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

**WINNIPEG, Manitoba, May 9, 2018 /CNW/ — Pollard Banknote Limited (TSX: PBL) ("Pollard")** today released its financial results for the three months ended March 31, 2018, generating record quarterly revenue and strong net income trends.

"Our first quarter results reflect continued strength in our core lottery products," stated John Pollard, Co-Chief Executive Officer, "as well as the positive impact of our recent acquisitions. All of our key metrics such as revenue, net income and adjusted EBITDA were significantly higher than the comparative period from 2017 and build on the positive results of the last few quarters."

"Consolidated revenue exceeded \$80 million, which is a record quarterly revenue level. We also achieved a high level of income before income taxes and our adjusted EBITDA of \$13 million is a great result to start the year."

"Our first quarter instant ticket production volumes reached record levels, reflecting continued higher orders from our existing lottery customers. The success of our proprietary products remains a key factor propelling our growth."

"On February 1, 2018, we completed the acquisition of International Gamco, Inc., one of the leading pull-tab ticket manufacturing companies in the charitable gaming industry. While still early, the integration with our existing charitable gaming business American Games is proceeding very well and we are looking forward to capitalizing on our new strong position as an industry leader."

"We were also very pleased with the success of our \$35.4 million equity raise, which closed on February 21, 2018. In addition to providing capital to help fund our internal and external growth, it provides additional liquidity in the equity market by increasing our float."

"The nature of our instant ticket business impacts the variability of our financial results on a quarter to quarter basis. The comparative first quarter of 2017 was negatively impacted by a large amount of instant ticket shipments in transit which significantly reduced earnings that quarter. A much better comparison is to average the earnings for the first two quarters of 2017. Even after doing so, however, our first quarter 2018 net

income and adjusted EBITDA were still higher by 16% and 34% respectively over this normalized 2017 comparative."

"Our Diamond Game acquisition from late 2017 continues to meet our high expectations", stated Doug Pollard, Co-Chief Executive Officer. "Both the lottery and charitable gaming markets have been very receptive to Pollard and Diamond Game joining forces and we also see some interesting future synergies with the Oasis electronic gaming product line of International Gamco. The lottery market is in a very exciting time as products and distribution channels continue to develop and evolve. The core instant ticket market remains a critical driver of overall lottery results and Pollard will continue to benefit from this environment. Our digital initiatives have been accepted throughout the industry as leading edge and are great examples of our commitment to innovation."

"We continue to follow our strategic focus as the partner of choice for the lottery and charitable gaming industry," summarized John Pollard, "and the results of this quarter confirm both our strategy and execution are being very well received amongst key players in the market."

<b>HIGHLIGHTS</b>	Three months ended March 31, 2018	Three months ended March 31, 2017
<b>Sales</b>	\$ 80.3 million	\$ 57.4 million
<b>Gross profit</b>	\$ 19.4 million	\$ 11.4 million
<i>Gross profit % of sales</i>	<i>24.2%</i>	<i>19.9 %</i>
<b>Administration expenses</b>	\$ 8.0 million	\$ 5.3 million
<b>Selling expenses</b>	\$ 2.8 million	\$ 2.0 million
<b>Net income</b>	\$ 4.5 million	\$ 1.8 million
<b>Adjusted EBITDA:</b>		
<b>Pollard Banknote Limited</b>	\$ 10.6 million	\$ 6.3 million
<b>Diamond Game</b>	\$ 2.4 million	\$ -
<b>Total adjusted EBITDA</b>	<b>\$ 13.0 million</b>	<b>\$ 6.3 million</b>

## **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-win scratch tickets (“instant tickets”) based in Canada and the second largest producer of instant tickets in the world. With the acquisition of International Gamco, Inc. (“Gamco”), on February 1, 2018, management believes Pollard has also become the second largest bingo paper and pull-tab supplier to the charitable gaming industry in North America.

### **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 severance costs and acquisition 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, 2018</b>	<b>March 31, 2017</b>
	(unaudited)	(unaudited)
Sales	\$80.3	\$57.4
Cost of sales	60.9	46.0
Gross profit	19.4	11.4
Administration expenses	8.0	5.3
Selling expenses	2.8	2.0
Other expenses	-	0.3
Income from operations	8.6	3.8
Finance costs	2.4	1.0
Income before income taxes	6.2	2.8
Income taxes:		
Current	3.1	1.3
Deferred reduction	(1.4)	(0.3)
Net income	\$4.5	\$1.8
Adjustments:		
Amortization and depreciation	4.1	2.5
Interest	1.2	0.8
Severance costs	0.4	-
Acquisition costs	0.1	0.4
Unrealized foreign exchange (gain) loss	1.0	(0.2)
Income taxes	1.7	1.0
Adjusted EBITDA	\$13.0	\$6.3
Pollard Banknote Limited	\$10.6	\$6.3
Diamond Game	2.4	-
Total Adjusted EBITDA	\$13.0	\$6.3
	March 31,	December 31,
	2018	2017
Total Assets	\$249.8	\$228.3
Total Non-Current Liabilities	\$99.1	\$124.8

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, 2018. These financial statements have been prepared in accordance with the International Financial Accounting Standards ("IFRS" or "GAAP").

On February 1, 2018, Pollard acquired International Gamco, Inc. ("Gamco"). Therefore, Gamco's financial results have been included in Pollard's consolidated financial statements for the remainder of the quarter. Also included in the three months ended March 31, 2018, is the results from INNOVA Gaming Group Inc. ("INNOVA", "Diamond Game"), which Pollard acquired on August 3, 2017.

### **Results of Operations – Three months ended March 31, 2018**

During the three months ended March 31, 2018, Pollard achieved sales of \$80.3 million, compared to \$57.4 million in the three months ended March 31, 2017. A number of factors resulted in the \$22.9 million sales increase:

- Instant ticket sales volumes for the first quarter of 2018 were higher than the first quarter of 2017 by 29.7% which increased sales by \$13.4 million. At March 31, 2017, there was a significant amount of goods in transit as the production mix in the quarter was weighted highly toward international customers, which reduced sales in first quarter of 2017. In addition to increased instant ticket sales volumes, higher sales of ancillary instant ticket products and services in the first quarter of 2018 compared to the first quarter of 2017 added \$1.3 million to sales. This increase in revenue was primarily from higher iLottery and licensed products sales compared to the prior year.
- The addition of Diamond Game added \$6.3 million in sales when compared to 2017. Also, the increase in charitable gaming volumes, primarily as a result of the addition of Gamco, for two months beginning February 1, 2018, increased sales by \$4.1 million from 2017. A higher average selling price for charitable games in 2018 further increased sales by \$0.2 million.
- During the three months ended March 31, 2018, Pollard generated approximately 67.3% (2017 – 68.3%) 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 2018 the actual U.S. dollar value was converted to Canadian dollars at \$1.256, compared to a rate of \$1.327 during the first quarter of 2017. This 5.3% decrease in the U.S. dollar value resulted in an approximate decrease of \$2.8 million in revenue relative to the first quarter of 2017. Also during the quarter the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of \$0.4 million in revenue relative to the first quarter of 2017.

Cost of sales was \$60.9 million in the first quarter of 2018 compared to \$46.0 million in the first quarter of 2017. The increase in instant ticket sales volumes was the primary reason for the increase in cost of goods sold, which was partially offset by lower exchange rates on U.S. dollar transactions in 2018. The majority of the remaining increase related to the inclusion of Diamond Game financial results which amounted to \$4.2 million, as well as the inclusion of Gamco.

Gross profit earned in the first quarter of 2018 was \$19.4 million (24.2% of sales) as compared to \$11.4 million (19.9% of sales) earned in the first quarter of 2017. This increase in gross profit was primarily the result of the increase in instant ticket volumes, higher ancillary instant ticket products and services sales and the addition of Diamond Game and Gamco. The higher gross profit percentage was due to the larger volumes of instant tickets and increased sales of ancillary instant ticket products and services, including higher license product and iLottery sales. The first quarter of 2017 gross profit percentage was low due to the large amount of goods in transit at March 31, 2017.

Administration expenses increased to \$8.0 million in the first quarter of 2018 compared to \$5.3 million in the first quarter of 2017. The increase was partly a result of the inclusion of Diamond Game and Gamco of \$2.0 million (which includes \$0.4 million in severance costs related to the departure of two former Diamond Game executives). Additional reasons for the increase were higher compensation expenses (which primarily related to expansion of our ancillary lottery product and services sales and acquisition efforts) compared to 2017 and increased professional fees and IT infrastructure related expenses. This increase was partially offset by a \$0.3 million reduction in acquisition costs as compared to the first quarter of 2017.

Selling expenses increased to \$2.8 million in the first quarter of 2018 from \$2.0 million in the first quarter of 2017 due to the addition of Diamond Game and Gamco.

Interest expense increased to \$1.2 million in the first quarter of 2018 from \$0.8 million in the first quarter of 2017 primarily as a result of the additional interest expense related to long-term and subordinated debt incurred with the acquisitions of Diamond Game and Gamco.

The net foreign exchange loss was \$1.2 million in the first quarter of 2018 compared to a loss of \$0.2 million in the first quarter of 2017. Within the 2018 net foreign exchange loss was a realized loss of \$0.2 million, primarily as a result of the decreased value of U.S. denominated receivables at collection. In addition to the realized loss was an unrealized loss of \$1.0 million primarily as a result of the unrealized loss on U.S. dollar denominated debt (caused by the weakening of the value of the Canadian dollar versus the U.S. dollar during the first quarter of 2018).

Within the 2017 net foreign exchange loss was a realized loss of \$0.4 million, primarily as a result of the decreased value of U.S. denominated receivables at collection. Partially offsetting the realized loss was an unrealized gain of \$0.2 million primarily as a result of

the 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 2017).

Adjusted EBITDA was \$13.0 million in the first quarter of 2018 compared to \$6.3 million in the first quarter of 2017. The primary reasons for the increase in Adjusted EBITDA of \$6.7 million were the increase in gross profit of \$9.6 million (net of amortization and depreciation), a decrease in other expenses of \$0.3 million and a decrease in realized foreign exchange loss of \$0.2 million. These increases to Adjusted EBITDA were partially offset by higher administration expenses (net of acquisition and severance costs) of \$2.6 million and an increase in selling expenses of \$0.8 million.

Income tax expense was \$1.7 million in the first quarter of 2018, an effective rate of 27.2%, which was similar to Pollard's expected effective rate of 27.0%.

Income tax expense was \$1.0 million in the first quarter of 2017, an effective rate of 36.0%, higher than Pollard's expected effective rate of 27.0% due primarily to the effect of higher tax rates in foreign jurisdictions.

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$4.1 million during the first quarter of 2018 which increased from \$2.5 million during the first quarter of 2017. The increase was a result of the addition of Diamond Game and Gamco including the amortization and depreciation relating to the purchase price allocations to intangible assets and property, plant and equipment.

Net income increased to \$4.5 million in the first quarter of 2018 from \$1.8 million in the first quarter of 2017. The primary reasons for the increase were the higher gross profit of \$8.0 million and the decrease in other expenses of \$0.3 million. These increases to net income were partially offset by the \$2.7 million increase in administration expenses, the \$0.8 million increase in selling expenses, the \$0.4 million increase in interest expense, the \$1.0 million increase in foreign exchange losses and the \$0.7 million increase in income tax expense.

Net income per share (basic and diluted) increased to \$0.18 per share in the first quarter of 2018 from \$0.08 per share in the first quarter of 2017.

## **Outlook**

The lottery and charitable gaming markets remain strong as lotteries look to continue to retain and grow the proceeds they generate to fund various good causes. The instant ticket segment remains a critical component of this as retail sales to the consumer are very strong and we expect this to continue. Lotteries are expanding into ancillary areas, with particular interest in digital areas including the development of iLottery and sales over the internet. A number of jurisdictions in the United States are more active in

researching the possibilities of expanding into the iLottery field and we expect this to be an important area for future development.

Our instant ticket order volumes from our existing contract portfolio remain high and this positive trend is expected to continue. At the end of the first quarter we recommissioned our original press in Ypsilanti (which had been decommissioned with the start-up of our Tresu press) to help expand capacity and improve scheduling efficiencies to meet our growing demand.

Our acquisition of Gamco was completed and the integration process is underway. There are important longer-term synergies, both on the revenue and expense sides, available by combining our existing American Games charitable gaming business with Gamco and we are actively working through these development plans. The charitable gaming industry is showing some positive signs after a number of years of limited growth and we are hopeful this trend will continue, providing additional opportunities for our new combined operations to grow. International Gamco's E-gaming division, Oasis, is also being integrated with our Diamond Game business to provide greater leverage in the electronic gaming machine market.

Our Diamond Game business continues to meet our high expectations and we are working on a number of growth opportunities. The nature of the Diamond Game product remains a very long-term sales cycle and while existing revenue from current contracts are very consistent and generally predictable, growth in new jurisdictions will develop over time.

Our capital structure is conservative, as a result of the raise of additional equity in the first quarter, and provides us ample resources to both support internal growth as well as any potential acquisitions. Selective acquisitions remain a critical piece of our strategic plan and we will continue to investigate opportunities that meet both our financial and strategic objectives. Our lottery customers are expanding and to be their partner of choice we will ensure that our capability and expertise meets those needs through internal growth and acquiring appropriate assets externally.

Our budgeted capital expenditures for 2018 are expected to be similar to the expenditures incurred in 2017 before taking into account the additional traditional capital expended by our two acquisitions. We do not anticipate any individual major capital expenditures to be required during this upcoming year. As a result, we would anticipate strong operating cash flows available for investments in future acquisitions, necessary growth in working capital, capital investments and continued reductions in outstanding 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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