

Consolidated Financial Statements of

**POLLARD BANKNOTE
LIMITED**

Years ended December 31, 2014 and 2013



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pollard Banknote Limited

We have audited the accompanying consolidated financial statements of Pollard Banknote Limited, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pollard Banknote Limited as at December 31, 2014 and 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 10, 2015

Winnipeg, Canada

Pollard Banknote Limited
Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

	December 31, 2014	December 31, 2013
Assets		
Current assets		
Cash	\$ 6,287	\$ 7,774
Accounts receivable	21,930	22,779
Inventories (note 6)	24,908	21,281
Prepaid expenses and deposits	3,275	2,012
Total current assets	56,400	53,846
Non-current assets		
Property, plant and equipment (note 7)	40,723	28,918
Equity investment (note 8)	-	167
Goodwill (note 9)	36,600	36,111
Intangible assets (note 10)	13,292	13,532
Deferred income taxes (note 11)	2,304	801
Total non-current assets	92,919	79,529
Total assets	\$ 149,319	\$ 133,375

	December 31, 2014	December 31, 2013
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 21,225	\$ 18,074
Dividends payable	706	706
Income taxes payable	2,871	1,795
Foreign currency contracts (note 26)	483	-
Current portion long-term debt (note 12)	902	-
Total current liabilities	26,187	20,575
Non-current liabilities		
Long-term debt (note 12)	68,242	73,345
Subordinated debt (note 13)	6,813	-
Other non-current liabilities	375	205
Foreign currency contracts (note 26)	-	412
Pension liability (note 14)	11,942	2,824
Deferred income taxes (note 11)	1,845	2,374
Total non-current liabilities	89,217	79,160
Shareholders' equity		
Share capital (note 15)	73,209	73,209
Reserves	1,456	219
Deficit	(40,750)	(39,788)
Total shareholders' equity	33,915	33,640
Commitments and contingencies (note 16)		
Total liabilities and shareholders' equity	\$ 149,319	\$ 133,375

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"D.C. Crewson" Director

"John Pollard" Director

Pollard Banknote Limited
Consolidated Statements of Income
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31

	2014		2013	
Sales	\$	194,471	\$	184,937
Cost of sales		153,401		149,745
Gross profit		41,070		35,192
Administration		16,951		15,241
Selling		6,887		6,763
Other income (note 17)		(303)		(356)
Income from operations		17,535		13,544
Finance costs (note 18)		5,998		4,697
Finance income (note 18)		(959)		(516)
Income before income taxes		12,496		9,363
Income taxes (note 11)				
Current		3,072		2,193
Deferred		678		1,722
		3,750		3,915
Net income	\$	8,746	\$	5,448
Net income per share (basic) (note 19)	\$	0.37	\$	0.23
Net income per share (diluted) (note 19)	\$	0.37	\$	0.23

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited
Consolidated Statements of Comprehensive Income
(In thousands of Canadian dollars)

Years ended December 31

	2014	2013
Net income	\$ 8,746	\$ 5,448
Other comprehensive income (loss)		
Items that are or may be reclassified to profit and loss		
Foreign currency translation differences – foreign operations	1,237	1,045
Items that will never be reclassified to profit and loss		
Defined benefit plans remeasurements, net of income tax (reduction) of (\$2,704) and \$1,517 (note 11 & note 14)	(6,916)	3,962
Other comprehensive income (loss) – net of income tax	(5,679)	5,007
Comprehensive income	\$ 3,067	\$ 10,455

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited
Consolidated Statements of Changes in Equity
(In thousands of Canadian dollars)

Year ended December 31, 2014

	Attributable to equity holders of Pollard Banknote Limited			
	Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2014	\$ 73,209	219	(39,788)	33,640
Net income	-	-	8,746	8,746
Other comprehensive income				
Foreign currency translation differences – foreign operations	-	1,237	-	1,237
Defined benefit plans remeasurements, net of income tax reduction of (\$2,704)	-	-	(6,916)	(6,916)
Total other comprehensive income	\$ -	1,237	(6,916)	(5,679)
Total comprehensive income	\$ -	1,237	1,830	3,067
Share based compensation (note 15)	-	-	33	33
Dividends to owners of Pollard Banknote Limited	-	-	(2,825)	(2,825)
Balance at December 31, 2014	\$ 73,209	1,456	(40,750)	33,915

Year ended December 31, 2013

	Attributable to equity holders of Pollard Banknote Limited			
	Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2013	\$ 73,209	(826)	(46,373)	26,010
Net income	-	-	5,448	5,448
Other comprehensive income				
Foreign currency translation differences – foreign operations	-	1,045	-	1,045
Defined benefit plans remeasurements, net of income tax of \$1,517	-	-	3,962	3,962
Total other comprehensive income	\$ -	1,045	3,962	5,007
Total comprehensive income	\$ -	1,045	9,410	10,455
Dividends to owners of Pollard Banknote Limited	-	-	(2,825)	(2,825)
Balance at December 31, 2013	\$ 73,209	219	(39,788)	33,640

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited
Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

Years ended December 31

	2014	2013
Cash increase (decrease)		
Operating activities		
Net income	\$ 8,746	\$ 5,448
Adjustments		
Income taxes	3,750	3,915
Amortization and depreciation	7,898	8,580
Interest expense	2,875	3,349
Unrealized foreign exchange loss	1,682	993
Loss on equity investment	167	37
Mark-to-market loss on foreign currency contracts	71	412
Interest paid	(3,066)	(3,392)
Income tax paid	(2,086)	(1,176)
Change in pension liability	(574)	(1,736)
Change in non-cash operating working capital (note 21)	(604)	(4,110)
	18,859	12,320
Investing activities		
Additions to property, plant and equipment	(17,573)	(4,604)
Additions to intangible assets	(1,221)	(3,766)
	(18,794)	(8,370)
Financing activities		
Net proceeds from (repayments of) long-term debt	(5,539)	1,787
Proceeds from subordinated debt (note 13)	6,813	-
Change in other non-current liabilities	143	(6)
Additions to deferred financing charges	(193)	(180)
Dividends paid	(2,825)	(2,825)
	(1,601)	(1,224)
Foreign exchange gain on cash held in foreign currency	49	66
Change in cash position	(1,487)	2,792
Cash position, beginning of year	7,774	4,982
Cash position, end of year	\$ 6,287	\$ 7,774

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2014 and 2013

1. Reporting entity:

Pollard Banknote Limited ("Pollard") was incorporated under the laws of Canada on March 26, 2010. The address of Pollard's registered office is 1499 Buffalo Place, Winnipeg, Manitoba, Canada, R3T 1L7.

The consolidated financial statements of Pollard as at and for the year ended December 31, 2014, comprise Pollard and its subsidiaries and its interest in an associate.

Pollard is primarily involved in the manufacture, development and sale of lottery and gaming products.

The controlling party of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owns approximately 73.5% of Pollard's outstanding shares.

On January 1, 2015, Pollard completed an amalgamation of all its Canadian based subsidiaries, including Pollard Holdings Limited Partnership and Pollard Banknote Limited Partnership.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

On March 10, 2015, Pollard's Board of Directors approved these consolidated financial statements.

(b) Basis of preparation:

These consolidated financial statements have been prepared on a historical cost basis, except for the following material items in the statement of financial position:

- Derivative financial instruments are measured at fair value;
- The pension liability is recognized as the net total of the fair value of plan assets less the present value of the defined benefit obligation.

These statements are presented in Canadian dollars, Pollard's functional currency, and all values are rounded to the nearest thousand (except share and per share amounts) unless otherwise indicated.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2014 and 2013

2. Basis of preparation (continued):

(c) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Information about judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next period are as follows:

Impairment of goodwill:

Pollard determines whether goodwill is impaired at least on an annual basis. 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. Judgment is required in determining the level at which to test goodwill, including the grouping of assets that generate cash inflows. Further details are provided in note 9.

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. See note 14 for further information.

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. Further details are provided in note 11.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2014 and 2013

3. Changes in accounting policies:

Except for the change below, Pollard has consistently applied the accounting policies set out in note 4 to all periods presented in these consolidated financial statements. The following amendment did not have a material impact on the consolidated financial statements.

In December 2011, the International Accounting Standards Board ("IASB") issued an amendment to the application guidance in IAS 32 *Financial Instruments: Presentation* to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The amendments do not change the current offsetting model in IAS 32 but instead clarify that the right of offset must not be contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendments also clarify that for settlement mechanisms with features that both eliminate credit and liquidity risk and process receivables and payables in a single settlement process, are effectively equivalent to net settlement. The clarifications to the application guidance in IAS 32 are to be retrospectively applied, with an effective date for annual periods beginning on or after January 1, 2014.

4. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Principles of consolidation:

These consolidated financial statements include the accounts of Pollard and all its subsidiaries. Subsidiaries are entities which are under Pollard's control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefits from its activities. Pollard holds 100% of the voting rights in, and therefore controls, its subsidiaries.

Significant subsidiaries:	Percent Ownership Interest	
	December 31, 2014	December 31, 2013
Pollard Holdings Limited Partnership	100	100
Pollard Banknote Limited Partnership	100	100
Pollard Holdings, Inc.	100	100
Pollard (U.S.) Ltd.	100	100
Pollard Games, Inc.	100	100
Pollard iLottery Inc.	100	n/a

On January 1, 2015, Pollard completed an amalgamation with all its Canadian based subsidiaries, including Pollard Holdings Limited Partnership and Pollard Banknote Limited Partnership.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

Pollard has entered into a contractual joint agreement with Neogames S.à r.l. for the operation of iLottery gaming. As such Pollard has recognized in relation to its interest in the joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

All inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, have been eliminated.

(b) Revenue recognition:

Revenue is recognized when persuasive evidence of an arrangement exists, significant risks and benefits of ownership are transferred, the sales price to the customer is fixed or is determined and collection of the resulting receivable is reasonably assured. The significant risks of ownership and benefits of ownership are normally transferred in accordance with the shipping terms agreed to with the customer. In some instances, revenue is recognized when the customers' tickets are sold at retail. Volume rebates are accrued and recorded as a reduction to sales based on historical experience and management's expectations regarding sales volume. Revenues relating to license and royalty sales and lottery management services are recognized pursuant to the terms of the applicable contracts.

(c) Leases:

One of Pollard's subsidiaries has leasing operations which consist principally of the leasing of Pull-Tab Vending Machines ("PTVM") with various private establishments. These leases are classified as finance leases. The PTVM leases have terms of three years. The net investment in these leases consists of the present value of the future minimum lease payments. Interest income is recognized in other income based on a pattern reflecting a constant periodic return on the net investment in the finance lease.

(d) Inventories:

Raw materials, work-in-process and finished goods are valued at the lower of cost and net realizable value. The cost of raw material inventory is based on its weighted average cost and includes all costs incurred to acquire the materials. In addition to the direct costs of conversion, the cost of work-in-process and finished goods, which Pollard manufactures, also includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

(e) Goodwill:

Goodwill is comprised of the excess sale price over the underlying carrying amount of the net assets sold as at August 5, 2005, as part of the 26.7% of Pollard Holdings Limited Partnership ("Pollard LP") sold in conjunction with the Initial Public Offering ("IPO") and the excess purchase price over the underlying carrying amount of the net assets acquired of Pollard's U.S. subsidiaries. Goodwill is not amortized but is subject to an annual impairment review to ensure its recoverable value remains greater than, or equal to, book value.

(f) Intangible assets:

Deferred development:

Development expenditures are recognized as an intangible asset only if Pollard can demonstrate that the development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and Pollard has sufficient resources to complete development and to use or sell the asset. The expenditures capitalized include the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use and borrowing costs incurred in respect of qualifying assets. Other development expenditures are expensed as incurred.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

Computer software and licenses:

Computer software consists of the cost of acquiring and implementing these systems. Cost of implementation include third party costs as well as direct labour and related overhead costs attributable to the asset. Minimum license fees incurred in connection with our licensing agreements for our use of third-party brands are capitalized and amortized over the estimated life of the asset.

Capitalized computer software costs and licenses are measured at cost less accumulated amortization and accumulated impairment losses.

Other intangible assets:

Intangible assets that are acquired by Pollard and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

Intangible assets are amortized, on a straight-line basis, over their estimated useful lives as follows:

Asset	Rate
Customer assets	16 years
Patents	20 years
Computer software and licenses	5 to 7 years or term of license
Deferred development	2 to 7 years

Amortization methods, estimated useful lives and residual value are reviewed each annual reporting date and adjusted prospectively if appropriate.

(g) Property, plant and equipment:

Property, plant and equipment ("PP&E") are stated at cost less investment tax credits, accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and related fringes, other costs directly attributable to bringing the assets to working condition for their intended use and borrowing costs incurred in respect to qualifying assets. Major spare parts are treated as PP&E when they have a useful life greater than a year. Once major spare parts are put in service, they are transferred into equipment and amortized accordingly.

An item of PP&E is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on disposal of an item of PP&E is determined by comparing the proceeds from disposal with the carrying value of the PP&E and is recognized in the statement of income on a net basis.

The cost of each component of an item of PP&E is depreciated over its estimated useful life on a straight-line basis, commencing the date it is ready for use. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Asset	Rate
Buildings	10 to 30 years
Leasehold improvements	Term of lease
Equipment	2 to 11 years
Furniture, fixtures and computers	3 to 9 years

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

Depreciation methods, useful lives and residual values are reviewed each annual reporting date and adjusted prospectively if appropriate.

The carrying value of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(h) Investment in associate:

Pollard accounts for its investment in associate using the equity method of accounting as it has significant influence, but not control. Significant influence is presumed to exist when Pollard holds between 20 and 50 percent of the voting power of another entity. The consolidated financial statements include Pollard's share of the income and expenses and equity movements of the entity accounted for under the equity method of accounting, which are recorded on a three month delayed basis.

(i) Investment in joint operation:

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require consent of both parties.

The consolidated financial statements include Pollard's interest in the iLottery joint operations: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

(j) Financial instruments:

Non-derivative financial assets

Pollard initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which Pollard becomes a party to the contractual provisions of the instrument. Pollard derecognizes a financial asset when the contractual rights to the cash flows from the asset expire.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

Financial assets and liabilities are offset and the net amount presented on the statement of financial position when, and only when, Pollard has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Pollard classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Attributable transaction costs are recognized in net income as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income. Pollard has no non-derivative financial assets classified as financial assets at fair value through profit or loss.

ii) Held-to-maturity financial assets

If Pollard has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Pollard has no financial assets classified as held-to-maturity.

iii) Loans and receivables

Loans and receivables are financial assets with fixed or determined payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses, and the net gain or loss is included in finance income. Pollard has classified cash and accounts receivable as loans and receivables.

iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign exchange differences, are recognized in other comprehensive income and are presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to net income. Pollard has no financial assets classified as available-for-sale.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

Non-derivative financial liabilities

All non-derivative financial liabilities are classified as other financial liabilities and are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method and the net gain or loss is included in finance costs.

Pollard classifies accounts payable and accrued liabilities, dividends payable, long-term debt, subordinated debt and other non-current liabilities as other financial liabilities.

Share Capital

Common stock is classified as equity. Incremental costs directly attributable to the issue of common stock are recognized as a deduction from equity, net of any tax effects.

Derivatives and hedge accounting

Pollard may use certain derivative financial instruments to manage risks of fluctuation in interest rates and foreign exchange rates. On initial designation of the derivative as the hedging instrument, Pollard formally documents the relationship between the hedging instrument and the hedging item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. Pollard makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the change in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent.

Derivatives are recognized initially at fair value and attributable transaction costs are recognized in net income as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes are accounted for as follows:

i) Cash flow hedges

When a derivative financial instrument is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in fair value of the derivative is recognized immediately in net income. If the hedging instrument no longer meets the criteria for hedge accounting, then hedge accounting is discontinued prospectively. This results in the amortization of the

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

respective derivative's cumulative changes in fair value in the hedging reserve, over the remaining term of the derivative. Any adjustments to fair value after discontinuing hedge accounting are recognized immediately in net income as finance income or loss.

ii) Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognized immediately in net income as finance income or loss.

(k) Translation of foreign currencies:

The functional currency for each of Pollard's subsidiaries is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the respective functional currencies of each entity within the consolidated group using the exchange rates in effect at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates prevailing at the end of the reporting period. Non-monetary items measured at historical cost in a foreign currency are translated to the functional currency using the exchange rate prevalent at the date of acquisition. Non-monetary items denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate prevalent at the date that the fair value was determined. Foreign currency differences arising from translation are recognized in net income, except for exchange differences arising on the translation of financial instruments qualifying as a cash flow hedge, which are recognized directly in other comprehensive income ("OCI").

The results and financial position of entities within the consolidated group that have a functional currency different from the presentation currency are translated into Canadian dollars as follows: assets and liabilities are translated at the exchange rate prevailing at the end of the reporting period; income and expenses are translated at the average rate for the reporting period; all resulting exchange differences are recognized in OCI. On disposal of a foreign operation, the deferred cumulative amount recognized in OCI relating to that particular foreign operation is recognized in net income.

(l) Employee benefits:

Share based compensation

The grant date fair value of stock options granted to employees is recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

Defined contribution plans

Pollard's U.S. subsidiaries maintain two defined contribution plans in the United States. The obligation to contribute to these plans is recognized as an employee benefit expense as incurred.

Defined benefit plans

Pollard maintains four non-contributory defined benefit pension plans in Canada and the United States, three being final pay plans and one being a flat benefit plan. None of the plans have indexation features.

The costs of Pollard's defined benefit plans are recognized over the period in which employees render service to Pollard in return for the benefits. The defined benefit obligations associated with the plans are actuarially determined using the projected unit credit method pro-rated on service and management's best estimate of salary escalation and retirement ages of employees. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have maturity terms approximating the maturity terms of the related obligation and that are denominated in the currency in which the benefits will be paid. The expected return on pension plan assets is calculated utilizing the discount rate used to measure the defined benefit obligation at the beginning of the annual period.

Past service costs are recognized as an expense on a straight line basis over the average period until the benefits becomes vested. If the benefits have vested, past service costs are recognized in net income immediately.

Remeasurements that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in OCI.

Pollard's pension asset is limited to the total of any unrecognized past services costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to Pollard's plans. An economic benefit is available to Pollard if it is realizable during the life of the plan, or on settlement of the plan liabilities.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

(m) Income taxes:

Current income tax and deferred income tax are recognized in the statement of income except to the extent that the tax relates to items recognized directly in equity or in OCI. Current income tax is the expected tax payable or receivable on the taxable income or loss for the period and any adjustment to tax payable in respect to previous years. Current income tax expense includes withholding taxes.

Deferred income tax is recorded to reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Deferred income tax assets and liabilities are determined based on the enacted or substantively enacted tax rates, which are expected to be in effect when the underlying items of income and expense are expected to be realized.

Deferred income tax is not recognized for: temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future, taxable temporary differences arising on the initial recognition of goodwill or temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment, except if it relates to an item previously recognized in equity, in which case the adjustment is made to equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax liabilities and assets, and they are levied by the same taxation authority on the same taxable entity, or on different tax entities which intend to settle their current income tax assets and liabilities on a net basis.

(n) Provisions:

Provisions are recognized when Pollard has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

(o) Impairment:

Financial assets

Financial assets classified as loans and receivables, held-to-maturity and available-for-sale are assessed at each reporting period date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Evidence of impairment may include default or delinquency by a debtor, indications that a debtor will enter bankruptcy or economic conditions that correlate with defaults. Pollard has neither available-for-sale nor held-to-maturity instruments.

For loans and receivables, Pollard first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Pollard determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Individually assessed assets with an impairment loss are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment is increased or reduced by adjusting the allowance account, through the statement of income.

Non-financial assets

The carrying amount of Pollard's non-financial assets, other than inventories and deferred income tax assets, are reviewed at each reporting date to determine whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, Pollard estimates the asset's recoverable amount. For goodwill the recoverable amount is estimated as of December 31 each year. An impairment loss is recognized if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

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Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or CGUs.

Impairment losses are recognized in net income. Impairment losses recognized in respect to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss in respect to goodwill is not reversed. In respect to other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss can only be reversed to the extent that the asset's carrying value that would have been determined, net of amortization, if no impairment had been recognized.

(p) Finance costs and finance income:

Finance costs comprise interest expense on borrowings, amortization of deferred financing costs, mark-to-market losses on foreign exchange contracts and net foreign exchange losses.

Borrowing costs that are not directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are expensed in the period incurred using the effective interest method.

Finance income comprises mark-to-market gains on foreign exchange contracts and net foreign exchange gains.

5. Future accounting standards:

In November 2009, the 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

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

5. Future accounting standards (continued):

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.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

5. Future accounting standards (continued):

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.

6. Inventories:

	December 31, 2014	December 31, 2013
Raw materials	\$ 7,602	\$ 7,345
Work-in-process	641	883
Finished goods	16,665	13,053
	<hr/> \$ 24,908	<hr/> \$ 21,281

During 2014 Pollard recorded inventory write-downs of \$257 representing an increase in the obsolescence reserves and reversals of previous write-downs of \$32 due to changes in foreign exchange rates.

During 2013 Pollard recorded inventory write-downs of \$425 representing an increase in the obsolescence reserves and reversals of previous write-downs of \$73 due to changes in foreign exchange rates.

The cost of sales reflects the costs of inventory including direct material, direct labour and manufacturing overheads.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except for share amounts)

Years ended December 31, 2014 and 2013

7. Property, plant and equipment:

Cost	Land	Buildings	Leasehold improvements	Equipment	Spare parts	Furniture, fixture and computers	Assets in progress	Total
Balance at January 1, 2013	\$ 803	9,179	1,814	115,862	980	3,909	-	132,547
Additions/net transfers	-	79	102	4,373	3	47	-	4,604
Effect of movements in exchange rates	-	-	46	280	-	-	-	326
Balance at December 31, 2013	\$ 803	9,258	1,962	120,515	983	3,956	-	137,477
Additions/net transfers	-	133	140	2,079	40	33	15,148	17,573
Disposals	-	-	-	(15)	-	-	-	(15)
Effect of movements in exchange rates	-	-	57	377	-	-	-	434
Balance at December 31, 2014	\$ 803	9,391	2,159	122,956	1,023	3,989	15,148	155,469

Accumulated depreciation	Land	Buildings	Leasehold improvements	Equipment	Spare parts	Furniture, fixture and computers	Assets in progress	Total
Balance at January 1, 2013	\$ -	3,603	958	94,799	-	3,074	-	102,434
Depreciation for the year	-	312	143	5,182	-	188	-	5,825
Effect of movements in exchange rates	-	-	46	254	-	-	-	300
Balance at December 31, 2013	\$ -	3,915	1,147	100,235	-	3,262	-	108,559
Depreciation for the year	-	312	165	5,164	-	187	-	5,828
Disposals	-	-	-	(15)	-	-	-	(15)
Effect of movements in exchange rates	-	-	53	321	-	-	-	374
Balance at December 31, 2014	\$ -	4,227	1,365	105,705	-	3,449	-	114,746

Carrying amounts	Land	Buildings	Leasehold improvements	Equipment	Spare parts	Furniture, fixture and computers	Assets in progress	Total
At December 31, 2013	\$ 803	5,343	815	20,280	983	694	-	28,918
At December 31, 2014	\$ 803	5,164	794	17,251	1,023	540	15,148	40,723

In 2014, Pollard commenced the installation of a new printing press, which is reflected in the assets in progress category. Included in these expenditures were \$478 in capitalized borrowing costs.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

8. Equity investment:

	December 31, 2014		December 31, 2013	
Balance – beginning of year	\$	167	\$	204
Equity loss		(167)		(37)
Balance – end of year	\$	-	\$	167

Pollard has entered into an agreement with Palm Commerce Information and Technology (China) Co., Ltd. for the establishment of Shenzhen Palm Commerce & Pollard Banknote Technology Co., Ltd.. As per the agreement, Pollard completed its capital investment of US\$400, representing 40% of the registered capital of the corporation, in January 2012. The entity was established to provide distribution and validation systems to provincial lottery operations in China.

9. Goodwill:

Goodwill is comprised of \$30,620 (2013- \$30,620), representing the excess purchase price over the underlying carrying amount of the net assets sold, as at August 5, 2005, as a result of the 26.7% of Pollard LP sold as part of Pollard Banknote Income Fund's IPO with the remaining \$5,980 (2013- \$5,491) from Pollard's purchase of its U.S. subsidiaries. Goodwill has been allocated to CGUs for impairment testing in this manner, as described in the table below.

	December 31, 2014		December 31, 2013	
Lottery	\$	30,620	\$	30,620
Charitable games		5,980		5,491
	\$	36,600	\$	36,111

During 2014 the value of goodwill increased \$489 (2013 – \$408) as a result of changes in foreign exchange rates.

For both the Lottery and Charitable games CGUs the recoverable amounts have been determined based on a value in use calculation using cash flow projections from financial forecasts approved by senior management. These forecasts cover a period of five years and reflect an estimate of a terminal value. Included in these forecasts is an assumption of a 3% growth rate which was based on historical trend and expected future performance.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

9. Goodwill (continued):

The calculation of value in use for the CGUs described above are most sensitive to the following key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Revenue and related gross profit
- Foreign exchange rates
- Discount rates
- Growth rates

Revenue and related gross profit

Projected cash flows from revenue assumes the continuation of recent historical trends adjusted for expected new contract wins, anticipated contract renewal pricing pressures and the expected impact of sales initiatives in conjunction with certain production efficiencies that are being developed or are expected to be developed.

Foreign exchange rates

A significant portion of revenue is denominated in U.S. dollars and Euros, partially offset by U.S. dollar denominated costs. In addition, certain financial assets and liabilities are denominated in U.S. currency. Projected cash flows assume an estimated exchange rate between Canadian dollars to U.S. dollars and Euros based on expected exchange rates during the forecast period.

Discount rates

Discount rates were calculated based on the estimated cost of equity capital and debt capital considering data and factors relevant to the economy, the industry and the CGUs. These costs were then weighted in terms of a typical industry capital structure to arrive at an estimated weighted average cost of capital. The after-tax discount rates applied to the cash flow projections for the CGUs described above were as follows:

Lottery	10.0%
Charitable games	11.0%

Growth rates

Growth rates are based on estimated sustainable long-term growth rates of the CGUs.

Management believes that any reasonable possible change in any of the key assumptions on which the cash generating unit's recoverable amounts are based would not cause the unit's carrying amounts to exceed its recoverable amount.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

10. Intangible assets:

Cost		Customer assets	Patents	Deferred development	Computer software and licenses	Total
Balance at January 1, 2013	\$	18,645	4,955	1,159	552	25,311
Additions		-	58	140	3,388	3,586
Additions – internally developed		-	-	99	81	180
Balance at December 31, 2013	\$	18,645	5,013	1,398	4,021	29,077
Additions (net of investment tax credits)		-	38	(86)	905	857
Additions – internally developed (net of investment tax credits)		-	-	(141)	505	364
Balance at December 31, 2014	\$	18,645	5,051	1,171	5,431	30,298

Accumulated amortization		Customer assets	Patents	Deferred development	Computer software and licenses	Total
Balance at January 1, 2013	\$	8,636	4,304	302	229	13,471
Amortization for the year		1,165	57	316	536	2,074
Balance at December 31, 2013	\$	9,801	4,361	618	765	15,545
Amortization for the year		1,166	54	190	51	1,461
Balance at December 31, 2014	\$	10,967	4,415	808	816	17,006

Carrying amounts		Customer assets	Patents	Deferred development	Computer software and licenses	Total
At December 31, 2013	\$	8,844	652	780	3,256	13,532
At December 31, 2014	\$	7,678	636	363	4,615	13,292

Customer assets, \$3,874 of patents and \$229 of computer software were recognized as a result of the excess purchase price over the underlying carrying amount of the intangible assets acquired as at August 5, 2005, as part of the 26.7% of Pollard LP sold in conjunction with the IPO. As at December 31, 2011, computer software and licenses, and patents recognized at IPO were fully amortized. Customer assets will continue to be amortized until fiscal 2021.

Amortization of intangible assets in 2014 of \$1,461 (2013 – \$2,074), was included in cost of sales.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

11. Income taxes:

Income tax expense

	2014	2013
Current income tax expense	\$ 3,072	\$ 2,193
Deferred income tax expense	678	1,722
Total income tax expense	\$ 3,750	\$ 3,915

Income tax recognized in other comprehensive income (loss)

	Amount before tax	Tax benefit	2014 Amount net of tax	Amount before tax	Tax expense	2013 Amount net of tax
Defined benefit plans remeasurement gain (loss)	\$ (9,620)	2,704	(6,916)	\$ 5,479	(1,517)	3,962
	\$ (9,620)	2,704	(6,916)	\$ 5,479	(1,517)	3,962

Reconciliation of effective tax rate

	2014	2014	2013	2013
Net income for the year		\$ 8,746		\$ 5,448
Total income tax expense		3,750		3,915
Income before income taxes		\$ 12,496		\$ 9,363
Income tax using Pollard's domestic tax rate	26.7%	3,341	26.3%	2,463
Changes in expected tax rates and other non-deductible amounts	(2.9%)	(360)	1.8%	168
Effect of non-taxable items related to foreign exchange	6.2%	769	13.7%	1,284
	30.0%	\$ 3,750	41.8%	\$ 3,915

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

11. Income taxes (continued):

Deferred income tax assets and liabilities

Recognized deferred income tax assets and liabilities

Deferred income tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
Property, plant and equipment	\$ 149	89	\$ (1,389)	(1,038)	\$ (1,240)	(949)
Intangible assets	994	974	(4,322)	(4,184)	(3,328)	(3,210)
Inventories	304	209	-	-	304	209
Employee benefits	5,758	2,891	(2,102)	(1,913)	3,656	978
Unrealized foreign exchange (gains) and losses	672	1,332	-	(424)	672	908
Unused tax losses	520	301	-	-	520	301
Other	144	190	(269)	-	(125)	190
Tax assets (liabilities)	\$ 8,541	5,986	\$ (8,082)	(7,559)	\$ 459	(1,573)

Movement in temporary differences during the year

	Balance January 1, 2013	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2013	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2014
Property, plant and equipment	\$ (957)	8	-	(949)	(291)	-	(1,240)
Intangible assets	(3,085)	(125)	-	(3,210)	(118)	-	(3,328)
Inventories	134	75	-	209	95	-	304
Employee benefits	2,832	(337)	(1,517)	978	(26)	2,704	3,656
Unrealized foreign exchange (gains) and losses	1,164	(256)	-	908	(236)	-	672
Unused tax losses	1,266	(965)	-	301	219	-	520
Other	189	1	-	190	(315)	-	(125)
Tax assets (liabilities)	\$ 1,543	(1,599)	(1,517)	(1,573)	(672)	2,704	459

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

11. Income taxes (continued):

Recognized in the consolidated statements of financial position as follows:

	December 31, 2014	December 31, 2013
Deferred income tax - asset	\$ 2,304	\$ 801
Deferred income tax - liability	(1,845)	(2,374)
	\$ 459	\$ (1,573)

Recognized in the consolidated statements of income as follows:

	2014	2013
Deferred income tax expense	\$ (678)	\$ (1,722)
Finance income	6	123
	\$ (672)	\$ (1,599)

Amounts included in finance income relate to unrealized foreign exchange.

12. Long-term debt:

	December 31, 2014	December 31, 2013
Credit facility, interest of 2.9% to 4.0%, payable monthly, maturing 2016	\$ 69,316	\$ 73,523
Deferred financing charges, net of amortization	(172)	(178)
	69,144	73,345
Less current portion	(902)	-
	\$ 68,242	\$ 73,345

Included in the total credit facility balance is a U.S. dollar loan balance of US\$13,600 (2013 – US\$13,600).

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

12. Long-term debt (continued):

Effective April 2, 2014, Pollard's subsidiaries Pollard Holdings Limited Partnership and Pollard Holdings, Inc. renewed their credit facility. The new credit facility has similar terms as its previous agreement, except for the addition of an additional term facility of \$4,812 to assist in the financing of the new printing press. In addition to the \$4,812 term facility, the credit facility provides loans of up to \$71,827 for its Canadian operations and up to US\$10,000 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 drawn under the credit facility were \$1,106 (2013 - \$1,632).

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, Pollard is in compliance with all financial covenants.

As at December 31, 2014, \$4,812 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 \$301 plus interest. Repayments will permanently reduce the term facility commitment available.

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 \$3,500 per year), pension deficit installments (to a maximum of \$2,700 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. As of December 31, 2014, Pollard has unused credit facility available of \$17,816 (2013 - \$9,425) and the term facility is fully drawn.

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 effectively has a two year term expiring June 30, 2016.

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. See note 1 regarding the amalgamation.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

13. Subordinated debt:

	December 31, 2014	December 31, 2013
Subordinated debt, interest of 9.00% payable quarterly, maturing 2021	\$ 6,813	\$ -
	\$ 6,813	\$ -

On April 2, 2014, Pollard's subsidiary, Pollard Holdings Limited Partnership, entered into a loan agreement with Equities for a subordinated term loan facility with a seven year term in the amount of \$6,813 to assist in the purchase of the new printing press. 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 secured term facility of \$4,812. 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 facility.

14. Pension liability:

	December 31, 2014	December 31, 2013
Fair value of benefit plan assets	\$ 37,460	\$ 32,528
Present value of benefit plan obligations	(49,402)	(35,352)
Net pension liability	\$ (11,942)	\$ (2,824)

Pollard sponsors non-contributory defined benefit plans providing pension benefits to its employees. Pollard has four pension plans of which three are final pay plans and one is a flat benefit plan. None of the plans have indexation features. The measurement date for all the plans is December 31. The two plans of the U.S. subsidiaries require valuations annually with the last valuations being as of January 1, 2014. One of the Canadian plans of Pollard currently requires valuation every three years with the last valuation as of December 31, 2013. Pollard's other Canadian plan's last valuation was as of January 1, 2013. Pollard's U.S. subsidiaries also maintain two defined contribution plans. The pension expense for these defined contribution plans is the annual funding contribution by the subsidiaries.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
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14. Pension liability (continued):

Pollard expects to contribute approximately \$2.3 million to its defined benefit plans in 2015.

The benefit plan assets are held in trust and are invested as follows:

	December 31, 2014	December 31, 2013
Equities	62.4%	64.0%
Bonds	37.1%	35.5%
Cash and cash equivalents	0.5%	0.5%
	100.0%	100.0%

Information about Pollard's defined benefit plans, in aggregate, is as follows:

	2014		2013	
<i>Benefit plan assets</i>				
Fair value, beginning of year	\$	32,528	\$	24,195
Expected return on plan assets		1,686		1,175
Employer contributions		3,154		4,742
Benefits paid		(1,273)		(649)
Remeasurement gains		1,047		2,835
Other		318		230
Fair value, end of year	\$	37,460	\$	32,528
<i>Accrued benefit plan obligations</i>				
Balance, beginning of year	\$	35,352	\$	34,097
Current service cost		2,491		2,665
Interest cost		1,774		1,539
Benefits paid		(1,273)		(649)
Remeasurement (gains) losses		10,667		(2,643)
Other		391		343
Balance, end of year	\$	49,402	\$	35,352
Net pension liability	\$	(11,942)	\$	(2,824)

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
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14. Pension liability (continued):

The total net cost for Pollard's defined benefit and defined contribution pension plans recognized in cost of sales is as follows:

	2014	2013
<i>Net defined benefit plans cost</i>		
Current service cost	\$ 2,491	\$ 2,665
Interest on plan obligations	1,774	1,539
Actual return on plan assets	(2,733)	(4,010)
Difference between expected return and actual return on plan assets	1,261	3,150
Net defined benefit plans cost	2,793	3,344
Defined contribution plans cost	186	179
Net pension plans cost	\$ 2,979	\$ 3,523

Actuarial assumptions

The principal actuarial assumptions used in measuring at the reporting date are as follows:

	2014	2013
Discount rate	4.0% to 4.2%	5.0% to 5.2%
Rate of compensation increase	0% to 3.0%	0% to 3.0%

Assumptions regarding future mortality have been based on published statistics and mortality tables. As of December 31, 2014, Pollard used CPM2014 Private projected with Scale B mortality table for its Canadian subsidiary's pension plans and the RP-2014 healthy mortality tables for its U.S. subsidiary's pension plans. As of December 31, 2013, Pollard used 90% of the UP94 Generational mortality table for its Canadian subsidiary's pension plans and the 2013 PPA static tables for its U.S. subsidiary's pension plans.

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14. Pension liability (continued):

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts show below:

	Increase		Decrease	
Discount rate (1% movement)	\$	(9,513)	\$	12,765
Rate of compensation increase (1% movement)	\$	1,513	\$	(1,344)
Future mortality (one year)	\$	1,031	\$	(1,027)

Remeasurements

	2014		2013	
Remeasurement gains arising on plan assets	\$	(1,047)	\$	(2,835)

Remeasurement (gains) losses arising on plan liabilities from:

Demographic assumptions	\$	934	\$	778
Financial assumptions		9,497		(4,209)
Experience adjustments		236		788
Remeasurement (gains) losses arising on plan liabilities	\$	10,667	\$	(2,643)

Remeasurements recognized in other comprehensive income

	2014		2013	
Amount accumulated in deficit, beginning of year	\$	(6,413)	\$	(10,375)
Recognized during the year		(6,916)		3,962
Amount accumulated in deficit, end of year	\$	(13,329)	\$	(6,413)

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Years ended December 31, 2014 and 2013

15. Share capital:

	December 31, 2014	December 31, 2013
Authorized		
Unlimited common shares		
Unlimited preferred shares		
Issued		
23,543,158 common shares	\$ 73,209	\$ 73,209
	\$ 73,209	\$ 73,209

Ownership restrictions:

The holders of the common shares are entitled to one vote in respect to each common share held, subject to the Board of Directors ability to take constraint actions when a person, or group of persons acting in concert acquires, agrees to acquire, holds, beneficially owns or controls, either directly or indirectly, a number of shares equal to or in excess of 5% of the common shares (on a non-diluted basis) issued and outstanding ("Ownership Threshold"). The Board of Directors, in its sole discretion, can take the following constraint actions:

- place a stop transfer on all or any of the common shares believed to be in excess of the Ownership Threshold;
- suspend all voting and/or dividend rights on all or any of common share held believed to be in excess of the Ownership Threshold;
- apply to a court seeking an injunction to prevent a person from acquiring, holding, owning, controlling and/or directing, directly or indirectly, common shares in excess of the Ownership Threshold; and/or
- make application to the relevant securities commission to effect a cease trading order or such similar restriction, until the person no longer controls common shares equal to or in excess of the Ownership Threshold.

In addition, if a Gaming Regulatory Authority has determined that ownership by a holder of common shares is inconsistent with its declared policies, the Board of Directors is entitled to take constraint action against such shareholder. Any person who controls common shares equal to or in excess of the Ownership Threshold, may be required to file an application, be investigated and have suitability as a shareholder determined by a Gaming Regulatory Authority, if such Gaming Regulatory Authority has reason to believe such ownership would otherwise be inconsistent with its declared policies. The shareholder must pay all the costs of the investigation incurred by any such Gaming Regulatory Authority.

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15. Share capital (continued):

Capital management:

Pollard's objectives in managing capital are to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Pollard also strives to maintain an optimal capital structure to reduce the overall cost of capital.

In the management of capital, Pollard includes long-term debt, subordinated debt, share capital and deficit, but excludes reserves. The Board of Directors regularly monitors the levels of debt, equity and dividends.

Pollard monitors capital on the basis of funded debt to Adjusted EBITDA, working capital ratio and debt service coverage. Pollard has externally imposed capital requirements as determined through its bank credit facility. As at December 31, 2014, Pollard is in compliance with all financial covenants.

Dividends:

Dividends are paid on the common shares within 15 days of the end of each quarter and are fully discretionary, as determined by the Board of Directors of Pollard.

On November 10, 2014, a dividend of \$0.03 per share was declared, payable on January 15, 2015, to the shareholders of record on December 31, 2014.

There were no other changes in Pollard's approach to capital management during the current period.

Share based compensation:

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.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

15. Share capital (continued):

The grant date fair value of these options was determined based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The fair values were calculated as \$0.82 as at March 10, 2014. The inputs used in the measurement of the fair values of the share based compensation granted are the following:

- Share price \$3.63
- Exercise price \$3.63
- Expected volatility (weighted average volatility) 33.7%
- Option life (expected weighted average life) 4.75 years
- Risk-free interest rate (based on Canadian government bonds) 1.7% to 2.1%

16. Commitments and contingencies:

Certain Pollard subsidiaries rent premises and equipment under long-term operating leases. The following is a schedule by fiscal year of rental payment commitments under operating leases outstanding:

2015	\$	3,642
2016		3,365
2017		3,136
2018		2,893
2019		2,441
Thereafter		3,039

Pollard's subsidiaries are contingently liable for outstanding letters of guarantee in the amount of \$1,106 at December 31, 2014 (2013 - \$1,632). These letters of guarantee are part of Pollard's credit facility and are secured as disclosed in note 12.

During 2011 Pollard entered into a sale leaseback with an affiliate of Equities for land and building in Winnipeg, Manitoba. The property was sold for \$3,473 and leased back for five years (with an option to renew for an additional five year term) at an annual lease rate of approximately \$313. The sale value was determined through independent appraisal. See note 22 for further description.

During 2008 Pollard entered into a sale leaseback with an affiliate of Equities for land and building in Council Bluffs, Iowa. The property was sold for \$4,081 and leased back for ten years at an annual lease rate of approximately US\$260. The sale value was determined through independent appraisal. Also in 2008 Pollard entered into a lease with an affiliate of Equities for a manufacturing facility in Winnipeg, Manitoba. The lease was for a 12 year 6 month period, ending March 31, 2021, at an annual base rate of approximately \$2,424.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

16. Commitments and contingencies (continued):

On April 4, 2014, Pollard entered into a purchase agreement for a new 22 station Tresu press line, with an approximate cost of \$20,000. The project will be financed from the additional term facility of \$4,812 (note 12), the \$6,813 subordinated loan from Equities (note 13) and cash generated from operations. As of December 31, 2014, Pollard had approximately \$5,000 in remaining commitments relating to the purchase of the new printing press.

Pollard is involved in litigation and claims associated with operations, the aggregate amounts of which are not determinable. While it is not possible to estimate the outcome of the proceedings, management is of the opinion that any resulting settlements would not materially affect the financial position of Pollard. Should a loss occur on resolution of these claims, such loss would be accounted for as a charge to income in the period in which the settlement occurs.

Pollard has agreed to indemnify Pollard's current and former directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain usual limitations. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

17. Other (income) expense:

	2014		2013	
Loss on equity investment (note 8)	\$	167	\$	37
Other income		(470)		(393)
	\$	(303)	\$	(356)

18. Finance costs and finance income:

Finance costs	2014		2013	
Foreign exchange loss	\$	2,015	\$	604
Interest		2,875		3,349
Mark-to-market loss on foreign currency contracts (note 26)		910		412
Amortization of deferred financing costs		198		332
	\$	5,998	\$	4,697

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Notes to Consolidated Financial Statements (continued)
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18. Finance costs and finance income (continued):

Finance income	2014		2013	
Foreign exchange gain	\$	(120)	\$	(516)
Mark-to-market gain on foreign currency contracts (note 26)		(839)		-
	\$	(959)	\$	(516)

19. Net income per share:

	2014		2013	
Net income attributable to shareholders for basic and diluted net income per share	\$	8,746	\$	5,448
Weighted average number of shares (basic)		23,543,158		23,543,158
Weighted average impact of share options		81,370		-
Weighted average number of shares (diluted)		23,624,528		23,543,158
Net income per share (basic)	\$	0.37	\$	0.23
Net income per share (diluted)	\$	0.37	\$	0.23

20. Personnel expenses:

	2014		2013	
Wages and salaries	\$	60,659	\$	58,131
Benefits and government payroll remittances		9,416		8,834
Profit share		1,527		1,217
Expenses related to defined contribution plans		186		179
Expenses related to defined benefit plans		2,793		3,344
	\$	74,581	\$	71,705

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Notes to Consolidated Financial Statements (continued)
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21. Supplementary cash flow information:

	2014		2013	
Change in non-cash operating working capital:				
Accounts receivable	\$	1,240	\$	(5,946)
Inventories		(3,084)		946
Prepaid expenses and deposits		(1,612)		(542)
Accounts payable and accrued liabilities		2,852		1,432
	\$	(604)	\$	(4,110)

22. Related party transactions:

During the year ended December 31, 2014, Pollard paid property rent of \$3,037 (2013 - \$3,012) and \$230 (2013 - \$212) in plane charter costs to affiliates of Equities. In addition, during the year, Pollard paid Equities \$405 (2013 – nil) of interest on Pollard's subordinated debt.

During the year, Equities paid Pollard \$72 (2013 - \$72) for accounting and administration fees.

At December 31, 2014, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, interest and other expenses of \$1,155 (2013 - \$690).

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors and the Executive Committee are considered key management personnel.

Key management personnel compensation comprised:

	2014		2013	
Wages, salaries and benefits	\$	2,549	\$	2,640
Profit share		14		10
Expenses related to defined benefit plans		368		355
	\$	2,931	\$	3,005

As at December 31, 2014, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,421,771 common shares of Pollard.

Pollard Banknote Limited
Notes to Consolidated Financial Statements (continued)
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22. Related party transactions (continued):

During the second quarter of fiscal 2011, Pollard disposed of a building and land in Winnipeg, Manitoba to an affiliate of Equities for total proceeds of \$3,473 resulting in a gain of \$1,469. 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 annual rent of \$313.23.

23. Sales to major customers:

For the year ended December 31, 2014, sales to one customer amounted to approximately 10 percent of consolidated sales (2013 - 11 percent).

24. Segmented information:

Pollard's operations consist of one reporting segment principally in the manufacturing, development and sale of lottery and charitable gaming products. Geographic distribution of sales, property, plant and equipment and goodwill are as follows:

	2014		2013	
Sales:				
Canada	\$	42,880	\$	40,938
U.S.		96,536		97,018
Other		55,055		46,981
	\$	194,471	\$	184,937
		December 31, 2014		December 31, 2013
Property, plant and equipment and goodwill:				
Canada	\$	46,538	\$	49,841
U.S.		30,785		15,188
	\$	77,323	\$	65,029

25. Financial instruments:

The fair value of a financial instrument is the estimated amount that Pollard would receive or pay to terminate the instrument agreement at the reporting date. The following methods and assumptions were used to estimate the fair value of each type of financial instrument by reference to various market value data and other valuation techniques as appropriate.

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Notes to Consolidated Financial Statements (continued)
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25. Financial instruments (continued):

The fair values of accounts receivable, accounts payable and accrued liabilities and dividends payable approximate their carrying values given their short-term maturities.

The fair value of the long-term debt approximates the carrying value due to the variable interest rate of the debt.

The fair value of the subordinated debt approximates the carrying value based on the terms associated with the debt.

The fair value of the other non-current liabilities approximates the carrying value based on the expected settlement amount of these liabilities.

The fair value of foreign currency forward contracts is estimated utilizing market forward rates of exchange.

Certain financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on the quoted prices observed in active markets for identical assets or liabilities

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 - valuation techniques with significant unobservable market inputs

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

As at December 31, 2014, the cash recorded at fair value is classified as level one and the foreign currency forward contracts recorded at fair value are classified as level two of the fair value hierarchy.

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Notes to Consolidated Financial Statements (continued)
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26. Financial risk management:

Pollard has exposure to the following risks from its use of financial instruments:

Credit risk
Liquidity risk
Currency risk
Interest rate risk

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls and 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 internal audit plan.

Credit risk

The following table outlines the details of the aging of Pollard's receivables and the related allowance for doubtful accounts:

	December 31, 2014	December 31, 2013
Current	\$ 17,258	\$ 17,274
Past due for 1 to 60 days	3,887	4,876
Past due for more than 60 days	861	641
Less: Allowance for doubtful accounts	(76)	(12)
	<u>\$ 21,930</u>	<u>\$ 22,779</u>

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In addition, Pollard maintains a committed credit facility including up to \$71,827 for its Canadian operations, as well as the additional term facility of \$4,812 available to finance the new printing press, and up to US\$10,000 for its U.S. subsidiaries. At December 31, 2014, the unused balance available for drawdown under the credit facility was \$17,816 (2013 - \$9,425) and the term facility was fully drawn.

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

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26. Financial risk management (continued):

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to some 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 the Canadian and U.S. dollar, primarily in Euros.

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 \$85 for year ended December 31, 2014 (2013 - \$70). 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 \$24 for year ended December 31, 2014 (2013 - \$59).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. 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 \$7,936 (2013 - \$3,433). 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 taxes of approximately \$40 for the year ended December 31, 2014 (2013 - \$17).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. 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\$1,000 each month for approximately \$1,065 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 \$483 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 \$25 for the year ended December 31, 2014 (2013 - \$85), due to the change in value of the mark-to-market value of the U.S. foreign currency contracts.

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Notes to Consolidated Financial Statements (continued)
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26. Financial risk management (continued):

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.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately \$347 for the year ended December 31, 2014 (2013 - \$368).