POLLARD
banknote limited

September 30, 2015

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015

November 4, 2015

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and nine months ended September 30, 2015, is prepared as at November 4, 2015, 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, 2015 and the audited consolidated financial statements of Pollard for the year ended December 31, 2014 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. 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, 2015. 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™, 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 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, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Instant Tickets	90.3%	91.0%	89.6%	89.7%
Charitable Gaming Products	8.3%	8.0%	8.8%	9.0%
Vending Machines	1.4%	1.0%	1.6%	1.3%

Geographic breakdown of revenue

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
United States	48%	46%	53%	50%
Canada	26%	28%	21%	22%
International	26%	26%	26%	28%

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, 2015.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Sales	$57.9	$53.5	$163.8	$151.3
Cost of sales	46.0	42.4	131.1	120.0
Gross profit	11.9	11.1	32.7	31.3
Gross profit as a % of sales	*20.6%*	*20.7%*	*20.0%*	*20.7%*
Administration expenses	5.0	4.3	13.5	12.4
Administration expenses as a % of sales	*8.6%*	*8.0%*	*8.2%*	*8.2%*
Selling expenses	2.0	1.8	5.4	5.1
Selling expenses as a % of sales	*3.5%*	*3.4%*	*3.3%*	*3.4%*
Income from operations	5.1	5.1	14.2	14.0
Income from operations as a % of sales	*8.8%*	*9.5%*	*8.7%*	*9.3%*
Net income	1.9	1.7	6.2	6.7
Net income as a % of sales	*3.3%*	*3.2%*	*3.8%*	*4.4%*
Adjusted EBITDA	7.5	7.3	20.5	20.0
Adjusted EBITDA as a % of sales	*13.0%*	*13.6%*	*12.5%*	*13.2%*
Net income per share (basic and diluted)	$0.08	$0.07	$0.26	$0.28

	September 30, 2015	December 31, 2014
Total Assets	$163.5	$149.3
Total Non-Current Liabilities	$92.9	$89.2

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

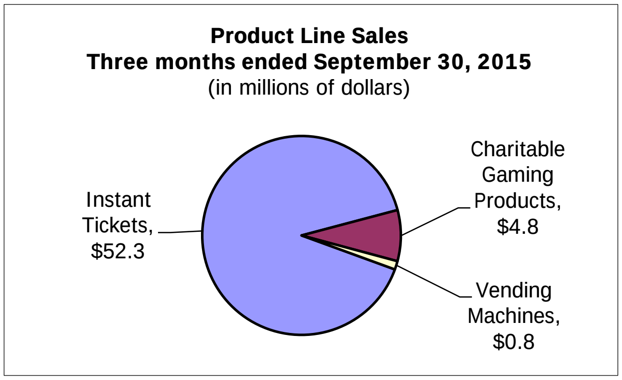
	Three months ended September 30, 2015	**Three months ended September 30, 2014**	**Nine months ended September 30, 2015**	**Nine months ended September 30, 2014**
Net income	$1.9	$1.7	$6.2	$6.7
Adjustments:				
Amortization and depreciation	2.0	2.0	6.0	5.9
Interest	0.8	0.7	2.1	2.2
Mark-to-market (gain) loss on foreign currency contracts	-	0.3	(0.5)	0.1
Unrealized foreign exchange loss	1.5	0.6	2.7	0.8
Start-up costs iLottery operations	-	0.6	-	0.6
Income taxes	1.3	1.4	4.0	3.7
Adjusted EBITDA	$7.5	$7.3	$20.5	$20.0

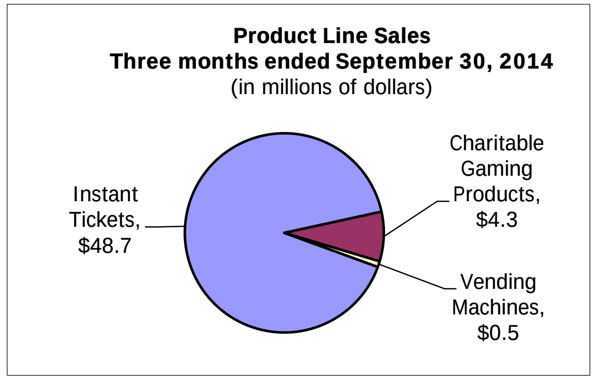
REVIEW OF OPERATIONS

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, 2015

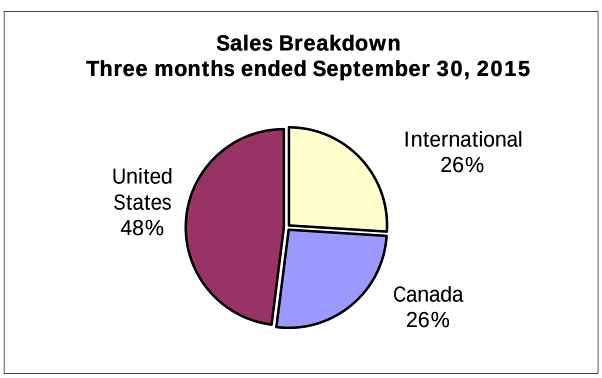
Sales

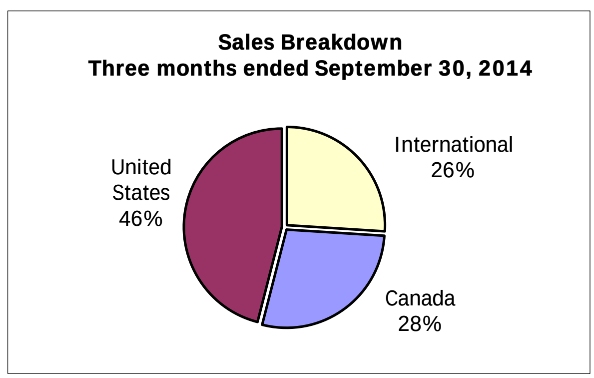




During the three months ended September 30, 2015, Pollard achieved sales of $57.9 million, compared to $53.5 million in the three months ended September 30, 2014. Factors impacting the $4.4 million sales increase were:

During the three months ended September 30, 2015, Pollard generated approximately 62.0% 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 2015 the actual U.S. dollar value was converted to Canadian dollars at $1.295, compared to a rate of $1.075 during the third quarter of 2014. This 20.5% increase in the U.S. dollar value resulted in an approximate increase of $6.1 million in revenue relative to the third quarter of 2014. The average rate of conversion of the Euro to Canadian dollar was consistent between the third quarter of 2015 and the third quarter of 2014.





Instant ticket volumes for the third quarter of 2015 were slightly higher than the third quarter of 2014 which increased sales by $0.2 million, which was offset by a decrease in our ancillary instant ticket products and services of $0.2 million. In addition, the instant ticket average selling price was lower than 2014 which decreased sales by $1.5 million due to product mix. The reduction in charitable gaming volumes during the quarter decreased sales by $0.6 million when compared to 2014, while an increase in the average selling price increased sales by $0.3 million when compared to the third quarter of 2014. Sales of machines increased in the third quarter of 2015 by $0.1 million.

Cost of sales and gross profit

Cost of sales was $46.0 million in the third quarter of 2015 compared to $42.4 million in the third quarter of 2014. Cost of sales was higher in the quarter relative to 2014 as a result of higher exchange rates on U.S. dollar transactions in the third quarter of 2015. 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 $11.9 million (20.6% of sales) in the third quarter of 2015 compared to $11.1 million (20.7% of sales) in the third quarter of 2014. This increase was due mainly to the weakening of the Canadian dollar against the U.S. dollar and the elimination of the non-recurring start-up costs incurred in 2014.

Administration expenses

Administration expenses increased to $5.0 million in the third quarter of 2015 compared to $4.3 million in the third quarter of 2014 primarily as a result of the increased Canadian dollar equivalent of U.S. dollar denominated expenses, increased compensation expenses, primarily related to increased resources focused on our digital initiatives, and higher professional fees.

Selling expenses

Selling expenses increased to $2.0 million in the third quarter of 2015 compared to $1.8 million in the third quarter of 2014 primarily as a result of the increased cost of U.S. dollar denominated expenses as a result of their strengthening against the Canadian dollar.

Interest expense

Interest expense was $0.8 million in the third quarter of 2015 which was similar to $0.7 million in the third quarter of 2014.

Foreign exchange loss

The net foreign exchange loss was $1.0 million in the third quarter of 2015 compared to a net loss of $0.9 million in the third quarter of 2014. The 2015 net foreign exchange loss consisted of an unrealized foreign exchange loss of $1.5 million primarily as a result of the increased Canadian equivalent value of U.S. denominated debt due to the weakening of the Canadian dollar relative to the U.S. dollar. This loss was partially offset by a realized foreign exchange gain of $0.5 million, predominately a result of foreign currency denominated account receivables collected in the quarter being converted into Canadian dollars at favorable foreign exchange rates.

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. An unrealized foreign exchange loss of $0.6 million was primarily 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.

Adjusted EBITDA

Adjusted EBITDA was $7.5 million in the third quarter of 2015 compared to $7.3 million in the third quarter of 2014. The primary reasons for the increase in Adjusted EBITDA of $0.2 million were the increase in the realized foreign exchange gain of $0.8 million and the increase in gross profit of $0.2 million, excluding non-recurring iLottery start-up costs. Partially offsetting these increases were an increase in administration expenses of $0.7 million and an increase in selling expense of $0.2 million.

Income taxes

Income tax expense was $1.3 million in the third quarter of 2015, an effective rate of 41.8%, which was 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).

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).

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 2015 which was similar to $2.0 million during the third quarter of 2014.

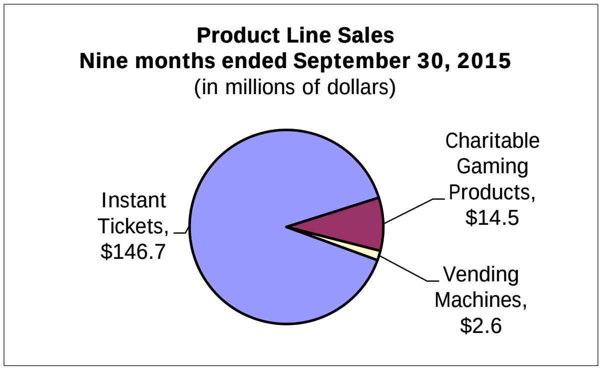
Net income

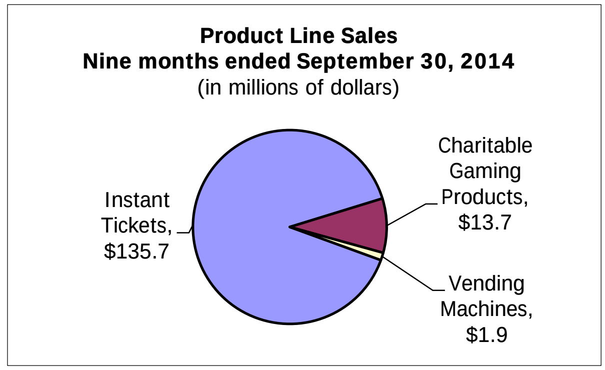
Net income was $1.9 million in the third quarter of 2015 compared to a net income of $1.7 million in the third quarter of 2014. The primary reasons for the $0.2 million increase were an increase in gross profit of $0.8 million and the decrease in the mark-to-market loss on foreign currency contracts of $0.3 million. These increases were partially offset by an increase of $0.7 million in administration expenses and an increase in selling expenses of $0.2 million.

Net income per share (basic and diluted) increased to $0.08 per share in the third quarter of 2015 from $0.07 in the third quarter of 2014.

ANALYSIS OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

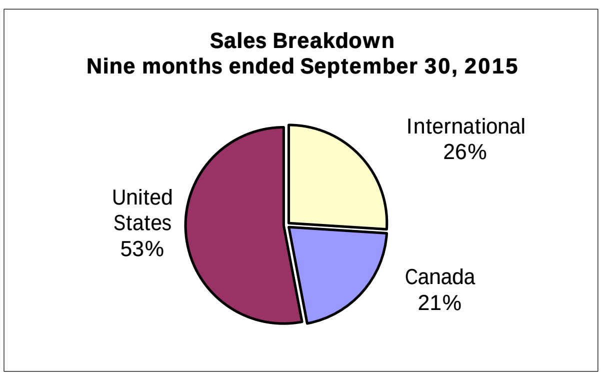
Sales

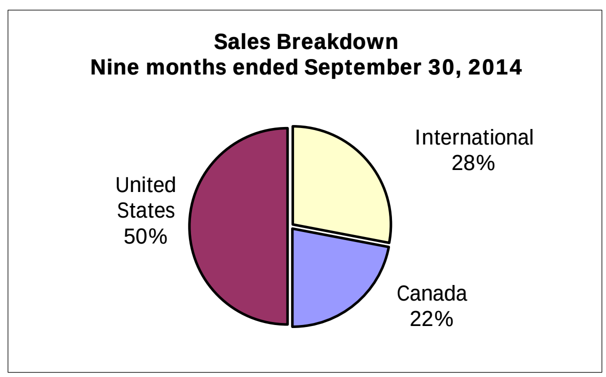




During the nine months ended September 30, 2015, Pollard achieved sales of $163.8 million, compared to $151.3 million in the nine months ended September 30, 2014. Factors impacting the $12.5 million sales increase were:

Instant ticket sales volume increased sales by $5.5 million in the first nine months of 2015 compared to the first nine months of 2014, while lower sales of our ancillary instant ticket products and services reduced sales by $2.8 million. Lower instant ticket average selling price decreased sales by $2.8 million in 2015 when compared to the nine months ended September 30, 2014, due to product mix. Charitable gaming volumes were lower in the first nine months of 2015 decreasing sales by $1.4 million, which offset the increase in average selling price which increased sales by $0.4 million. An increase in machine volumes in the first nine months of 2015 added $0.4 million to sales when compared to 2014.





During the nine months ended September 30, 2015, Pollard generated approximately 66.0% 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 2015 the actual U.S. dollar value was converted to Canadian dollars at $1.248, compared to a rate of $1.087 during the first nine months of 2014. This 14.8% increase in the U.S. dollar value resulted in an approximate increase of $14.0 million in revenue relative to the first nine months of 2014. In addition, during the nine months ended September 30, 2015, the strengthening of the Canadian dollar against the Euro resulted in an approximate decrease of $0.8 million in revenue relative to the first nine months of 2014.

Cost of sales and gross profit

Cost of sales was $131.1 million in the nine months ended September 30, 2015, compared to $120.0 million in the first nine months of 2014. Cost of sales was higher in 2015 relative to 2014 predominately as a result of higher exchange rates on U.S. dollar transactions in the nine months ending September 30, 2015, and an increase in instant ticket volumes. 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 $32.7 million (20.0% of sales) in the first nine months of 2015 from $31.3 million (20.7% of sales) in the first nine months of 2014. This increase was due mainly to the increase in instant ticket volumes as well as a result of the weakening of the Canadian dollar relative to the U.S. dollar and the elimination of the non-recurring start-up costs incurred in 2014. The decrease in gross profit percentage was primarily the result of the decrease in the average selling price for instant tickets and lower sales of ancillary instant ticket products, partially offset by the impact of the weakening Canadian dollar.

Administration expenses

Administration expenses increased to $13.5 million in the first nine months of 2015 from $12.4 million in the first nine months of 2014 primarily as a result of the increased Canadian dollar equivalent of U.S. dollar denominated expenses, increased compensation expenses, primarily related to increased resources focused on our digital initiatives, and higher professional fees.

Selling expenses

Selling expenses increased to $5.4 million in the first nine months of 2015 compared to $5.1 million in the first nine months of 2014 primarily as a result of the increased cost of U.S. dollar denominated expenses as a result of their strengthening against the Canadian dollar.

Interest expense

Interest expense was $2.1 million in the first nine months of 2015 which was similar to $2.2 million in the first nine months of 2014.

Foreign exchange loss

The net foreign exchange loss was $2.2 million in the first nine months of 2015 compared to a net loss of $1.1 million in the first nine months of 2014. The 2015 net foreign exchange loss consists of an unrealized foreign exchange loss of $2.7 million primarily 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. This loss was partially offset by the realized foreign exchange gain of $0.5 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchange rates.

The 2014 net foreign exchange loss consisted of a realized foreign exchange loss of $0.3 million, predominately a result of the timing of decreased value of foreign currency converted into Canadian dollars during the first nine months of 2014. The unrealized foreign exchange loss of $0.8 million was 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.

Adjusted EBITDA

Adjusted EBITDA was $20.5 million in the first nine months of 2015 compared to $20.0 million in the first nine months of 2014. The primary reasons for the increase in Adjusted EBITDA of $0.5 million were the increase in gross profit of $0.8 million (excluding $0.6 million in non-recurring iLottery start-up costs) and the increase in the realized foreign exchange gains of $0.8 million. These increases were partially offset by increased administration expenses of $1.1 million and an increase in selling expenses of $0.3 million.

Income taxes

Income tax expense was $4.0 million in the first nine months of 2015, an effective rate of 39.0%, which was 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).

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).

Amortization and depreciation

Amortization and depreciation, including amortization of deferred financing costs and intangible assets, and depreciation of property and equipment, was $6.0 million during the first nine months of 2015 which was similar to $5.9 million during the first nine months of 2014.

Net income

Net income was $6.2 million in the first nine months of 2015 compared to $6.7 million in the first nine months of 2014. The primary reasons for the decrease in net income of $0.5 million were the increase of $1.1 million in administration expenses, an increase in foreign exchange losses of $1.1 million, an increase in selling expenses of $0.3 million and the increase in income tax expense of $0.3 million. These decreases were partially offset by an increase in gross profit of $1.4 million and the increase in the mark-to-market gains on foreign currency contracts of $0.6 million.

Net income per share (basic and diluted) decreased to $0.26 per share in the nine months ended September 30, 2015, from $0.28 in the first nine months of 2014.

Liquidity and Capital Resources

Cash provided by operating activities

For the nine months ended September 30, 2015, cash flow provided by operating activities was $13.4 million compared to cash flow provided of $14.8 million for the first nine months of 2014. Higher net income after non-cash adjustments in the first nine months of 2015 increased the cash provided by operating activities compared to the first nine months of 2014. Changes in the non-cash component of working capital decreased cash flow from operations by $3.3 million for the nine months ended September 30, 2015 (due primarily to increase accounts receivables and prepaids, partially offset by decrease in inventory and increased accounts payable and accrued liabilities), compared to a decrease of $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).

Cash used for interest payments decreased to $2.1 million in 2015 as compared to $2.3 million in 2014 due to lower interest rates. As well, cash used for pension plan contributions decreased to $1.8 million in 2015 as compared to $2.6 million in 2014 due to the elimination of special payment requirements in late 2014. Cash used for income tax payments increased to $2.8 million in 2015 from $1.7 million in 2014. 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 nine months ended September 30, 2015, cash used for investing activities was $12.9 million compared to cash used of $15.7 million in the first nine months of 2014. In the nine months ended September 30, 2015, capital expenditures were $12.3 million, including $10.0 million in payments relating to the new printing press project. In addition, Pollard expended $0.5 million on additions to intangible assets, primarily related to implementation costs, including capitalized internal costs, for ERP software.

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.

Cash used for financing activities

Cash used for financing activities was $0.6 million in the nine months ended September 30, 2015, compared to cash provided of $0.7 million in the nine months ended September 30, 2014.

During the first nine months of 2015 proceeds from long-term debt of $2.0 million were offset by $0.3 million of financing costs and dividends paid of $2.1 million.

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.

As at September 30, 2015, Pollard had unused debt facility of $17.0 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)

	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Sales	$57.9	$51.4	$54.5	$43.2	$53.5	$47.1	$50.7	$47.6	$48.1
Adjusted EBITDA	7.5	6.3	6.7	5.6	7.3	6.4	6.3	6.3	6.3
Net Income	1.9	3.0	1.3	2.1	1.7	3.8	1.1	0.9	2.6

Q3 2015 sales and Adjusted EBITDA were higher due to the weakening of the Canadian dollar relative to the U.S. dollar.

Q1 2015 sales and adjusted EBITDA were higher due to higher instant ticket volumes and weaker Canadian dollar.

Q4 2014 sales and adjusted EBITDA were lower due to lower instant ticket volumes.

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.

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 September 30, 2015, Pollard's investment in non-cash working capital increased $3.3 million compared to December 31, 2014, primarily as a result of an increased investment in accounts receivables and increased prepaid expenses, partially offset by a decreased investment in inventory and increased accounts payables. The increase in accounts receivables was due to the increase in sales at the end of the quarter.

	September 30, 2015	December 31, 2014
Working Capital	$33.7	$30.2
Total Assets	$163.5	$149.3
Total Non-Current Liabilities	$92.9	$89.2

Credit Facility

Pollard's credit facility, which was renewed effective June 30, 2015, consists of one credit facility as well as a term loan facility. In addition to the $4.2 million term facility, the credit facility provides loans of up to $71.8 million for its Canadian operations and 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 September 30, 2015, the outstanding letters of guarantee were $1.2 million. The remaining balance available for drawdown under the credit facility was $17.0 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, 2015, Pollard is in compliance with all financial 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. The facility can be prepaid without penalties. Under the terms of the agreement effective June 30, 2015, the facility was committed for an approximately 12 month 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 effectively has 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 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. 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. Effective January 1, 2015, Pollard Banknote Limited assumed the subordinated debt on completion of the amalgamation of the Canadian entities.

Outstanding Share Data

As at September 30, 2015 and November 4, 2015, 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, 2014, 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, 2014, 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, 2014.

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, 2015, 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, 2014.

Outlook

The instant ticket market is a strong market, with growing consumer demand underpinning lotteries continued requirement for more tickets and related services. While growth varies among individual jurisdictions, retail sales growth of instant tickets remain in the mid to high single digit percentages, a level of growth witnessed for a number of years and we expect no change in the near future. In addition, with regard to instant ticket products, lotteries are particularly keen to acquire innovative, creative products and services to engage and enhance their relationship with the ultimate consumer. Pollard will continue to invest resources on developing groundbreaking initiatives to meet these ongoing expectations.

Our expected volumes over the remainder of 2015 and early 2016 are expected to be slightly higher than those experienced in the first three quarters of 2015 based on higher order levels from existing clients. As our new press continues to ramp up and move to its expected capacity, we will strategically bid for new work and opportunities to continue to build our volumes. The long term nature of the sales cycle in the instant ticket industry will also impact the timing of our volume growth.

Our new Tresu press began printing live product in the third quarter and we will continue to increase its capacity and efficiency over the next number of months. In addition to increasing our overall capacity, we will be transitioning existing volumes to this new production platform in order to capitalize on the advantages of the new press. Improved print yields, lower overtime and improved print quality will be ultimately achieved over the next year as the transition is completed. We would expect our capital expenditures going forward to be significantly lower than experienced during the last 18 months.

The North American iLottery industry continues to develop as lotteries look to new avenues to expand their products and services. Lotteries will continue to cautiously investigate this evolving area and we believe over the long term we will continue to see increased participation. In the short term we will continue to provide information to the industry regarding the effectiveness and the benefits achievable under a responsibly managed, regulated internet lottery distribution. While not currently material to our overall financial results, our Michigan iLottery joint venture operation continues to perform well and sets the standard for other lotteries.

The Canadian dollar continues to be weak relative to the U.S. dollar. Continued weakness will have a positive impact on our cash flows, both in terms of greater amounts of Canadian dollars on conversion and allowing us to bid competitively for new work. We currently have no financial hedges in place offsetting this risk and we have no plans currently to enter into any further foreign currency forward contracts.

Our charitable gaming business, supplying bingo paper, pull-tabs and vending machines to various private sector customers, continues to generate good returns. While the overall market is not growing, we expect our own positive financial trends to continue.

We anticipate our internal operating cash flow over the next 12 months to generate sufficient funds to satisfy all of our requirements including capital expenditures. Our current credit facility was formally renewed at the end of the second quarter 2015, which provides flexibility and capacity to support our various strategic initiatives. All excess cash flow will be used to reduce our senior 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. 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, 2015, 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, 2014, is available on SEDAR at www.sedar.com.

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