

**POLLARD BANKNOTE
REPORTS STRONG GROWTH IN
REVENUE AND ADJUSTED EBITDA**

WINNIPEG, Manitoba, November 10, 2014 /CNW/ — Pollard Banknote Limited (TSX: PBL) (“Pollard”) today released its financial results for the three and nine months ended September 30, 2014, with Adjusted EBITDA for the quarter increasing to \$7.3 million, up \$1 million (16%) from the prior year.

“Our strong financial results achieved in the third quarter reflect our continuing commitment to providing our customers with innovative and successful products,” said John Pollard, Co-Chief Executive Officer. “Our proprietary Scratch FX® instant tickets and unique PlayBook® products achieved record sales during the quarter and were a key factor in boosting our revenue to over \$53 million, the highest quarterly revenue figure in our 9 years as a public company.”

“Higher revenue, coupled with our ongoing focus on cost control and production efficiencies, increased our underlying operating earnings as reflected by Adjusted EBITDA to more than \$7.3 million, our highest level in over 6 years.”

“The excitement generated amongst our lottery partners by our many leading edge products is truly satisfying for our organization and we look forward to continuing to be the partner of choice for lotteries in pursuing their goal of generating greater proceeds for good causes.”

“Our new printing press project is proceeding on plan with an anticipated full commissioning in the second quarter of 2015. The implementation and soft launch start-up of the Michigan Lottery’s iLottery internet site took place during the third quarter and preliminary results look very promising. These two key initiatives provide a strong foundation for the continued growth and success of our company.”

“Our net financial position improved during the quarter with significant levels of free cash flow generated despite large investments made in a number of areas including digital products, iLottery and scheduled installments on our new press project.”

HIGHLIGHTS

	<u>3rd Quarter ended September 30, 2014</u>	<u>3rd Quarter ended September 30, 2013</u>
Sales	\$ 53.5 million	\$ 48.1 million
Gross profit	\$ 11.1 million	\$ 9.7 million
<i>Gross profit % of sales</i>	<i>20.7%</i>	<i>20.2%</i>
Administration expenses	\$ 4.3 million	\$ 3.9 million
Selling expenses	\$ 1.8 million	\$ 1.9 million
Income from operations	\$ 5.1 million	\$ 3.9 million
Net income	\$ 1.7 million	\$ 2.6 million
Adjusted EBITDA	\$ 7.3 million	\$ 6.3 million
	<u>Nine months ended September 30, 2014</u>	<u>Nine months ended September 30, 2013</u>
Sales	\$ 151.3 million	\$ 137.4 million
Gross profit	\$ 31.3 million	\$ 26.0 million
<i>Gross profit % of sales</i>	<i>20.7 %</i>	<i>18.9%</i>
Administration expenses	\$ 12.4 million	\$ 11.0 million
Selling expenses	\$ 5.1 million	\$ 5.1 million
Income from operations	\$ 14.0 million	\$ 10.0 million
Net income	\$ 6.7 million	\$ 4.6 million
Adjusted EBITDA	\$ 20.0 million	\$ 16.4 million

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 tickets based in Canada and the second largest producer of instant tickets in the world.

SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	\$53.5	\$48.1	\$151.3	\$137.4
Cost of sales	42.4	38.4	120.0	111.4
Gross profit	11.1	9.7	31.3	26.0
Administration expenses	4.3	3.9	12.4	11.0
Selling expenses	1.8	1.9	5.1	5.1
Other income	(0.1)	-	(0.2)	(0.1)
Income from operations	5.1	3.9	14.0	10.0
Finance costs	2.0	0.9	4.5	3.1
Finance income	-	(0.5)	(0.9)	(0.5)
Income before income taxes	3.1	3.5	10.4	7.4
Income taxes:				
Current	1.2	0.8	2.9	1.6
Deferred	0.2	0.1	0.8	1.2
	1.4	0.9	3.7	2.8
Net income	\$1.7	\$2.6	\$6.7	\$4.6
Adjustments:				
Amortization and depreciation	2.0	2.0	5.9	5.9
Interest	0.7	0.8	2.2	2.6
Mark-to-market loss on foreign currency contracts	0.3	-	0.1	-
Unrealized foreign exchange loss	0.6	-	0.8	0.5
Start-up costs iLottery operations	0.6	-	0.6	-
Income taxes	1.4	0.9	3.7	2.8
Adjusted EBITDA	\$7.3	\$6.3	\$20.0	\$16.4

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

The previous selected financial and operating information has been derived from, and should be read in conjunction with, the condensed consolidated unaudited interim financial statements of Pollard, as at and for the three and nine months ended September 30, 2014. These financial statements have been prepared in accordance with International Financial Accounting Standards ("IFRS" or "GAAP").

Results of Operations – Three months ended September 30, 2014

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

- Instant ticket volumes for the third quarter of 2014 were higher than the third quarter of 2013 by 2.8% which increased sales by \$1.1 million. Lower sales volumes to the New Jersey Lottery, as previously disclosed, were more than offset by growth in sales volumes to a number of other customers. Offsetting this increase was a decrease in our ancillary instant ticket products and services of \$1.1 million. In addition, partially as a result of increased sales of proprietary products including Scratch FX[®] games and PlayBooks[®] in 2014, the instant ticket average selling price was higher than 2013 which increased sales by \$4.4 million. Charitable gaming volumes improved during the quarter increasing sales by \$0.3 million when compared to 2013, while a decrease in the average selling price reduced sales by \$0.4 million when compared to the third quarter of 2013.
- During the three months ended September 30, 2014, Pollard generated approximately 57.9% of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the third quarter of 2014 the actual U.S. dollar value was converted to Canadian dollars at \$1.075, compared to a rate of \$1.044 during the third quarter of 2013. This 2.9% increase in the U.S. dollar value resulted in an approximate increase of \$0.9 million in revenue relative to the third quarter of 2013. Also during the third quarter of 2014, the Canadian dollar weakened against the Euro resulting in an approximate increase of \$0.2 million in revenue relative to the third quarter of 2013.

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

Gross profit was \$11.1 million (20.7% of sales) in the third quarter of 2014 compared to \$9.7 million (20.2% of sales) in the third quarter of 2013. This increase was due mainly to the increased average selling price of instant tickets and increased sales volumes of

instant tickets. Gross profit excluding non-recurring iLottery start-up costs was \$11.7 million (21.9% of sales).

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

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

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

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

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

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

Income tax expense was \$1.4 million in the third quarter of 2014, an effective rate of 46.1%, due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The weakening of the Canadian dollar versus the U.S. dollar results in a future gain on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax expense with no related income (as the gain is eliminated on consolidation). This increased the consolidated provision percentage by about 18%. Other differences relating to changes in the expected income tax rate increased the provision by approximately 1.4%.

Income tax expense was \$0.9 million in the third quarter of 2013, an effective rate of 24.9%, compared to the statutory rate of 26.3%, due to permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

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

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

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

Results of Operations – Nine months ended September 30, 2014

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

- The higher instant ticket average selling price increased sales by \$5.5 million in the first nine months of 2014 compared to the first nine months of 2013. This increase is partially a result of increased sales of proprietary products including Scratch FX[®] games and PlayBooks[®] in 2014. While instant ticket sales volumes remained consistent with 2013, higher sales of our ancillary instant ticket products and services increased sales by \$1.5 million from the nine months of 2013. Lower sales volumes to the New Jersey Lottery, as previously disclosed, were offset by growth in sales volumes to a number of other customers. Charitable gaming volumes were higher than the first nine months of 2013 increasing sales by \$1.1 million, which was offset by the decrease in average selling price reducing sales by \$1.1 million. A decrease in machine volumes in the first nine months of 2014 decreased sales by \$0.1 million when compared to 2013.
- During the nine months ended September 30, 2014, Pollard generated approximately 62.8% of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first nine months of 2014 the actual U.S. dollar value was converted to Canadian dollars at \$1.087, compared to a rate of \$1.022 during the first nine months of 2013. This 6.3% increase in the U.S. dollar value resulted in an approximate increase of \$5.6 million in revenue relative to the first nine months of 2013. In addition, during the nine months ended September 30, 2014, the weakening of the Canadian dollar against the Euro resulted in an approximate increase of \$1.4 million in revenue relative to the first nine months of 2013.

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

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

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

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

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

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

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

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

Income tax expense was \$3.7 million in the first nine months of 2014, an effective rate of 36.0%, due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The weakening of the Canadian dollar versus the U.S. dollar results in a future gain on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax expense with no related income (as the gain is eliminated on consolidation). This increased the consolidated provision percentage by about 7.2%. Other differences relating to changes in the expected income tax rate increased the provision by approximately 2.1%.

Income tax expense was \$2.8 million in the first nine months of 2013, an effective rate of 38.2%, compared to the statutory rate of 26.3%, due to permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Amortization and depreciation, including amortization of deferred financing costs and intangible assets, and depreciation of property and equipment, was \$5.9 million during the first nine months of 2014 which was similar to \$5.9 million during the first nine months of 2013.

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

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

Use of Non-GAAP Financial Measures

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

Adjusted EBITDA is a measure not recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, this measure may not be comparable to similar measures presented by other entities. Investors are cautioned that

Adjusted EBITDA should not be construed as an alternative to net income determined in accordance with GAAP as an indicator of Pollard's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

Outlook

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

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

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

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

We anticipate sales of a number of our license game products such as NASCAR® to create excitement in 2015. Digital sales relating to the "space between" (i.e. the space between traditional bricks and mortar retail sales distribution and pure internet electronic sales) continue to provide important opportunities for sales growth. Digital apps mirroring the

actual instant tickets, second chance drawings for non-winning tickets and services such as loyalty clubs linked to retail players are all examples of the expanding product line required by lotteries and areas on which Pollard is focusing resources to build on its instant ticket growth.

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

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

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

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

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

Pollard believes our ongoing cash flow from operations, our current bank facility capacity and our subordinated debt facility will be sufficient to allow it to meet ongoing

requirements for investment in capital expenditures, working capital and dividends at existing business levels.

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.

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