POLLARD banknote limited

December 31, 2014

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

FOR THE YEAR ENDED DECEMBER 31, 2014

March 10, 2015

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the year ended December 31, 2014, is prepared as at March 10, 2015, and should be read in conjunction with the accompanying audited financial statements of Pollard and the notes therein as at December 31, 2014. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("GAAP" or "IFRS").

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, settlement loss on pension curtailment and restructuring costs. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to net income, Adjusted EBITDA is a useful supplementary measure.

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

Basis of Presentation

The results of operations in the following discussions encompass the consolidated results of Pollard for the year ended December 31, 2014. All figures are in millions except for per share amounts.

POLLARD BANKNOTE LIMITED

Overview

Pollard Banknote Limited ("Pollard") is one of the leading providers of products and services to the 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

	Year ended December 31, 2014	Year ended December 31, 2013
Instant Tickets	89%	89%
Charitable Gaming Products	10%	10%
Vending Machines	1%	1%

Geographic breakdown of revenue

	Year ended December 31, 2014	Year ended December 31, 2013
United States	50%	53%
Canada	22%	22%
International	28%	25%

The following financial information should be read in conjunction with the accompanying financial statements of Pollard and the notes therein as at and for the year ended December 31, 2014.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Sales	**$194.5**	$184.9	$162.4	$172.0
Cost of sales	**153.4**	149.7	129.7	142.0
Gross profit	**41.1**	35.2	32.7	30.0
Gross profit as a % of sales	***21.1%***	*19.0%*	*20.1%*	*17.4%*
Administration expenses	**17.0**	15.2	13.6	13.8
Expenses as a % of sales	***8.7%***	*8.2%*	*8.4%*	*8.0%*
Selling expenses	**6.9**	6.8	6.1	6.3
Expenses as a % of sales	***3.5%***	*3.7%*	*3.8%*	*3.7%*
Net income	**8.7**	5.4	6.5	3.1
Net income as a % of sales	***4.5%***	*2.9%*	*4.0%*	*1.8%*
Adjusted EBITDA	**25.6**	22.7	19.9	22.5
Adjusted EBITDA as a % of sales	***13.2%***	*12.3%*	*12.3%*	*13.1%*
Adjusted EBITDA excluding gain on sale of property, plant and equipment and realized foreign exchange (loss) gain	**25.8**	21.8	20.2	17.8
As a % of sales	***13.3%***	*11.8%*	*12.4%*	*10.3%*
Earnings per share (basic)	**$0.37**	$0.23	$0.28	$0.13
Earnings per share (diluted)	**$0.37**	$0.23	$0.28	$0.13

	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Total Assets	**$149.3**	$133.4	$127.0	$121.6
Total Non-Current Liabilities	**$89.2**	$79.2	$83.4	$77.2

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

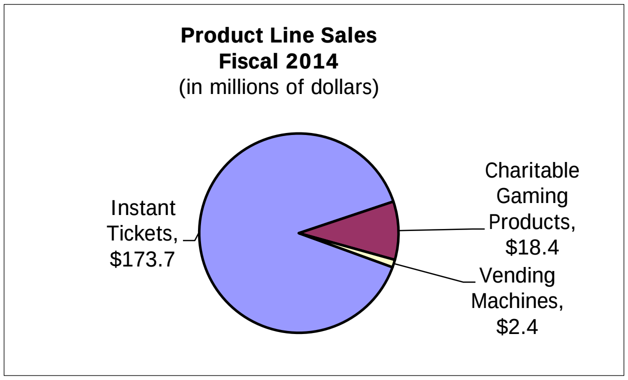
	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Net income	**$8.7**	$5.4	$6.5	$3.1
Adjustments:				
Amortization and depreciation	**7.9**	8.6	7.8	8.4
Interest	**2.9**	3.4	3.4	4.4
Unrealized foreign exchange (gain) loss	**1.7**	1.0	(0.1)	3.8
Mark-to-market loss on foreign currency contracts	**0.1**	0.4	-	-
Start-up costs – iLottery	**0.6**	-	-	-
Settlement loss on pension curtailment	**-**	-	-	0.7
Restructuring expense	**-**	-	-	0.5
Income taxes	**3.7**	3.9	2.3	1.6
Adjusted EBITDA	**$25.6**	$22.7	$19.9	$22.5
Gain on sale of property, plant and equipment	**-**	-	-	1.5
Realized foreign exchange (loss) gain	**(0.2)**	0.9	(0.3)	3.2
Adjusted EBITDA excluding gain on sale of property, plant and equipment and realized foreign exchange (loss) gain	**$25.8**	$21.8	$20.2	$17.8

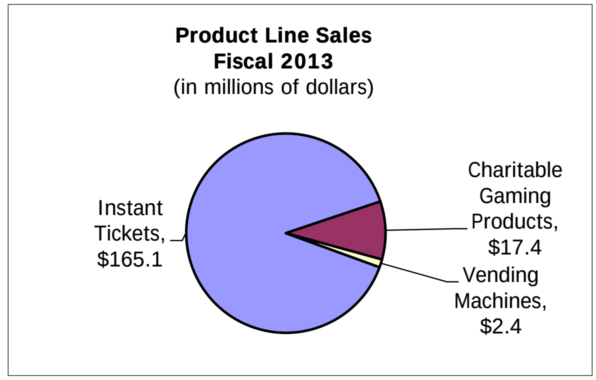
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2014

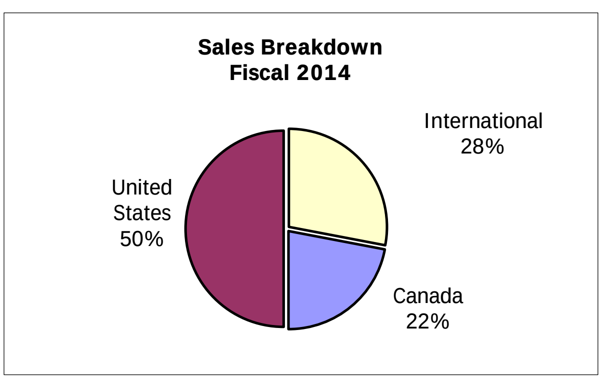
Sales

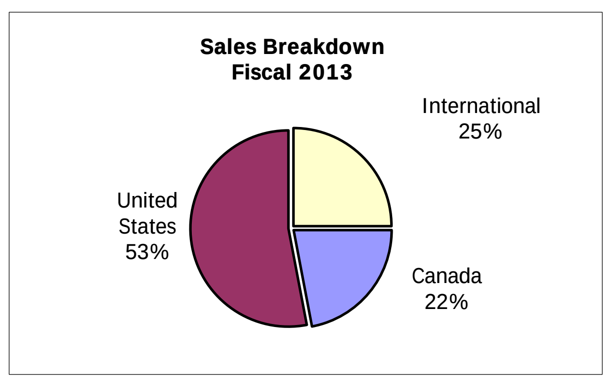




During the year ended December 31, 2014 ("Fiscal 2014" or "2014"), Pollard achieved sales of $194.5 million, compared to $184.9 million in the year ended December 31, 2013 ("Fiscal 2013" or "2013"). Factors impacting the $9.6 million sales increase were:

Higher instant ticket average selling prices for Fiscal 2014 increased sales by $5.4 million compared to Fiscal 2013. This increase was partially a result of increased sales of proprietary products including Scratch FX® and PlayBook® games in 2014. Lower instant ticket sales volumes decreased sales by $5.4 million compared to Fiscal 2013. The majority of this decrease was a result of a significant amount of goods in transit at year-end to international customers. Higher sales of our ancillary instant ticket products and services increased sales by $0.9 million from Fiscal 2013. Charitable gaming volumes were higher than Fiscal 2013 increasing sales by $0.8 million, which was offset by the decrease in average selling price which reduced sales by $0.9 million. A decrease in machine volumes in Fiscal 2014 decreased sales by $0.1 million when compared to 2013.





During Fiscal 2014, Pollard generated approximately 62.3% (2013 – 64.9%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2014 the actual U.S. dollar value was converted to Canadian dollars at $1.097 compared to a rate of $1.028 during Fiscal 2013. This 6.7% increase in the U.S. dollar value resulted in an approximate increase of $7.6 million in revenue relative to Fiscal 2013. Also during Fiscal 2014, the Canadian dollar weakened against the Euro resulting in an approximate increase of $1.4 million in revenue relative to Fiscal 2013.

Cost of sales and gross profit

Cost of sales was $153.4 million in Fiscal 2014 compared to $149.7 million in Fiscal 2013. Cost of sales was higher in Fiscal 2014 relative to Fiscal 2013 as a result of higher exchange rates on U.S. dollar transactions in 2014 which increased cost of sales approximately $6.3 million. Also included in cost of sales in Fiscal 2014 was $0.6 million of non-recurring start-up costs related to Pollard's new iLottery operations. Partially offsetting these increases were reduced costs due to lower volumes, the production mix and recognition of scientific research and experimental development ("SRED") tax credits.

Gross profit was $41.1 million (21.1% of sales) in Fiscal 2014 compared to $35.2 million (19.0% of sales) in Fiscal 2013. This increase was due mainly to increased average selling price of instant tickets, the higher value of U.S. dollars converted into Canadian dollars and increased sales of ancillary instant ticket products and services. Gross profit excluding non-recurring iLottery start-up costs was $41.7 million (21.4% of sales).

Administration expenses

Administration expenses increased to $17.0 million in Fiscal 2014 from $15.2 million in Fiscal 2013 as a result of increased compensation expenses relating to additional manufacturing support activities including technology, information systems and research and development. The increase in expense was also due to a lower amount of capitalized labour in Fiscal 2014 relating to internal projects.

Selling expenses

Selling expenses were $6.9 million in Fiscal 2014 which was similar to $6.8 million in Fiscal 2013.

Interest expense

Interest expense decreased to $2.9 million in Fiscal 2014 from $3.4 million in Fiscal 2013 primarily as a result of lower interest rates.

Foreign exchange loss

The net foreign exchange loss was $1.9 million in Fiscal 2014 compared to a net loss of $0.1 million in Fiscal 2013. The 2014 net foreign exchange loss consisted of a $1.7 million unrealized loss which was primarily as a result of the increased Canadian equivalent value of U.S. denominated debt and accounts payable due to the weakening of the Canadian dollar relative to the U.S. dollar. The realized foreign exchange loss of $0.2 million was predominately a result of decreased value of foreign currency converted into Canadian dollars during Fiscal 2014.

Within the 2013 net foreign exchange loss were realized foreign exchange gains of $0.9 million comprised of $1.0 million realized gain on the increased value of U.S. dollar denominated receivables and the conversion of U.S. dollars and Euros into Canadian dollars, partially offset by $0.1 million of realized loss relating to payments made on U.S. dollar denominated payables. Offsetting the realized foreign exchange gains were unrealized foreign exchange losses of $1.0 million comprised of an unrealized foreign exchange loss of $0.9 million on U.S. dollar denominated debt and $0.1 million unrealized foreign exchange loss on net U.S. denominated receivables and payables.

Amortization and depreciation

Amortization and depreciation, including depreciation of property and equipment and the amortization of deferred financing costs and intangible assets, totaled $7.9 million during Fiscal 2014 which decreased from $8.6 million during Fiscal 2013 due to decreased amortization of deferred financing costs and license fees.

Adjusted EBITDA

Adjusted EBITDA was $25.6 million in Fiscal 2014 compared to $22.7 million in Fiscal 2013. The primary reasons for the increase in Adjusted EBITDA was the increase in gross profit of $5.9 million. Partially offsetting this increase were the increase in administration expenses of $1.8 million and higher realized foreign exchange losses of $1.1 million.

Income taxes

Income tax expense was $3.7 million in Fiscal 2014, an effective rate of 30.0%, due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The weakening of the Canadian dollar versus the U.S. dollar results in a future gain on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax expense with no related income (as the gain is eliminated on consolidation). This increased the consolidated provision percentage by about 6%.

Income tax expense was $3.9 million in Fiscal 2013, an effective rate of 41.8%, due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The weakening of the Canadian dollar versus the U.S. dollar results in a future gain on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax expense with no related income (as the gain is eliminated on consolidation). This increased the consolidated provision percentage by about 9%. Other permanent differences relating to the foreign exchange translation of property, plant and equipment increased the provision by approximately 3%.

Net income

Net income was $8.7 million in Fiscal 2014 compared to net income of $5.4 million in Fiscal 2013. The primary reasons for the increase were the increase in gross profit of $5.9 million, a reduction in interest expense of $0.5 million, a reduction of $0.3 million in the non-cash mark-to-market loss on foreign currency contracts and a decrease in income taxes of $0.2 million. Partially offsetting these increases to net income were the increase in administration expenses of $1.8 million and an increase in foreign exchange loss of $1.8 million.

Earnings per share (basic and diluted) increased to $0.37 per share in Fiscal 2014 from $0.23 per share in Fiscal 2013.

Liquidity and Capital Resources

Cash provided by operating activities

For the year ended December 31, 2014, cash flow provided by operating activities was $18.9 million compared to $12.3 million in Fiscal 2013. Higher net income before income taxes in Fiscal 2014 contributed to the increase in cash provided by operating activities compared to Fiscal 2013. Changes in the non-cash component of working capital decreased cash flow from operations by $0.6 million for Fiscal 2014 (due primarily to increases in inventory and prepaid expenses, partially offset by a decrease in accounts receivable and an increase in accounts payable and accrued liabilities), compared to a decrease of $4.1 million for Fiscal 2013 (due primarily to increases in accounts receivable and prepaids, partially offset by a decrease in inventory and an increase in accounts payable and accrued liabilities).

Cash used for income taxes in Fiscal 2014 increased to $2.1 million from $1.2 million in Fiscal 2013 due to higher levels of pre-tax income.

Cash used for investing activities

In the year ended December 31, 2014, cash used for investing activities was $18.8 million compared to $8.4 million in the year ended December 31, 2013. In Fiscal 2014, capital expenditures were $17.6 million, including $15.1 million in expenditures relating to the new press project. Pollard expended $1.2 million on additions to intangible assets, primarily related to implementation costs, including capitalized internal costs, for ERP software.

In Fiscal 2013 Pollard's capital expenditures for property, plant and equipment were $4.6 million and $3.8 million on additions to intangible assets, primarily related to licensing fees and implementation costs, including capitalized internal costs, for ERP software.

Cash used for financing activities

Cash used for financing activities was $1.6 million in the year ended December 31, 2014, compared to cash used for financing activities of $1.2 million in the year ended December 31, 2013. During Fiscal 2014 cash was used to reduce long-term debt by $5.6 million, and incur $0.2 million in deferred financing costs and dividends of $2.8 million. Partially offsetting was the proceeds from the subordinated debt of $6.8 million to fund a portion of the new press.

During Fiscal 2013 cash used by financing activities was comprised of $2.8 million in dividends paid and $0.2 million in deferred financing costs, which were partially offset by proceeds from long-term debt of $1.7 million.

As at December 31, 2014, Pollard had unused committed credit facility of $17.8 million. This amount is available to be used for future working capital requirements, contractual obligations, capital expenditures and dividends.

ANALYSIS OF RESULTS FOR THE PERIOD OCTOBER 1, 2014 TO DECEMBER 31, 2014
FOURTH QUARTER OF 2014

SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Three months ended December 31, 2014	Three months ended December 31, 2013
	(unaudited)	(unaudited)
Sales	$43.2	$47.6
Cost of sales	33.4	38.4
Gross profit	9.8	9.2
Administration	4.6	4.2
Selling	1.7	1.7
Other income	(0.1)	(0.2)
Income from operations	3.6	3.5
Finance costs	1.5	1.6
Income before income taxes	2.1	1.9
Income taxes:		
Current	0.2	0.5
Future (recovery)	(0.2)	0.5
	-	1.0
Net income	$2.1	$0.9
Adjustments:		
Amortization and depreciation	2.0	2.7
Interest	0.6	0.8
Unrealized foreign exchange loss	0.9	0.5
Mark-to-market loss on foreign currency contracts	-	0.4
Income taxes	-	1.0
Adjusted EBITDA	$5.6	$6.3

Sales

During the three months ended December 31, 2014, Pollard achieved sales of $43.2 million, compared to $47.6 million in the three months ended December 31, 2013. Factors impacting the $4.4 million sales decrease were:

Instant ticket sales volumes for the fourth quarter of 2014 were lower than the fourth quarter of 2013 by 13.2%, which combined with a decrease in our ancillary instant ticket products and services volumes, primarily licensed games, reduced sales by $5.8 million. The majority of this decrease was a result of a significant amount of goods in transit at year-end to international customers. In addition, a decrease in average selling price of instant tickets compared to 2013 further decreased sales by $0.5 million. Lower charitable gaming volumes for the quarter decreased sales compared to 2013 by $0.3 million, while an increase in the average selling price increased sales by $0.2 million when compared to the fourth quarter of 2013.

During the three months ended December 31, 2014, Pollard generated approximately 60.8% (2013 – 59.8%) of its revenue in U.S. dollars including a portion of international sales which were priced in U.S. dollars. During the fourth quarter of 2014 the actual U.S. dollar value was converted to Canadian dollars at $1.137, compared to the rate of $1.047 during the fourth quarter of 2013. This 8.6% increase in the value of the U.S. dollar resulted in an approximate increase of $2.0 million in revenue relative to 2013.

Cost of sales and gross profit

Cost of sales was $33.4 million in the fourth quarter of 2014 compared to $38.4 million in the fourth quarter of 2013. Cost of sales was lower in the quarter relative to the fourth quarter of 2013 primarily as a result of decreased sales volumes and the recognition of SRED tax credits. Partially offsetting the decrease, higher exchange rates on U.S. dollar transactions in the fourth quarter of 2014 increased cost of sales approximately $1.6 million when compared to the fourth quarter of 2013.

Gross profit was $9.8 million (22.7% of sales) in the fourth quarter of 2014 compared to $9.2 million (19.3% of sales) in the fourth quarter of 2013. This increase in gross profit dollars was due mainly to the higher value of U.S. dollars converted into Canadian dollars and the recognition of SRED tax credits, partially offset by the gross profit reduction on lower sales volumes.

Administration expenses

Administration expenses were $4.6 million in the fourth quarter of 2014 which was higher compared to $4.2 million in the fourth quarter of 2013 due in part to higher costs related to business development initiatives.

Selling expenses

Selling expense was $1.7 million in the fourth quarter of 2014 which was similar to $1.7 million in the fourth quarter of 2013.

Interest expense

Interest expense decreased to $0.6 million in the fourth quarter of 2014 from $0.8 million in the fourth quarter of 2013 primarily as a result of lower interest rates.

Foreign exchange loss

The net foreign exchange loss was $0.8 million in the fourth quarter of 2014 compared to a net loss of $0.3 million in the fourth quarter of 2013. The 2014 net foreign exchange loss consisted of an unrealized foreign exchange loss of $0.9 million which was mostly as a result of the increased Canadian equivalent value of U.S. denominated payables and long-term debt caused by the weakening of the Canadian dollar relative to the U.S. dollar at the end of the quarter. The additional realized foreign exchange gain of $0.1 million, was predominately a result of the increased value of U.S. denominated receivables, offset partially by increased cost of U.S. denominated payables.

Within the 2013 fourth quarter net foreign exchange loss was an unrealized foreign exchange loss of $0.5 million consisting of $0.4 million relating to unrealized foreign exchange loss on U.S. dollar denominated debt and $0.1 million relating to the unrealized foreign exchange loss on net U.S. dollar denominated receivables and payables. Partially offsetting the unrealized foreign exchange loss was a $0.2 million realized foreign exchange gain on the increased value of U.S. and Euro denominated receivables.

Amortization and depreciation

Amortization and depreciation, including depreciation of property, plant and equipment and the amortization of deferred financing costs and intangible assets, totaled $2.0 million during the fourth quarter of 2014 which decreased from $2.7 million during the fourth quarter of 2013 as a result of decreased amortization of development costs and license fees in 2014.

Adjusted EBITDA

Adjusted EBITDA was $5.6 million in the fourth quarter of 2014 compared to $6.3 million in the fourth quarter of 2013. The primary reasons for the decrease in Adjusted EBITDA were the decrease in gross profit (net of amortization and depreciation) of $0.1 million and higher administration expenses of $0.4 million.

Income taxes

Income tax expense was nil in the fourth quarter of 2014, an effective rate of 0.0%. Included in the effective rate are 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 significant weakening of the Canadian dollar versus the U.S. dollar in the fourth quarter results in a future gain on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax expense with no related income (as the gain is eliminated on consolidation). This increased the consolidated provision percentage by about 16%. Other permanent differences relating to the foreign exchange translation of property, plant and equipment decreased the provision by approximately 15%. In addition, adjustments in the annual estimated tax rate to the actual tax rate in the U.S. subsidiaries decreased the provision by approximately 28%.

Income tax expense was $1.0 million in the fourth quarter of 2013, an effective rate of 52.6%, 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 significant weakening of the Canadian dollar versus the U.S. dollar in the fourth quarter results in a future gain on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax expense with no related income (as the gain is eliminated on consolidation). This increased the consolidated provision percentage by about 16%. Other increases were due to permanent differences relating to the translation of the company's U.S. subsidiaries.

Net income

Net income was $2.1 million in the fourth quarter of 2014 compared to $0.9 million in the fourth quarter of 2013. The primary reasons for the increase were the increase in gross profit of $0.6 million, the $0.4 million decrease in the non-cash mark-to-market loss on foreign currency contracts, a decrease in income tax expense of $1.0 million and the $0.2 million decrease in interest expense. Partially offsetting these increases in net income were the increase in administration expenses of $0.4 million and the $0.5 million increase in net foreign exchange loss.

Earnings per share (basic and diluted) increased to $0.09 per share in the fourth quarter of 2014 from $0.04 per share in the fourth quarter of 2013.

Quarterly Information

(unaudited)
(millions of dollars)

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Sales	$43.2	$53.5	$47.1	$50.7	$47.6	$48.1	$44.8	$44.4
Adjusted EBITDA	5.6	7.3	6.4	6.3	6.3	6.3	4.9	5.2
Net income	2.1	1.7	3.7	1.2	0.9	2.6	1.0	0.9

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.

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

Productive Capacity

Management has defined productive capacity as the level of operations necessary to maintain a minimum Adjusted EBITDA of $26.0 million on an annualized basis. Due to varying factors implicit in the nature of the lottery industry and the instant ticket market, productive capacity can best be measured through a financial output such as Adjusted EBITDA and cash flow. A number of factors impact the level of Adjusted EBITDA including physical plant capacity, machine capacity, nature of product and service offerings produced and mix of customers. Changes to productive capacity have occurred primarily through expenditures on fixed assets and improved processes and other internal improvement measures. Productive capacity is also impacted by changes in foreign exchange relationships. There have been no increases in productive capacity due to acquisitions since Pollard's initial public offering ("IPO") in August 2005.

On April 4, 2014, Pollard entered into a purchase agreement for a new 22 station Tresu press line, with an approximate cost of $20.0 million. When fully operational in later 2015, it is expected to provide an approximate increase in capacity of 35%.

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

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

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

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

Working Capital

Net non-cash working capital varies throughout the year based on the timing of individual sales transactions and other investments. The nature of the lottery industry is few individual customers who generally order large dollar value transactions. As such, the change in timing of a few individual orders can impact significantly the amount required to be invested in inventory or receivables at a particular period end. The high value, low volume of transactions results in some significant volatility in non-cash working capital, particularly during a period of rising volumes. Similarly, the timing of the completion of the sales cycle through collection can significantly impact non-cash working capital.

Instant tickets are produced specifically for individual clients resulting in a limited investment in finished goods inventory. Customers are predominantly government agencies, which result in regular payments. There are a limited number of individual customers, and therefore net investment in working capital is managed on an individual customer by customer basis, without the need for company wide benchmarks.

The overall impact of seasonality does not have a material impact on the carrying amounts in working capital.

As at December 31, 2014, Pollard's investment in non-cash working capital decreased $0.6 million compared to December 31, 2013, primarily as a result of a decreased investment in accounts receivables and increased accounts payables which were partially offset by an increased investment in inventory and increased prepaid expenses.

	December 31, 2014	December 31, 2013
Working Capital	$30.2	$33.3
Total Assets	$149.3	$133.4
Total Non-Current Liabilities	$89.2	$79.2

Credit Facility

Pollard's credit facility, which was renewed effective April 2, 2014, consists of one credit facility including a separate term loan facility. In addition to the $4.8 million term facility, the credit facility provides loans of up to $71.8 million for its Canadian operations and up to US$10.0 million for its U.S. subsidiaries. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At December 31, 2014, the outstanding letters of guarantee were $1.1 million. The remaining balance available for drawdown under the credit facility was $17.8 million.

As at December 31, 2014, $4.8 million of the term facility had been drawn. Repayment of the term facility will commence on the earlier of the completion of the installation of the new printing press or June 30, 2015, in the form of quarterly principal repayments of $0.3 million plus interest. Repayments will permanently reduce the term facility commitment available.

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including working capital ratios, debt to income before interest, income taxes, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at December 31, 2014 and March 10, 2015, Pollard is in compliance with all covenants.

Under the terms of the credit facility the amount of the facility, excluding the term facility, will be reduced on a quarterly basis by an amount calculated as 50% of the prior quarter's Excess Cash Flow. Excess Cash Flow is defined as Adjusted EBITDA less scheduled principal indebtedness payments (if any) including, without limitation, scheduled principal payments on the term facility and the subordinated debt, maintenance capital expenditures (to a maximum of $3.5 million per year), pension deficit installments (to a maximum of $2.7 million for fiscal 2014), interest and cash income taxes paid. The reduction in the available facility is not required when the debt to Adjusted EBITDA ratio reaches certain target levels. For the quarter ending December 31, 2014, the target level was reached therefore no reduction is required.

Pollard's credit facility, including the term facility, is secured by a first security interest in all of the present and after acquired property of Pollard's operating subsidiaries. The facility can be prepaid without penalties. Under the terms of the agreement effective April 2, 2014, the facility was committed for an approximately 15 month period, renewable June 30, 2015 ("Facility Expiry Date"). If the facility is not renewed, the loans are repayable one year after the Facility Expiry Date, except for the scheduled principal repayments on the term facility. As such, the credit facility has effectively a two year term expiring June 30, 2016.

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

On January 1, 2015, the credit facility was amended to replace Pollard Holding Limited Partnership with Pollard Banknote Limited as the Canadian borrower as a result of the amalgamation of Pollard's Canadian entities with Pollard Banknote Limited.

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.

Outstanding Share Data

As at December 31, 2014 and March 10, 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

Pollard's subsidiaries rent premises and equipment under long-term operating leases. The following is a schedule by year of commitments and contractual obligations outstanding:

(millions of dollars)	Total	<1 Year	2-3 Years	4-5 Years	Thereafter
Long-term debt	$69.1	$0.9	$68.2	-	-
Subordinated debt	$6.8	-	-	$2.5	$4.3
Other non-current liabilities	$0.4	-	$0.4	-	-
Pension liability	$11.9	-	-	-	$11.9
Interest on long-term debt	$3.8	$2.5	$1.3	-	-
Interest on subordinated debt	$3.2	$0.6	$1.2	$1.2	$0.2
Property, plant and equipment	$5.0	$5.0	-	-	-
Operating leases	$18.5	$3.6	$6.5	$5.3	$3.1
Total	$118.7	$12.6	$77.6	$9.0	$19.5

Pension Obligations

Pollard sponsors four non-contributory defined benefit pension plans, of which three are final pay plans and one is a flat benefit plan. As of December 31, 2014, the aggregate fair value of the assets of Pollard's defined benefit pension plans was $37.5 million and the accrued benefit plan obligations were $49.4 million. Pollard's total annual funding contribution for all pension plans in 2015 is expected to be approximately $2.3 million, compared to $3.2 million in 2014.

The actuary valuation for the largest of Pollard's employee pension plans as at January 1, 2014, determined there was no longer a solvency deficit (due to higher discount rates, higher investment returns and the impact of accumulation of previous special funding payments). As such additional solvency payments were no longer required in 2014. The next valuation to determine status of solvency will be January 1, 2017.

Every year-end an updated accounting valuation is prepared. During the fall of 2014 interest rates declined significantly and as a result the mandated discount rate used to value the pension obligation for accounting purposes decreased from 5.0% at December 31, 2013, to 4.0% as at December 31, 2014. This change in discount rate was the main factor in the generation of a remeasurement pre-tax loss of $9.6 million, increasing Pollard's pension liability to $11.9 million from $2.8 million last year. The recording of the remeasurement loss has no impact on any future funding requirement or cash payments prior to the next remeasurement in 2017.

Pension obligations are extremely sensitive to changes in discount rates, with a 1.0% movement in discount rates resulting in a $9.5 million to $12.8 million potential swing in remeasurement of Pollard's pension liability.

Off-Balance Sheet Arrangements

Other than the operating leases described previously, Pollard has no other off-balance sheet arrangements.

Related Party Transactions

During the year ended December 31, 2014, Equities paid Pollard $0.07 million (2013 – $0.07 million) for accounting and administration fees.

During the year ended December 31, 2014, Pollard paid property rent of $3.0 million (2013 - $3.0 million) and $0.2 million (2013 – $0.2 million) in plane charter costs to affiliates of Equities. In addition, Pollard paid Equities $0.4 million (2013 – nil) of interest on Pollard's subordinated debt.

During Fiscal 2011, Pollard sold a building and land in Winnipeg, Manitoba to an affiliate of Equities for total proceeds of $3.5 million resulting in a gain of $1.5 million. The selling price was based on the current fair market value as determined through an independent appraisal. Pollard subsequently leased the property back for a five year term (with an option to renew for an additional five year term) for an annual rent of $0.3 million. During Fiscal 2010, Pollard sold the building and land formally used in the Kamloops operation to an affiliate of Equities for total proceeds of $2.9 million resulting in a gain of $2.0 million. The selling price was based on the current fair market value determined through an independent appraisal.

Pollard has leased a building in Council Bluffs, Iowa from an affiliate of Equities for a ten year term, ending December 31, 2018, with annual lease payments of US$0.3 million.

A manufacturing facility in Winnipeg, Manitoba is leased from an affiliate of Equities for a 12 year 6 month period, ending March 31, 2021, at an annual base rate of approximately $2.4 million.

At December 31, 2014, Pollard owes Equities and its affiliates $1.2 million (2013 - $0.7 million) for rent, interest and other expenses.

Critical Accounting Policies and Estimates

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

Impairment of goodwill

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

Employee future benefits

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

Income taxes

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

Future Changes in Accounting Policies

In November 2009, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standards ("IFRS") 9 *Financial Instruments* ("IFRS 9 (2009)") and in October 2010, the IASB published amendments to IFRS 9 ("IFRS 9 (2010)"). In December 2011, the IASB issued an amendment to IFRS 9 to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. IFRS 9 (2009) uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classifications options in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities. In November 2013, a new general hedge accounting standard was issued, forming part of IFRS 9 (2013). It will more closely align with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirements to measure and recognize ineffectiveness, however it will allow more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Another revised version of IFRS 9 (2014) was issued in July 2014 mainly to include impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing fair value through other comprehensive income measurement category for certain simple debt instruments. IFRS 9 (2014) is required for fiscal years beginning on or after January 1, 2018 with early adoption available. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard specifies the steps and timing for recognizing revenue, as well as requiring more informative, relevant disclosures. IFRS 15 supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue*. IFRS 15 is required for fiscal years beginning on or after January 1, 2017 with early adoption available. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The amendments prohibit the use of revenue based depreciation for property, plant and equipment and significantly limit the use of revenue based amortization for intangibles. These amendments are effective for fiscal years beginning on or after January 1, 2016. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

In May 2014, the IASB issued amendments to IAS 11 *Interests in Joint Operations*. The amendments require business combination accounting to be applied to acquisition of interest in a joint operation that constitute a business. These amendments are effective for fiscal years beginning on or after January 1, 2016, with early adoption available. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

In September 2014, the IASB issued amendments to IFRS 10 Consolidated Financial Statements and IAS 28 *Investments in Associates and Joint Ventures* (2011). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective for fiscal years beginning on or after January 1, 2016, with early adoption available. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

In December 2014, the IASB issued amendments to IAS 1 *Presentation of Financial Statements.* The amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. These amendments are effective for fiscal years beginning on or after January 1, 2016, with early adoption available. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

Industry Risks and Uncertainties

Pollard is exposed to a variety of business and industry risks. A summary of the major risks faced by Pollard is noted below.

Dependence on Key Products

Instant lottery tickets and related services accounted for approximately 89% of Pollard's Fiscal 2014 revenues. Pollard's financial results and condition are substantially dependent on the continued success and growth in sales of this product and the profitability of such sales. Competitive efforts by other manufacturers of similar or substitute products, shifts in consumer preferences or the introduction and acceptance of alternative product offerings could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Economic Uncertainty

Considerable economic uncertainty and concern over possible recessions and economic downturns have dominated the news in the past few years. Instant lottery tickets account for approximately 89% of revenue and Pollard's financial results and condition are substantially dependent on the continued success and growth in sales of this product and the profitability of such sales. Historically the lottery industry, and particularly the instant ticket product lines, has not shown any significant negative impact during downturns in the economic cycles. At the present time Pollard foresees minimal impact on its operations or product demand due to any uncertainty and volatility in the economic landscape. However, lotteries, similar to many government agencies, are increasingly under pressure to reduce costs and expenditures. As such, Pollard has witnessed downward pressure on its selling prices. Continued pressure on lotteries to reduce their costs may further negatively impact Pollard's selling prices. Significant shifts in consumer preferences or the introduction and acceptance of alternative product offerings could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Inability to Sustain Sales or EBITDA Margins

Pollard's income depends upon its ability to generate sales to customers and to sustain its EBITDA margins. These margins are dependent upon Pollard's ability to continue to profitably sell lottery tickets and gaming products and to continue to provide products and services that make it the supplier of choice to its customers. If Pollard's costs of sales or operating costs increase, or other manufacturers of gaming products could compete more favourably with it, Pollard may not be able to sustain its level of sales or EBITDA margins.

Dependence on Major Customers

Pollard's 10 largest customers accounted for approximately 49% of its revenue during Fiscal 2014. Pollard's largest customer accounted for approximately 10% of Pollard's revenues during Fiscal 2014.

The nature of the worldwide lottery industry limits the absolute number of lottery operations. As is customary in the industry, Pollard does have long-term contracts with most of its customers. However, most allow the customer to cancel the contract at will and none guarantee volumes or order levels. A significant reduction of purchases by any of Pollard's largest customers could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations including the amount of cash available for dividends to shareholders.

Exchange Rate Fluctuation

A significant portion of Pollard's revenues are denominated in foreign currencies, primarily U.S. dollars and Euros, as well as expenses, principally related to its U.S. operations and to the purchase of raw materials, which are denominated in U.S. dollars. Furthermore, although certain raw materials may be purchased in Canadian dollars, they may have inputs that are denominated in foreign currencies. Any changes in the exchange rate between the Canadian dollar and these foreign currencies could have a material effect on the results of Pollard.

For the purposes of financial reporting, any change in the value of the Canadian dollar against the U.S. dollar and Euro during a given financial reporting period would result in a foreign exchange loss or gain on their translation into Canadian dollar equivalent. Further, Pollard's reported earnings could fluctuate materially as a result of revenues and expenses denominated in foreign currencies under Canadian GAAP. There can be no assurance that changes in the currency exchange rate will not have a material adverse effect on Pollard or on its ability to maintain a consistent level of dividends in Canadian dollars.

Additional Capital Requirements

Pollard believes that its future operating income will be sufficient to fund operations and planned capital expenditures. However, Pollard may be required to raise additional capital in the future if it decides to make additional acquisitions or significant additional capital expenditures.

The availability of future borrowings and access to capital markets for longer-term future financing depends on prevailing conditions and the acceptability of financing terms offered. There can be no assurances that future borrowings or equity financing will be available or available on acceptable terms.

Competition

The instant ticket and charitable gaming business is highly competitive, and Pollard faces competition from a number of domestic and foreign instant ticket manufacturers and other competitors. Pollard currently has two instant ticket competitors in North America: Scientific Games Corporation and Gtech Printing Corporation. Charitable gaming competitors include a number of manufacturers such as Arrow International, Inc. and International Gamco, Inc. Internationally, there are a number of lottery instant ticket vendors which compete with Pollard including Scientific Games, Gtech, and the Eagle Press Group of Companies.

Some of Pollard's competitors have longer operating histories, greater name recognition, larger customer bases and greater financial, technical and marketing resources than Pollard. These resources may allow them to respond more quickly than Pollard can to new or emerging technologies and to changes in customer requirements. It may also allow them to devote greater resources than Pollard can to the development, promotion and sale of their products. Pollard's competitors may also engage in more extensive research and development, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies. The market for Pollard's products is highly competitive at both the lottery and charitable gaming levels. Pollard expects competition to continue to be intense. Pollard also faces competition from emerging and existing lottery and charitable gaming products, such as internet gaming products and video lottery terminals. Competition from these and other gaming products may weaken demand for Pollard’s products.

Licensing and Regulatory Requirements

Pollard is subject to regulation in most jurisdictions in which its products are sold or used by persons or entities licensed to conduct gaming activities. The gaming regulatory requirements vary from jurisdiction to jurisdiction and licensing, other approval or finding of suitability processes with respect to Pollard, its personnel and its products, can be lengthy and expensive. Many jurisdictions have comprehensive licensing, reporting and operating requirements with respect to the sale and manufacture of bingo and bingo related products, including bingo paper and pull-tab tickets. These licensing requirements have a direct impact on the conduct of the day-to-day operations of Pollard. Generally, gaming regulatory authorities may deny applications for licenses, other approvals or findings of suitability for any cause they may deem reasonable. There can be no assurance that Pollard, its products or its personnel will receive or be able to maintain any necessary gaming licenses, other approvals or findings of suitability. The loss of a license in a particular jurisdiction will prohibit Pollard from selling products in that jurisdiction and may prohibit Pollard from selling its products in other jurisdictions. The loss of one or more licenses held by Pollard could have an adverse effect on the business.

Certain jurisdictions require extensive personal and financial disclosure and background checks from persons and entities beneficially owning a specific percentage (typically five percent or more) of a vendor's securities. The failure of beneficial owners of Pollard's securities to submit to background checks and provide such disclosure could result in the imposition of penalties upon these beneficial owners and could jeopardize the award of a lottery contract to Pollard or provide grounds for termination of an existing lottery contract.

Income and Other Taxes

Pollard and its incorporated subsidiaries are subject to Canadian federal and provincial, and U.S. federal, state and withholding taxes. As taxing regimes change their tax basis and rates or initiate reviews of prior tax returns, Pollard could be exposed to increased costs of taxation, which would reduce the amount of funds available for operations.

Intellectual Property

Pollard's commercial success depends, in part, on its ability to secure and protect intellectual property rights that are important to its business, including patent, trademark, copyright and trade secret rights, to operate without infringing third party intellectual property rights and to avoid having third parties circumvent the intellectual property rights that Pollard owns or licenses. In particular, the patents and trademarks Pollard owns or licenses may not be valid or enforceable. In addition, Pollard cannot be certain that its proprietary technology affords a competitive advantage, does not infringe third party rights, or will not need to be altered in response to competing technologies. Pollard also cannot be certain that technologies developed in the future will be the subject of valid and enforceable intellectual property rights.

In addition, litigation may be necessary to determine the scope, enforceability and validity of third party intellectual property rights or to establish Pollard's intellectual property rights. Regardless of merit, any such litigation could be time consuming and expensive, divert management's time and attention, subject Pollard to significant liabilities, require Pollard to enter into costly royalty or licensing agreements, or require Pollard to modify or stop using intellectual property that it owns or licenses.

Interest Rates

Pollard has certain floating rate loans and may be negatively impacted by increases in interest rates, the effects of which would be to reduce net income and the amount of cash available for operations and on its ability to maintain a consistent level of dividends in Canadian dollars.

Future Acquisition and Integration Risks

To grow by acquisition, Pollard must identify and acquire suitable acquisition candidates at attractive prices and successfully integrate any acquired businesses with its existing operations. If the expected synergies from acquisitions do not materialize or Pollard fails to successfully integrate any new businesses into its existing business, Pollard's financial performance could be significantly impacted. To the extent that businesses acquired by Pollard or their prior owners failed to comply with or otherwise violated applicable laws, Pollard, as a successor owner, may be financially responsible for these violations.

In connection with future acquisitions by Pollard, there may be liabilities that Pollard failed or was unable to discover in its due diligence prior to the consummation of the acquisition. The discovery of any material liabilities could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations or future prospects.

Financial Instruments

Pollard is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates, liquidity risk and credit risk. Pollard uses financial instruments, from time to time, to manage these risks.

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls to monitor risks and adherence to limits. The Audit Committee oversees how management monitors compliance with Pollard's risk management policies and procedures. The Audit Committee is assisted in its oversight role by Internal Audit, who undertakes regular reviews of risk management controls and utilizes the annual risk assessment process as the basis for the annual audit plan.

Risk Exposure

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to international customers where sales are denominated in U.S. dollars. In addition, a significant portion of its cost inputs are denominated in U.S. dollars. Pollard also generates revenue in currencies other than Canadian and U.S. dollars, primarily in Euros.

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time.

Interest rate risk

Pollard is exposed to interest rate risk relating to its fixed and floating rate instruments. Fluctuation in interest rates will have an effect on the valuation and repayment of these instruments.

Credit risk

Credit risk in the risk of financial loss if a customer or counterpart to a financial instrument fails to meet its financial obligations.

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due.

Risk Management

Currency risk

Pollard utilizes a number of tools to manage its foreign currency risk including sourcing its manufacturing facilities in the U.S. and sourcing other cost of sales in U.S. dollars.

A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and U.S. dollar would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $0.09 million for year ended December 31, 2014 (2013 - $0.07 million). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian dollar and Euro would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $0.02 million for year ended December 31, 2014 (2013 - $0.06 million).

Two manufacturing facilities are located in the U.S. and a significant amount of cost inputs for all production facilities are denominated in U.S. dollars, offsetting a large portion of the U.S. dollar revenue in a natural hedge.

In addition, Pollard has entered into foreign currency contracts to exchange US$1.0 million each month for approximately $1.065 million for 18 consecutive months from December 2013 to May 2015. At December 31, 2014, the remaining open foreign currency contracts have been recognized at fair value in the statement of financial position as a $0.5 million liability.

A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in income before income taxes of approximately $0.03 million for the year ended December 31, 2014 (2013 - $0.09 million), due to the change in value of the mark-to-market value of the U.S. foreign currency contracts.

As at December 31, 2014, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately $7.9 million ($2013 - $3.4 million). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in income before income taxes of approximately $0.04 million (2013 - $0.02 million)

Interest rate risk

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of $0.3 million for the year ended December 31, 2014 (2013 - $0.4 million).

Credit risk

Credit risk on Pollard's accounts receivable is minimized since they are mainly from governments and their agencies and are collected in a relatively short period of time. Credit risk on foreign currency contracts is minimized since the counterparties are restricted to Schedule 1 Canadian financial institutions.

The carrying amount of accounts receivable is reduced through the use of an allowance account and any adjustment to the allowance account is recognized in the statement of income within selling and administration expense. When a receivable balance is considered uncollectible, it is written off against the allowance account.

Liquidity risk

Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. Pollard maintains a committed credit facility including up to $71.8 million for its Canadian operations, as well as the additional term facility of $4.8 million available to finance a portion of the new printing press, and up to US$10.0 million for its U.S. subsidiaries. At December 31, 2014, the unused balance available for drawdown was $17.8 million (2013 - $9.4 million).

The 2015 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Outlook

The outlook for both our industry and Pollard for 2015 is very positive. The lottery industry continues to generate robust growth, particularly in the instant ticket product line. Consumer demand for instant tickets remains strong and this trend is anticipated to continue. Government jurisdictions continue to look for ways to generate increased funds for their good causes and instant tickets continue to be a key mechanism to accomplish this goal. Recent industry data has shown retail sales growth of instant tickets in the 6-8% range in 2014.

Our current contract portfolio is strong and will support our anticipated level of business as we benefit from a full year of volumes from our new contracts won during 2014. We have no major contracts coming due in 2015 when extensions are considered and we will strategically tender for other lottery contracts that come up for bid.

We anticipate our production volumes remaining at similar levels to that of 2014 in the first half of the year prior to our new press coming on stream. We will work diligently to build our volume once the press line is fully operational. Contracts usually run on a 3-5 year cycle so the buildup of additional volumes will follow a disciplined and strategic approach.

Our average selling prices have trended positively over the last two years and we expect this to continue. Strong sales of our value added proprietary products are forecasted to continue as lotteries have recognized the additional return on investment to be earned when utilizing our key products such as Scratch FX® or our unique PlayBook® offerings. The success of these products underlines the importance of innovation in our industry and we will focus on ongoing research and development initiatives including using a structured development process to maximize our innovation success. Products such as our exclusive PlayAround™ Fold-Over ticket and our environmentally friendly Eco Scratch™ instant ticket are just two examples of recent products currently gaining traction in the marketplace.

The Michigan Lottery iLottery site will continue to evolve from start-up to a more mature operation and we are hopeful the initial success experienced in 2014 will continue going forward. We expect the iLottery market in the United States will grow as more lotteries make the decision to develop this distribution method and we will look to replicate our success in Michigan to other jurisdictions.

Licensed games sales vary based on the timing and availability of certain licensed properties and 2015 revenue for this product line is anticipated to be slightly lower than the last two years of record levels. We are actively sourcing new licensed properties that will resonate in the lottery space and will be vigorously promoting our current best sellers such as Frogger and Tetris®.

As our lottery customers expand the breadth and sophistication of their product offerings, we have renewed our focus on utilizing strategic alliances with outside organizations to expand and grow our own expertise, including more actively pursuing acquisition opportunities to bring additional value added capability to Pollard.

The weakening of the Canadian dollar has provided additional positive impacts on our net operating cash flow during 2014 and this ongoing trend will have a positive effect on future net cash flows. A weaker

Canadian dollar also allows us to be more competitive in bidding for new work which will be important as our new capacity comes on stream later in 2015.

Our new press expansion project continues to track on time with a commissioning planned for the second quarter of 2015. The new press line will add significant new capacity to our production capability and additionally will provide improved efficiencies and lower per unit costs on our existing volumes.

We will continue on our ERP system development during the next year and anticipate the initial roll out to begin during the second quarter of 2015, with a number of modules being implemented over the last half of 2015. Implementation of our ERP system and related management processes will provide a foundation to maximize returns on both our existing operations and the new press expansion.

Budgeted capital expenditures for 2015 are expected to be lower than the levels of expenditures incurred in 2014, although still higher than historical levels due to the completion of the press expansion and ERP projects.

We anticipate our internal operating cash flow over the next year generating sufficient funds to satisfy all of our requirements including the capital expenditures required to complete our new press line expansion and the implementation of our ERP system initiative. Our current credit facility provides flexibility and capacity to support our various strategic initiatives and any additional excess cash inflow 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") regarding the design and effectiveness of the disclosure controls and procedures. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the disclosure controls and procedures as defined in National Instrument 52-109 are designed appropriately and are effective at providing 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 and effectiveness of the internal controls over financial reporting. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the internal controls over financial reporting as defined in National Instrument 52-109 are designed appropriately and are effective at providing reasonable assurance of achieving the financial reporting objectives.

No changes were made in Pollard's internal control over financial reporting during the year ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

Additional Information

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

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form for the year ended December 31, 2014, is available on SEDAR at www.sedar.com.

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