March 31, 2016

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

FOR THE THREE MONTHS ENDED MARCH 31, 2016

May 11, 2016

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three months ended March 31, 2016, is prepared as at May 11, 2016, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at March 31, 2016 and the audited consolidated financial statements of Pollard for the year ended December 31, 2015 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, depreciation and amortization, unrealized foreign exchange gains and losses, mark-to-market gains and losses on foreign currency contracts, and certain non-recurring items including start-up 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 months ended March 31, 2016. 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, SureTrack® lottery management system, retail telephone selling ("tel-sell"), marketing, iLottery, interactive gaming, Social Instants™, retail management services 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 60 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Three months ended March 31, 2016	Three months ended March 31, 2015
Instant Tickets	88.9%	89.8%
Charitable Gaming Products	11.1%	10.2%

Geographic breakdown of revenue

	Three months ended March 31, 2016	Three months ended March 31, 2015
United States	56%	48%
Canada	20%	23%
International	24%	29%

The following financial information should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at and for the three months ended March 31, 2016.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended March 31, 2016	Three months ended March 31, 2015
Sales	$64.0	$54.4
Cost of sales	52.6	44.4
Gross profit	11.4	10.0
Gross profit as a % of sales	*17.8%*	*18.4%*
Administration expenses	5.3	4.2
Administration expenses as a % of sales	*8.3%*	*7.7%*
Selling expenses	1.9	1.7
Selling expenses as a % of sales	*3.0%*	*3.1%*
Net income	3.6	1.4
Net income as a % of sales	*5.6%*	*2.6%*
Adjusted EBITDA	6.8	6.7
Adjusted EBITDA as a % of sales	*10.6%*	*12.3%*
Net income per share (basic and diluted)	$0.15	$0.06

	March 31, 2016	December 31, 2015
Total Assets	$170.3	$164.1
Total Non-Current Liabilities	$95.4	$96.3

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

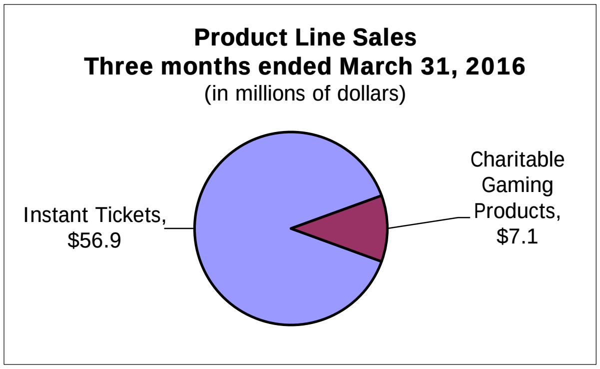
	Three months ended March 31, 2016	Three months ended March 31, 2015
Net income	$3.6	$1.4
Adjustments:		
Amortization and depreciation	2.8	2.0
Interest	0.9	0.6
Mark-to-market gain on foreign currency contracts	-	(0.1)
Unrealized foreign exchange (gain) loss	(1.1)	1.8
Income taxes	0.6	1.0
Adjusted EBITDA	$6.8	$6.7

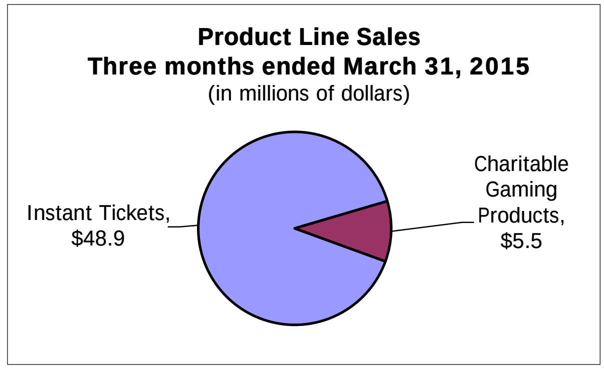
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2016

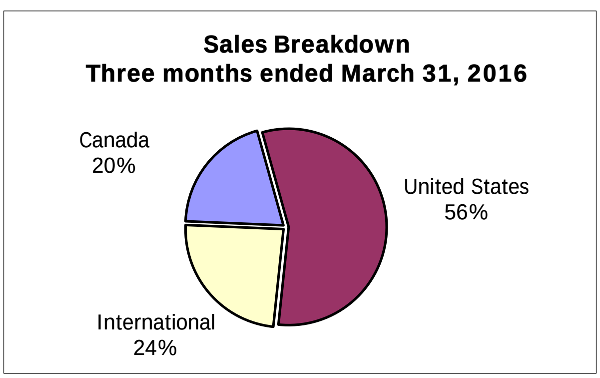
Sales

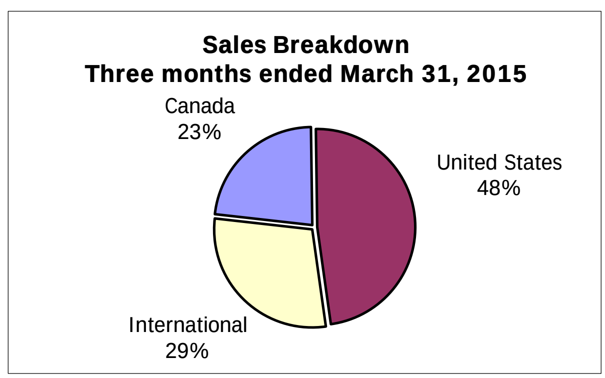




During the three months ended March 31, 2016, Pollard achieved sales of $64.0 million, compared to $54.4 million in the three months ended March 31, 2015. A number of factors resulted in the $9.6 million sales increase.

Sales of ancillary instant ticket products and services for the first quarter of 2016 were higher than the first quarter of 2015 by $3.2 million due primarily to increased sales from iLottery and lottery management systems. Instant ticket volumes for the first quarter of 2016 were lower than the first quarter of 2015 by 2.5% which decreased sales by $1.2 million. Sales volumes in the first quarter of 2015 were unusually high due to a large amount of goods in transit to international customers at December 31, 2014, which were recognized in sales in the first quarter 2015. Excluding these goods in transit, first quarter 2016 instant ticket sales volumes would have been higher by approximately 9%. In addition, an increase in average selling price compared to 2015 further increased sales by $1.1 million. Charitable gaming volumes were higher in the quarter by $0.7 million.





During the three months ended March 31, 2016, Pollard generated approximately 70.7% (2015 – 67.9%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first quarter of 2016 the actual U.S. dollar value was converted to Canadian dollars at $1.383, compared to a rate of $1.214 during the first quarter of 2015. This 13.9% increase in the U.S. dollar value resulted in an approximate increase of $5.5 million in revenue relative to the first quarter of 2015.

Also during the quarter the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.3 million in revenue relative to the first quarter of 2015.

Cost of sales and gross profit

Cost of sales was $52.6 million in the first quarter of 2016 compared to $44.4 million in the first quarter of 2015. Higher exchange rates on U.S. dollar transactions in the first quarter of 2016 increased cost of sales approximately $4.4 million when compared to the first quarter of 2015. In addition, higher production costs due to the startup of the new press line and higher sales of charitable games and iLottery increased cost of goods sold in the first quarter of 2016.

Gross profit earned in the first quarter of 2016 was $11.4 million (17.8% of sales) as compared to $10.0 million (18.4% of sales) earned in the first quarter of 2015. This increase in gross profit dollars was due to the impact of the weakening Canadian dollar and the higher sales of ancillary instant ticket sales products including higher iLottery sales. The decrease in gross profit percentage was due to the instant ticket sales mix weighted to lower margin products and the impact of additional production costs related to the ramp up of the new press.

Administration expenses

Administration expenses increased to $5.3 million in the first quarter of 2016 from $4.2 million in the first quarter of 2015 primarily as a result of higher professional fees, increased compensation expenses, which primarily related to expansion of lottery management systems and ancillary lottery product sales, and the increased Canadian dollar equivalent of U.S. dollar denominated expenses. Sequentially, administration expenses were lower than the fourth quarter of 2015 administration expenses of $5.7 million.

Selling expenses

Selling expenses increased to $1.9 million in the first quarter of 2016 from $1.7 million in the first quarter of 2015 primarily as a result of the increased cost of U.S. dollar denominated expenses due to the strengthening against the Canadian dollar and were similar to the fourth quarter of 2015 selling expenses of $2.0 million.

Interest expense

Interest expense increased to $0.9 million in the first quarter of 2016 from $0.6 million in the first quarter of 2015 primarily as a result of no longer capitalizing borrowing costs related to the new press project.

Foreign exchange

The net foreign exchange gain was $1.0 million in the first quarter of 2016 compared to a loss of $1.2 million in the first quarter of 2015. Within the 2016 net foreign exchange gain was an unrealized foreign exchange gain of $1.1 million predominately as a result of unrealized gain on U.S. dollar denominated debt (caused by the strengthening of the value of the Canadian dollar versus the U.S. dollar during the first quarter of 2016) in addition to an unrealized gain on other U.S. dollar denominated accounts payable. Partially offsetting the unrealized gain was a realized loss of $0.1 million, predominately as a result of the decreased value of U.S. denominated receivables at collection.

Within the 2015 net foreign exchange loss was an unrealized foreign exchange loss of $1.8 million predominately a result of unrealized loss on U.S. dollar denominated debt (caused by the weakening of the value of the Canadian dollar versus the U.S. dollar) in addition to an unrealized loss on other U.S. dollar denominated accounts payable. Partially offsetting the unrealized loss was a realized gain of $0.6 million primarily relating to the increased value of U.S. dollar denominated accounts receivable at collection.

Adjusted EBITDA

Adjusted EBITDA was $6.8 million in the first quarter of 2016 compared to $6.7 million in the first quarter of 2015. The primary reasons for the increase in Adjusted EBITDA were the increase in gross profit (net of amortization and depreciation) of $2.2 million, partially offset by higher administration expenses of $1.1 million, higher selling expenses of $0.2 million and a decrease in realized foreign exchange gain of $0.7 million.

Income taxes

Income tax expense was $0.6 million in the first quarter of 2016, an effective rate of 15.4%, lower than our expected effective rate of 26.8% due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The strengthening of the Canadian dollar versus the U.S. dollar results in a future loss on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax recovery with no related income (as the loss is eliminated on consolidation). This decreased the effective tax rate by approximately 28 percentage points. Other differences relating to changes in the expected income tax rate, including permanent difference relating to the foreign exchange translation of property, plant and equipment, increased the effective tax rate by approximately 14 percentage points on a net basis.

Income tax expense was $1.0 million in the first quarter of 2015, an effective rate of 41.4%, higher than our expected effective rate of 26.7% due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The weakening of the Canadian dollar versus the U.S. dollar results in a future gain on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax expense with no related income (as the gain is eliminated on consolidation). This increased the effective tax rate by approximately 34 percentage points. Other differences relating to changes in the expected income tax rate, including permanent difference relating to the foreign exchange translation of property, plant and equipment, decreased the effective tax rate by approximately 19 percentage points on a net basis.

Amortization and depreciation

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled $2.7 million during the first quarter of 2016 which increased from $2.0 million during the first quarter of 2015 primarily as a result of increased depreciation of property, plant and equipment due to the commissioning of the new press.

Net income

Net income increased to $3.6 million in the first quarter of 2016 from $1.4 million in the first quarter of 2015. The primary reasons were the $1.4 million increase in gross profit, the $2.2 million increase in foreign exchange gains and the decrease in income tax expense of $0.4 million. These increases were partially offset by the increase in higher administration expenses of $1.1 million, higher selling expenses of $0.2 million and increased interest expense of $0.3 million.

Net income per share (basic and diluted) increased to $0.15 per share in the first quarter of 2016 from $0.06 per share in the first quarter of 2015.

Liquidity and Capital Resources

Cash provided by operating activities

For the three months ended March 31, 2016, cash flow provided by operating activities was $0.3 million compared to $6.1 million provided in 2015. Slightly higher net income before income taxes after non-cash adjustments in the first quarter of 2016 contributed to the cash provided by operating activities compared to 2015. For the three months ended March 31, 2016, changes in the non-cash component of working capital decreased cash flow from operations by $5.1 million. The decrease was due primarily to an increase in accounts receivable, which was partially offset by an increase in accounts payable and accrued liabilities. For the three months ended March 31, 2015, changes in the non-cash component of working capital increased cash flow from operations by $2.2 million. The increase was due primarily to decreases in accounts receivable and inventory, partially offset by an increase in prepaid expenses and a decrease in accounts payable and accrued liabilities.

Cash used for interest increased to $0.9 million in 2016 as compared to $0.6 million in 2015 and cash used for pension plan contributions increased to $0.8 million in 2016 as compared to $0.6 million in 2015. Cash used for income tax payments decreased to $1.0 million in 2016 from $2.6 million in 2015. Taxable income in Canada increased in 2014 due to improved operating results. Pollard was not required to make installments during 2014, therefore the income taxes due for 2014 were payable at the end of February 2015.

Cash used for investing activities

In the three months ended March 31, 2016, cash used for investing activities was $1.8 million compared to $5.4 million used in the first quarter of 2015. In the three months ending March 31, 2016, capital expenditures were $1.1 million. In addition, Pollard expended $0.4 million on its investment in its iLottery joint venture and $0.3 million on additions to intangible assets. These intangible additions primarily related to implementation costs, including capitalized internal costs, for ERP software.

In the three months ending March 31, 2015, capital expenditures were $5.2 million, including $4.7 million in payments relating to the new printing press project. In addition, Pollard also expended $0.2 million on additions to intangible assets, primarily related to implementation costs, including capitalized internal costs, for ERP software.

Cash provided by financing activities

Cash provided by financing activities was $0.3 million in the three months ended March 31, 2016, compared to $0.3 million used in the three months ended March 31, 2015.

During the first quarter of 2016 proceeds from long-term debt of $1.2 million were partially offset by dividends paid of $0.7 million.

During the first quarter of 2015 proceeds from long-term debt of $0.6 million were offset by $0.1 million of financing costs and dividends paid of $0.7 million.

As at March 31, 2016, Pollard had unused committed debt facility of $13.8 million. This amount is available to be used for future working capital requirements, contractual obligations, capital expenditures and dividends.

Quarterly Information
(unaudited)
(millions of dollars)

	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Sales	$64.0	$57.2	$57.9	$51.5	$54.4	$43.2	53.5	47.1	$50.7
Adjusted EBITDA	6.8	6.3	7.5	6.3	6.7	5.6	7.3	6.4	6.3
Net Income	3.6	1.2	1.9	3.0	1.4	2.2	1.7	3.7	1.1

Q1 2016 sales were higher due to the weakening of the Canadian dollar relative to the U.S. dollar and higher sales of ancillary lottery products. Net income was higher due to higher foreign exchange gain.

Productive Capacity

Management has defined the current productive capacity, factoring in the new press becoming fully operational, as the level of operations necessary to maintain a minimum Adjusted EBITDA of $30.0 to $35.0 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 significant impact on our Adjusted EBITDA capacity will be the timing of the ramp up of our new press and how quickly increased volumes will be attained through the relatively long sales cycle of the lottery industry. 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. Changes to productive capacity have occurred primarily through expenditures on fixed assets and improved processes and other internal improvement measures. Productive capacity is also impacted by changes in foreign exchange relationships. There have been no increases in productive capacity due to acquisitions since Pollard's initial public offering ("IPO") in August 2005.

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

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

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

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

Working Capital

Net non-cash working capital varies throughout the year based on the timing of individual sales transactions and other investments. 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. 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.

As at March 31, 2016, Pollard's investment in non-cash working capital increased $5.1 million compared to December 31, 2015, primarily as a result of increased investment in accounts receivable as a result of increased sales in the first quarter of 2016, partially offset by increase in accounts payable and accrued liabilities.

	March 31, 2016	December 31, 2015
Working Capital	$41.2	$39.1
Total Assets	$170.3	$164.1
Total Non-Current Liabilities	$95.4	$96.3

Credit Facility

Pollard's credit facility was renewed effective June 30, 2015. The credit facility provides loans of up to $71.8 million for its Canadian operations (denominated in Canadian and U.S. dollars), $3.6 million for a term facility and up to US$12.0 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 March 31, 2016, the outstanding letters of guarantee were $1.2 million. The remaining balance available for drawdown under the credit facility was $13.8 million.

As at March 31, 2016, $3.6 million of the term facility remained outstanding. Repayment of the term facility commenced on June 30, 2015, in the form of quarterly principal repayments of $0.3 million plus interest. Repayments permanently reduce the term facility commitment available.

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

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 the facility was committed for a period, renewable June 30, 2016 ("Facility Expiry Date"). If the facility is not renewed, the loans are repayable one year after the Facility Expiry Date, except for the scheduled principal repayments on the term facility. As such, the credit facility has effectively a two year term expiring June 30, 2017.

Pollard believes that its credit facility, including the term facility, subordinated loan from Pollard Equities Limited 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.

Subordinated Loan

On April 2, 2014, Pollard's former 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 $6.8 million. Equities owns approximately 73.5% of Pollard's outstanding shares. Effective January 1 2015, Pollard Banknote Limited assumed the subordinated debt on completion of the amalgamation of the Canadian entities. Principal payments on the subordinated loan facility will commence the month following the later of: twenty-four months from the date of the first advance, completed on April 4, 2014, or the date of repayment in full of the additional term facility. Based on the current repayment schedule, the term facility will be repaid in full in March 2019, at which time principal payments on the subordinated debt will commence. Interest on the subordinated term loan facility commences with the first draw at a rate of 9%. The loan is fully subordinated to the secured credit facilities.

Outstanding Share Data

As at March 31, 2016 and May 11, 2016, outstanding share data was as follows:

Common shares	23,543,158

Share Options

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.

Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2015, 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, 2015, that are outside the normal course of business.

Financial Instruments

The financial instruments of Pollard remain substantially unchanged from those identified in the MD&A for Pollard for the year ended December 31, 2015.

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

Income taxes

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

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the three months ended March 31, 2016, 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, 2015.

Outlook

Consumer demand for lottery products continues to be very strong, with lotteries in many jurisdictions achieving record revenue and distributions of proceeds to their good causes. In particular instant tickets, with their variety of games, unique play formats and multiple price points among other features, are a key driver of the lotteries' higher sales. We anticipate this positive trend to carry on for the foreseeable future. This presents opportunities to utilize our increasing capacity though organic growth of existing clients and winning new contracts. However, the opportunity to win new contracts is impacted by the long sales cycle in the lottery world.

Our existing contract portfolio is strong and generates a level of volume consistent with our levels from the last number of quarters. Within this business level, the timing of orders can vary from quarter to quarter as evidenced from the higher volumes experienced in the first quarter of 2016.

An important part of our business is our ancillary product lines including sales of our SureTrack® lottery management systems and our licensed games. We will continue to develop and explore opportunities to expand our sales in these areas, however, by their nature sales of these items tends to be a bit uneven.

The U.S. lottery industry continues to cautiously study the opportunities in the developing iLottery area. Our Michigan iLottery operation is performing very well on all fronts and we will be bringing on our second contract for the Virginia Lottery later in 2016. New developments in the lottery sector like iLottery can be relatively slow to evolve and our focus is to be well positioned when opportunities become available.

The ramp up of our new press in our Ypsilanti facility is ongoing and we are making progress in bringing the press to its expected productivity standards. The learning curve on such a large and complex platform is significant and this has been partially reflected in our margins in the first quarter of 2016. Over the remainder of 2016 we will continue to refine our processes and gain experience to move toward maximizing our efficiency and productivity on the press, and ultimately improving our gross margin.

The overall weaker Canadian dollar benefits our operating results due to our net exposure to U.S. dollar denominated cash flow. Recently the Canadian dollar has shown some relative strength compared to the trends experienced in 2015. Continuation of the strengthening trend would have a negative impact on our cash flow.

Lower budgeted capital expenditures will result in higher levels of free cash flow during 2016, subject to changes in investment in working capital. Increasing investments in accounts receivable due to higher sales volumes during the first quarter should reverse in the near future, resulting in stronger free cash flow to redeploy in the business, including the reduction of bank debt.

Disclosure Controls and Procedures

Under National 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 National Instrument 52-109 will provide reasonable assurance of achieving the disclosure objectives.

Internal Controls over Financial Reporting

Under National 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. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) as the control framework in designing its 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 National Instrument 52-109 will provide reasonable assurance of achieving the financial reporting objectives.

No changes were made in Pollard's internal control over financial reporting during the three months ended March 31, 2016, 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, 2015, is available on SEDAR at www.sedar.com.

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