POLLARD banknote limited

September 30, 2016

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

November 14, 2016

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and nine months ended September 30, 2016, is prepared as at November 14, 2016, 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, 2016 and the audited consolidated financial statements of Pollard for the year ended December 31, 2015 and the notes therein. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP").

Forward-Looking Statements

Certain statements in this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this document, such statements include such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

Use of Non-GAAP Financial Measures

Reference to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and amortization, unrealized foreign exchange gains and losses, mark-to-market gains and losses on foreign currency contracts and certain non-recurring items including start-up costs. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to net income, Adjusted EBITDA is a useful supplementary measure.

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

Basis of Presentation

The results of operations in the following discussions encompass the unaudited consolidated results of Pollard for the three and nine months ended September 30, 2016. All figures are in millions except for per share amounts.

POLLARD BANKNOTE LIMITED

Overview

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

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

Pollard's lottery products are sold extensively throughout Canada, the United States and the rest of the world, wherever applicable laws and regulations authorize their use. Pollard serves over 60 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Instant Tickets	90.0%	90.3%	88.9%	89.6%
Charitable Gaming Products	10.0%	9.7%	11.1%	10.4%

Geographic breakdown of revenue

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
United States	51%	48%	55%	53%
Canada	21%	26%	20%	21%
International	28%	26%	25%	26%

The following financial information should be read in conjunction with the accompanying unaudited consolidated financial statements of Pollard and the notes therein as at and for the three and nine months ended September 30, 2016.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Sales	$62.7	$57.9	$180.7	$163.8
Cost of sales	50.1	46.0	145.8	131.1
Gross profit	12.6	11.9	34.9	32.7
Gross profit as a % of sales	*20.1%*	*20.6%*	*19.3%*	*20.0%*
Administration expenses	5.5	5.0	15.9	13.5
Administration expenses as a % of sales	*8.8%*	*8.6%*	*8.8%*	*8.2%*
Selling expenses	2.1	2.0	5.8	5.4
Selling expenses as a % of sales	*3.3%*	*3.5%*	*3.2%*	*3.3%*
Net income	2.8	1.9	8.5	6.2
Net income as a % of sales	*4.5%*	*3.3%*	*4.7%*	*3.8%*
Adjusted EBITDA	7.8	7.5	20.6	20.5
Adjusted EBITDA as a % of sales	*12.4%*	*13.0%*	*11.4%*	*12.5%*
Adjusted EBITDA excluding realized foreign exchange (loss) gain	7.7	7.0	21.9	20.0
As a % of sales	*12.3%*	*12.1%*	*12.1%*	*12.2%*
Net income per share (basic and diluted)	$0.12	$0.08	$0.36	$0.26

	September 30, 2016	December 31, 2015
Total Assets	$173.9	$164.1
Total Non-Current Liabilities	$96.0	$96.3

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

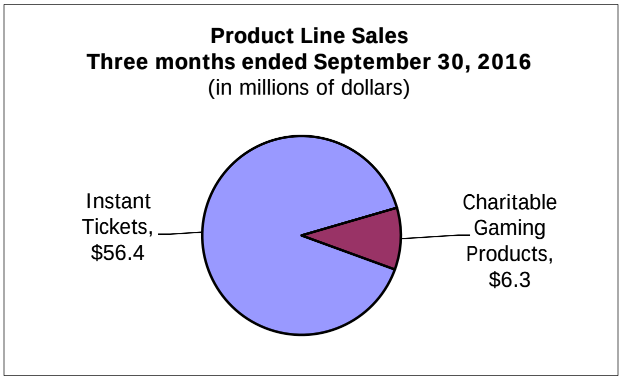
	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net income	$2.8	$1.9	$8.5	$6.2
Adjustments:				
Amortization and depreciation	2.8	2.0	8.5	6.0
Interest	0.9	0.8	2.6	2.1
Mark-to-market gain on foreign currency contracts	-	-	-	(0.5)
Unrealized foreign exchange (gain)loss	0.1	1.5	(2.0)	2.7
Income taxes	1.2	1.3	3.0	4.0
Adjusted EBITDA	$7.8	$7.5	$20.6	$20.5
Realized foreign exchange (loss) gain	0.1	0.5	(1.3)	0.5
Adjusted EBITDA excluding realized foreign exchange (loss) gain	$7.7	$7.0	$21.9	$20.0

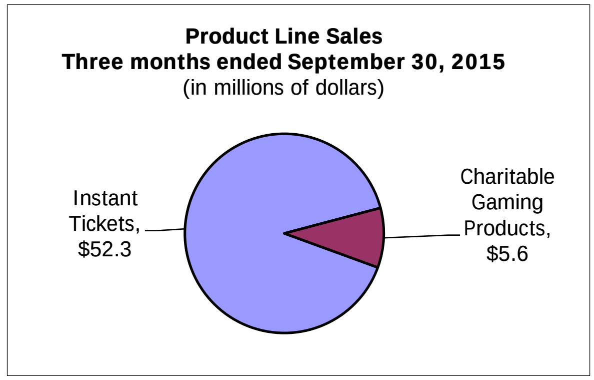
REVIEW OF OPERATIONS

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, 2016

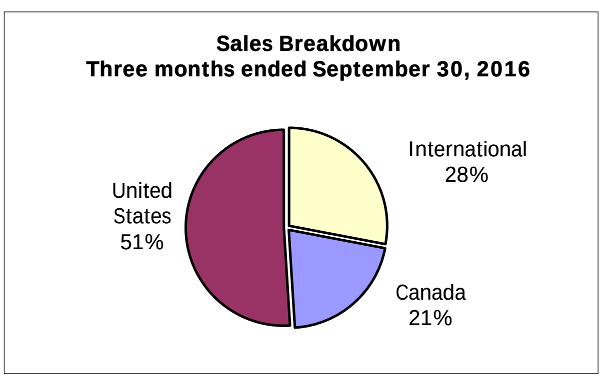
Sales

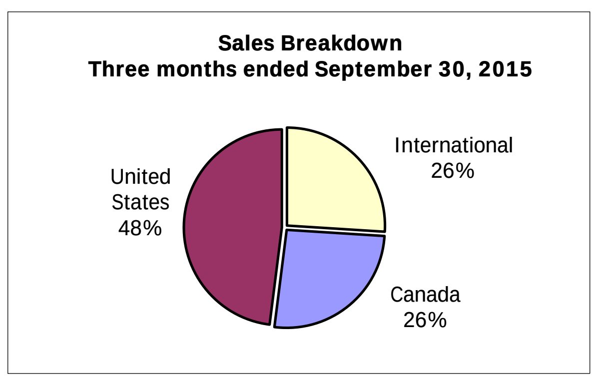




During the three months ended September 30, 2016, Pollard achieved sales of $62.7 million, compared to $57.9 million in the three months ended September 30, 2015. Factors impacting the $4.8 million sales increase were:

Instant ticket volumes for the third quarter of 2016 were higher than the third quarter of 2015 which increased sales by $1.9 million. Sales of ancillary lottery products and services were higher in 2016, improving sales by $1.6 million due primarily to better iLottery sales. In addition, the instant ticket average selling price was higher than in 2015 which increased sales by $0.3 million. The higher charitable gaming volumes during the quarter increased sales by $0.4 million when compared to 2015, while an improved average selling price increased sales by $0.2 million when compared to the third quarter of 2015.





During the three months ended September 30, 2016, Pollard generated approximately 67.3% 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 2016 the actual U.S. dollar value was converted to Canadian dollars at $1.303, compared to a rate of $1.295 during the third quarter of 2015. This 0.6% increase in the U.S. dollar value resulted in an approximate increase of $0.3 million in revenue relative to the third quarter of 2015. Also during the quarter, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $0.1 million in revenue relative to the third quarter of 2015.

Cost of sales and gross profit

Cost of sales was $50.1 million in the third quarter of 2016 compared to $46.0 million in the third quarter of 2015. Cost of sales were higher in the quarter relative to 2015 as a result of increased instant ticket volumes, increased ancillary lottery products and services sales, higher amortization and higher exchange rates on U.S. dollar transactions.

Gross profit was $12.6 million (20.1% of sales) in the third quarter of 2016 compared to $11.9 million (20.6% of sales) in the third quarter of 2015. This increase in gross profit was due primarily to the increase in sales of instant ticket and ancillary lottery products and services. The lower gross profit percentage was due to the impact of higher amortization, primarily relating to the new press, and additional production costs related to the ramp up of the new press.

Administration expenses

Administration expenses increased to $5.5 million in the third quarter of 2016 compared to $5.0 million in the third quarter of 2015 primarily as a result of increased compensation expenses, which primarily related to expansion of our lottery management system and ancillary lottery product sales.

Selling expenses

Selling expenses of $2.1 million in the third quarter of 2016 were similar to $2.0 million in the third quarter of 2015.

Interest expense

Interest expense of $0.9 million in the third quarter of 2016 was similar to $0.8 million in the third quarter of 2015.

Foreign exchange (gain) loss

The net foreign exchange impact was nil in the third quarter of 2016 compared to a net loss was $1.0 million in the third quarter of 2015. The 2016 net foreign exchange impact consisted of an unrealized foreign exchange loss of $0.1 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 offset by a realized foreign exchange gain of $0.1 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 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.

Adjusted EBITDA

Adjusted EBITDA was $7.8 million in the third quarter of 2016 compared to $7.5 million in the third quarter of 2015. The primary reason for the increase in Adjusted EBITDA of $0.3 million was the increase in gross profit (net of amortization and depreciation) of $1.5 million. Partially offsetting the increase was the increase in administration expenses of $0.5 million, the decrease in realized foreign exchange gain of $0.4 million and the decrease in other income of $0.2 million.

Income taxes

Income tax expense was $1.2 million in the third quarter of 2016, an effective rate of 28.5%, which was similar to our expected effective rate of 27.0%.

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).

Amortization and depreciation

Amortization and depreciation, including amortization of deferred financing costs and intangible assets, and depreciation of property and equipment, totaled $2.8 million during the third quarter of 2016 which increased from $2.0 million during the third quarter of 2015 primarily as a result of increased depreciation of property, plant and equipment due to the commissioning of the new press in our Ypsilanti facility.

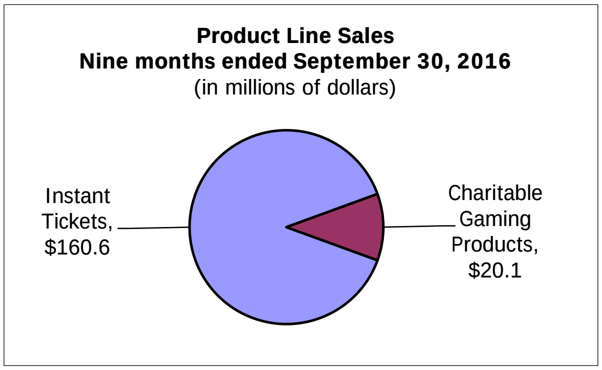
Net income

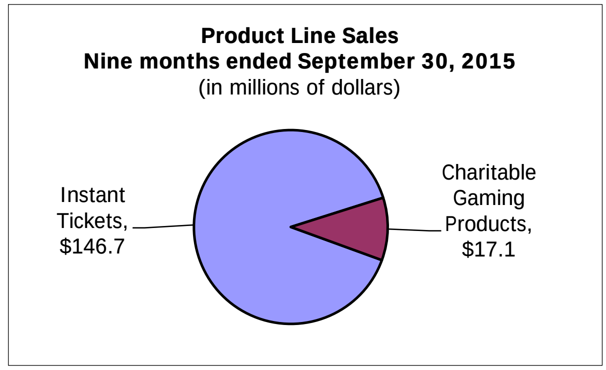
Net income was $2.8 million in the third quarter of 2016 compared to a net income of $1.9 million in the third quarter of 2015. The primary reasons for the $0.9 million increase were an increase in gross profit of $0.7 million and the decrease in the net foreign exchange loss of $1.0 million. These increases were partially offset by an increase of $0.5 million in administration expenses and the decrease in other income of $0.2 million.

Net income per share (basic and diluted) increased to $0.12 per share in the third quarter of 2016 from $0.08 in the third quarter of 2015.

ANALYSIS OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

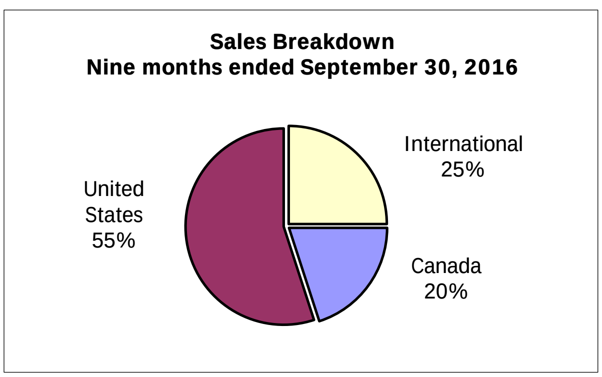
Sales

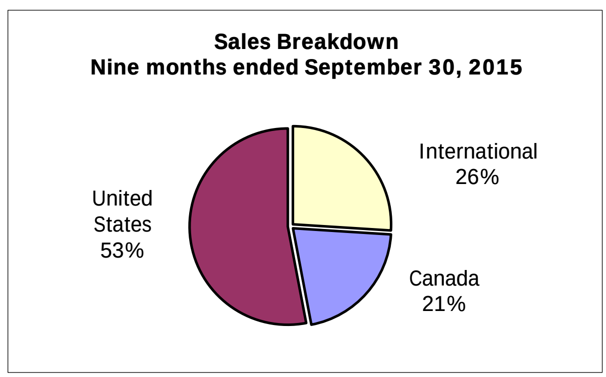




During the nine months ended September 30, 2016, Pollard achieved sales of $180.7 million, compared to $163.8 million in the nine months ended September 30, 2015. Factors impacting the $16.9 million sales increase were:

Higher instant ticket average selling price increased sales by $5.5 million in the first nine months of 2016 compared to the first nine months of 2015. Also higher sales of our ancillary lottery products and services increased sales by $4.6 million from the first nine months of 2015 due primarily to increased sales from iLottery. Charitable gaming volumes were higher in the first nine months of 2016 which increased sales by $1.1 million. An increase in the charitable gaming average selling price increased sales by $0.7 million when compared to the first nine months of 2015. Partially offsetting these increases, lower instant ticket sales volumes decreased sales by $3.1 million when compared to 2015.





During the nine months ended September 30, 2016, Pollard generated approximately 69.0% 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 2016 the actual U.S. dollar value was converted to Canadian dollars at $1.327, compared to a rate of $1.248 during the first nine months of 2015. This 6.3% increase in the U.S. dollar value resulted in an approximate increase of $7.4 million in revenue relative to the first nine months of 2015. In addition, during the nine months ended September 30, 2016, the strengthening of the Euro against the Canadian dollar resulted in an approximate increase of $0.7 million in revenue relative to the first nine months of 2015.

Cost of sales and gross profit

Cost of sales was $145.8 million in the nine months ended September 30, 2016, compared to $131.1 million in the nine months ended September 30, 2015. Cost of sales was higher in the first nine months of 2016 relative to 2015 as a result of higher amortization, increased ancillary lottery products and services sales and higher exchange rates on U.S. dollar transactions.

Gross profit increased to $34.9 million (19.3% of sales) in the first nine months of 2016 from $32.7 million (20.0% of sales) in the first nine months of 2015. This increase in gross profit was due primarily to the increase in ancillary lottery products and services sales and the positive impact from higher exchange rates on net U.S. dollar transactions. The lower gross profit percentage was due to the impact of higher amortization and additional production costs related to the ramp up of the new press.

Administration expenses

Administration expenses increased to $15.9 million in the first nine months of 2016 from $13.5 million in the first nine months of 2015 due primarily to higher professional fees, increased compensation expenses (which primarily related to expansion of our lottery management system and ancillary lottery product and services sales) and the increased Canadian dollar equivalent of U.S. dollar denominated expenses.

Selling expenses

Selling expenses increased to $5.8 million in the first nine months of 2016 compared to $5.4 million in the first nine months of 2015 due primarily to higher compensation expense in our charitable gaming division to support increased sales and the increased Canadian dollar equivalent of U.S. dollar denominated expenses.

Interest expense

Interest expense increased to $2.6 million in the first nine months of 2016 from $2.1 million in the first nine months of 2015 primarily as a result of no longer capitalizing borrowing costs related to the new press project.

Foreign exchange (gain) loss

The net foreign exchange gain was $0.7 million in the first nine months of 2016 compared to a loss of $2.2 million in the first nine months of 2015. The 2016 net foreign exchange gain consisted of an unrealized foreign exchange gain of $2.0 million primarily as a result of the decreased Canadian equivalent value of U.S. denominated debt and accounts payable with the strengthening of the Canadian dollar relative to the U.S. dollar. This gain was partially offset by the realized foreign exchange loss of $1.3 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

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.

Adjusted EBITDA

Adjusted EBITDA was $20.6 million in the first nine months of 2016 compared to $20.5 million in the first nine months of 2015. The primary reason for the increase in Adjusted EBITDA of $0.1 million was the increase in gross profit (net of amortization and depreciation) of $4.7 million. Partially offsetting the increase was the increase in administration expenses of $2.4 million, the increase in realized foreign exchange loss of $1.8 million and the increase in selling expenses of $0.4 million.

Income taxes

Income tax expense was $3.0 million in the first nine months of 2016, an effective rate of 26.0%, which was similar to our expected effective rate of 27.0%.

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).

Amortization and depreciation

Amortization and depreciation, including amortization of deferred financing costs and intangible assets, and depreciation of property and equipment, totaled $8.5 million during the first nine months of 2016 which increased from $6.0 million during the first nine months of 2015 primarily as a result of increased depreciation of property, plant and equipment due to the commissioning of the new press in our Ypsilanti facility.

Net income

Net income was $8.5 million in the first nine months of 2016 compared to $6.2 million in the first nine months of 2015. The primary reasons for the higher net income of $2.3 million were the $2.2 million increase in gross profit, the $2.9 million additional foreign exchange gains and the decrease in income tax expense of $1.0 million. These increases were partially offset by higher administration expenses of $2.4 million, higher selling expenses of $0.4 million and increased interest expense of $0.5 million, as well as the reduction in the gain on the non-cash mark-to-market adjustment on foreign currency contracts of $0.5 million.

Net income per share (basic and diluted) increased to $0.36 per share in the nine months ended September 30, 2016, from $0.26 in the first nine months of 2015.

Liquidity and Capital Resources

Cash provided by operating activities

For the nine months ended September 30, 2016, cash flow provided by operating activities was $6.1 million compared to cash flow provided of $13.4 million for the first nine months of 2015. Higher net income after non-cash adjustments in the first nine months of 2016 increased the cash provided by operating activities compared to the first nine months of 2015. Changes in the non-cash component of working capital decreased cash flow from operations by $10.9 million for the nine months ended September 30, 2016 due primarily to the increase in accounts receivable, compared to a decreased cash flow from operations by $3.3 million for the nine months ended September 30, 2015 due primarily to the increase in accounts receivable.

Cash used for interest payments increased to $2.4 million in 2016 as compared to $2.1 million in 2015. Cash used for pension plan contributions increased to $2.3 million in 2016 as compared to $1.8 million in 2015. Cash used for income tax payments decreased to $1.9 million in 2016 from $2.8 million in 2015. Taxable income in Canada increased in 2014 due to improved operating results. Pollard was not required to make installments during 2014, therefore the income taxes due for 2014 were payable at the end of February 2015.

Cash used for investing activities

In the nine months ended September 30, 2016, cash used for investing activities was $4.3 million compared to cash used of $12.9 million in the first nine months of 2015. In the nine months ended September 30, 2016, capital expenditures were $3.3 million. In addition, Pollard invested $0.8 million in its iLottery joint venture and $0.8 million on additions to intangible assets. These intangible additions primarily related to implementation costs, including capitalized internal costs, for ERP software. Proceeds from the sale of Pollard's investment in associate provided cash of $0.5 million.

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.

Cash used for financing activities

Cash used for financing activities was $0.7 million in the nine months ended September 30, 2016, compared to cash used of $0.6 million in the nine months ended September 30, 2015. During the first nine months of 2016 proceeds from long-term debt of $2.0 million were offset by the $0.3 million repayment on subordinated debt, $0.1 million of financing costs and dividends paid of $2.1 million.

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.

As at September 30, 2016, Pollard had unused debt facility of $15.1 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 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Sales	62.7	54.0	64.0	57.2	$57.9	$51.4	$54.5	$43.2	$53.5
Adjusted EBITDA	7.8	6.0	6.8	6.3	7.5	6.3	6.7	5.6	7.3
Net Income	2.8	2.1	3.6	1.2	1.9	3.0	1.4	2.1	1.7

Q3 2016 Adjusted EBITDA was higher due to increased gross profit (net of amortization and depreciation) due to increased sales volumes of instant tickets and ancillary lottery products and services.

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, 2016, Pollard's investment in non-cash working capital increased $10.9 million compared to December 31, 2015, primarily as a result of an increased investment in accounts receivable. Increased sales volumes, particularity in the third quarter, resulted in the large increase in accounts receivable.

	September 30, 2016	December 31, 2015
Working Capital	$47.9	$39.1
Total Assets	$173.9	$164.1
Total Non-Current Liabilities	$96.0	$96.3

Credit Facility

Pollard's credit facility was renewed effective June 24, 2016. As part of the renewal, the outstanding balance of the term facility was repaid. The credit facility provides loans of up to $75.0 million for its Canadian operations and US$12.0 million for its U.S. subsidiaries. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $75.0 million Canadian equivalent. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At September 30, 2016, the outstanding letters of guarantee were $1.2 million. The remaining balance available for drawdown under the credit facility was $15.1 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, 2016, Pollard is in compliance with all financial covenants.

Pollard's credit 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 June 24, 2016, the facility was committed for a two year period, renewable June 24, 2018.

Pollard believes that its credit facility, subordinated loan from Pollard Equities Limited and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital and dividends at existing business levels.

Subordinated Loan

On April 2, 2014, Pollard's former subsidiary, Pollard Holdings Limited Partnership, entered into a loan agreement with Pollard Equities Limited ("Equities") for a subordinated term loan facility with a seven year term in the amount of $6.8 million. Equities owns approximately 73.5% of Pollard's outstanding shares. Effective January 1 2015, Pollard Banknote Limited assumed the subordinated debt on completion of the amalgamation of the Canadian entities.

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

Pension

One of Pollard's Canadian pension plans will be subject to a solvency valuation as of December 31, 2016. We anticipate the valuation will result in a deficit due the low current levels of the mandated interest rate used to discount the future liabilities. We estimate the valuation will generate an estimated deficit of between $12.0 million to $15.0 million. As a result Pollard will be subject to additional special pension plan payments beginning in 2017 of approximately $2.4 million to $3.0 million per year through to 2021. These additional solvency payments do not impact pension expense and therefore will not affect our net income or EBITDA. Pollard was subject to additional solvency payments from 2011 to 2013, when Pollard was required to make additional pension contributions of approximately $2.0 million per year. These additional pension solvency payments will be funded from operating cash flows.

Outstanding Share Data

As at September 30, 2016 and November 14, 2016, outstanding share data was as follows:

Common shares	23,543,158

Share Options

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares.

On March 5, 2014, the Board of Directors approved the award of 100,000 options to purchase common shares of Pollard for certain key management personnel. The options were granted on March 10, 2014, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on March 7, 2014.

On September 7, 2016, the Board of Directors approved the award of 25,000 options to purchase common shares of Pollard for a key management member. The options were granted on October 3, 2016, 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 September 30, 2016.

Contractual Obligations

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

Off-Balance Sheet Arrangements

There have been no material changes to Pollard's off-balance sheet arrangements since December 31, 2015, that are outside the normal course of business.

Financial Instruments

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

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with 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, 2016, which are not disclosed in the unaudited condensed consolidated interim financial statements.

Industry Risks and Uncertainties

The risk factors affecting Pollard remain substantially unchanged from those identified in the MD&A for Pollard for the year ended December 31, 2015.

Outlook

The lottery market, and specifically the market for instant tickets, continues to be robust, with numerous lotteries recently announcing record sales and proceeds for good causes for their most recent fiscal years. Consumer demand for instant lottery tickets remains strong and is expected to remain a growth product for lotteries.

Lotteries continue to look to expand their operations including related activities to increase their customer engagement. Using technology to connect with their customers through social media, interactive apps and loyalty programs are increasingly important to help drive growth in both the instant ticket and draw games product lines. Opportunities for Pollard to provide expertise in this space will increase as lotteries expand their focus in these areas. Other programs supporting lotteries, including technology infrastructure, distribution services and warehousing, retail support, CRM and promotional and licensed games, continue to be important and represent opportunities to expand our footprint with lotteries.

iLottery continues to be a much talked about opportunity throughout the lottery world, particularly in the United States. State lotteries continue to be cautious in their approach however, and we do not anticipate a significant number of request for proposal prospects in the short term. In the longer term we believe lotteries will ultimately avail themselves of this additional sales channel in order to achieve their mandates. Our Michigan iLottery joint venture continues to perform very well and our second iLottery installation just went live in Virginia this month. We continue to monitor the environment and educate the lottery industry on the benefits of iLottery in order to position ourselves as a top of mind resource for iLottery implementation and operation.

Work on improving the efficiencies and integration of our new press continues and while significant progress has been achieved, the process is ongoing and incremental in nature. Objectives in spoilage reduction, operating cost enhancements, improved scheduling and achieving lower per-unit fixed costs through increasing production volumes have been identified. As our operator experience increases, we expect our cost structure to improve. We believe these improvements will be realized throughout the remainder of 2016 and 2017.

Our existing contract portfolio provides a solid foundation supporting our current level of volumes and we are focused on strategically bidding on new contract opportunities as they come due. Our only major existing contract that expires in the next year is our contract with the Michigan Lottery (which expires December 31, 2016) and we are confident of maintaining our strong relationship with the lottery in the future.

Timing of individual orders and the related revenue can vary quarter to quarter and as noted our third quarter tends to have slightly higher revenue as lotteries order higher value specialty work in the pre-holiday period. Fourth quarter volumes and product mix may generate slightly lower revenue streams as the level of higher value specialty products returns to more normal levels. Similarly the first half of the year generally will reflect a more balanced mix of products with selling prices more consistent with our long term averages and we would expect that trend to continue in 2017. The exact timing of revenue recognition can also be impacted between quarters based on the timing of receipt of the product by our customers.

During the third quarter, the Canadian dollar remained relatively stable against the U.S. dollar. As a result, the impact on our financial statements in the third quarter from foreign exchange gains and losses was very small. In the future, fluctuations in this relationship can impact the short term financial results including the operating cash flow and creating gains/losses on our monetary assets and liabilities on our balance sheet. We maintain a significant array of internal hedges to offset our net exposure to the U.S. dollar and do not anticipate utilizing any financial hedges in the near future. We also maintain a small net exposure to the Euro, therefore major fluctuations in this currency will also impact our financial results.

American Games, our charitable gaming division, continues to generate solid returns in the market for pull-tab tickets, bingo paper and vending machines. We expect the market for these products, and American Games financial results, to remain stable.

We anticipate having to initiate additional special pension plan payments likely in the later part of 2017 in the range of between $2.4 million to $3.0 million annually, as a result of historically low mandated discount rates. These payments will not have any direct impact on our net income or EBITDA and will be funded through our existing organic cash flow. Our budgeted capital expenditures for the remainder of 2016 and expected levels of capital expenditures in 2017 should remain at similar levels as experienced in the first three quarters of 2016. Assuming no additional significant investments in non-cash working capital, strong positive cash flow is still expected going forward notwithstanding our ongoing pension and capital expenditure obligations.

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

Under National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Certifying Officers regarding the design of the internal controls over financial reporting. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) as the control framework in designing its internal controls over financial reporting. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the internal controls over financial reporting as defined in National Instrument 52-109 will provide reasonable assurance of achieving the financial reporting objectives.

No changes were made in Pollard's internal control over financial reporting during the three and nine months ended September 30, 2016, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

Additional Information

Shares of Pollard Banknote Limited are traded on the Toronto Stock Exchange under the symbol PBL.

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form of Pollard for the year ended December 31, 2015, is available on SEDAR at www.sedar.com.

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