June 30, 2014

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014

August 6, 2014

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and six months ended June 30, 2014, is prepared as at August 6, 2014, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at June 30, 2014, and the audited consolidated financial statements of Pollard for the year ended December 31, 2013, 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 interest rate swaps, and certain non-recurring items including facility closing reserve, conversion expenses, warranty reserve accruals, settlement loss on pension curtailment and restructuring costs. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to net income, Adjusted EBITDA is a useful supplementary measure.

Adjusted EBITDA is a measure not recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, this measure may not be comparable to similar measures presented by other entities. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to net income determined in accordance with GAAP as an indicator of Pollard's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

Basis of Presentation

The results of operations in the following discussions encompass the unaudited consolidated results of Pollard for the three and six months ended June 30, 2014. All figures are in millions except for per share amounts.

POLLARD BANKNOTE LIMITED

Overview

Pollard Banknote Limited ("Pollard") is one of the leading providers of products and services to lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant-win scratch tickets ("instant tickets") based in Canada and the second largest producer of instant tickets in the world.

Pollard produces and provides a comprehensive line of instant tickets and lottery services including: licensed products, distribution, retail telephone selling ("tel-sell"), marketing, iLottery, interactive gaming, Social Instants™ and instant ticket vending machines. In addition, Pollard's charitable gaming product line includes pull-tab (or break-open) tickets, bingo paper, pull-tab vending machines and ancillary products such as pull-tab counting machines. Pollard also markets products to the commercial gaming and security sector including such items as promotional scratch and win tickets, transit tickets and parking passes.

Pollard's lottery products are sold extensively throughout Canada, the United States and the rest of the world, wherever applicable laws and regulations authorize their use. Pollard serves over 50 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Instant Tickets	88.2%	88.6%	89.0%	88.9%
Charitable Gaming Products	10.4%	10.0%	9.7%	9.7%
Vending Machines	1.4%	1.4%	1.3%	1.4%

Geographic breakdown of revenue

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
United States	47%	55%	52%	53%
Canada	19%	19%	19%	21%
International	34%	26%	29%	26%

The following financial information should be read in conjunction with the accompanying unaudited consolidated financial statements of Pollard and the notes therein as at and for the three and six months ended June 30, 2014.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	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	$47.1	$44.8	$97.8	$89.2
Cost of Sales	36.4	36.7	77.6	73.0
Gross Profit	10.7	8.1	20.2	16.2
Gross Profit as a % of sales	*22.7%*	*18.1%*	*20.7%*	*18.2%*
Administration Expenses	4.2	3.6	8.0	7.0
Administration Expenses as a % of sales	*8.9%*	*8.0%*	*8.2%*	*7.8%*
Selling Expenses	1.7	1.6	3.4	3.2
Selling Expenses as a % of sales	*3.6%*	*3.6%*	*3.5%*	*3.6%*
Net Income	3.8	1.0	5.0	2.0
Net Income as a % of sales	*8.1%*	*2.2%*	*5.1%*	*2.2%*
Adjusted EBITDA	6.4	4.9	12.7	10.1
Adjusted EBITDA as a % of sales	*13.6%*	*10.9%*	*13.0%*	*11.3%*
Net Income per share (basic and diluted)	$0.16	$0.04	$0.21	$0.08

	June 30, 2014	December 31, 2013
Total Assets	$138.7	$133.4
Total Non-Current Liabilities	$80.6	$79.2

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

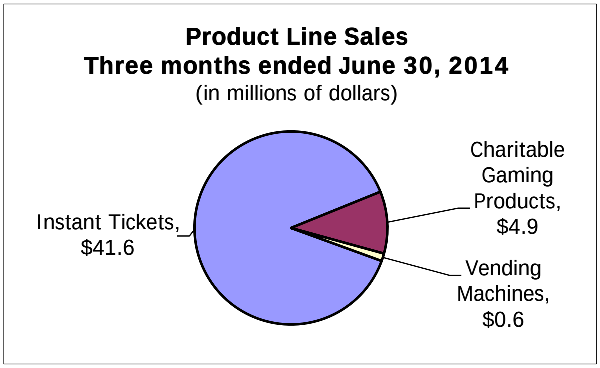
	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Net income	$3.8	$1.0	$5.0	$2.0
Adjustments:				
Amortization and depreciation	2.0	2.0	3.9	3.9
Interest	0.7	0.8	1.5	1.7
Mark-to-market gain on foreign currency contracts	(0.8)	-	(0.3)	-
Unrealized foreign exchange (gain) loss	(0.5)	0.1	0.3	0.5
Income taxes	1.2	1.0	2.3	2.0
Adjusted EBITDA	$6.4	$4.9	$12.7	$10.1

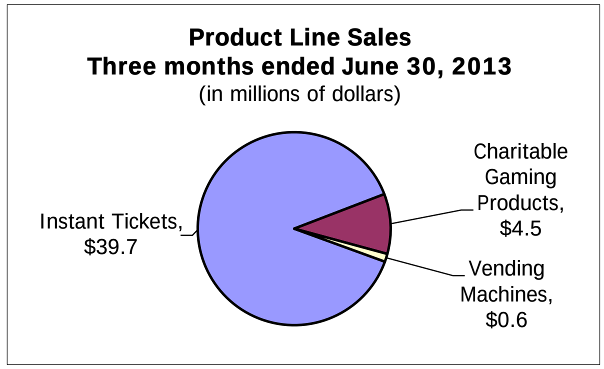
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2014

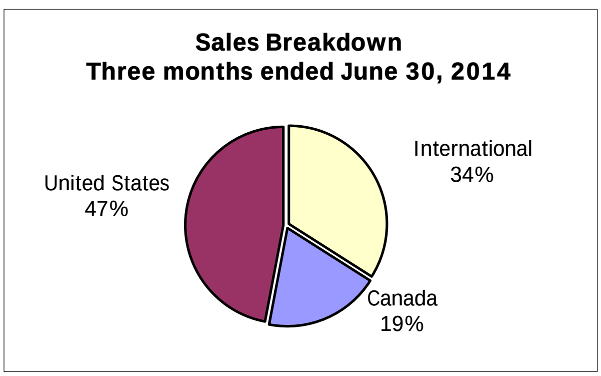
Sales

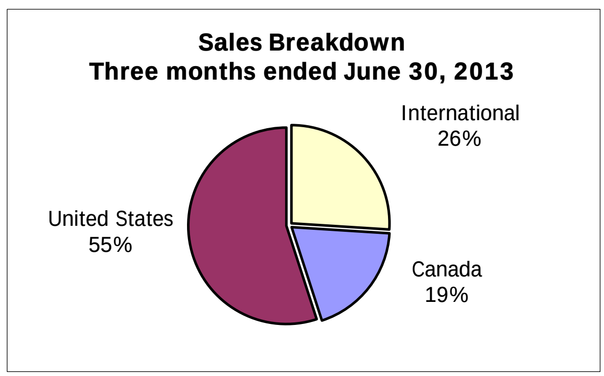




During the three months ended June 30, 2014, Pollard achieved sales of $47.1 million, compared to $44.8 million in the three months ended June 30, 2013. Factors impacting the $2.3 million sales increase were:

Instant ticket average selling price increased in the second quarter of 2014 compared to the prior year which increased sales by $0.8 million. Sales volumes, including sales of ancillary instant ticket products and services decreased slightly when compared to the second quarter of 2013, reducing sales by $1.1 million from the second quarter of 2013. Lower sales volumes to the New Jersey Lottery, as previously disclosed, were mostly offset by growth in sales volumes to a number of other customers. Charitable Gaming volume increased slightly during the quarter increasing sales by $0.4 million when compared to 2013, while a decrease in the average selling price reduced sales by $0.3 million when compared to the second quarter of 2013.





During the three months ended June 30, 2014, Pollard generated approximately 60.5% (2013 – 70.7%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the second quarter of 2014 the actual U.S. dollar value was converted to Canadian dollars at $1.093, compared to a rate of $1.019 during the second quarter of 2013. This 7.3% increase in the U.S. dollar value resulted in an approximate increase of $1.6 million in revenue relative to the second quarter of 2013. Also during the quarter, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $0.9 million in revenue relative to the second quarter of 2013.

Cost of sales and gross profit

Cost of sales was $36.4 million in the second quarter of 2014 compared to $36.7 million in the second quarter of 2013. Cost of sales was lower in the quarter relative to 2013 as a result of increased production efficiencies and higher levels of production volumes relative to sales volumes, partially offset by higher exchange rates on U.S. dollar transactions.

Gross profit was $10.7 million (22.7% of sales) in the second quarter of 2014 compared to $8.1 million (18.1% of sales) in the second quarter of 2013. This increase was primarily the result of increased production efficiencies, a significant increase in production volumes compared to 2013 and the impact of the weakening of the Canadian dollar. The increase in production was primarily a result of increased orders from existing customers in the second quarter of 2014 compared to lower production during the quarter in 2013 due to scheduled maintenance on a major press line.

Administration expenses

Administration expenses increased to $4.2 million in the second quarter of 2014 from $3.6 million in the second quarter of 2013 as a result of increased compensation expenses, primarily being increased incentive accruals relating to higher earnings.

Selling expenses

Selling expenses were $1.7 million in the second quarter of 2014 which was similar to $1.6 million in the second quarter of 2013.

Interest expense

Interest expense was $0.7 million in the second quarter of 2014 which was similar to $0.8 million in the second quarter of 2013.

Foreign exchange (gain) loss

The net foreign exchange gain was $0.1 million in the second quarter of 2014 compared to a net loss of $0.1 million in the second quarter of 2013. Within the 2014 net foreign exchange gain was an unrealized foreign exchange gain of $0.5 million, relating to a $0.7 million unrealized foreign exchange gain on U.S. dollar denominated debt and payables, partially offset by a $0.2 million unrealized foreign exchange loss on U.S. dollar denominated cash and receivables. Partially offsetting the unrealized gain was a realized foreign exchange loss of $0.4 million relating to the decreased value of the collections of U.S. dollar denominated receivables of $0.3 million and a $0.2 million realized loss on the conversion of U.S. dollars and Euros into Canadian dollars. These realized losses were partially offset by a $0.1 million realized gain relating to payments made on U.S. dollar and Euro denominated payables.

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

Adjusted EBITDA

Adjusted EBITDA was $6.4 million in the second quarter of 2014 compared to $4.9 million in the second quarter of 2013. The primary reason for the increase in Adjusted EBITDA of $1.5 million was the increase in gross profit of $2.6 million, partially offset by the increase in administration and selling expenses of $0.7 million and the increased realized foreign exchange loss of $0.4 million.

Income taxes

Income tax expense was $1.2 million in the second quarter of 2014, an effective rate of 23.4%, similar to our domestic tax rate of 26.7%.

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

Amortization and depreciation

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled $2.0 million during the second quarter of 2014 which was similar to $2.0 million during the second quarter of 2013.

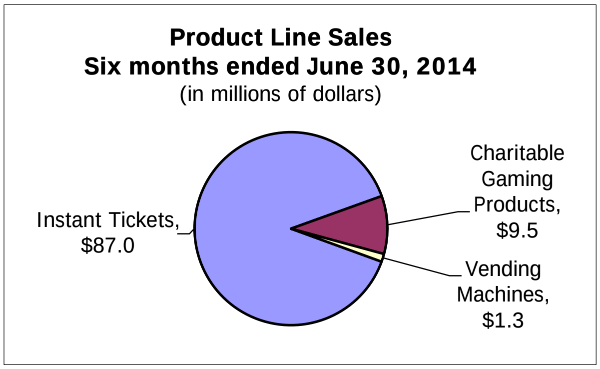
Net income

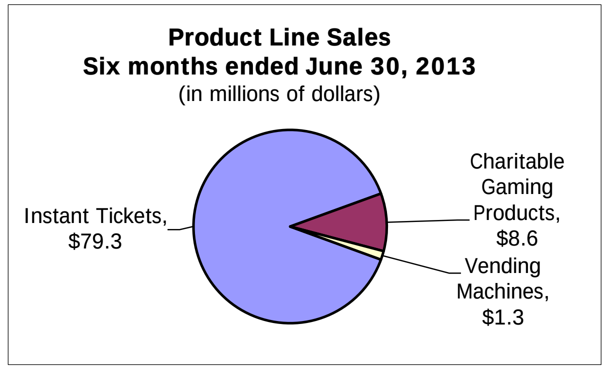
Net income increased to $3.8 million in the second quarter of 2014 from $1.0 million in the second quarter of 2013. The primary reasons for the increase of $2.8 million in net income were the increase in gross profit of $2.6 million and the gain of $0.8 million on the non-cash mark-to-market adjustment on foreign currency contracts. These increases were partially offset by the increase in administration and selling costs of $0.7 million and increased income tax expense of $0.2 million.

Net income per share (basic and diluted) increased to $0.16 per share in the second quarter of 2014 from $0.04 per share in the second quarter of 2013.

ANALYSIS OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2014

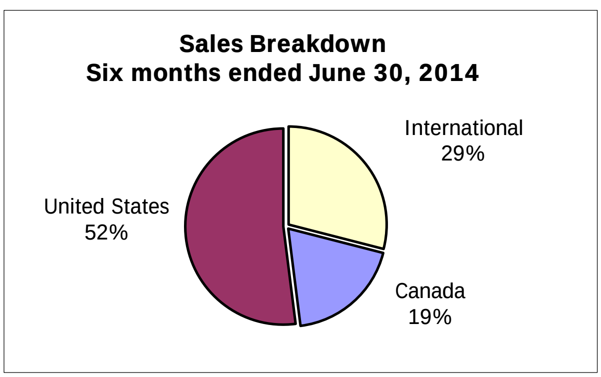
Sales

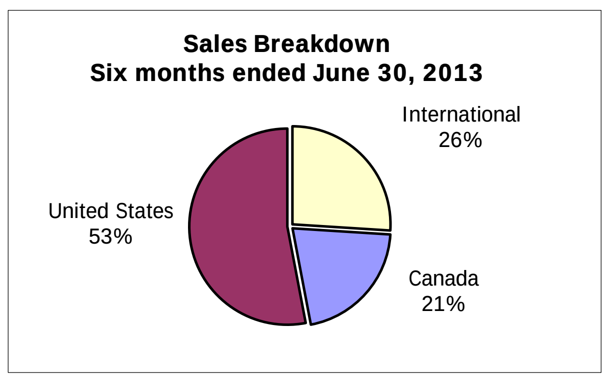




During the six months ended June 30, 2014, Pollard achieved sales of $97.8 million, compared to $89.2 million in the six months ended June 30, 2013. Factors impacting the $8.6 million sales increase were:

Higher instant ticket average selling price increased sales by $1.9 million in the first six months of 2014 compared to the first six months of 2013. Sales volumes decreased slightly when compared to 2013 but higher sales of our ancillary instant ticket products and services increased sales by $0.7 million from the first half of 2013. Lower sales volumes to the New Jersey Lottery, as previously disclosed, were offset by growth in sales volumes to a number of other customers. Charitable Gaming products volumes were higher than the first six months of 2013 increasing revenues by $0.9 million. However, the decrease in the average selling price in the first six months of 2014 reduced sales by $0.7 million when compared to the first six months of 2013.





During the six months ended June 30, 2014, Pollard generated approximately 65.5% (2013 – 69.8%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first six months of 2014 the actual U.S. dollar value was converted to Canadian dollars at $1.093, compared to a rate of $1.011 during the first six months of 2013. This 8.1% increase in the U.S. dollar value resulted in an approximate increase of $4.5 million in revenue relative to the six months ended June 30, 2013. Also during the first half of 2014, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $1.3 million in revenue relative to the first half of 2013.

Cost of sales and gross profit

Cost of sales was $77.6 million in the six months ended June 30, 2014, compared to $73.0 million in the six months ended June 30, 2013. Cost of sales was higher in the first half of 2014 relative to 2013 as a result of increased ancillary instant ticket sales, primarily licensed games. In addition, higher exchange rates on U.S. dollar transactions in the first half of 2014 increased cost of sales when compared to the first half of 2013.

Gross profit increased to $20.2 million (20.7% of sales) in the six months ended June 30, 2014, from $16.2 million (18.2% of sales) in the first six months of 2013. This increase was due mainly to the increase in ancillary instant ticket volumes, primarily licensed sales, increased production efficiencies as well as the weakening of the Canadian dollar relative to the U.S. dollar and Euro.

Administration expenses

Administration expenses increased to $8.0 million in the first six months of 2014 from $7.0 million in the first six months of 2013 as a result of increased compensation expenses, primarily being increased incentive accruals relating to higher earnings.

Selling expenses

Selling expenses increased to $3.4 million in the first six months of 2014 from $3.2 million in the first six months of 2013 as a result of increased compensation expenses.

Interest expense

Interest expense decreased to $1.5 million in the first six months of 2014 from $1.7 million in the first six months of 2013 as a result of lower interest rates.

Foreign exchange loss

The net foreign exchange loss was $0.3 million in the first six months of 2014 compared to a net loss of $0.3 million in the first half of 2013. The 2014 foreign exchange loss resulted from unrealized foreign exchange losses of $0.3 million, comprised of $0.4 million unrealized foreign exchange loss on U.S. dollar denominated cash and accounts receivables, partially offset by $0.1 million unrealized gain on U.S. dollar denominated payables.

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

Adjusted EBITDA

Adjusted EBITDA was $12.7 million in the first six months of 2014 compared to $10.1 million in the first six months of 2013. The primary reason for the increase in Adjusted EBITDA of $2.6 million was an increase in gross profit of $4.0 million, partially offset by increased administration and selling expenses of $1.2 million and decreased realized foreign exchange gains of $0.2 million.

Income taxes

Income tax expense was $2.3 million in the first six months of 2014, an effective rate of 31.6%, similar to our domestic tax rate of 26.7%.

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

Amortization and depreciation

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled $3.9 million during the first six months of 2014 which was similar to $3.9 million during the first six months of 2013.

Net income

Net income was $5.0 million in the first six months of 2014 compared to $2.0 million in the first six months of 2013. The primary reasons for the increase of $3.0 million was an increase in gross profit of $4.0 million, the decrease in interest expense of $0.2 million and the gain of $0.3 million on the non-cash mark-to-market adjustment on foreign currency contracts. These increases were partially offset by higher administration and selling costs of $1.2 million and higher income tax expense of $0.3 million.

Net income per share (basic and diluted) increased to $0.21 per share in the six months ending June 30, 2014, as compared to $0.08 per share in the six months ending June 30, 2013.

Liquidity and Capital Resources

Cash provided by operating activities

For the six months ended June 30, 2014, cash flow provided by operating activities was $8.4 million compared to cash flow provided by operating activities of $7.3 million for the first six months of 2013. Higher net income in the first half of 2014 contributed to the increase in cash provided by operating activities in comparison to the first half of 2013. Changes in the non-cash component of working capital decreased cash by $1.0 million for the six months ended June 30, 2014 (due primarily to increases in inventories and prepaids, partially offset by decreased accounts receivables) compared to an increase in cash of $0.7 million for the six months ended June 30, 2013 (due primarily to decreases in accounts receivables and inventories, partially offset by an increase in prepaids).

Cash used for interest payments decreased to $1.6 million in 2014 as compared to $1.7 million in 2013, in addition cash used for income tax payments increased to $1.4 million in 2014 as compared to $0.7 million in 2013.

Cash used for investing activities

In the six months ended June 30, 2014, cash used for investing activities was $11.2 million compared to cash used of $4.2 million in the first half of 2013. In the six months ended June 30, 2014, capital expenditures were $10.5 million, including $8.5 million in initial payments relating to the new printing press. As well Pollard expended $0.7 million on additions to intangible assets, primarily related to implementation costs, including capitalized internal costs, for ERP software in the first six months of 2014.

In the six months ended June 30, 2013, capital expenditures were $3.0 million. In addition Pollard expended $1.2 million on additions to intangible assets.

Cash provided by financing activities

Cash provided by financing activities was $1.2 million in the six months ended June 30, 2014, compared to cash used for financing activities of $1.6 million in the six months ended June 30, 2013.

During the first half of 2014 cash was generated through the proceeds from the subordinated debt of $6.8 million to fund a portion of the new printing press. Offsetting this increase were payments on long-term debt of $4.1 million and dividends of $1.4 million.

During the first half of 2013 cash was used to pay dividends of $1.4 million, reduce long-term debt by $0.1 million and increase deferred financing by $0.1 million.

As at June 30, 2014, Pollard had unused debt facility of $13.3 million. This amount is available to be used for future working capital requirements, contractual obligations, capital expenditures and dividends. Also at June 30, 2014, Pollard had unused term facility of $3.4 million available to assist in financing the new printing press.

Quarterly Information

(unaudited)

(millions of dollars)

	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Sales	$47.1	$50.7	$47.6	$48.1	$44.8	$44.4	$40.9	$44.1	$40.8
Adjusted EBITDA	6.4	6.3	6.3	6.3	4.9	5.1	5.1	5.9	5.3
Net Income	3.8	1.2	0.9	2.6	1.0	0.9	1.3	3.3	1.0

Q2 2014 net income was higher due to higher gross profit and increased non-cash mark-to-market gains on foreign currency contracts.

Sales in Q1 2014 were higher due to increased ancillary instant ticket sales, primarily licensed games.

Sales in Fiscal 2013 and in Q3 2012 were higher primarily due to increases in volumes.

Adjusted EBITDA in Q4 and Q3 2013 were higher due to higher gross profit achieved through higher sales volumes.

Adjusted EBITDA and net income in Q3 2012 were higher primarily due to higher gross profit achieved through higher sales volumes.

Sales in Q2 2012 were lower primarily due to decreases in volumes and in average selling prices.

Productive Capacity

Management has defined productive capacity as the level of operations necessary to maintain a minimum Adjusted EBITDA of $24.0 million on an annualized basis. Due to varying factors implicit in the nature of the lottery industry and the instant ticket market, productive capacity can best be measured through a financial output such as Adjusted EBITDA and cash flow. A number of factors impact the level of Adjusted EBITDA including physical plant capacity, machine capacity, nature of product and service offerings produced and mix of customers. 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.

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 $20.0 million. When fully operational in the spring of 2015, it is expected to provide an approximate increase in capacity of 35%.

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 June 30, 2014, Pollard's investment in non-cash working capital increased $1.0 million compared to December 31, 2013, primarily as a result of increased investment in inventory (as production volume in the second quarter exceeded sales volume) and increased prepaid expenses. These increases in non-cash working capital were partially offset by a decreased investment in accounts receivables.

	June 30, 2014	December 31, 2013
Working Capital	$31.7	$33.3
Total Assets	$138.7	$133.4
Total Non-Current Liabilities	$80.6	$79.2

Credit Facility

Pollard's credit facility, which was renewed effective April 2, 2014, consists of one credit facility as well as a term loan facility. In addition to the $4.8 million term facility, the credit facility provides loans of up to $71.8 million for its Canadian operations and up to US$10.0 million for its U.S. subsidiaries. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At June 30, 2014, the outstanding letters of guarantee were $1.1 million. The remaining balance available for drawdown under the credit facility was $13.3 million and under the term facility was $3.4 million.

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including working capital ratios, debt to income before interest, income taxes, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at June 30, 2014 and August 6, 2014, Pollard is in compliance with all covenants.

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 $3.5 million per year), pension deficit installments (to a maximum of $2.7 million for fiscal 2014), interest and cash income taxes paid. The reduction in the available facility is not required when the debt to Adjusted EBITDA ratio reaches certain target levels. For the quarter ending June 30, 2014, the target level was reached therefore no reduction is required.

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 has effectively a two year term expiring June 30, 2016.

Pollard believes that its credit facility, 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 subsidiary, Pollard Holdings Limited Partnership, entered into a loan agreement with Pollard Equities Limited for a subordinated term loan facility with a seven year term in the amount of $6.8 million. 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 of $4.8 million. 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 June 30, 2014 and August 6, 2014, outstanding share data was as follows:

Common shares	23,543,158

Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2013, that are outside the normal course of business, other than noted below.

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 $20.0 million. The financing of the project will come from additional bank financing, subordinated debt from Pollard Equities Limited and from cash generated from operations. As at June 30, 2014, approximately $8.5 million of the purchase agreement had been expended.

Off-Balance Sheet Arrangements

There have been no material changes to Pollard's off-balance sheet arrangements since December 31, 2013, 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, 2013.

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management of Pollard regularly reviews its estimates and assumptions based on historical experience and various other assumptions that it believes would result in reasonable estimates given the circumstances. Actual results could differ from those estimates under different assumptions. The following is a discussion of accounting policies which require significant management judgment and estimation.

Impairment of goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired of Pollard's U.S. subsidiaries and the excess purchase price over the underlying carrying amount of the portion of the net assets sold as at August 5, 2005, as part of the 26.7% of Pollard sold in conjunction with the IPO, and is not amortized. Goodwill is subject to an annual impairment review. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units ("CGUs") to which goodwill is allocated. Estimating a value in use requires Pollard to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Employee future benefits

Accounting for defined benefit plans requires Pollard to use actuarial assumptions. These assumptions include the discount rate and the rate of compensation increases. These assumptions depend on underlying factors such as economic conditions, government regulations, investment performance, employee demographics and mortality rates.

Income taxes

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

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the six months ended June 30, 2014, 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, 2013.

Outlook

Consumer demand for instant lottery tickets at the retail level continues to be very strong, with many lotteries recently announcing record sales. We expect this strong demand to continue and we also expect growth in the related areas such as iLottery and other digital applications of similar gaming products. Lotteries are focused on their objectives of raising funds for their various good causes and their instant ticket product lines have been very successful in meeting these objectives. Continued use of innovative marketing and advertising campaigns, improved retailer engagement, unique specialized products such as theme games, higher and varied selling price points, increased prize payouts and increasing tie-ins with digital, internet and other social media are all factors driving this growth.

Our volume expectations for 2014 remain positive, with levels for the year to be anticipated to higher than 2013. We expect our proprietary and premium products to continue to be very popular in the lottery industry, with these higher value products historically generating higher sales levels in the third quarter in the run up to the holiday season. We continue to see strong sales from our licensed games portfolio including such iconic licenses as Frogger and we're excited to announce the recent addition of the NASCAR® brand to our suite of licensed products.

We do not foresee any major changes in our instant ticket contract portfolio in 2014 and believe our current contract mix will provide us with the foundation to achieve the expected levels of sales outlined above as well as generate opportunities for future growth.

Lotteries continue to look into newer distribution methods for their products with the internet increasingly being targeted for growth. iLottery, as it is referred to, will continue to be on the radar for a number of lotteries and Pollard will be aggressively seeking out opportunities to expand our business in this area. Our contract to provide and operate the iLottery platform for the Michigan Lottery is on schedule to roll out this fall and we will look to use this experience to successfully expand to other jurisdictions.

Longer term the installation and start up of our new press and subsequent redistribution of capacity among our other plants will provide a foundation to allow Pollard to move to a significantly higher level of instant ticket volumes. The planning for the capacity expansion continues on schedule for its commissioning in the spring of 2015.

As noted in prior disclosures our 2014 capital expenditures are expected to be significantly higher than in recent prior years due to the initiation of the approximate $20 million expansion plan regarding installation of a new state of the art press. The costs of this expansion, starting in the second quarter of 2014, will continue to be incurred over the next 15 months.

Pollard believes our ongoing cash flow from operations, our current bank facility capacity, including the term facility, and our subordinated debt facility will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital and dividends at existing business levels.

Disclosure Controls and Procedures

Under Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") for the interim period regarding the design of the disclosure controls and procedures. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the disclosure controls and procedures as defined in Multilateral Instrument 52-109 will provide reasonable assurance of achieving the disclosure objectives.

Internal Controls over Financial Reporting

Under Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Certifying Officers regarding the design of the internal controls over financial reporting. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the internal controls over financial reporting as defined in Multilateral Instrument 52-109 will provide reasonable assurance of achieving the financial reporting objectives.

No changes were made in Pollard's internal control over financial reporting during the three and six months ended June 30, 2014, 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, 2013, is available on SEDAR at www.sedar.com.

Pollard Banknote Limited
1499 Buffalo Place
Winnipeg, Manitoba R3T 1L7
(204) 474-2323
www.Pollardbanknote.com