,099
Comprehensive income	\$ 1,900	\$ 2,761	\$ 4,404	\$ 5,448

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, 2016

		Attributable to equity holders of Pollard Banknote Limited			
		Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2016	\$	73,209	4,384	(34,016)	43,577
Net income		-	-	5,630	5,630
Other comprehensive loss					
Foreign currency translation differences – foreign operations		-	(1,226)	-	(1,226)
Total other comprehensive loss	\$	-	(1,226)	-	(1,226)
Total comprehensive income (loss)	\$	-	(1,226)	5,630	4,404
Share based compensation	\$	-	-	8	8
Dividends to owners of Pollard Banknote Limited (note 12)		-	-	(1,413)	(1,413)
Balance at June 30, 2016	\$	73,209	3,158	(29,791)	46,576

For the six months ended June 30, 2015

		Attributable to equity holders of Pollard Banknote Limited			
		Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2015	\$	73,209	1,456	(40,750)	33,915
Net income		-	-	4,349	4,349
Other comprehensive income					
Foreign currency translation differences – foreign operations		-	1,099	-	1,099
Total other comprehensive income	\$	-	1,099	-	1,099
Total comprehensive income	\$	-	1,099	4,349	5,448
Share based compensation	\$	-	-	14	14
Dividends to owners of Pollard Banknote Limited		-	-	(1,413)	(1,413)
Balance at June 30, 2015	\$	73,209	2,555	(37,800)	37,964

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, 2016	Six months ended June 30, 2015
Cash increase (decrease):		
Operating activities:		
Net income	\$ 5,630	\$ 4,349
Adjustments:		
Income taxes	1,844	2,632
Amortization and depreciation	5,621	4,019
Interest expense	1,701	1,307
Unrealized foreign exchange (gain) loss	(2,040)	1,220
Loss on equity investment	178	-
Pension expense	2,171	1,895
Gain on sale of investment in associate	(516)	-
Mark-to-market gain on foreign exchange contracts	-	(483)
Interest paid	(1,625)	(1,400)
Income tax paid	(1,313)	(2,826)
Pension contributions	(1,545)	(1,118)
Change in non-cash operating working capital (note 13)	(5,470)	856
	4,636	10,451
Investing activities:		
Additions to property, plant and equipment	(2,342)	(9,069)
Equity investments (note 5)	(597)	-
Proceeds from sales of investment in associate	516	-
Additions to intangible assets	(538)	(352)
	(2,961)	(9,421)
Financing activities:		
Net proceeds from long-term debt	1,578	1,948
Change in other non-current liabilities	(170)	(11)
Deferred financing charges paid	(98)	(329)
Dividends paid	(1,413)	(1,413)
	(103)	195
Foreign exchange gain (loss) on cash held in foreign currency	(130)	273
Change in cash position	1,442	1,498
Cash position, beginning of period	7,587	6,287
Cash position, end of period	\$ 9,029	\$ 7,785

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements

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

(unaudited)

1. Reporting entity:

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

The condensed consolidated interim financial statements of Pollard as at and for the six months ended June 30, 2016, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and gaming products.

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

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

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

2. Basis of preparation:

(a) Statement of compliance:

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

On August 10, 2016, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Use of estimates and judgments:

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

In preparing these condensed consolidated interim financial statements, the significant 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, 2015.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

2. Basis of preparation (continued):

(c) Significant accounting policies::

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

3. Future accounting standards:

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

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

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

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

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

3. Future accounting standards (continued):

the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows*. The amendments were issued to improve information provided to users of financial statements about an entity's changes in liabilities arising from financing activities. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 12 *Income Taxes*. The amendments were regarding the recognition of deferred tax assets for unrealized losses relating to debt instruments measured at fair value. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In June 2016, the IASB issued amendments to IAS 2 *Share-Based Payments*. The amendments clarify how to account for certain types of share-based payment transactions. These amendments are effective for annual periods beginning on or after January 1, 2018. Retrospective or earlier application is permitted under certain conditions. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

4. Inventories:

	June 30, 2016	December 31, 2015
Raw materials	\$ 9,305	\$ 9,679
Work-in-process	785	749
Finished goods	16,619	13,311
	\$ 26,709	\$ 23,739

During the second quarter of 2016, Pollard recorded inventory write-downs of \$77 representing an increase in the obsolescence reserves, and a reversal of previous write-downs of \$33 due to changes in foreign exchange rates. During the six months ended June 30, 2016, Pollard recorded inventory write-downs of \$243 representing an increase in the obsolescence reserves, and write-downs of \$44 due to changes in foreign exchange rates.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

4. Inventories (continued):

During the second quarter of 2015, Pollard recorded inventory write-downs of \$97 representing an increase in the obsolescence reserves, and a reversal of previous write-downs of \$21 due to changes in foreign exchange rates. During the six months ended June 30, 2015, Pollard recorded inventory write-downs of \$235 representing an increase in the obsolescence reserves, and a reversal of previous write-downs of \$29 due to changes in foreign exchange rates.

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

5. Equity investments:

	Six months ended June 30, 2016	Six months ended June 30, 2015
Interest in joint venture		
Balance – beginning of period	\$ 401	\$ -
Investment	597	-
Equity loss	(178)	-
Effects of movements in exchange rates	23	-
Balance – end of period	\$ 843	\$ -

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

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

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

6. Long-term debt:

	June 30, 2016	December 31, 2015
Credit facility, interest of 2.97% to 3.70% payable monthly, maturing 2018	\$ 73,660	\$ 73,497
Deferred financing charges, net of amortization	(170)	(211)
	73,490	73,286
Less current portion	-	(1,203)
	\$ 73,490	\$ 72,083

Included in the total credit facility balance is a U.S. dollar loan balance of US\$13,400 (December 31, 2015 - US\$14,200).

Effective June 24, 2016, Pollard Banknote Limited renewed its credit facility. As part of the renewal, the outstanding balance of the term facility was repaid. The credit facility provides loans of up to \$75,000 for its Canadian operations and US\$12,000 for its U.S. subsidiaries. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of \$75,000 Canadian equivalent. 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, 2016, the outstanding letters of guarantee drawn under the credit facility were \$1,205 (December 31, 2015 - \$1,257).

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including working capital ratios, debt to income before interest, income taxes, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at June 30, 2016, Pollard is in compliance with all financial covenants.

As of June 30, 2016, Pollard has unused credit facility available of \$15,614 (December 31, 2015 - \$17,591).

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. The facility can be prepaid without penalties. Under the terms of the agreement the facility was committed for a two year period, renewable June 24, 2018.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

7. Subordinated debt:

	June 30, 2016	December 31, 2015
Subordinated debt, interest of 9.00% payable quarterly, maturing 2021	\$ 6,813	\$ 6,813
Less current portion	(1,363)	-
	\$ 5,450	\$ 6,813

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

Quarterly principal payments on the subordinated loan facility commenced the month following the repayment in full of the additional secured term facility, which occurred June 30, 2016. Interest on the subordinated term loan facility commenced with the first draw at a rate of 9%. The loan is fully subordinated to the secured credit facility.

8. Other (income) expense:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Loss on equity investment	\$ 84	\$ -	\$ 178	\$ -
Gain on sale of investment in associate	(516)	-	(516)	-
Other	41	(138)	(87)	(286)
	\$ (391)	\$ (138)	\$ (425)	\$ (286)

During the second quarter, Pollard sold its investment in Shenzhen Palm Commerce & Pollard Banknote Technology Co., Ltd. to Palm Commerce Information and Technology (China) Co., Ltd., the majority shareholder, for proceeds of US\$400.

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except for share amounts)*

(unaudited)

9. Finance costs and finance income:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Finance costs				
Foreign exchange loss	\$ 327	\$ -	\$ 327	\$ 1,230
Interest	814	651	1,701	1,307
Amortization of deferred financing costs	52	98	140	153
	\$ 1,193	\$ 749	\$ 2,168	\$ 2,690
Finance income				
Foreign exchange gain	\$ -	\$ 7	\$ 1,042	\$ 7
Mark-to-market gain on foreign exchange currency contracts	-	404	-	483
	\$ -	\$ 411	\$ 1,042	\$ 490

10. Income taxes:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Income tax expense				
Current	\$ 1,561	\$ 1,507	\$ 2,650	\$ 2,258
Deferred (recovery)	(368)	138	(806)	374
	\$ 1,193	\$ 1,645	\$ 1,844	\$ 2,632

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except for share amounts)*

(unaudited)

10. Income taxes (continued):

	Three months ended June 30, 2016	Three months ended June 30, 2015
Reconciliation of effective tax rate		
Net income for the period	\$ 2,045	\$ 2,952
Total income taxes	1,193	1,645
Income before income taxes	\$ 3,238	\$ 4,597
Income tax using Pollard's domestic tax rate	27.0 % \$ 874	26.7 % \$ 1,229
Changes in expected tax rates and other non-deductible amounts	1.9 % 62	0.5 % 24
Effect of non-taxable items related to foreign exchange	8.0 % 257	8.5 % 392
	36.9 % \$ 1,193	35.7 % \$ 1,645

	Six months ended June 30, 2016	Six months ended June 30, 2015
Reconciliation of effective tax rate		
Net income for the period	\$ 5,630	\$ 4,349
Total income taxes	1,844	2,632
Income before income taxes	\$ 7,474	\$ 6,981
Income tax using Pollard's domestic tax rate	27.0 % \$ 2,018	26.7 % \$ 1,867
Changes in expected tax rates and other non-deductible amounts	2.5 % 187	(1.0 %) (71)
Effect of non-taxable items related to foreign exchange	(4.8 %) (361)	12.0 % 836
	24.7 % \$ 1,844	37.7 % \$ 2,632

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except for share amounts)*

(unaudited)

11. Net income per share:

	Three months ended June 30, 2016	Three months ended June 30, 2015
Net income attributable to shareholders for basic and diluted net income per share	\$ 2,045	\$ 2,952
Weighted average number of shares (basic)	23,543,158	23,543,158
Weighted average impact of share options on issue	100,000	100,000
Weighted average number of shares (diluted)	23,643,158	23,643,158
Net income per share (basic)	\$ 0.09	\$ 0.13
Net income per share (diluted)	\$ 0.09	\$ 0.13

	Six months ended June 30, 2016	Six months ended June 30, 2015
Net income attributable to shareholders for basic and diluted net income per share	\$ 5,630	\$ 4,349
Weighted average number of shares (basic)	23,543,158	23,543,158
Weighted average impact of share options on issue	100,000	100,000
Weighted average number of shares (diluted)	23,643,158	23,643,158
Net income per share (basic)	\$ 0.24	\$ 0.18
Net income per share (diluted)	\$ 0.24	\$ 0.18

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

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. On May 11, 2016, a dividend of \$0.03 per share was declared, payable on July 15, 2016, to the shareholders of record on June 30, 2016.

13. Supplementary cash flow information:

	Six months ended June 30, 2016	Six months ended June 30, 2015
Change in non-cash operating working capital:		
Accounts receivable	\$ (5,345)	\$ (1,153)
Inventories	(3,427)	3,262
Prepaid expenses and deposits	(535)	(963)
Income taxes receivable	(292)	-
Accounts payable and accrued liabilities	4,129	(290)
	\$ (5,470)	\$ 856

14. Related party transactions:

During the quarter ended June 30, 2016, Pollard paid property rent of \$777 (2015 - \$770) and \$57 (2015 - \$57) in plane charter costs to an affiliate of Pollard Equities Limited. During the six months ended June 30, 2016, Pollard paid property rent of \$1,561 (2015 - \$1,540) and \$113 (2015 - \$113) in plane charter costs to an affiliate of Equities. In addition, during the quarter, Pollard paid Equities \$153 (2015 - \$153) of interest on Pollard's subordinated debt and \$306 (2015 - \$304) for the six months ended June 30, 2016.

During the quarter, Equities paid Pollard \$18 (2015 - \$18) for accounting and administration fees and \$36 (2015 - \$36) during the six months ended June 30, 2016.

During the quarter Pollard reimbursed operating costs of \$234 (2015 - \$111) to its iLottery partner, which are recorded in cost of sales and \$547 (2015 - \$192) during the six months ended June 30, 2016.

At June 30, 2016, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, interest and other expenses of \$534 (December 31, 2015 - \$795). Also included in accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of \$1,192 (December 31, 2015 - \$1,125) for reimbursement of operating costs and capital expenditures, and its share of operating profits.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

14. Related party transactions (continued):

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

Key management personnel compensation comprised:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Wages, salaries and benefits	\$ 527	\$ 555	\$ 1,052	\$ 1,135
Profit share	2	3	6	5
Expenses related to defined benefit plans	118	116	237	231
	\$ 647	\$ 674	\$ 1,295	\$ 1,371

At June 30, 2016, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,444,771 common shares of Pollard.

15. 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.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

15. 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, 2016	December 31, 2015
Current	\$ 25,521	\$ 19,193
Past due for 1 to 60 days	2,887	4,295
Past due for more than 60 days	535	717
Less: Allowance for doubtful accounts	(154)	(54)
	\$ 28,789	\$ 24,151

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 US\$12,000 for its U.S. subsidiaries. At June 30, 2016, the unused balance available for drawdown under the credit facility was \$15,614, (December 31, 2015 - \$17,591).

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

Currency risk

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

A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and U.S. dollar would decrease/increase the income before income taxes due to changes in operating cashflow by approximately \$32 for the second quarter of 2016 (2015 - \$10) and approximately \$39 for the six months ended June 30, 2016 (2015 - \$33). 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 \$15 for the second quarter of 2016 (2015 - \$9) and approximately \$26 for the six months ended June 30, 2016 (2015 - \$23).

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

15. Financial risk management (continued):

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, 2016, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately \$4,860 (December 31, 2015 - \$4,101). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in income before taxes of approximately \$24 for the three and six months ended June 30, 2016 (2015 - \$27).

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

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At June 30, 2016, Pollard had no outstanding 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 \$92 for the three months ended June 30, 2016 (2015 - \$91) and approximately \$184 for the six months ended June 30, 2016 (2015 - \$182).