September 30, 2014

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014

November 10, 2014

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and nine months ended September 30, 2014, is prepared as at November 10, 2014, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at September 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 start-up costs, 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 nine months ended September 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^{TM} and instant ticket vending machines. In addition, Pollard's charitable gaming product line includes pull-tab (or break-open) tickets, bingo paper, pull-tab vending machines and ancillary products such as pull-tab counting machines. Pollard also markets products to the commercial gaming and security sector including such items as promotional scratch and win tickets, transit tickets and parking passes.

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

Product line breakdown of revenue

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Instant Tickets	91.0%	89.9%	89.7%	89.2%
Charitable Gaming Products	8.0%	8.9%	9.0%	9.4%
Vending Machines	1.0%	1.2%	1.3%	1.4%

Geographic breakdown of revenue

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
United States	46%	56%	50%	54%
Canada	28%	20%	22%	21%
International	26%	24%	28%	25%

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 nine months ended September 30, 2014.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Sales	$53.5	$48.1	$151.3	$137.4
Cost of sales	42.4	38.4	120.0	111.4
Gross profit	11.1	9.7	31.3	26.0
Gross profit as a % of sales	*20.7%*	*20.2%*	*20.7%*	*18.9%*
Administration expenses	4.3	3.9	12.4	11.0
Administration expenses as a % of sales	*8.0%*	*8.1%*	*8.2%*	*8.0%*
Selling expenses	1.8	1.9	5.1	5.1
Selling expenses as a % of sales	*3.4%*	*4.0%*	*3.4%*	*3.7%*
Income from operations	5.1	3.9	14.0	10.0
Income from operations as a % of sales	*9.5%*	*8.1%*	*9.3%*	*7.3%*
Net income	1.7	2.6	6.7	4.6
Net income as a % of sales	*3.2%*	*5.4%*	*4.4%*	*3.3%*
Adjusted EBITDA	7.3	6.3	20.0	16.4
Adjusted EBITDA as a % of sales	*13.6%*	*13.1%*	*13.2%*	*11.9%*
Net income per share (basic and diluted)	$0.07	$0.11	$0.28	$0.19

	September 30, 2014	December 31, 2013
Total Assets	$144.1	$133.4
Total Non-Current Liabilities	$81.8	$79.2

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

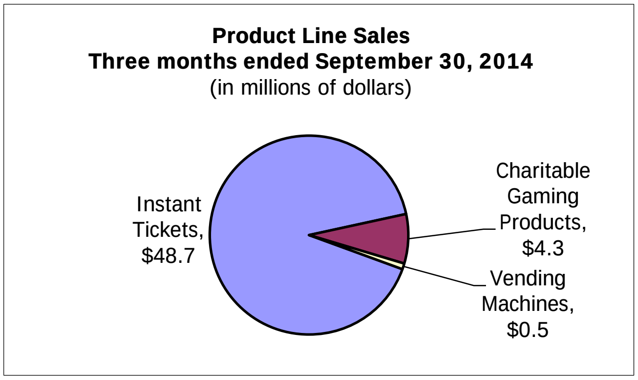
	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Net income	$1.7	$2.6	$6.7	$4.6
Adjustments:				
Amortization and depreciation	2.0	2.0	5.9	5.9
Interest	0.7	0.8	2.2	2.6
Mark-to-market loss on foreign currency contracts	0.3	-	0.1	-
Unrealized foreign exchange loss	0.6	-	0.8	0.5
Start-up costs iLottery operations	0.6	-	0.6	-
Income taxes	1.4	0.9	3.7	2.8
Adjusted EBITDA	$7.3	$6.3	$20.0	$16.4

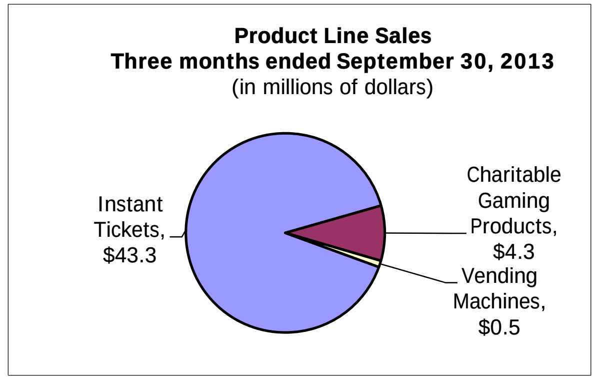
REVIEW OF OPERATIONS

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 SEPTEMBER 30, 2014

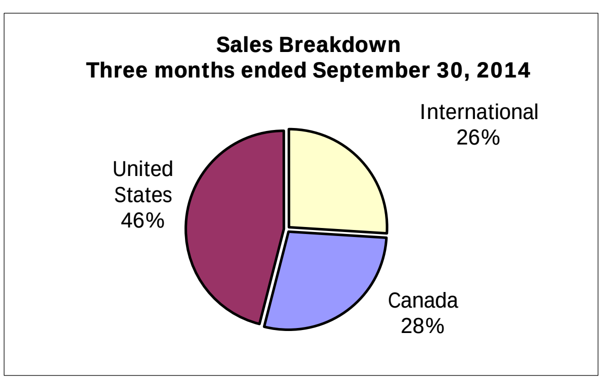
Sales

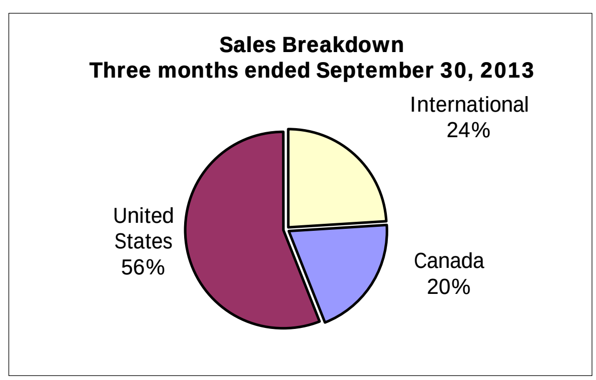




During the three months ended September 30, 2014, Pollard achieved sales of $53.5 million, compared to $48.1 million in the three months ended September 30, 2013. Factors impacting the $5.4 million sales increase were:

Instant ticket volumes for the third quarter of 2014 were higher than the third quarter of 2013 by 2.8% which increased sales by $1.1 million. Lower sales volumes to the New Jersey Lottery, as previously disclosed, were more than offset by growth in sales volumes to a number of other customers. Offsetting this increase was a decrease in our ancillary instant ticket products and services of $1.1 million. In addition, partially as a result of increased sales of proprietary products including Scratch FX® and PlayBook® games in 2014, the instant ticket average selling price was higher than 2013 which increased sales by $4.4 million. Charitable gaming volumes improved during the quarter increasing sales by $0.3 million when compared to 2013, while a decrease in the average selling price reduced sales by $0.4 million when compared to the third quarter of 2013.





During the three months ended September 30, 2014, Pollard generated approximately 57.9% of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the third quarter of 2014 the actual U.S. dollar value was converted to Canadian dollars at $1.075, compared to a rate of $1.044 during the third quarter of 2013. This 2.9% increase in the U.S. dollar value resulted in an approximate increase of $0.9 million in revenue relative to the third quarter of 2013. Also during the third quarter of 2014, the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.2 million in revenue relative to the third quarter of 2013.

Cost of sales and gross profit

Cost of sales was $42.4 million in the third quarter of 2014 compared to $38.4 million in the third quarter of 2013. Cost of sales was higher in the quarter relative to 2013 as a result of increased instant ticket volumes, a higher cost of production mix and higher exchange rates on U.S. dollar transactions in the third quarter of 2014. Also included in cost of sales in the third quarter of 2014 was $0.6 million of non-recurring start-up costs related to Pollard's new iLottery operations.

Gross profit was $11.1 million (20.7% of sales) in the third quarter of 2014 compared to $9.7 million (20.2% of sales) in the third quarter of 2013. This increase was due mainly to the increased average selling price of instant tickets and increased sales volumes of instant tickets. Gross profit excluding non-recurring iLottery start-up costs was $11.7 million (21.9% of sales).

Administration expenses

Administration expenses increased to $4.3 million in the third quarter of 2014 compared to $3.9 million in the third quarter of 2013 primarily as a result of increased compensation expenses, largely being increased incentive plan accruals related to higher earnings.

Selling expenses

Selling expenses were $1.8 million in the third quarter of 2014 which was similar to $1.9 million in the third quarter of 2013.

Interest expense

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

Foreign exchange gain and loss

The net foreign exchange loss was $0.9 million in the third quarter of 2014 compared to a net gain of $0.5 million in the third quarter of 2013. The 2014 net foreign exchange loss consisted of a realized foreign exchange loss of $0.3 million, predominately a result of foreign currency converted into Canadian dollars during the quarter. The additional unrealized foreign exchange loss of $0.6 million was mostly as a result of the increased Canadian equivalent value of U.S. denominated debt with the weakening of the Canadian dollar relative to the U.S. dollar at the end of the quarter.

The 2013 foreign exchange gain consisted of a realized foreign exchange gain of $0.5 million predominately a result of the sale of U.S. dollar forward contacts.

Adjusted EBITDA

Adjusted EBITDA was $7.3 million in the third quarter of 2014 compared to $6.3 million in the third quarter of 2013. The primary reasons for the increase in Adjusted EBITDA of $1.0 million were the increase in gross profit of $2.0 million, excluding non-recurring iLottery start-up costs, partially offset by increased administration expenses of $0.4 million and the increase in the realized foreign exchange losses of $0.8 million.

Income taxes

Income tax expense was $1.4 million in the third quarter of 2014, an effective rate of 46.1%, 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 consolidated provision percentage by about 18%. Other differences relating to changes in the expected income tax rate increased the provision by approximately 1.4%.

Income tax expense was $0.9 million in the third quarter of 2013, an effective rate of 24.9%, compared to the statutory rate of 26.3%, due to 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 third quarter of 2014 which was similar to $2.0 million during the third quarter of 2013.

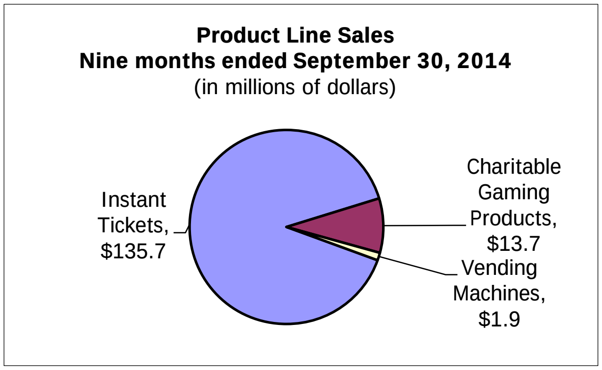
Net income

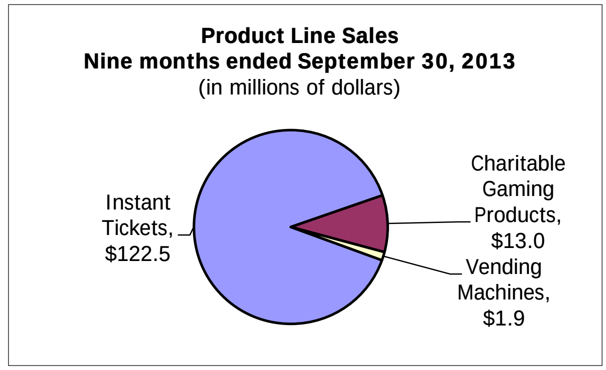
Net income was $1.7 million in the third quarter of 2014 compared to a net income of $2.6 million in the third quarter of 2013. The primary reasons for the $0.9 million decrease were increased foreign exchange loss of $1.4 million, an increase of $0.4 million in administration expenses, increased income taxes expense of $0.5 million and the increased mark-to-market loss on foreign currency contracts of $0.3 million. Partially offsetting these decreases was an increase in gross profit of $1.4 million, net of $0.6 million in non-recurring iLottery start-up costs.

Net income per share (basic and diluted) decreased to $0.07 per share in the third quarter of 2014 from $0.11 in the third quarter of 2013.

ANALYSIS OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

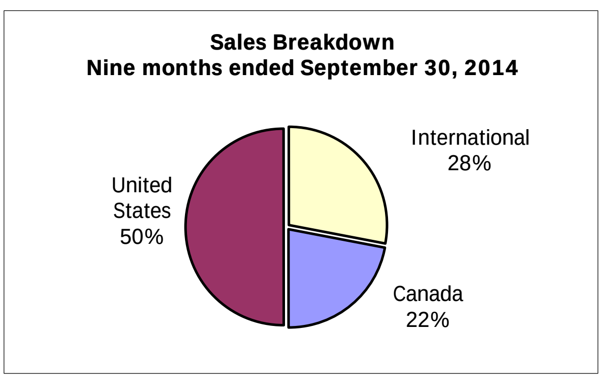
Sales

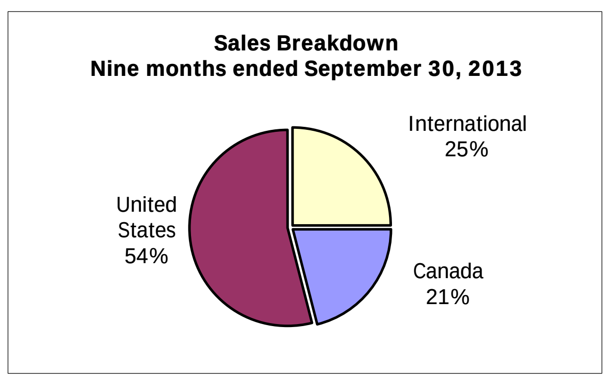




During the nine months ended September 30, 2014, Pollard achieved sales of $151.3 million, compared to $137.4 million in the nine months ended September 30, 2013. Factors impacting the $13.9 million sales increase were:

The higher instant ticket average selling price increased sales by $5.5 million in the first nine months of 2014 compared to the first nine months of 2013. This increase was partially a result of increased sales of proprietary products including Scratch FX® and PlayBook® games in 2014. While instant ticket sales volumes remained consistent with 2013, higher sales of our ancillary instant ticket products and services increased sales by $1.5 million from the nine months 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 volumes were higher than the first nine months of 2013 increasing sales by $1.1 million, which was offset by the decrease in average selling price reducing sales by $1.1 million. A decrease in machine volumes in the first nine months of 2014 decreased sales by $0.1 million when compared to 2013.





During the nine months ended September 30, 2014, Pollard generated approximately 62.8% of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first nine months of 2014 the actual U.S. dollar value was converted to Canadian dollars at $1.087, compared to a rate of $1.022 during the first nine months of 2013. This 6.3% increase in the U.S. dollar value resulted in an approximate increase of $5.6 million in revenue relative to the first nine months of 2013. In addition, during the nine months ended September 30, 2014, the weakening of the Canadian dollar against the Euro resulted in an approximate increase of $1.4 million in revenue relative to the first nine months of 2013.

Cost of sales and gross profit

Cost of sales was $120.0 million in the nine months ended September 30, 2014, compared to $111.4 million in the first nine months of 2013. Cost of sales was higher in 2014 relative to 2013 as a result of higher exchange rates on U.S. dollar transactions in the nine months ending September 30, 2014, a higher cost of production mix and increased ancillary instant ticket products and services. Also included in cost of sales in the nine months ended September 30, 2014, was $0.6 million of non-recurring start-up costs related to Pollard's new iLottery operations.

Gross profit increased to $31.3 million (20.7% of sales) in the first nine months of 2014 from $26.0 million (18.9% of sales) in the first nine months of 2013. This increase was due mainly to increased average selling price of instant tickets and increased ancillary instant ticket products and services. Gross profit excluding non-recurring iLottery start-up costs was $31.9 million (21.1% of sales).

Administration expenses

Administration expenses increased to $12.4 million in the first nine months of 2014 from $11.0 million in the first nine months of 2013 as a result of increased compensation expenses, primarily being increased incentive plan accruals related to higher earnings.

Selling expenses

Selling expenses were $5.1 million in the first nine months of 2014 which was similar to $5.1 million in the first nine months of 2013.

Interest expense

Interest expense decreased to $2.2 million in the first nine months of 2014 from $2.6 million in the first nine months of 2013 as a result of lower interest rates.

Foreign exchange gain and loss

The net foreign exchange loss was $1.1 million in the first nine months of 2014 compared to a net gain of $0.2 million in the first nine months of 2013. The 2014 net foreign exchange loss consisted of a realized foreign exchange loss of $0.3 million, predominately a result of decreased value of foreign currency converted into Canadian dollars during the first nine months of 2014. The additional unrealized foreign exchange loss of $0.8 million was mostly as a result of the increased Canadian equivalent value of U.S. denominated debt with the weakening of the Canadian dollar relative to the U.S. dollar at the end of the quarter.

Within the 2013 net foreign exchange gain was unrealized losses of $0.5 million relating to unrealized foreign exchange loss on U.S. dollar denominated debt. Within the net foreign exchange gain was a realized gain of $0.7 million, predominately a result of increased value of U.S. dollar denominated receivables collected and from the sale of U.S. dollar forward contacts.

Adjusted EBITDA

Adjusted EBITDA was $20.0 million in the first nine months of 2014 compared to $16.4 million in the first nine months of 2013. The primary reasons for the increase in Adjusted EBITDA of $3.6 million were the increase in gross profit of $5.9 million (excluding $0.6 million in non-recurring iLottery start-up costs), partially offset by increased administration expenses of $1.4 million and the increase in the realized foreign exchange losses of $1.0 million.

Income taxes

Income tax expense was $3.7 million in the first nine months of 2014, an effective rate of 36.0%, 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 consolidated provision percentage by about 7.2%. Other differences relating to changes in the expected income tax rate increased the provision by approximately 2.1%.

Income tax expense was $2.8 million in the first nine months of 2013, an effective rate of 38.2%, compared to the statutory rate of 26.3%, due to 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, was $5.9 million during the first nine months of 2014 which was similar to $5.9 million during the first nine months of 2013.

Net income

Net income was $6.7 million in the first nine months of 2014 compared to $4.6 million in the first nine months of 2013. The primary reasons for the increase in net income of $2.1 million were the increase in gross profit of $5.3 million and the decrease in interest expense of $0.4 million. Partially offsetting these increases were the increase in administration expenses of $1.4 million, an increase in foreign exchange losses of $1.3 million and the increase in income tax expense of $0.9 million.

Net income per share (basic and diluted) increased to $0.28 per share in the nine months ended September 30, 2014, from $0.19 in the first nine months of 2013.

Liquidity and Capital Resources

Cash provided by operating activities

For the nine months ended September 30, 2014, cash flow provided by operating activities was $14.8 million compared to cash flow provided of $7.8 million for the first nine months of 2013. Higher net income before income taxes in the first nine months of 2014 contributed to the increase in cash provided by operating activities compared to the first nine months of 2013. Changes in the non-cash component of working capital decreased cash flow from operations by $0.3 million for the nine months ended September 30, 2014 (due primarily to increase prepaids, partially offset by decrease in inventory and increased accounts payable and accrued liabilities), compared to a decrease of $3.9 million for the nine months ended September 30, 2013 (due primarily to increase in accounts receivables and prepaids, partially offset by decrease in inventory).

Cash used for interest payments decreased to $2.3 million in 2014 as compared to $2.6 million in 2013 due to lower interest rates. In addition cash used for income tax payments increased to $1.7 million in 2014 as compared to $0.9 million in 2013 due to timing of certain tax installments.

Cash used for investing activities

In the nine months ended September 30, 2014, cash used for investing activities was $15.7 million compared to cash used of $6.0 million in the first nine months of 2013. In the nine months ended September 30, 2014, capital expenditures were $14.4 million, including $12.1 million in initial installment payments relating to the new printing press project. As well Pollard expended $1.2 million on additions to intangible assets, primarily related to implementation costs, including capitalized internal costs, for ERP software in the first nine months of 2014.

In the nine months ended September 30, 2013, capital expenditures were $4.1 million and Pollard also expended $1.9 million on additions to intangible assets primarily related to licensing fees and implementation costs, including capitalized internal costs, for ERP software.

Cash provided by financing activities

Cash provided by financing activities was $0.7 million in the nine months ended September 30, 2014, compared to cash provided of nil in the nine months ended September 30, 2013.

During the first nine months 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 $3.9 million and dividends of $2.1 million.

During the first nine months of 2013 proceeds from long-term debt of $2.2 million were offset by dividends paid of $2.1 million and an increase in deferred financing of $0.1 million. Proceeds from long-term debt were used to finance increased investment in non-cash working capital and capital and intangible additions.

As at September 30, 2014, Pollard had unused debt facility of $16.1 million. This amount is available to be used for future working capital requirements, contractual obligations, capital expenditures and dividends. Also at September 30, 2014, Pollard had unused term facility of $0.2 million available to assist in financing the new printing press.

Quarterly Information
(unaudited)
(millions of dollars)

	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Sales	$53.5	$47.1	$50.7	$47.6	$48.1	$44.8	$44.4	$40.9	$44.1
Adjusted EBITDA	7.3	6.4	6.3	6.3	6.3	4.9	5.1	5.1	5.9
Net Income	1.7	3.8	1.2	0.9	2.6	1.0	0.9	1.3	3.3

Q3 2014 sales were higher predominately due to higher average selling price of instant tickets. Q3 2014 adjusted EBITDA was higher due to higher gross profit.

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.

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.

Productive Capacity

Management has defined productive capacity as the level of operations necessary to maintain a minimum Adjusted EBITDA of $26.0 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 September 30, 2014, Pollard's investment in non-cash working capital increased $0.3 million compared to December 31, 2013, primarily as a result of an increased investment in accounts receivables and increased prepaid expenses. These increases in non-cash working capital were partially offset by increased accounts payables, income taxes payable and current portion of long-term debt, as well as a decreased investment in inventory.

	September 30, 2014	December 31, 2013
Working Capital	$31.7	$33.3
Total Assets	$144.1	$133.4
Total Non-Current Liabilities	$81.8	$79.2

Credit Facility

Pollard's credit facility, which was renewed effective April 2, 2014, consists of one credit facility including a separate 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 September 30, 2014, the outstanding letters of guarantee were $1.1 million. The remaining balance available for drawdown under the credit facility was $16.1 million and under the term facility was $0.2 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 September 30, 2014 and November 10, 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 September 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, 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 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 September 30, 2014 and November 10, 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.

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 September 30, 2014, approximately $12.1 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 Canadian 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 nine months ended September 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

The lottery industry, and particularly the instant ticket space, is showing healthy growth and that is expected to continue. Consumer demand for instant tickets and related products is strong and this translates into opportunities for continuing increased revenue for Pollard Banknote. Pollard's products have a direct and significant impact on our customers' sales, providing us significant leverage in showcasing our revenue building initiatives. Jurisdictions continue to seek to maximize their net revenue generation from their lottery operations and we anticipate governments continuing to encourage their lottery operations to do so, creating more opportunities for Pollard.

Our expectations for production volumes remain positive for the remainder of 2014, and we believe we will finish the year slightly ahead of last year's volume. In 2015 we will have the opportunity to increase our volumes more significantly with the commissioning of our new press in the second quarter of the year. Ongoing robust industry growth, and specifically the strong growth experienced by some of our existing customers, combined with the new contract wins achieved in 2014 and the increased appetite for our proprietary products, will provide the basis for larger volumes, particularly in the second half of 2015. Our portfolio of contracts remain stable and we have no major contracts up for renewal over the course of the next year.

Lotteries are cautiously looking to expand their distribution channels, be it big-box retail chains, sales over the internet, mobile internet sales or other non-traditional retail outlets such as restaurants and bars. As the penetration of distribution of lottery products increases, this will generate greater revenue and greater opportunities for Pollard through both increased sales of traditional instant tickets as well as assisting in managing these new channels.

Proprietary products continue to play an important role in generating profitable retail sales for our lottery customers and in turn help grow Pollard's business. New, innovative products such as Pollard's recently introduced Eco Scratch™ instant ticket (printed on an environmentally friendly brown paper stock providing an exciting retro feel) is a recent example of our focus on innovation and we will continue to dedicate resources on these new product developments. Products such as Scratch FX® and PlayBooks® have generated significant traction in the lottery market and will continue to be key factors in driving our sales growth.

We anticipate sales of a number of our license game products such as NASCAR® to create excitement in 2015. Digital sales relating to the "space between" (i.e. the space between traditional bricks and mortar retail sales distribution and pure internet electronic sales) continue to provide important opportunities for sales growth. Digital apps mirroring the actual instant tickets, second chance drawings for non-winning tickets and services such as loyalty clubs linked to retail players are all examples of the expanding product line required by lotteries and areas on which Pollard is focusing resources to build on its instant ticket growth.

Our new press project continues to track on budget and on time for its commissioning in the second quarter of 2015. The redistribution of existing presses to other facilities will occur after the rollout of the new press and will provide Pollard with a state of the art production platform to increase our volumes while at the same time upgrading our technological capabilities and providing a lower cost foundation to our productive capacity.

During the fourth quarter of 2014 the Michigan Lottery's iLottery site will undertake its formal launch. In conjunction with our partner, Pollard is responsible for running the internet based distribution of lottery products and based on the operating results during the recent soft launch we are very optimistic about the success of this operation. Internet based lottery gaming (iLottery) is an important development in the lottery world and while the initial results and impact on the industry may be modest, the importance of establishing a successful track record as an innovator and successful operator will be critical in positioning Pollard as a leading provider to the lottery sector. Currently there are few expected iLottery opportunities immediately on the horizon, particularly in the U.S. (due to various reasons including individual state legislative limitations), however we will be monitoring this area closely and as lottery jurisdictions begin to expand on the internet, we plan on being well situated to provide our expertise in this area.

The third quarter continued our recent trend of strong financial results which has led to a much lower net senior debt position, notwithstanding the large investments we have made in the business during this time. We anticipate continuing to generate levels of free cash flow that will allow us to finance our ongoing investments in the business, such as working capital requirements and remaining installments on the new press project, with any remaining free cash flow used to continue to pay down our senior debt to maximize our future capital availability.

During the third quarter the Canadian dollar weakened significantly versus the U.S. dollar and the Euro. A weakening Canadian dollar will have a positive impact on our financial results due to the high percentage of revenue denominated in those currencies.

As noted in prior disclosures our 2014 capital expenditures are expected to be significantly higher than in recent prior years due to the $20 million expansion plan regarding installation of a new state of the art press, moving press capacity from Ypsilanti to Winnipeg and various related expenditures, the timing of which will extend through to the end of 2015.

Pollard believes our ongoing cash flow from operations, our current bank facility capacity 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 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. 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 and nine months ended September 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.

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