POLLARD
banknote limited

News Release

POLLARD BANKNOTE ANNOUNCES 2ND QUARTER FINANCIAL RESULTS

WINNIPEG, Manitoba, August 10, 2016 /CNW/ — Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three months ended June 30, 2016, with continued year over year positive revenue trends and strong free cash flow in the quarter.

"Our second quarter financial results continue to reflect our ongoing growth and the underlying improvements in our operating efficiencies," commented Co-Chief Executive Officer John Pollard. "Our new press continues to become more fully integrated with our operations and has resulted in improvements in efficiencies and productive capacity. Our free cash flow generating potential is fully evident during this quarter as we produced over $3 million in free cash flow during the three month period after accounting for all of our reinvestments and capital expenditures."

"Our margins and certain cost categories have improved relative to the first quarter and, as noted previously, we expect this trend to continue over the course of 2016 and into 2017 as our press efficiencies progress."

"A couple of specific factors did impact our numbers negatively. Our production in the quarter was heavily weighted toward more international work which results in a longer time frame for revenue recognition due to longer transit periods as well as a need to produce the goods earlier in our customer's sales cycle. As such, our sales volumes were 13 percent lower than our production volumes in the quarter. This product will be recognized as revenue in future quarters when the goods are received by our customers."

"The Canadian dollar strengthened significantly during the quarter, reaching a high of almost 79 cents compared to the U.S. dollar at one point. Our significant U.S. dollar sales during the first quarter of 2016 were primarily collected in the second quarter, resulting in a large realized foreign exchange loss of $1.3 million during the quarter. This unusual foreign exchange loss reduced our EBITDA figure for the quarter significantly."

"Despite these unusual issues, our underlying performance progressed, with strong operating results in our Canadian plants and positive trends with our new press in Ypsilanti, particularly in the areas of improved yield and reduced overtime. There remains significant opportunity for continuing margin improvement from increased productivity and efficiency gains as we continue to gain further experience with the new press."

"The instant ticket market and, in fact, the overall lottery industry, remains a very positive business," remarked Co-Chief Executive Officer Doug Pollard. "Our clients remain focused on expanding and growing their customer base, revenue and ultimately the proceeds generated to provide to their various good causes. We believe Pollard continues to be well positioned to be their partner of choice to achieve these objectives."

"During the quarter we were selected to be the primary instant supplier to the Minnesota Lottery. We are very pleased to have won this important contract in an open competitive bid and we look forward to our continued partnership with the lottery."

"The award of a contract such as this is an important step in building our volume and taking advantage of the new capacity created by our investments over the last few years. On a continual basis we will strategically bid for new work, but the nature of our industry dictates that it will take some period of time for us to have the opportunity to win new work, grow our volumes and utilize our capacity."

"Notwithstanding outside factors such as foreign exchange movements that impact our short term results, we continue to be pleased with the ongoing integration and development of our manufacturing capabilities," concluded John Pollard. "Our significant internal investments, coupled with the strength of our industry, positions us for long term sustainable growth in revenue, volumes and profits."

HIGHLIGHTS	2nd Quarter ended June 30, 2016	2nd Quarter ended June 30, 2015
Sales	$ 54.0 million	$ 51.4 million
Gross Profit	$ 10.9 million	$ 10.7 million
Gross Profit % of sales	*20.2%*	*20.8%*
Administration expenses	$ 5.1 million	$ 4.3 million
Selling expenses	$ 1.8 million	$ 1.6 million
Net Income	$ 2.0 million	$ 3.0 million
Adjusted EBITDA	$ 6.0 million	$ 6.3 million
Adjusted EBITDA excluding realized foreign exchange (loss) gain	$ 7.2 million	$ 6.8 million

	Six months ended June 30, 2016	Six months ended June 30, 2015
Sales	$ 118.0 million	$ 105.9 million
Gross Profit	$ 22.3 million	$ 20.8 million
Gross Profit % of sales	*18.9 %*	*19.6%*
Administration expenses	$ 10.4 million	$ 8.5 million
Selling expenses	$ 3.7 million	$ 3.4 million
Net Income	$ 5.6 million	$ 4.4 million
Adjusted EBITDA	$ 12.8 million	$ 13.0 million
Adjusted EBITDA excluding realized foreign exchange (loss) gain	$ 14.1 million	$ 13.0 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.

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 as at and for the three and six months ended June 30, 2016. These financial statements have been prepared in accordance with the International Financial Accounting Standards ("IFRS" or "GAAP").

SELECTED FINANCIAL INFORMATION

(millions of dollars)	**Three months ended June 30, 2016**	**Three months ended June 30, 2015**	**Six months ended June 30, 2016**	**Six months ended June 30, 2015**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	$54.0	$51.4	$118.0	$105.9
Cost of sales	43.1	40.7	95.7	85.1
Gross profit	10.9	10.7	22.3	20.8
Administration expenses	5.1	4.3	10.4	8.5
Selling expenses	1.8	1.6	3.7	3.4
Other income	(0.4)	(0.1)	(0.4)	(0.3)
Income from operations	4.4	4.9	8.6	9.2
Finance costs	1.2	0.7	2.1	2.7
Finance income	-	(0.4)	(1.0)	(0.5)
Income before income taxes	3.2	4.6	7.5	7.0
Income taxes:				
Current	1.6	1.5	2.7	2.2
Deferred (recovery)	(0.4)	0.1	(0.8)	0.4
	1.2	1.6	1.9	2.6
Net income	$2.0	$3.0	$5.6	$4.4
Adjustments:				
Amortization and depreciation	2.9	2.0	5.6	4.0
Interest	0.8	0.6	1.7	1.3
Mark-to-market gain on foreign currency contracts	-	(0.4)	-	(0.5)
Unrealized foreign exchange (gain) loss	(0.9)	(0.5)	(2.0)	1.2
Income taxes	1.2	1.6	1.9	2.6
Adjusted EBITDA	$6.0	$6.3	$12.8	$13.0
Realized foreign exchange loss	(1.2)	(0.5)	(1.3)	-
Adjusted EBITDA excluding realized foreign exchange loss	$7.2	$6.8	$14.1	$13.0

	June 30, 2016	December 31, 2015
Total Assets	$170.1	$164.1
Total Non-Current Liabilities	$95.3	$96.3

Results of Operations – Three months ended June 30, 2016

During the three months ended June 30, 2016, Pollard achieved sales of $54.0 million, compared to $51.4 million in the three months ended June 30, 2015. Factors impacting the $2.6 million sales increase were:

- Instant ticket average selling price increased in the second quarter of 2016 compared to the prior year which increased sales by $3.4 million. Sales of ancillary instant ticket products and services increased in 2016, increasing sales by $0.8 million due primarily to increased sales from iLottery. An increase in the charitable gaming average selling price increased sales by $0.4 million when compared to the second quarter of 2015. Partially offsetting these increases, instant ticket sales volumes in the quarter decreased when compared to the second quarter of 2015 decreasing sales by $3.8 million due to a significant increase in volume of international customers' tickets produced in the second quarter in transit as at June 30, 2016.

- During the three months ended June 30, 2016, Pollard generated approximately 69.0% (2015 – 68.5%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the second quarter of 2016 the actual U.S. dollar value was converted to Canadian dollars at $1.288, compared to a rate of $1.238 during the second quarter of 2015. This 4.1% increase in the U.S. dollar value resulted in an approximate increase of $1.5 million in revenue relative to the second quarter of 2015. Also during the quarter, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $0.3 million in revenue relative to the second quarter of 2015.

Cost of sales was $43.1 million in the second quarter of 2016 compared to $40.7 million in the second quarter of 2015. Cost of sales were higher in the quarter relative to 2015 as a result of higher amortization, increased ancillary instant ticket products and services sales and higher exchange rates on U.S. dollar transactions.

Gross profit was $10.9 million (20.2% of sales) in the second quarter of 2016 compared to $10.7 million (20.8% of sales) in the second quarter of 2015. This increase in gross profit was primarily the result of the increase in ancillary instant ticket products and services sales and higher exchange rates on U.S. dollar transactions. The lower 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. Sequentially the second quarter gross profit percentage (20.2% of sales) was higher than the first quarter of 2016 gross margin percentage (17.8% of sales) due partially to improved manufacturing efficiencies.

Administration expenses increased to $5.1 million in the second quarter of 2016 from $4.3 million in the second 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 have declined from $5.3 million in the first quarter of 2016 and $5.7 million in the fourth quarter of 2015 primarily due to lower professional fees. Pollard anticipates lower professional fees for the remainder of 2016.

Selling expenses of $1.8 million in the second quarter of 2016 were similar to $1.6 million in the second quarter of 2015.

Interest expense increased to $0.8 million in the second quarter of 2016 from $0.6 million in the second quarter of 2015 primarily as a result of no longer capitalizing borrowing costs related to the new press project.

The net foreign exchange loss was $0.3 million in the second quarter of 2016 compared to a net loss of nil in the second quarter of 2015. The 2016 net foreign exchange loss was due to the strengthening of the Canadian dollar. Partially offsetting the realized foreign exchange loss of $1.2 million, relating to the decreased value on the collections of U.S. dollar denominated receivables, was the reversal of $0.9 million unrealized loss recognized in prior quarters.

Within the 2015 net foreign exchange loss was an unrealized foreign exchange gain of $0.5 million, predominately 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) in addition to an unrealized gain on other U.S. dollar denominated accounts payable. Offsetting the unrealized gain was a realized foreign exchange loss of $0.5 million relating to the decreased value on the collections of U.S. dollar denominated receivables and a realized loss on the conversion of U.S. dollars and Euros into Canadian dollars.

Adjusted EBITDA was $6.0 million in the second quarter of 2016 compared to $6.3 million in the second quarter of 2015. The primary reason for the decrease in Adjusted EBITDA of $0.3 million was the increase in administration expenses of $0.8 million and realized foreign exchange loss of $0.7 million. These decreases were partially offset by the increase in gross profit (net of amortization and depreciation) of $1.1 million.

Adjusted EBITDA excluding realized foreign exchange (loss) gain was $7.2 million in the second quarter of 2016 compared to $6.8 million in the second quarter of 2015.

Income tax expense was $1.2 million in the second quarter of 2016, an effective rate of 36.9%, which was higher than our expected effective rate of 27.0% due primarily to differences relating to the foreign exchange impact relating to permanent differences on the foreign exchange translation of property, plant and equipment and other net liabilities.

Income tax expense was $1.6 million in the second quarter of 2015, an effective rate of 35.7%, which was higher than our expected effective rate of 26.7% due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The overall 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 loss is eliminated on consolidation).

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled $2.9 million during the second quarter of 2016 which increased from $2.0 million during the second 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 decreased to $2.0 million in the second quarter of 2016 from $3.0 million in the second quarter of 2015. The primary reasons for the decrease of $1.0 million in net income were the increase in administration expenses of $0.8 million, the reduction in the gain on the non-cash mark-to-market adjustment on foreign currency contracts of $0.4 million and the increase in foreign exchange loss of $0.3 million. These decreases were partially offset by the $0.3 million increase in other income and the reduction in income tax expense of $0.4 million.

Net income per share (basic and diluted) decreased to $0.09 per share in the second quarter of 2016 from $0.13 per share in the second quarter of 2015.

Results of Operations – Six months ended June 30, 2016

During the six months ended June 30, 2016, Pollard achieved sales of $118.0 million, compared to $105.9 million in the six months ended June 30, 2015. Factors impacting the $12.1 million sales increase were:

- Higher instant ticket average selling price increased sales by $4.3 million in the first six months of 2016 compared to the first six months of 2015. Higher sales of our ancillary instant ticket products and services increased sales by $3.9 million from the first half of 2015. Charitable gaming products volumes were higher in the first six months of 2016 which increased sales by $0.7 million. An increase in the charitable gaming average selling price increased sales by $0.4 million when compared to the first half of 2015. Partially offsetting these increases, lower instant ticket sales volumes decreased sales by $4.8 million when compared to 2015 due to a significant increase in volume of international customers' tickets produced in the second quarter in transit as at June 30, 2016.

- During the six months ended June 30, 2016, Pollard generated approximately 70.0% (2015 – 68.2%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first six months of

2016 the actual U.S. dollar value was converted to Canadian dollars at $1.339, compared to a rate of $1.226 during the first six months of 2015. This 9.2% increase in the U.S. dollar value resulted in an approximate increase of $7.0 million in revenue relative to the six months ended June 30, 2015. Also during the first half of 2016, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $0.6 million in revenue relative to the first half of 2015.

Cost of sales was $95.7 million in the six months ended June 30, 2016, compared to $85.1 million in the six months ended June 30, 2015. Cost of sales was higher in the first half of 2016 relative to 2015 as a result of higher amortization, increased ancillary instant ticket products and services sales and higher exchange rates on U.S. dollar transactions.

Gross profit increased to $22.3 million (18.9% of sales) in the six months ended June 30, 2016, from $20.8 million (19.6% of sales) in the six months ended June 30, 2015. This increase in gross profit was primarily the result of the increase in ancillary instant ticket products and services sales and higher exchange rates on U.S. dollar transactions. The lower 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 $10.4 million in the first six months of 2016 from $8.5 million in the first six months of 2015 due primarily to 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 have declined from $10.7 million in the final six months of 2015 primarily due to lower professional fees. Pollard anticipates lower professional fees for the remainder of 2016.

Selling expenses increased to $3.7 million in the first six months of 2016 from $3.4 million in the first six months of 2015 due primarily to the increased Canadian dollar equivalent of U.S. dollar denominated expenses and higher compensation expense in our charitable gaming division to support increased sales.

Interest expense increased to $1.7 million in the first six months of 2016 from $1.3 million in the first six months of 2015 primarily as a result of no longer capitalizing borrowing costs related to the new press project.

The net foreign exchange gain was $0.7 million in the first six months of 2016 compared to a net loss of $1.2 million in the first half of 2015. The 2016 foreign exchange gain resulted from unrealized foreign exchange gain of $2.0 million, comprised predominately of an unrealized gain on U.S. dollar denominated debt (caused by the strengthening of the value of the Canadian dollar versus the U.S. dollar) in addition to an unrealized gain on other U.S. dollar denominated accounts payable. The unrealized gain was partially offset by a realized loss of $1.3 million, relating to the decreased value on the collections of U.S. dollar denominated receivables.

The 2015 foreign exchange loss resulted from unrealized foreign exchange losses of $1.2 million, comprised predominately of an 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.

Adjusted EBITDA was $12.8 million in the first six months of 2016 compared to $13.0 million in the first six months of 2015. The primary reason for the decrease in Adjusted EBITDA of $0.2 million was the increase in administration expenses of $1.9 million and realized foreign exchange loss of $1.3 million. These decreases were offset by the increase in gross profit (net of amortization and depreciation) of $3.1 million.

Adjusted EBITDA excluding realized foreign exchange (loss) gain was $14.1 million in the first six months of 2016 compared to $13.0 million in the first six months of 2015.

Income tax expense was $1.9 million in the first six months of 2016, an effective rate of 24.7%, which was lower than our expected effective rate of 27.0% due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The 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 about 13 percentage points. Other differences relating to permanent differences on the foreign exchange translation of property, plant and equipment, and other net liabilities increased the effective tax rate by approximately 10 percentage points on a net basis.

Income tax expense was $2.6 million in the first six months of 2015, an effective rate of 37.7%, which was higher than our expected effective rate of 26.7% due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The weakening of the Canadian dollar versus the U.S. dollar results in a future gain on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax expense with no related income (as the gain is eliminated on consolidation). This increased the effective tax rate by about 16 percentage points. Other differences relating to permanent differences on the foreign exchange translation of property, plant and equipment, and other net liabilities decreased the effective tax rate by approximately 4 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 $5.6 million during the first six months of 2016 which increased from $4.0 million during the first six months 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 $5.6 million in the first six months of 2016 from $4.4 million in the first six months of 2015. The primary reasons for the increase were the $1.5 million increase in gross profit, the $1.9 million increase in foreign exchange gains and the decrease in income tax expense of $0.7 million. These increases were partially offset by higher administration expenses of $1.9 million, higher selling expenses of $0.3 million and increased interest expense of $0.4 million, as well as the reduction in the gain on the non-cash mark-to-market adjustment on foreign currency contracts of $0.5 million.

Net income per share (basic and diluted) increased to $0.24 per share in the six months ending June 30, 2016, as compared to $0.18 per share in the six months ending June 30, 2015.

Use of Non-GAAP Financial Measures

Reference to "Adjusted EBITDA" is to earnings before interest, income taxes, amortization and depreciation, 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.

Outlook

Lotteries continue to look to grow their revenue and maximize their net proceeds for distribution to various good causes, and this presents opportunities for suppliers like Pollard to likewise increase their role in supporting these initiatives. The lottery market continues to grow and, in particular, the instant ticket and related services product lines remains a key driver of lotteries' success and we expect this trend to continue. Greater instant ticket product variety at retail continues to generate solid growth in retail sales.

Lotteries are increasingly looking to new methods to support and strengthen this growth, including utilizing more active social media, enriched consumer engagement and better retail methodology to lay the foundation for more ticket sales. Pollard is aggressively marketing these ancillary products and services including second chance draws, free-to-play downloadable internet games, VIP clubs and enhanced retail management. These additional services expand our revenue base and, as importantly, increase the sales of the actual instant tickets.

Our Michigan iLottery operation continues to grow and is the cornerstone in our overall on-line gaming strategy. With our second iLottery contract on pace to go live later in 2016, we are actively marketing the benefits of a successful, integrated iLottery strategy to lotteries throughout North America. As noted before, the lottery industry remains cautious as it relates to on-line gaming and we do not anticipate a dramatic change in the number of iLottery opportunities in the short term.

Our manufacturing platform, and specifically our new press, continues to improve its productivity and efficiency. This progress will continue throughout 2016 and into 2017 as the complexity of the technology, depth of training required and the intricacy of the instant ticket product itself dictates a significant learning curve. We are confident this positive trend will continue and result in a very efficient manufacturing platform capable of producing higher volumes of product.

We do not anticipate any material changes to our contract portfolio throughout 2016. Historically our third and fourth quarter have generated slightly higher selling prices due to increased production of specialty products in anticipation of the yearend holiday season. These products generally carry slightly higher prices due to the greater value proposition they provide our lottery customers and we would expect that to continue this year. Actual timing of the related revenue recognition is dependent on such factors as the actual receipt of shipment.

As we saw in the second quarter, fluctuations in the relationship between the Canadian dollar and the U.S. dollar can impact the short term financial results. We continue to have a net exposure to the U.S. dollar and some exposure to the Euro, and depending on the timing of cash inflows and outflows, coupled with changes in the actual exchange rates, cash flow, EBITDA and net income can all be impacted. We continue to utilize a number of internal and natural hedges to help lessen or mitigate the variability of the fluctuations, however the effectiveness of these policies can be limited. We do not anticipate implementing any financial hedges in the near future.

Although small in absolute terms, our charitable gaming business, operating as American Games, continues to exceed expectations and should improve on last year's revenue and profits. Higher sales in pull-tabs and vending machines have led the way and, despite a relatively flat overall market, we anticipate maintaining these positive results.

Our anticipated capital expenditures for the remainder of 2016 should continue to be low and, barring any unusual investments in non-cash working capital, strong positive cash flow should be generated going forward. We are also actively looking at strategic alliances to augment and expand our expertise as it relates to our core lottery customer base. Whether through joint venture, partnerships or outright acquisitions we are very open to adding the appropriate resources to Pollard in order to remain the partner of choice for successful lotteries worldwide.

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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