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**POLLARD BANKNOTE ANNOUNCES  
1<sup>ST</sup> QUARTER  
FINANCIAL RESULTS**

**WINNIPEG, Manitoba, May 11, 2016 /CNW/ — Pollard Banknote Limited (TSX: PBL) (“Pollard”)** today released its financial results for the three months ended March 31, 2016, with record revenue and strong adjusted EBITDA in the quarter.

“We continue to see positive trends in our financial results during the first quarter and are optimistic about this continuing,” commented Co-Chief Executive Officer John Pollard. “Helped by a weaker Canadian dollar and higher volumes from a number of our larger lottery customers, our revenue reached record quarterly levels at \$64 million.”

“When our volumes grow to the high levels experienced in the first quarter, this incremental work is often generated via additional sales of basic instant ticket product to our larger lottery clients. This was the case in the first quarter and as such, our margin percentage on this incremental work was lower than average, resulting in a lower overall gross margin percentage for the period.”

“Additional traction was achieved in our ancillary product lines with two installations of our SureTrack<sup>®</sup> lottery management systems going live and a number of key sales of our Frogger license. These are great examples of Pollard providing additional value to our lottery customers outside the traditional paper based instant tickets.”

“During the first quarter, our Michigan iLottery operation expanded to include draw based games such as Powerball<sup>®</sup> and Mega Millions<sup>®</sup>, in addition to instant tickets and Keno. This broader suite of products, added to our rapidly expanding player base, has led to records for North American internet lottery sales. Michigan continues to be a template for iLottery success, demonstrating how lotteries can pursue growth simultaneously in both retail and interactive channels.”

“Our new press in Ypsilanti continued to ramp up in the first quarter of 2016 and we are excited to begin to see the potential this new capacity and operating platform brings to our company. It will take some time to achieve peak efficiency with the new press as we continue to diligently move toward this end. By the end of the first quarter we had begun to achieve some of the expected production efficiencies of the press and these will be more fully realized over the next few quarters in 2016. As a result, the first quarter did not reflect the potential margin improvements available when fully functioning at expected productivity levels.”

"The vibrancy of our industry is obvious, with strong revenue growth and record transfers to good causes being announced by our lottery customers on a regular basis," remarked Co-Chief Executive Officer Doug Pollard. "As noted, our strength in assisting our customers to grow their business in areas such as iLottery, interactive products and lottery management systems are concrete examples of the importance of our innovation culture paying dividends for lotteries and Pollard. While helping to grow our organization, we remain focused on our core product, that being instant tickets. Instant tickets are among the most successful of lottery product offerings and we believe will continue to be the main driver of lottery success."

"Even during the recent large Powerball® jackpot experienced in the United States in the first quarter of 2016, sales of instant tickets also grew significantly, with the additional foot traffic and general lottery awareness helping generate more instant ticket sales. In the state of Michigan, even while iLottery sales increase dramatically, the sales of instant tickets at retail locations also continue to grow at a double digit rate. We continue to expect this ongoing strength of our industry to be the cornerstone of our growth over the foreseeable future."

"Our first quarter continues the positive trend of the past few years," concluded John Pollard. "Building our infrastructure and developing the appropriate cost and operational platform in a measured, controlled manner, we believe, is the appropriate road map for our long term success. As our new capacity comes on board and our experience with our new press grows, we will have the opportunity to both increase our volumes and do so in a very cost effective manner."

<b>HIGHLIGHTS</b>	Three months ended March 31, 2016	Three months ended March 31, 2015
<b>Sales</b>	\$ 64.0 million	\$ 54.4 million
<b>Gross profit</b>	\$ 11.4 million	\$ 10.0 million
<i>Gross profit % of sales</i>	<i>17.8 %</i>	<i>18.4 %</i>
<b>Administration expenses</b>	\$ 5.3 million	\$ 4.2 million
<b>Selling expenses</b>	\$ 1.9 million	\$ 1.7 million
<b>Net income</b>	\$ 3.6 million	\$ 1.4 million
<b>Adjusted EBITDA</b>	\$ 6.8 million	\$ 6.7 million

## **POLLARD BANKNOTE LIMITED**

Pollard is one of the leading providers of products and services to lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant tickets based in Canada and the second largest producer of instant tickets in the world.

### **Use of Non-GAAP Financial Measures**

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

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

**SELECTED FINANCIAL INFORMATION**

(millions of dollars)

	<b>Three months ended</b>	<b>Three months ended</b>
	<b>March 31, 2016</b>	<b>March 31, 2015</b>
	(unaudited)	(unaudited)
Sales	\$64.0	\$54.4
Cost of sales	52.6	44.4
Gross profit	11.4	10.0
Administration expenses	5.3	4.2
Selling expenses	1.9	1.7
Other income	-	(0.1)
Income from operations	4.2	4.2
Finance costs	1.0	1.9
Finance income	(1.0)	(0.1)
Income before income taxes	4.2	2.4
Income taxes:		
Current	1.1	0.8
Deferred (reduction)	(0.5)	0.2
Net income	\$3.6	\$1.4
Adjustments:		
Amortization and depreciation	2.8	2.0
Interest	0.9	0.6
Mark-to-market gain on foreign currency contracts	-	(0.1)
Unrealized foreign exchange (gain) loss	(1.1)	1.8
Income taxes	0.6	1.0
Adjusted EBITDA	\$6.8	\$6.7
	March 31,	December 31,
	2016	2015
Total Assets	\$170.3	\$164.1
Total Non-Current Liabilities	\$95.4	\$96.3

The 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, for the three months ended March 31, 2016. These financial statements have been prepared in accordance with the International Financial Accounting Standards ("IFRS" or "GAAP").

## Results of Operations – Three months ended March 31, 2016

During the three months ended March 31, 2016, Pollard achieved sales of \$64.0 million, compared to \$54.4 million in the three months ended March 31, 2015. A number of factors resulted in the \$9.6 million sales increase.

- Sales of ancillary instant ticket products and services for the first quarter of 2016 were higher than the first quarter of 2015 by \$3.2 million due primarily to increased sales from iLottery and lottery management systems. Instant ticket volumes for the first quarter of 2016 were lower than the first quarter of 2015 by 2.5% which decreased sales by \$1.2 million. Sales volumes in the first quarter of 2015 were unusually high due to a large amount of goods in transit to international customers at December 31, 2014, which were recognized in sales in the first quarter 2015. Excluding these goods in transit, first quarter 2016 instant ticket sales volumes would have been higher by approximately 9%. In addition, an increase in average selling price compared to 2015 further increased sales by \$1.1 million. Charitable gaming volumes were higher in the quarter by \$0.7 million.
- During the three months ended March 31, 2016, Pollard generated approximately 70.7% (2015 – 67.9%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first quarter of 2016 the actual U.S. dollar value was converted to Canadian dollars at \$1.383, compared to a rate of \$1.214 during the first quarter of 2015. This 13.9% increase in the U.S. dollar value resulted in an approximate increase of \$5.5 million in revenue relative to the first quarter of 2015. Also during the quarter the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of \$0.3 million in revenue relative to the first quarter of 2015.

Cost of sales was \$52.6 million in the first quarter of 2016 compared to \$44.4 million in the first quarter of 2015. Higher exchange rates on U.S. dollar transactions in the first quarter of 2016 increased cost of sales approximately \$4.4 million when compared to the first quarter of 2015. In addition, higher production costs due to the startup of the new press line and higher sales of charitable games and iLottery increased cost of goods sold in the first quarter of 2016.

Gross profit earned in the first quarter of 2016 was \$11.4 million (17.8% of sales) as compared to \$10.0 million (18.4% of sales) earned in the first quarter of 2015. This increase in gross profit dollars was due to the impact of the weakening Canadian dollar and the higher sales of ancillary instant ticket sales products including higher iLottery sales. The decrease in gross profit percentage was due to the instant ticket sales mix weighted to lower margin products and the impact of additional production costs related to the ramp up of the new press.

Administration expenses increased to \$5.3 million in the first quarter of 2016 from \$4.2 million in the first quarter of 2015 primarily as a result of higher professional fees,

increased compensation expenses which primarily related to expansion of lottery management systems and ancillary lottery product sales, and the increased Canadian dollar equivalent of U.S. dollar denominated expenses. Sequentially, administration expenses were lower than the fourth quarter of 2015 administration expenses of \$5.7 million.

Selling expenses increased to \$1.9 million in the first quarter of 2016 from \$1.7 million in the first quarter of 2015 primarily as a result of the increased cost of U.S. dollar denominated expenses due to the strengthening against the Canadian dollar and were similar to the fourth quarter of 2015 selling expenses of \$2.0 million.

Interest expense increased to \$0.9 million in the first quarter of 2016 from \$0.6 million in the first quarter of 2015 primarily as a result of no longer capitalizing borrowing costs related to the new press project.

The net foreign exchange gain was \$1.0 million in the first quarter of 2016 compared to a loss of \$1.2 million in the first quarter of 2015. Within the 2016 net foreign exchange gain was an unrealized foreign exchange gain of \$1.1 million predominately as a result of unrealized gain on U.S. dollar denominated debt (caused by the strengthening of the value of the Canadian dollar versus the U.S. dollar during the first quarter of 2016) in addition to an unrealized gain on other U.S. dollar denominated accounts payable. Partially offsetting the unrealized gain was a realized loss of \$0.1 million, predominately as a result of the decreased value of U.S. denominated receivables at collection.

Within the 2015 net foreign exchange loss was an unrealized foreign exchange loss of \$1.8 million predominately a result of unrealized loss on U.S. dollar denominated debt (caused by the weakening of the value of the Canadian dollar versus the U.S. dollar) in addition to an unrealized loss on other U.S. dollar denominated accounts payable. Partially offsetting the unrealized loss was a realized gain of \$0.6 million primarily relating to the increased value of U.S. dollar denominated accounts receivable at collection.

Adjusted EBITDA was \$6.8 million in the first quarter of 2016 compared to \$6.7 million in the first quarter of 2015. The primary reasons for the increase in Adjusted EBITDA were the increase in gross profit (net of amortization and depreciation) of \$2.2 million, partially offset by higher administration expenses of \$1.1 million, higher selling expenses of \$0.2 million and a decrease in realized foreign exchange gain of \$0.7 million.

Income tax expense was \$0.6 million in the first quarter of 2016, an effective rate of 15.4%, lower than our expected effective rate of 26.8% due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The strengthening of the Canadian dollar versus the U.S. dollar results in a future loss on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax recovery with no related income (as the loss is eliminated on consolidation). This decreased the effective tax rate by approximately 28 percentage points. Other

differences relating to changes in the expected income tax rate, including permanent difference relating to the foreign exchange translation of property, plant and equipment, increased the effective tax rate by approximately 14 percentage points on a net basis.

Income tax expense was \$1.0 million in the first quarter of 2015, an effective rate of 41.4%, higher than our expected effective rate of 26.7% due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The weakening of the Canadian dollar versus the U.S. dollar results in a future gain on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax expense with no related income (as the gain is eliminated on consolidation). This increased the effective tax rate by approximately 34 percentage points. Other differences relating to changes in the expected income tax rate, including permanent difference relating to the foreign exchange translation of property, plant and equipment, decreased the effective tax rate by approximately 19 percentage points on a net basis.

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled \$2.7 million during the first quarter of 2016 which increased from \$2.0 million during the first quarter of 2015 primarily as a result of increased depreciation of property, plant and equipment due to the commissioning of the new press.

Net income increased to \$3.6 million in the first quarter of 2016 from \$1.4 million in the first quarter of 2015. The primary reasons were the \$1.4 million increase in gross profit, the \$2.2 million increase in foreign exchange gains and the decrease in income tax expense of \$0.4 million. These increases were partially offset by the increase in higher administration expenses of \$1.1 million, higher selling expenses of \$0.2 million and increased interest expense of \$0.3 million.

Net income per share (basic and diluted) increased to \$0.15 per share in the first quarter of 2016 from \$0.06 per share in the first quarter of 2015.

## **Outlook**

Consumer demand for lottery products continues to be very strong, with lotteries in many jurisdictions achieving record revenue and distributions of proceeds to their good causes. In particular instant tickets, with their variety of games, unique play formats and multiple price points among other features, are a key driver of the lotteries' higher sales. We anticipate this positive trend to carry on for the foreseeable future. This presents opportunities to utilize our increasing capacity through organic growth of existing clients and winning new contracts. However, the opportunity to win new contracts is impacted by the long sales cycle in the lottery world.

Our existing contract portfolio is strong and generates a level of volume consistent with our levels from the last number of quarters. Within this business level, the timing of

orders can vary from quarter to quarter as evidenced from the higher volumes experienced in the first quarter of 2016.

An important part of our business is our ancillary product lines including sales of our SureTrack® lottery management systems and our licensed games. We will continue to develop and explore opportunities to expand our sales in these areas, however, by their nature sales of these items tends to be a bit uneven.

The U.S. lottery industry continues to cautiously study the opportunities in the developing iLottery area. Our Michigan iLottery operation is performing very well on all fronts and we will be bringing on our second contract for the Virginia Lottery later in 2016. New developments in the lottery sector like iLottery can be relatively slow to evolve and our focus is to be well positioned when opportunities become available.

The ramp up of our new press in our Ypsilanti facility is ongoing and we are making progress in bringing the press to its expected productivity standards. The learning curve on such a large and complex platform is significant and this has been partially reflected in our margins in the first quarter of 2016. Over the remainder of 2016 we will continue to refine our processes and gain experience to move toward maximizing our efficiency and productivity on the press, and ultimately improving our gross margin.

The overall weaker Canadian dollar benefits our operating results due to our net exposure to U.S. dollar denominated cash flow. Recently the Canadian dollar has shown some relative strength compared to the trends experienced in 2015. Continuation of the strengthening trend would have a negative impact on our cash flow.

Lower budgeted capital expenditures will result in higher levels of free cash flow during 2016, subject to changes in investment in working capital. Increasing investments in accounts receivable due to higher sales volumes during the first quarter should reverse in the near future, resulting in stronger free cash flow to redeploy in the business, including the reduction of bank debt.

### ***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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