



ANNUAL INFORMATION FORM

March 12, 2018

Table of Contents

POLLARD BANKNOTE LIMITED AND OTHER PARTIES.....	1
Structure of the Company and its Subsidiaries	1
INDUSTRY OVERVIEW.....	3
General	3
Lotteries.....	3
Charitable Gaming	4
Products.....	4
<i>Paper Tickets</i>	4
<i>Lotto (Draw Based) Products</i>	4
<i>iLottery and Internet Gaming</i>	4
<i>Charitable Gaming Machines</i>	5
<i>Loyalty Programs</i>	5
<i>Lottery Management Services</i>	5
<i>Licensed Products</i>	5
<i>Vending Machines</i>	5
<i>Bingo</i>	5
<i>Interactive Digital Games and Website Development</i>	6
<i>Video Lottery Terminals</i>	6
THE BUSINESS OF POLLARD BANKNOTE LIMITED.....	6
Overview	6
General Development of the business.....	7
<i>Acquisition of INNOVA Gaming Group Inc.</i>	7
<i>Acquisition of International Gamco, Inc.</i>	7
<i>Common Share Offering</i>	8
Business Strengths.....	9
<i>Leading Market Position</i>	9
<i>World Class Manufacturer</i>	9
<i>Developing iLottery Expertise</i>	10
<i>Proprietary Innovative High Value Products</i>	10
<i>Expanding Product Portfolio</i>	10
<i>Significant Barriers to Entry</i>	11
<i>Long Term Customer Relationships</i>	11

<i>Excellent History of Growth</i>	15
<i>Experienced Management Team</i>	15
Corporate Strategy.....	15
<i>Ongoing Technological Advancements to Improve Productivity</i>	16
<i>Innovation and Increased Development and Sale of Proprietary Products</i>	16
<i>Licensed Products and Merchandise</i>	16
<i>iLottery, Internet and Digital Applications</i>	17
<i>Capturing Expanding Lottery and Gaming Jurisdictions</i>	17
<i>Acquisitions</i>	17
<i>Lottery Management and Information Systems</i>	18
<i>Strategic Partnerships</i>	18
<i>Cross Fertilization of the Lottery and Charitable Gaming Market</i>	18
<i>Expanding the Breadth of Products and Services</i>	18
Products and Services.....	19
<i>Instant Tickets</i>	19
<i>iLottery</i>	20
<i>Bingo Paper</i>	20
<i>Pull-tab Tickets</i>	21
<i>Licensed Games</i>	21
<i>Charitable Gaming Machines</i>	21
<i>Lottery Management Services and Information Systems</i>	21
<i>Interactive Digital Games and Website Development</i>	22
<i>Vending Machines</i>	22
Customers, Sales and Marketing.....	22
<i>Lottery Market</i>	22
<i>Marketing to Lotteries</i>	23
<i>The RFP Process</i>	23
<i>Awards Outside the RFP Process</i>	23
<i>Charitable Gaming Market</i>	23
Suppliers and Raw Material	24
Employees	24
Pension Plans.....	25
Properties.....	25
Competition.....	26
<i>Lottery Market</i>	26
<i>Charitable Gaming Market</i>	26
Environmental, Health and Safety	26

Capital Expenditures	27
Patents, Trademarks and Licenses	28
<i>Patents</i>	28
<i>Trademarks</i>	28
<i>Licensed Games</i>	28
Regulatory Environment	29
<i>General</i>	29
<i>Lottery Market</i>	29
<i>Charitable Gaming Market</i>	30
GOVERNANCE	31
Directors and Officers of Pollard Banknote Limited	31
Biographies of Directors and Officers	32
Governance of Pollard Banknote limited	33
<i>Governance</i>	33
<i>Audit Committee</i>	33
<i>Committees of the Board of Directors of Pollard Banknote Limited</i>	34
<i>Guidelines for Continuous Public Disclosure</i>	34
Ownership of securities	35
External Auditor Service Fees	35
<i>Category</i>	35
Indebtedness of Management Personnel	35
INDEBTEDNESS	35
Credit Facility	35
Subordinated Debt	36
DESCRIPTION OF POLLARD BANKNOTE LIMITED	37
Incorporation	37
Description of Share Capital	37
<i>Preference Shares</i>	37
<i>Common Shares</i>	38
RISK FACTORS	39
Risks Related to the Business and the Industry	40
<i>Dependence on Key Products</i>	40
<i>Inability to Sustain Sales or EBITDA Margins</i>	40
<i>General Economic Conditions</i>	40

<i>Dependence on Major Customers</i>	40
<i>Exchange Rate Fluctuations</i>	40
<i>Additional Capital Requirements</i>	41
<i>Inability to Sustain and Manage Growth</i>	41
<i>Competition</i>	41
<i>Future Acquisition and Integration Risks</i>	42
<i>Failure to Realize Anticipated Benefits of INNOVA or Gamco Acquisitions</i>	42
<i>Reliance on Manufacturing Facilities</i>	43
<i>Reliance on Key Personnel</i>	43
<i>Technological Change</i>	43
<i>Significant Changes to Government Regulations</i>	43
<i>Continuing Negotiations on North American Free Trade Agreement (NAFTA)</i>	43
<i>Licensing and Regulatory Requirements</i>	44
<i>Income and Other Taxes</i>	44
<i>Intellectual Property</i>	44
<i>Litigation</i>	45
<i>Raw Material Price Volatility</i>	45
<i>Lack of Long-Term Supplier Agreements</i>	45
<i>Dependence on Sole or Limited Sources of Supply</i>	45
<i>Product Liability</i>	45
<i>Research and development (“R&D”)</i>	46
<i>Inability to innovate</i>	46
<i>Systems, network or telecommunications failures or cyber-attacks</i>	46
<i>Money laundering/fraudulent activity</i>	47
<i>Labour Disruptions</i>	47
<i>Operating Hazards</i>	47
<i>Environment, Health and Safety Requirements and Related Considerations</i>	47
<i>Insufficient Insurance Coverage</i>	48
<i>Interest Rates</i>	48
Risks related to the Common Shares	49
<i>Dividends Are Not Guaranteed and Will Fluctuate with Business Performance</i> ..	49
<i>Leverage and Restrictive Covenants</i>	49
<i>Control and Contractual Restrictions by Pollard Equities Limited</i>	49
<i>Future Sales of Shares by Pollard Equities Limited</i>	50
<i>Additional Issuance of Common Shares May Result in Dilution</i>	50
DIVIDENDS	51
LEGAL PROCEEDINGS	51

REGISTRAR AND TRANSFER AGENT	51
MARKET FOR SECURITIES	52
PROMOTER	52
MATERIAL CONTRACTS	52
INTEREST OF EXPERTS.....	53
DOCUMENTS INCORPORATED BY REFERENCE	53
ADDITIONAL INFORMATION	53
SCHEDULE A	54

This annual information form includes forward looking statements. We have based these forward looking statements on our current expectations and projections about future events. These forward looking statements include, among other things, our anticipated growth strategies, anticipated trends in our business and our ability to expand our business activities.

The forward looking statements included in this annual information form are subject to risks, uncertainties and assumptions about Pollard Banknote Limited (“Pollard Banknote” or the “Company”) and its direct and indirect subsidiaries and affiliates. Our actual results of operations may differ materially from the forward looking statements as a result of, among other things, general risks related to the lottery and charitable gaming industries, our reliance on key personnel, changes in technology, fluctuating results of operation and fluctuation of foreign exchange rates. We undertake no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward looking events discussed in this annual information form might not occur.

Unless the context indicates otherwise, the information appearing herein is stated as at December 31, 2017 and all dollar amounts referred to in this document are references to Canadian dollars.

POLLARD BANKNOTE LIMITED AND OTHER PARTIES

Pollard Banknote Limited (“Pollard Banknote”, “Pollard” or the “Company”), formerly 7510101 Canada Limited, was incorporated under the laws of Canada on March 26, 2010. The principal head and registered office is at 140 Otter Street, Winnipeg, Manitoba, Canada, R3T 0M8. The Company was incorporated to continue the business of Pollard Holdings Limited Partnership.

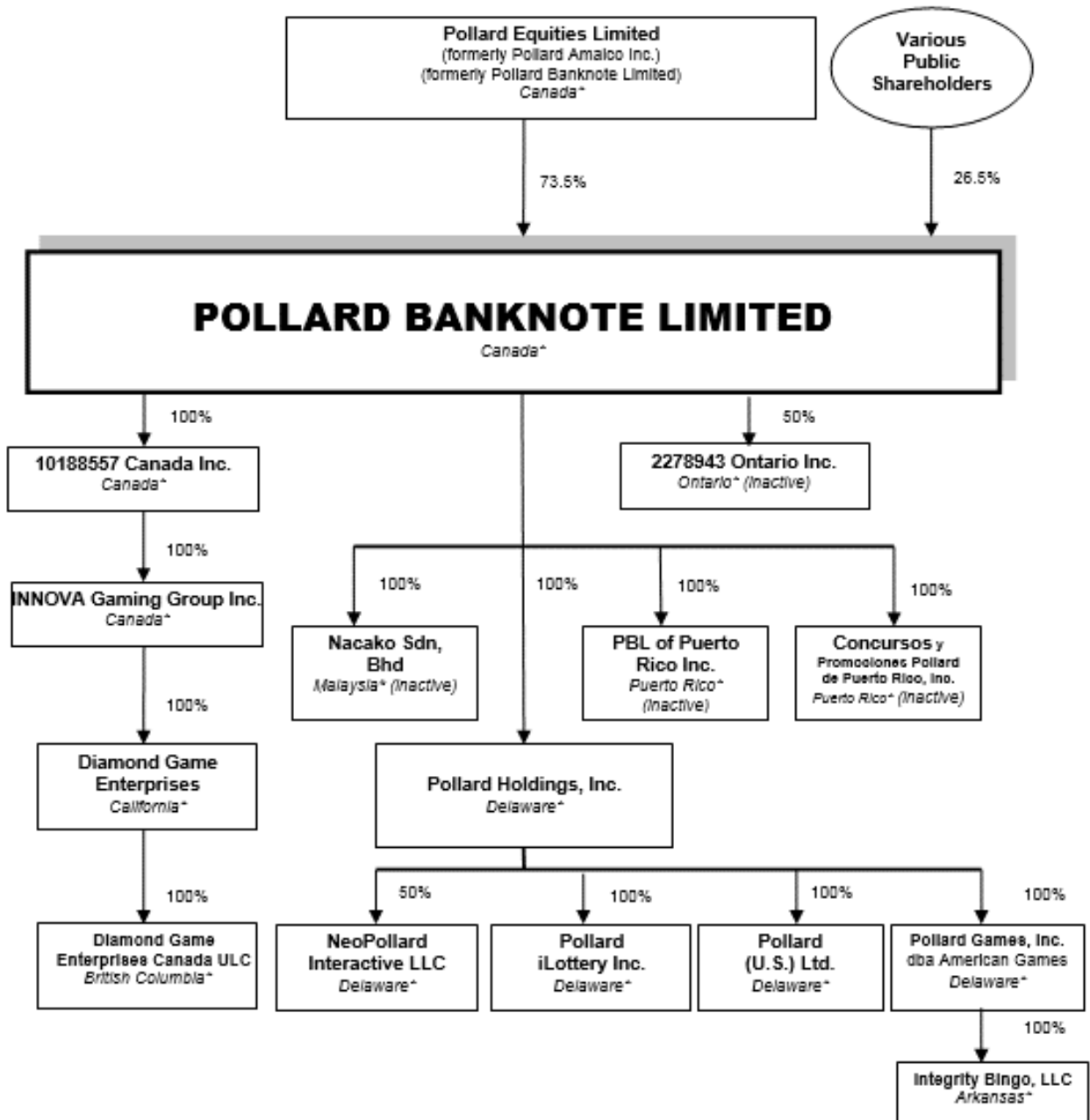
Prior to January 1, 2015, the Company owned directly 100% of the common shares of Pollard Banknote GP Limited as well as 100% of the Partnership Units of Pollard Holdings Limited Partnership (“Pollard LP”). Pollard LP, in turn, held the assets used to carry on the business directly or through its subsidiaries.

On January 1, 2015, Pollard Banknote Limited completed a short form amalgamation combining Pollard Holdings Limited Partnership, Pollard Banknote GP Limited, Pollard Banknote Limited Partnership and Pollard (Canada) Inc. with the Company. This had no material impact to the operations of the Company on a consolidated basis and was designed to simplify the organization structure.

STRUCTURE OF THE COMPANY AND ITS SUBSIDIARIES

The following corporate chart illustrates the Company and its significant related affiliates as at December 31, 2017.

Pollard Banknote Limited – December 31, 2017



*Denotes jurisdiction of incorporation/amalgamation/continuance/establishment.

INDUSTRY OVERVIEW

GENERAL

The gaming industry has experienced tremendous growth over the last 30 years in North America and internationally. The gaming industry is generally considered to include lotteries, charitable gaming organizations, internet gaming, pari-mutuel wagering (such as horse racing) and games typically associated with casino operations, such as table games and slot machines.

According to LaFleur's World Lottery Almanac, in 2016, the North American lottery market generated revenues of approximately US\$82.9 billion and management believes the North American charitable gaming market generated revenues of approximately US\$30.0 billion. The worldwide lottery market generated revenues of approximately US\$274.9 billion. The worldwide lottery ticket manufacturing industry, which manufactures tickets for the lottery market, is estimated by management to be a US\$700.0 million market, measured in terms of total annual sales of instant tickets and related services to lotteries. The North American lottery ticket manufacturing industry is estimated by management to be a US\$440.0 million market, measured in terms of total annual sales of instant tickets and related services to lotteries.

LOTTERIES

Lotteries are operated by domestic and foreign governmental authorities and their licensees in more than 200 jurisdictions throughout the world. Currently, 43 jurisdictions in the United States and all ten provinces and three territories in Canada sell instant tickets. Governments typically authorize lotteries as a means of generating revenues without the imposition of additional taxes. Net lottery proceeds are frequently set aside for particular public purposes and many jurisdictions have come to rely heavily on this means of generating revenues.

The lottery market primarily consists of lotto or draw based games (such as Lotto 649[®] and Powerball[®]) and instant ticket games. It also consists of a variety of products and services which support these games. Based on industry information, 2016 instant ticket retail sales in North America totalled approximately US\$47.3 billion and lotto retail sales totalled approximately US\$34.4 billion. North American instant ticket retail sales grew at a compound annual growth rate of approximately 6.0% from 1995 to 2016, a rate faster than North American lotto retail sales, which grew at a compound annual growth rate of approximately 2.1% for the same period.

U.S. instant ticket retail sales grew at a compound annual growth rate of approximately 6.8% from 1995 to 2016, a rate faster than U.S. lotto retail sales, which grew at a compound annual growth rate of approximately 1.8% for the same period. In the United States, 2016 lotto retail sales totalled approximately US\$28.7 billion and instant ticket retail sales totalled approximately US\$45.5 billion. Canadian instant ticket retail sales grew at a compound annual growth rate of approximately 3.2% the same period. The annual growth rate, from 2015 to 2016 for instant ticket retail sales in the United States was approximately 4.0%. Retail sales of instant tickets increased by approximately 2.9% in Canada for the same period.

Based on industry information, Pollard Banknote estimates that 2016 non-North American lotto retail sales totalled approximately US\$142.2 billion and that 2016 non-North American instant ticket retail sales totalled approximately US\$35.5 billion.

CHARITABLE GAMING

The charitable gaming products that Pollard Banknote currently produces consist mainly of pull-tab tickets and bingo paper. In the United States and Canada, pull-tab tickets are generally sold at charitable bingo halls and chartered membership clubs such as veteran and fraternal clubs. In the United States, pull-tab tickets are currently permitted in 39 states. In Canada, pull-tab tickets are currently permitted in all ten provinces and all three territories. In several states and some provinces, pull-tab tickets are approved for sale in third-party retail locations, including bars and taverns. Seven states and six provinces in Canada also permit the sale of pull-tab tickets, in addition to instant tickets, in their lottery ticket sales. Management estimates that the annual dollar value of pull-tab tickets and bingo paper sold to distributors in Pollard Banknote's market is approximately US\$160 million and has remained stable over the last few years.

In the United States, traditional paper bingo is permitted in all states except Hawaii, Tennessee and Utah. Electronic bingo systems are currently operating in 37 states in some form and across the United States in Indian gaming halls in compliance with the Indian Gaming Regulatory Act. In Canada, traditional paper bingo is permitted in all ten provinces and three territories. Fixed-base electronic bingo systems, however, may only be used in halls owned or authorized by certain provincial governments.

PRODUCTS

The principal categories of lottery and charitable gaming products are:

Paper Tickets

Paper tickets include instant, pull-tab and draw tickets. An instant ticket is typically played by removing a coating from a pre-printed ticket. The product is referred to as "instant" because the player knows instantly whether they have won a prize. A draw lottery ticket involves a player purchasing a ticket which is manually processed for a future drawing for prizes of a fixed amount. This type of lottery is predominantly played in Europe, South America and Asia. Pull-tabs or break-open tickets involve prizes hidden under ticket flaps which are opened by the player. These tickets are more commonly associated with charitable gaming, although some North American lotteries sell this product line.

Lotto (Draw Based) Products

Lotto (Draw Based) games (such as Lotto 649[®] and Powerball[®]) are based on a random selection of a series of numbers. Lotto prizes are generally based on the number of winners who share the prize pool and are conducted through a computerized system in which lottery terminals in retail outlets are continuously connected to a central computer system. Participants in the games receive a paper receipt when they purchase a ticket. Other lotto games include Keno and sports lotto.

iLottery and Internet Gaming

This new distribution channel is increasingly become a focal point of lotteries. Currently there are some North American lotteries that have set-up or are in the process of setting up their own websites to sell lottery and gaming products. Non-North American lotteries have utilized the

internet for gaming for a number of years. While still in its formative stage, iLottery is expected to grow in significance in the future.

Charitable Gaming Machines

Through the use of technology, gaming venues and retailers in North America are increasingly focused on the “self-retailing” concept, whereby consumers can purchase products without any direct interaction with staff and expand the gaming experience for the consumer. These products are designed to allow a consumer to play a game on a machine or terminal which displays the results on a video monitor in an entertaining manner. Game data, such as winnings and games played can be fed to a central distribution system which allows full monitoring of machine use.

Loyalty Programs

These programs are designed to enhance the player experience by providing an additional venue for the player to interact with the lottery. By registering on the lottery website members can gain access to unique invitations and opportunities offered by the lottery, enter into second chance draws and gather news about new ticket concepts. The value for the lottery is that it can now understand its players better, gain data and target areas that are of interest to its members.

Lottery Management Services

Various operating and managerial services are connected to the paper ticket market including warehousing, inventory control, sales force management, retail support, advertising and marketing and distribution to the retail outlets. These services can be performed by the lottery or outsourced to a third-party provider such as Pollard Banknote. Lotteries may choose to outsource specific applications of their operations (for example allow a third party to run the distribution operations) or choose to outsource an entire product line (for example the complete instant ticket operation) or may outsource the entire management of the lottery operation.

Some lotteries are relying on outside providers such as Pollard to provide computerized validation systems to support their instant ticket product line.

Licensed Products

Lotteries look to expand and augment their lottery offerings by utilizing licensed or branded products or themes. By offering specific licensed products the lotteries are able to access additional demographics as well as offering unique branded merchandise as part of the prize packages.

Vending Machines

Consistent with the movement toward “self-retailing,” vending machines are used by lotteries to increase the scope of distribution and increase the effectiveness of traditional retailers. Vending machines enable lotteries to sell their products in new locations such as airports as well as allow retailers to reduce their labour costs related to the sale of instant tickets.

Bingo

Bingo involves a game played with some form of playing card where a player covers squares when objects similarly numbered and lettered are randomly drawn to complete lines or other patterns. Bingo is played either on pre-printed paper bingo cards or “faces” or through electronic devices.

Interactive Digital Games and Website Development

Many lotteries are marketing value-added interactive features to instant tickets to further enhance the perceived value of the game as well as increasing satisfaction of the entire playing experience. For example, second-chance draws allow the player to enter a valid ticket into a website for a chance to play an additional game for fun or possibly to win additional prizes. Tablet and smart phone digital apps enable the use of mobile technology which enhances sales of core games by keeping the offering fresh as well as attracting new and younger customers in the coveted 18-34 year-old demographic.

Video Lottery Terminals

A video lottery terminal (“VLT”) is a gambling machine operated by inserting bills or coins into a slot, and then either pulling down on a handle or pushing a button. VLTs enable players to play many traditional card games, ranging from poker and blackjack to a variety of multi-symbol match games. A player’s randomly generated cards or game symbols appear on the video screen. Players bet whatever amount they choose with each game and, depending on the game, sometimes have the option of doubling their bets after the game has started. When finished playing, the player touches the “Cash Out” button on the screen and the VLT either releases the prize amount in coins or prints a ticket showing how much they have won, which typically can be redeemed in the establishment where the VLT is located.

THE BUSINESS OF POLLARD BANKNOTE LIMITED

OVERVIEW

Pollard Banknote is one of the leading providers of products and services to the lottery and charitable gaming industries throughout the world. Management believes that Pollard Banknote is the largest provider of instant tickets based in Canada, second largest producer of instant tickets in the world and the second largest provider of charitable gaming products in North America with the February 1, 2018, acquisition of International Gamco, Inc. (“Gamco”).

Pollard Banknote derives most of its revenues from the sale of instant tickets and related services including the provision of internet lottery services (iLottery) and Lottery Management Services, which accounted for approximately 86.7% of total revenue for the year ending December 31, 2017. Pollard Banknote also manufactures and sells paper products for the charitable gaming market (pull-tabs, bingo paper and vending machines), which together accounted for 9.7% of total revenues in the year ended December 31, 2017 and beginning with the acquisition of INNOVA Gaming Group Inc. (“INNOVA”) in 2017, 3.6% in charitable gaming machines.

Geographically, Pollard Banknote products are offered in markets throughout North America and internationally, where permitted by regulation. For the year ended December 31, 2017, 22% of revenue was generated in Canada and 56% was generated in the United States. The remaining 22% was generated from sales outside North America, predominately Europe and Asia.

In the year ended December 31, 2017, Pollard Banknote sold over 13.3 billion instant tickets, 3.3 billion individual bingo cards, 0.8 billion pull-tab tickets, 750 vending machines and leased approximately 1,950 charitable gaming machines.

Pollard Banknote produces and provides a comprehensive line of instant tickets and lottery services including licensed products, distribution, interactive digital internet games, iLottery services, loyalty and engagement programs, marketing and instant ticket vending machines. In addition, Pollard Banknote’s charitable gaming product line produces pull-tab (or break-open)

tickets (“pull-tab tickets”), bingo paper, pull-tab vending machines and ancillary products such as pull-tab counting machines. Pollard Banknote also markets gaming products to the commercial gaming sector including such items as promotional scratch and win, transit tickets and parking passes. Pollard Banknote, through its subsidiary INNOVA, offers its popular LT-3, which is a unique charitable gaming machine to various gaming venues and retailers throughout North America. Pollard Banknote’s lottery products are offered for sale in North America and throughout the world, while Pollard Banknote’s charitable gaming products are principally sold in the United States.

Pollard Banknote services a wide variety of lottery customers under the Pollard Banknote brand name and sells products and services directly to lotteries throughout North America and throughout the world. It also sells charitable gaming products in the United States under the brand name “American Games.” As shown on the following page, of the largest 20 lotteries ranked by instant ticket sales, 12 are customers of Pollard Banknote.

GENERAL DEVELOPMENT OF THE BUSINESS

Acquisition of INNOVA Gaming Group Inc.

On August 3, 2017, 10188557 Canada Inc. (the “Offeror”), a wholly-owned subsidiary of Pollard, acquired 17,929,021 common shares of INNOVA which had been validly tendered under the offer to acquire all of the outstanding common shares (the “Offer”) for \$2.50 in cash per common share. The Offer was extended until August 15, 2017.

On August 15, 2017, an additional 1,167,946 common shares were acquired under the extension of the Offer for \$2.50 in cash per common share. A total of 19,096,967 common shares or 95.13% of the issued and outstanding common shares were acquired under the Offer.

On August 18, 2017, Pollard mailed to all remaining holders of common shares a Notice of Compulsory Acquisition pursuant to the provisions of Section 206 of the Canada Business Corporations Act to complete the acquisition of 100% of the common shares.

On September 18, 2017, the Compulsory Acquisition was completed and the Offeror acquired the remaining 976,932 common shares not already held by the Offeror, thereby becoming the holder of 100% of the common shares. On September 19, 2017, INNOVA was formally delisted from the Toronto Stock Exchange. The acquisition was completed for aggregate consideration of \$50.185 million.

The purchase price was funded by proceeds from Pollard’s credit facility and additional subordinated debt. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities have been based on management’s best estimates and valuation techniques as at August 3, 2017, the acquisition date.

Pollard Banknote believes that INNOVA and its Diamond Game operating business represent unique assets that fit well within Pollard Banknote’s expanding product portfolio, and that the acquisition of INNOVA will allow Pollard Banknote to further grow its partnership with lotteries seeking to expand their products and services.

Acquisition of International Gamco, Inc.

On February 1, 2018, Pollard Holdings, Inc. (“US Holdings”), a wholly-owned subsidiary of Pollard, acquired 100% of the common shares of Gamco for a total consideration of US\$17.6 million.

The purchase price was funded by proceeds from Pollard’s credit facility and cash on hand. The acquisition will be accounted for using the acquisition method. The allocation of the purchase price to the identifiable assets and liabilities has not yet been completed.

By bringing the Gamco team into our organization, Pollard Banknote believes it will be a powerful combination with our existing charitable gaming division, American Games, and our recently acquired INNOVA business.

Common Share Offering

On February 1, 2018, Pollard announced that it had entered into an agreement with a syndicate of underwriters led by Canaccord Genuity Corp. (together, the “Underwriters”) to purchase on a bought deal basis 1,800,000 common shares of Pollard at a price of \$18.45 per share. Pollard also granted the Underwriters an over-allotment option exercisable at any time up to 30 days following the closing of the offering, to purchase up to an additional 270,000 common shares.

The offering, including the full over-allotment, closed on February 21, 2018. The total gross proceeds, prior to any commissions and offering expenses, from the sale of 2,070,000 common shares was approximately \$38.2 million.

Pollard used the net proceeds to repay indebtedness under the Company’s credit facility and subordinated debt.

Largest Worldwide Lotteries Ranked By 2016 Retail Sales of Instant Tickets

<u>Rank</u>	<u>Lottery</u>	<u>Country</u>	<u>Total Sales</u> <u>(US\$MM)</u>	<u>Pollard Customer</u>
1	Lottomatica S.p.A.....	Italy	9,413	
2	La Française des Jeux.....	France	7,175	*
3	California State Lottery.....	United States	4,386	*
4	Florida Lottery.....	United States	4,059	*
5	New York State Lottery.....	United States	3,934	*
6	Texas Lottery.....	United States	3,790	*
7	U.K. National Lottery.....	U.K.	3,693	
8	Massachusetts State Lottery Commission.....	United States	3,620	*
9	Georgia Lottery Corporation.....	United States	3,069	*
10	Pennsylvania Lottery.....	United States	2,791	
11	China Welfare Lottery.....	China	2,146	
12	China Sports Lottery.....	China	2,010	
13	Taiwan Lottery Ltd.....	Taiwan	1,907	*
14	New Jersey Lottery.....	United States	1,867	*
15	Illinois State Lottery.....	United States	1,818	
16	North Carolina Education Lottery.....	United States	1,660	*
17	Ohio Lottery.....	United States	1,523	*
18	Santa Casa de Misericordia de Lisboa (SCML)....	Portugal	1,203	
19	Michigan Lottery.....	United States	1,193	*
20	Tennessee Lottery.....	United States	1,189	

Source: LaFleur’s 2017 World Lottery Almanac

BUSINESS STRENGTHS

Management believes that Pollard Banknote has a number of competitive strengths that make its performance sustainable and provide a solid base for continued growth. These strengths are the result of specialized manufacturing and process platforms, complementary benefits of a wide product portfolio, unique proprietary products and services, and the focus and discipline of Pollard Banknote's senior management team.

Leading Market Position

Pollard Banknote is a worldwide market leader in the lottery products it produces.

Pollard Banknote maintains a dominant position in the instant ticket market in Canada with sales to all six lotteries and a market share which Pollard Banknote's management believes to be approximately 85% of the number of instant tickets sold. Pollard Banknote's multi-plant approach, utilizing four plants in Canada, allows Pollard Banknote to be responsive and efficient in meeting its Canadian customers' needs.

The United States is the largest individual market for instant tickets, representing approximately 56% of the world-wide market. Management believes Pollard Banknote is the second largest supplier of instant tickets for the United States market with a market share of approximately 22% of the number of instant tickets sold. Pollard Banknote has contracts as primary or secondary supplier of instant tickets with 27 of the 43 United States lotteries that sell instant tickets. Outside of North America Pollard Banknote also maintains a significant market share position including contracts with a number of key European lotteries including, among others, France, Sweden, Austria, Finland, Poland, Denmark and Ireland.

With the acquisitions of INNOVA in 2017, management believes we are the largest supplier of charitable gaming machines to the charitable gaming sector and with the acquisition of Gamco on February 1, 2018, management believes we are the second largest supplier to the charitable gaming sector in North America.

World Class Manufacturer

As a result of its previous and ongoing investment in technological upgrades, Pollard Banknote has developed two distinct approaches to the printing of instant tickets, modular and in-line. The modular approach allows the printing process to be broken down into discreet stages, allowing for maximum flexibility in product planning. This is particularly useful for shorter run size games, which are an important segment with the lotteries.

During 2008 Pollard Banknote purchased and installed a new US\$8.5 million instant ticket press line. This press is "all-in-line" providing increased efficiencies and cost reductions for both medium and long run games as all printing stages are linked. The acquisition of an all-in-line press provides Pollard Banknote with the additional flexibility of two different manufacturing processes.

In the fall of 2015 Pollard Banknote completed the installation of a new Tresu 22-station in-line press. This press is the most advanced instant ticket printing press in the lottery industry and began live production at the end of the third quarter of 2015. The state-of-the-art press, with a \$20 million (USD) price tag, includes a number of unique features that ensures it provides the most efficient and flexible inline instant ticket printing available.

Pollard Banknote will continue to invest in technology to maintain its competitive advantage with the support of a team of research and development engineers and computer software

technicians. The development of our automated packaging and finishing line during the past few years is a reflection of the commitment Pollard Banknote has to leading edge technology.

Pollard Banknote's manufacturing quality control procedures were recognized with the award of the ISO-9001 certification, originally in 1999 and subsequently renewed annually, which evidences that systems and controls ensuring proper documentation and monitoring of manufacturing and other processes have been instituted. In addition Pollard has also been awarded with ISO-14001 certification for Environmental management and ISO-27001 certification for Information Security. Pollard is also Forestry Stewardship Council "FSC" certified for chain of custody documentation.

Pollard Banknote believes it is the only manufacturer of both lottery and charitable gaming products. This unique combination of expertise across the gaming product markets allows significant transfer of manufacturing and marketing knowledge and expertise. Alternate product developments can be offered to lotteries and charitable gaming customers, while at the same time, new and innovative manufacturing methods ensure low cost production is achieved in both product areas.

Developing iLottery Expertise

Critical to Pollard Banknote's future business is our expertise in helping lotteries develop their online presence. Our current iLottery installation in Michigan has been the most successful launch of an iLottery platform in the U.S. and our second installation began operations in 2016 in the state of Virginia.

Proprietary Innovative High Value Products

A key component of Pollard Banknote's business is the production and supply of proprietary, high value products. Utilizing various patented technologies, processes and products, Pollard Banknote has a portfolio of unique products to offer lotteries. Such properties include patented PlayBook[®], Scratch FX[®], a proprietary process providing holographic base and scratch-off printing, instant tickets utilizing Pollard Banknote's translucent scratch-off technology, Clear-Play (patent pending), which provides unique and eye-catching visual appeal and playability and Lottery Management Services using its proprietary SureTrack[®] lottery management system. Other innovative products include folded tickets, pop-up scratch-off tickets and our new environmentally friendly Eco Scratch[™]. Pricing also reflects the increased value achieved by the customer.

Expanding Product Portfolio

Pollard Banknote strives to continually bring new and creative ideas to the marketplace. Our focus is three-fold as it pertains to new product development:

1. To bring eye-catching, visually appealing tickets to the marketplace that continue to out-perform at retail;
2. To introduce new and different play formats to the marketplace that extends and expands the perceived value to the clients; and
3. To introduce and enhance the use of mobile devices such as phones and tablets that allow lottery players to play anywhere and at any time.

Since instant tickets represent the largest growth segment in the lottery business, Pollard sees this approach to new and innovative products as extremely valuable to the lotteries overall business strategy.

The acquisition of INNOVA and Gamco will expand our product lines further allowing Pollard Banknote to continue as the one-stop shop for all lottery and charitable gaming organizations.

Additional products and services in Pollard Banknote's portfolio includes digital games, loyalty programs and extensive marketing services.

Significant Barriers to Entry

The lottery industry has significant barriers to entry that limit the number of suppliers who have access to the industry.

The most important product that lotteries sell is integrity. Very few lotteries will risk their credibility by taking a chance on a new supplier. Many of the requests for proposals that are issued by lotteries for instant tickets mandate that suppliers have at least 10 or more years' experience in producing instant tickets. Pollard Banknote has over 30 years of experience in servicing the lottery industry.

It is currently illegal to import instant tickets into the United States from anywhere other than Canada and Mexico. This limits the opportunities for other printers or manufacturers located outside of North America to access the U.S. markets for lottery products.

In addition, the technical process and expertise required to produce instant tickets is extremely complex and difficult to acquire. Pollard Banknote has already committed the expense and resources necessary to support and maintain these processes.

Long Term Customer Relationships

Pollard Banknote has a strong and stable history with its customers. Many of its customer contracts are long-term, ranging from two to ten year terms. Pollard Banknote has maintained many of its customer relationships for over 25 years. Many of these relationships are formalized through long-term contracts.

Pollard Banknote's Material Long-Term Customer Contracts

Lottery/Name	Type of Contract	Contract Commencement Date	Estimated Contract Termination Date (Before Exercise of Remaining Options)	Extension Options Remaining	Client Since
CANADA					
Ontario Lottery and Gaming Corporation ⁽¹⁾	Instant Tickets	August 2007	July 2022	None	1987
	Charitable Gaming Machines ⁽²⁾	August 2012	November 2019	1 one-year	
Loto-Québec	Instant Tickets	February 2014	February 2019	2 one-year	2005
	Distribution & Management System	July 2015	July 2020	1 five-year	
	Charitable Gaming Machines ⁽²⁾	October 2014	March 2018	none	
Interprovincial Lottery Corporation	Instant Tickets	December 2013	December 2018	up to five years	1990
Western Canada Lottery Corporation ⁽³⁾	Instant Tickets, Pull-Tab & Pull-Tab Vending Machines	April 2013	April 2028	none	1985
British Columbia Lottery Corporation	Instant Tickets & Pull-Tab	January 2009	December 2018	none	1986
Manitoba Lotteries Corporation ⁽⁴⁾	Pull-Tab	July 2011	July 2018	none	2006
	Bingo Paper	July 2011	July 2018	none	
UNITED STATES					
Arizona Lottery ⁽⁵⁾	Instant Tickets	January 2010	January 2018	2 one-year	1998
California State Lottery	Instant Tickets	December 2013	December 2019	1 three-year plus 3 one-year	1997
Colorado Lottery ⁽⁶⁾	Instant Tickets	July 2017	July 2023	none	2009
Connecticut Lottery Corporation ⁽⁷⁾	Instant Tickets	August 2012	August 2019	none	2002
State of Florida, Department of the Lottery	Instant Tickets	February 2009	September 2018	none	2009
Hoosier Lottery (Indiana)	Instant Tickets	April 2013	April 2018	6 thirty-day	2002
Iowa Lottery ⁽⁸⁾	Instant Tickets	January 2013	December 2018	none	1993
	Pull-Tab	April 2014	March 2018	none	
	Pull-Tab Vending Machines	October 2016	September 2019	3 one-year	
Kansas Lottery	Instant Tickets	September 2016	June 2022	4 one-year	1998
	Loyalty Program	December 2016	December 2020	4 one-year	
Kentucky Lottery	Instant Tickets	December 2011	December 2018	up to eight years	2011

Lottery/Name	Type of Contract	Contract Commencement Date	Estimated Contract Termination Date (Before Exercise of Remaining Options)	Extension Options Remaining	Client Since
Maryland State Lottery ⁽⁹⁾	Instant Tickets & Distribution	September 2013	September 2018	2 one-year	2004
	Charitable Gaming Machines ⁽²⁾	February 2014	February 2019	1 five-year	
Massachusetts State Lottery Commission ⁽¹⁰⁾	Instant Tickets	November 2012	October 2018	none	1999
	Pull-Tab	June 2016	June 2019	3 one-year	
Michigan Lottery	Instant Tickets & Pull-Tab	January 2017	December 2019	5 one-year	1996
	iLottery	January 2014	July 2018	4 one-year	
	Charitable Gaming Machines ⁽²⁾	September 2014	September 2019	3 one-year	
Minnesota State Lottery	Instant Tickets	June 2016	June 2020	1 two-year	2007
Missouri State Lottery ⁽¹¹⁾	Instant Tickets	April 2011	June 2020	none	2011
	Charitable Gaming Machines ⁽²⁾	October 2017	October 2020	3 one-year	
Northstar New Jersey Lottery Group LLC	Instant Tickets	January 2014	December 2029	none	1996
New York State Lottery	Instant Tickets	June 2011	June 2018	none	1994
Oregon Lottery ⁽¹²⁾	Instant Tickets	June 2010	June 2018	none	2005
Texas Lottery	Instant Tickets	September 2012	August 2018	2 three-year	1999
Vermont Lottery Commission ⁽¹³⁾	Instant Tickets	January 2014	January 2018	1 one-year	2014
Virginia Lottery	Instant Tickets	October 2014	June 2020	5 one-year	2014
	iLottery	August 2015	August 2020	⁽²⁴⁾	
Washington's Lottery	Instant Tickets	March 2014	March 2020	4 one-year	2014
Wisconsin Lottery ⁽¹⁴⁾	Instant Tickets	May 2017	January 2023	3 one-year	1993
Atlantic Bingo (Maryland) ⁽²⁾	Charitable Gaming Machines ⁽²⁾	2009	January 2019	none	2009
INTERNATIONAL					
New South Wales Lottery Corp. (Australia).....	Instant Tickets	August 2016	January 2018	2 one-year	2014
Lotterywest (Australia) ⁽¹⁵⁾	Instant Tickets	April 2013	April 2018	⁽²⁴⁾	2010
Cyprus Government Lottery ⁽¹⁶⁾	Instant Tickets	March 2010	March 2018	⁽²⁴⁾	2010
Danske Spil A/S (Denmark) ⁽¹⁷⁾	Instant Tickets	August 2017	August 2021	none	2007
La Française des Jeux (France) ⁽¹⁸⁾	Instant Tickets	January 2013	December 2019	none	1996
Loterie Romande (Switzerland)	Instant Tickets	July 2015	July 2020	⁽²⁴⁾	2000
Lotto Hessen (Germany) ⁽¹⁹⁾	Instant Tickets	January 2017	January 2020	none	2017
Premier Lotteries Ireland Ltd.	Instant Tickets	January 2014	January 2024	none	1999
Mifal Hapayis (Israel) ⁽²⁰⁾	Instant Tickets	October 2017	October 2019	3 one-year	2003
Österreichische Lotterien GmbH (Austria).....	Instant Tickets	January 2000	December 2018	⁽²⁵⁾	2000
Veikkaus Oy (Finland)	Instant Tickets	December 2016	December 2019	2 one-year	1993
AB Svenska Spel (Sweden)	Instant Tickets	June 2016	June 2018	2 one-year	1993
Sazka (Czech Republic) ⁽²¹⁾	Instant Tickets	June 2014	May 2018	none	2014

Lottery/Name	Type of Contract	Contract Commencement Date	Estimated Contract Termination Date (Before Exercise of Remaining Extension Options)	Extension Options Remaining	Client Since
Taiwan Lottery Co. Ltd. ⁽²²⁾	Instant Tickets	January 2014	December 2018	none	2001
Totalizator Sportowy SP.ZO.O. (Poland) ⁽²³⁾	Instant Tickets	January 2013	December 2018	none	2007
Junta de Proteccion Social (Costa Rica)	Instant Tickets	January 2017	March 2018	3 one-year	2011
CONAFRA & Loteria Nacional (Dominican Republic).....	Instant Tickets	April 2012	April 2022	none	2012

- (1) During 2017, the Ontario Lottery and Gaming Corporation exercised their option to extend their instant ticket contract until July 2022.
- (2) All charitable gaming machine contracts were acquired as part of the INNOVA acquisition finalized on September 18, 2017.
- (3) During 2018, the Western Canada Lottery Corporation exercised their option to extend their instant ticket contract until April 2028.
- (4) During 2017, the Manitoba Lotteries Corporation exercised their option to extend their pull-tab and bingo paper contracts until July 2018.
- (5) During 2017, the Arizona Lottery exercised their option to extend their instant ticket contract until January 2018.
- (6) On June 7, 2017, Pollard Banknote Limited was awarded a six-year contract to supply instant tickets to the Colorado Lottery. This contract has no extensions available after the initial term.
- (7) During 2017, the Connecticut Lottery Corporation exercised their option to extend their instant ticket lottery contract until August 2019.
- (8) During 2017, the Iowa Lottery exercised their option to extend their instant ticket contract until December 2018, and exercised their option to extend their pull-tab contract until March 2018.
- (9) During 2017, the Maryland State Lottery exercised their option to extend their instant ticket lottery contract until September 2018.
- (10) During 2017, the Massachusetts State Lottery Commission extended their instant ticket lottery contract until October 2018.
- (11) On October 1, 2017, Diamond Game Enterprises was awarded a three-year contract to supply gaming machines to the Missouri State Lottery. The contract has three one-year extensions available after the initial term.
- (12) During 2017, the Oregon Lottery extended their instant lottery ticket contract until June 2018.
- (13) During 2017, the Vermont Lottery Commission exercised their option to extend their instant ticket contract until January 2018.
- (14) On May 12, 2017, Pollard Banknote Limited was awarded a six-year contract to supply instant tickets to the Wisconsin Lottery. The contract has three one-year extensions available after the initial term.
- (15) During 2017, Lotterywest (Australia) extended their instant ticket contract until April 2018.
- (16) During 2017, the Cyprus Government Lottery exercised their option to extend their instant ticket contract until March 2018.
- (17) On August 17, 2017, Pollard Banknote Limited was awarded a four-year contract to supply instant lottery tickets to Danske Spel A/S (Denmark). This contract has no extensions available after the initial term.
- (18) On October 2, 2016, Pollard Banknote Limited was awarded a three-year contract to supply instant lottery tickets to La Française des Jeux (France). This contract has no extensions available after the initial term.
- (19) On January 3, 2017, Pollard Banknote Limited was awarded a three-year contract to supply instant lottery tickets to Lotto Hessen. This contract has no extensions available after the initial term.
- (20) On October 1, 2017, Pollard Banknote Limited was awarded a two-year contract to supply instant lottery tickets to Mifal Hapayis (Israel). The contract has three one-year extensions available after the initial term.
- (21) During 2017, Sazka (Czech Republic) extended their instant ticket contract until May 2018.
- (22) During 2017, the Taiwan Lottery Co. Ltd. extended their instant ticket contract until December 2018.

(23) During 2017, Totalizator Sportowy SP.ZO.O. (Poland) extended their instant ticket contract until December 2018.

(24) Contract may be extended upon mutual agreement of the contracting parties.

(25) Contract is automatically extended annually for one year unless written notice to cancel received.

Excellent History of Growth

Since its strategic shift into the lottery and charitable gaming market in the mid-1980s, Pollard Banknote has generated significant increases in its profits through organic growth and acquisitions. Pollard Banknote has successfully established a number of green field manufacturing facilities over the course of the last 25 years including Barrhead, Alberta and Sault Ste. Marie, Ontario.

Pollard Banknote has successfully integrated three acquisitions, including the acquisition of INNOVA in 2017 since devoting its organization to servicing the gaming industry. Pollard Banknote's worldwide market share of instant ticket sales has grown from 0% in the mid-1980s to approximately 22% currently.

Experienced Management Team

Pollard Banknote has a strong and experienced management team. The Pollard family has managed the organization since its founding in 1907. Currently, three members of the Pollard family are in senior management positions with total experience at Pollard Banknote of over 80 years. The average age of the senior executives is 53 and they combine for over 146 years of experience with Pollard Banknote, averaging 16 years of experience each. Many of Pollard Banknote's other managers have extensive experience dating back to when Pollard Banknote began focusing exclusively on lottery tickets in the mid-1980s. The management team has successfully integrated three significant business acquisitions.

CORPORATE STRATEGY

Pollard Banknote has a track record of revenue growth through organic means and by acquisitions, having experienced an approximate compound annual growth of revenues over 12.7% in the last 31 years (from \$7.0 million in fiscal 1986 to \$285.7 million for the year ended December 31, 2017). For the last 5 years Pollard's approximate cumulative annual growth rate is 10.4% (from \$174.4 in 2012 to \$285.7 for the year ended December 31, 2017). Pollard Banknote's history of sales growth and growth of EBITDA is in part due to the strength of the North American instant ticket market, which has an approximate compound annual growth rate of 6.0% from 1995-2016 and as such Pollard's sales have grown faster than the overall market.

By focusing on these strategies, Pollard Banknote intends to continue to increase its competitiveness, expand its existing markets and penetrate new markets with appropriate investments in key equipment, facilities and human resources, and improve the quality of its revenues in terms of gross margins and EBITDA.

Ongoing Technological Advancements to Improve Productivity

Pollard Banknote is committed to the continued development of low-cost, efficient manufacturing improvements. Pollard Banknote plans to continue to aggressively develop newer and more efficient methods to improve the productivity and lower the cost of manufacturing instant tickets. Increasing the use of technology, leveraging its buying power through procurement management and maximizing the best practices achieved throughout Pollard Banknote's network of manufacturing facilities are anticipated to result in further manufacturing efficiencies. Pollard Banknote will continue to develop proprietary machinery and technology relating to the finishing and packaging of instant tickets and utilize these developments to further advance its productivity. In 2015 the company purchased and installed a new Tresu 22-station press. This press is the most advanced printing press in the lottery industry. The investment of \$20 million (USD) on this equipment has resulted in improved efficiencies and lower print operating costs for this platform. Pollard Banknote is continuing with its investment in a company-wide ERP system. This will simplify and synchronize our information technology on a central platform designed to improve our overall productivity.

Innovation and Increased Development and Sale of Proprietary Products

Pollard Banknote has developed many unique and proprietary products and processes for both lottery and charitable gaming products. Pollard Banknote's translucent scratch-off process has provided enhanced playability for key instant ticket play formats such as bingo and crossword. Management believes that Pollard Banknote's development of its patented PlayBook[®], games (various combination products involving pull-tab and instant scratch-off functionality) has assisted Pollard Banknote in penetrating new lottery markets and generating additional lottery sales. Pollard Banknote's unique pouching process allows it to provide a value-added high-end style game format which lotteries utilize to round out their price point strategy. Scratch FX[®], a proprietary process providing holographic base printing and scratch-off, has generated significant sales growth and achieved record revenue in 2017. Our most recent innovations include Play Around[™] fold-over tickets, Pop 'n' Play[™] tickets, Clear Play (patent pending) tickets and our environmentally friendly Eco Scratch[™] ticket. Many of these products and processes are patented. Pollard Banknote plans to use its proprietary products to grow sales to existing customers and use these products to enter into relationships with new lotteries.

Licensed Products and Merchandise

Lottery use of licensed or branded properties in their instant ticket product offerings has grown in the past few years. Pollard Banknote is committed to the continuing development of its licensed game portfolio. Current licensed properties offered to lotteries include Frogger, Tetris[®], Star Trek[™], NASCAR[®], It's a Wonderful Life[®], Single, Double, Triple Play Bingo[™], Awkward Family Photos[®], Corvette Stingray[®], Hold'em Poker, Jacks or Better[®], PAC-MAN[™], Rubik's[®], Ultimate Travel Getaway, Cookie Jam[™], Win for Life[®], Zoltar[®], Boo The World's Cutest Dog[™], Bananagrams[®], Felix the Cat, Marilyn Monroe[™] and Ms. PAC-MAN[™]. In addition to offering unique instant ticket game formats, Pollard Banknote offers merchandise prize packages through instant win or second chance draw formats. Turn-key draw management services, internet and web support and order fulfillment are critical components of the complete licensed product portfolio offered by Pollard Banknote.

Pollard Banknote will continue to add licensed properties to its game portfolio and in turn, market this portfolio to increase its growth in both the lottery and charitable gaming sectors.

iLottery, Internet and Digital Applications

Governments are increasingly turning toward digital platforms to generate new revenue and attract younger players to the lotteries. Clarification of U.S. Federal Law now allows lotteries to set up their own internet sites where players within their jurisdictions are able to play lottery and other games. Several lotteries have taken this opportunity to expand their lotteries to include an on-line presence. We expect this to continue over the next few years. Digital gaming and the mobile experience will continue to play an increasing role in lottery strategy to grow and enhance the user experience for younger more tech-savvy players. Loyalty and engagement programs extend the value proposition for the player by allowing them to continue playing and winning on websites by scanning the code on the printed lottery ticket.

In 2014 Pollard Banknote was contracted to start-up and operate the iLottery internet based gaming site of the Michigan Lottery. In addition, Pollard's joint-venture operation was awarded a contract to manage the Virginia Lottery's e-Subscription website which became operational in 2016.

Capturing Expanding Lottery and Gaming Jurisdictions

Governments are increasingly turning toward establishing lotteries as a way to generate revenue. New lottery start-ups continue to develop in various jurisdictions. While currently 43 jurisdictions operate lotteries in the United States, the non-lottery jurisdictions are coming under increasing pressure to establish their own lotteries. This pressure stems from both a need to generate revenue for the state, as well as a need to eliminate the "leakage" lottery purchases that flow to adjoining jurisdictions. Non-North American governments are also increasingly recognizing the value of lottery operations in providing politically acceptable government funding and the number of approved lotteries is expected to increase in the coming years. Lotteries are increasingly looking at various outsourcing opportunities, including the possibility of complete privatization. Pollard Banknote is focused on providing these new and expanded lotteries with a variety of gaming products and services. The international market lags the North American market in terms of instant ticket sales and Pollard believes it is well positioned to help these lotteries increase their business significantly.

Acquisitions

Pollard Banknote intends to continue to focus on our acquisition strategy by targeting organizations that will broaden and strengthen its market penetration, both in new and existing lottery and charitable gaming markets. Pollard Banknote has completed four successful acquisitions since the mid-1990s, including the purchase of Webcraft Games Inc. in 1996, the purchase of the operating business of American Games, Inc. in January 2002, the acquisition of INNOVA completed in September 2017 and the acquisition of Gamco in February 2018.

Management believes increasing lottery requirements for bundling of services and outsourcing larger portions of their products will increase the opportunities for consolidation within the lottery industry, particularly where suppliers only offer single or a limited product selection. Increasing expansion of lottery product lines and service requirements has provided Pollard Banknote with the opportunity to expand their value added proposition through seeking various strategic alliances.

The charitable gaming product industry is highly fragmented among many producers, with many only producing one segment or product line within the market. Many are small or have limited financial resources. This presents opportunities to pursue and execute acquisitions as illustrated by our recent purchase of Gamco. Consolidation will allow for increased buying power, larger market share and increased economies of scale resulting in cost reductions. In addition, Pollard Banknote

believes a number of the participants in the charitable gaming market do not have the financial strength or resources required to compete in the increasingly sophisticated charitable gaming market. Pollard Banknote's financial strength provides an opportunity to consolidate suppliers that supplement its current product offerings or provide opportunities to generate greater manufacturing efficiencies.

In assessing acquisitions opportunities, Pollard Banknote will consider the following criteria:

- Whether the acquisition is accretive to Shareholders;
- Profitability of the target business and market share;
- Continuing involvement of key management personnel; and
- Compatibility with the Pollard Banknote culture.

Lottery Management and Information Systems

Pollard Banknote is experienced in providing complete instant ticket management services and anticipates that outsourcing opportunities will continue to increase. Lotteries are under increasing pressure to produce greater net revenue for sponsoring governments and utilizing third-party private operators allows a more cost efficient method of operations. As more North American and foreign lotteries opt for outsourcing, Pollard Banknote plans to aggressively pursue these opportunities, leveraging its existing lottery knowledge to obtain additional lottery operating contracts.

Pollard Banknote currently manages the instant ticket distribution operation for the Maryland Lottery and the distribution of pull-tabs for the Arizona Lottery. During 2015 Pollard was awarded a five-year contract to install and manage our SureTrack® lottery management system for Loto-Québec. Additional sales in Sweden and Spain occurred in 2016.

Strategic Partnerships

Pollard Banknote will pursue strategic partnerships where appropriate to expand product offerings or geographical distributions. For example, during 2014, Pollard entered into a joint venture, NeoPollard Interactive, to provide iLottery solutions including modular and full turnkey offering to create and operate interactive web and mobile channels to assist the lottery industry to grow, retain and optimize player engagement. Pollard's joint venture interest is 50%. Further opportunities to partner with organizations to expand Pollard business are being pursued.

Cross Fertilization of the Lottery and Charitable Gaming Market

Pollard Banknote believes it is the only manufacturer to produce both instant tickets and charitable gaming products. Governments are increasingly looking at alternate sources of revenue including maximizing the gaming revenue within their jurisdictions. Pollard Banknote believes that governments will continue to look for opportunities to maximize their revenue sources and increasingly look to other existing gaming products to add to their product mix. As the only gaming product supplier to provide both charitable gaming and lottery products, Pollard Banknote is uniquely situated to capitalize on this opportunity.

Expanding the Breadth of Products and Services

Pollard Banknote will continue to look at new and innovative products and services to help our customers grow. With the addition of loyalty programs, charitable gaming machines and other

related support services, Pollard Banknote will continue to look at unique ways to assist our customers as they seek growth in both their product lines and target markets.

PRODUCTS AND SERVICES

Pollard Banknote manufactures and sells a broad range of gaming products and services for the lottery and charitable gaming industry.

Designing, manufacturing and distributing instant tickets and related services represents the largest share of Pollard Banknote's revenue, constituting approximately 86.7% of revenue in the year ended December 31, 2017. In addition, Pollard Banknote provides a number of ancillary products to lotteries including warehouse and distribution services, complete lottery management services, internet based gaming (iLottery), specialized proprietary products, digital apps and various licensed products. Charitable gaming products offered include a complete array of pull-tab tickets, bingo paper, charitable gaming machines and pull-tab vending machines.

Instant Tickets

In 1985 Pollard Banknote made the decision to focus its resources on the instant ticket market. Today, Pollard Banknote is a leading designer, manufacturer and distributor of instant tickets worldwide. Pollard Banknote markets instant tickets and services to domestic lottery jurisdictions, foreign lottery jurisdictions and commercial customers. Pollard Banknote presently has contracts with or sells lottery tickets to all of the Canadian lotteries and to 27 of the 43 lotteries in the United States which currently sell instant tickets.

There are a multitude of variations that can be used in the design and manufacture of instant tickets, including:

- *Color pulsing* — Different background colors on the same basic design freshen up a base game.
- *Die-cut tickets* — Tickets can be “die-cut” into virtually any shape including: hearts, dollar signs, Christmas trees and stockings, juke boxes, footballs, lady bugs, clover leaves, roulette wheels, flower pots, barrels, figure eights, lips, treasure maps, corzandas (four hearts joined to form a flower shape), skillets and rabbits.
- *Fluorescent inks* — Tickets produced in fluorescent and metallic colors stand out at retail locations and promote impulse purchases.
- *Eco Scratch™* — These tickets are produced on environmentally friendly paper. Their appeal is to both the lottery and the players who are actively searching for ways to diminish their environmental footprint.
- *Play Around™ fold-over tickets* — These tickets offer increased playability for the lottery players by expanding the play area and improve the perceived value to the player creating greater returns for the lottery.
- *Gift tags* — An alternative to the conventional Christmas gift tags, these products can include a column of multiple scene tags with individual perforations, separating them and imprinting unique barcodes on each for validation.
- *Holographic tickets* — HOLOGRAFX tickets, feature striking holographic images and multiple play areas, provide a striking and visible product.
- *Multi scene tickets* — Multi-scene tickets enhance sales as players try to collect the entire series and/or try their luck on more than one scene.

- *Play area on ticket back* — This technique allows for stunning graphics on the front, uncluttered by play areas, an excellent option whenever a ticket theme demands maximum visual impact.
- *Scored tickets* — Pollard Banknote can manufacture tickets with a score line, i.e. an indented line, anywhere on a ticket. Many clients have successfully drawn on this technique to transform lottery tickets into greeting cards.
- *Pouched tickets* — Pouched tickets provide another innovative marketing tool to enhance instant games. Typically, pouches move players to higher price points and allow for value added gaming.
- *Scratch FX[®] process* — Pollard Banknote's Scratch FX[®] process is an industry first— allowing lotteries to replicate the look of either foil or holographic foil using recyclable paper stock. Scratch FX[®] can be applied to both the base graphic and overprint areas of a ticket, allowing great customization of games to achieve maximum impact at retail.
- *PlayBook[®]* — Pollard Banknote's PlayBook[®] is a four-page booklet usually featuring 6 or more separate instant ticket games designed to enhance the playing experience. This product has proven to be a market leader in moving players up the price point ladder thereby increasing lottery revenues.
- *Clear Play (patent pending)* — Pollard Banknote's Clear Play tickets have a unique look and feel allowing the light to shine through bringing graphics and colours to life that is not available on conventional substrates. These tickets are designed to stand out at retail point of sale outlets which is important to retailers in building volumes.

iLottery

The Department of Justice in the United States has clarified certain legislation that now indicates state lotteries can utilize the internet to sell lottery products within their jurisdictions. This new distribution channel will increasingly become a focal point of U.S. lotteries. Currently there are a number of North American lotteries that have set-up their own websites to sell lottery and gaming products. Pollard Banknote was awarded the contract to provide the iLottery platform for the Michigan State Lottery and it has been operating successfully since mid-2015. In addition, our joint venture was awarded a contract to manage the e-Subscription platform for the Virginia Lottery which became operational in 2016. Non-North American lotteries have utilized the internet for gaming for a number of years. While still in its formative stage, iLottery is expected to grow in significance in the future.

Bingo Paper

Pollard Banknote offers a wide array of bingo and bingo-related products as a result of its acquisition on January 1, 2002, of the operating business of American Games, Inc. Pollard Banknote is capable of supplying a bingo hall with all the products and equipment necessary to operate a bingo game of any size, including bingo paper, ink dabbers, pull-tab tickets, bingo ball blowers and flashboards.

Pollard Banknote sells a complete line of bingo paper, which is generally sold in booklet form and is available in a variety of sizes, styles and colors. Pollard Banknote distributes ink dabbers, used to mark numbers on paper bingo sheets, and ink refills for such dabbers. Pollard Banknote distributes an exclusive line of electronic bingo hall equipment traditionally used in bingo establishments.

Pull-tab Tickets

Pollard Banknote manufactures and sells pull-tab tickets, which are also referred to as break open tickets, lucky seven tickets, instant bingo and Nevada tickets, to both government lotteries and the charitable gaming industry. Pollard Banknote currently has a library of over 9,000 different versions of pull-tab tickets and produces over 75 new versions of pull-tab games every month. Pollard Banknote also manufactures pull-tab ticket vending machines and pull-tab ticket counting machines. With the acquisition of Gamco in February 2018 Pollard has greatly expanded its pull-tab offerings.

Licensed Games

Licensed games are increasingly being used throughout the gaming market to grow sales and reach non-traditional lottery customers. In identifying brands that will be successful for licensed games, Pollard Banknote has worked closely with licensing organizations such as the Licensing Industry Merchandiser's Association ("LIMA") and the Promotional Marketing Association ("PMA"), and is an active member of LIMA and PMA.

Pollard Banknote also provides a comprehensive solution for licensed games. This includes ticket design and manufacturing, prize structure consultation, merchandise selection and fulfillment, publicity and promotional opportunities and second chance draw management (including all customer service, internet marketing and post-game analysis).

Current licensed properties offered to lotteries include Frogger, Tetris[®], Star Trek[™], NASCAR[®], It's a Wonderful Life[®], Single, Double, Triple Play Bingo[™], Awkward Family Photos[®], Corvette Stingray[®], Hold'em Poker, Jacks or Better[®], PAC-MAN[™], Rubik's[®], Ultimate Travel Getaway, Cookie Jam[™], Win for Life[®], Zoltar[®], Boo The World's Cutest Dog[™], Bananagrams[®], Felix the Cat, Marilyn Monroe[™] and Ms. PAC-MAN[™].

Charitable Gaming Machines

Through the use of technology, gaming venues and retailers in North America are increasingly focused on the "self-retailing" concept, whereby consumers can purchase products without any direct interaction with staff and expands the gaming experience. Our LT-3 system helps gaming venues and retailers by providing a solution that reduces counter space and allows the machines to be installed in a small area of less than two feet wide while at the same time providing a unique and expanded gaming experience to the consumer.

This product is a unique design combining lottery tickets and a video game display similar to other gaming machines. The LT-3 is a ticket dispenser that dispenses pre-printed instant scratch or pull-tab tickets on each play and displays the results on a video monitor in an entertaining manner. Game data, such as winnings and games played is fed by the LT-3 terminals to the central lottery system which allows full monitoring of machine use.

Lottery Management Services and Information Systems

Some lotteries are beginning to outsource their entire instant ticket product operation as a means of reducing operating costs and increasing revenues. Pollard Banknote provides these services through its Lottery Management Services ("LMS"). LMS contracts can include instant or pull-tab tickets, systems, facilities management, design and installation of game management software, telemarketing, field sales, accounting, game design, inventory and distribution, sales staff training, managing staff and advising with respect to security, maintenance, communication network and sales agent hot line service for lottery jurisdictions.

Pollard Banknote currently manages the instant ticket distribution operation for the Maryland Lottery and the distribution of pull-tabs for the Arizona Lottery. During 2015 Pollard was awarded a five-year contract to install and manage our SureTrack® lottery management system for Loto-Québec. Additional sales in Sweden and Spain occurred in 2016.

Interactive Digital Games and Website Development

Many lotteries are marketing value-added interactive features to instant tickets to further enhance the perceived value of the game as well as increasing satisfaction of the entire playing experience. For example, second-chance draws allow the player to enter a valid ticket into a website for a chance to play an additional game for fun or possibly to win additional prizes. Tablet and smart phone digital apps enable the use of mobile technology which enhances sales of core games by keeping the offering fresh as well as attracting new and younger customers in the coveted 18-34 year-old demographic.

Loyalty and engagement programs are becoming more frequent offerings of the lotteries. Designed to enhance player experience while gaining player loyalty, they provide additional venues for the player to interact with the lottery.

Vending Machines

With the acquisition of the American Games business in 2002, Pollard Banknote acquired the prototype of a newly designed instant ticket vending machine (“ITVM”). Since 2002 Pollard Banknote has entered into two major contracts for ITVMs with the Michigan and Iowa Lotteries. Pollard Banknote offers 6, 12, 18 or 24-bin machines in addition to a variety of options to maximize sales for the lottery. Maintenance agreements provide for a continued stream of revenue.

Pollard Banknote also offers a range of Pull-tab Vending Machines (“PTVM”) which are sold to both lotteries in support of their pull-tab product lines as well to private distributors. Pollard Banknote operates a leasing program which allows private taverns and bars to economically utilize PTVMs to sell pull-tabs.

CUSTOMERS, SALES AND MARKETING

Lottery Market

Pollard Banknote sells its suite of lottery products to organizations throughout North America and around the world. Most lotteries in North America are directly run by government agencies. In Canada there are six licensed lottery organizations (including a national organization, Interprovincial Lottery Corporation (“ILC”)). In the United States there are currently 43 jurisdictions operating lotteries. World-wide there are over 200 jurisdictions operating lotteries. In most cases due to the public nature of government lotteries, contracts for instant ticket and other services are awarded through an open Request for Proposals process. Pollard Banknote currently has contracts with or sells to all of the 6 Canadian lottery organizations, 27 U.S. organizations and 24 non-North American organizations.

Pollard Banknote’s instant ticket contracts typically have an initial term of 2-5 years and frequently include multiple renewal options, which its customers generally exercise for additional periods ranging from one to five years. Pollard Banknote typically sells instant tickets for a per unit price or for a percentage of the retail value of the instant tickets sold.

Marketing to Lotteries

The fundamental purpose for which lotteries are created is to maximize the financial return to their stakeholders, which is usually the government, but may also include charitable or private operators, through the sale of secure, marketable lottery products. The company that can develop and apply these products to opportunities in the lottery market place is the company that has the greatest likelihood of retaining current clients and acquiring new ones.

Pollard Banknote has developed its strategies to uncover opportunities in the market and then develop lottery products to exploit these opportunities. There are two ways for Pollard Banknote to identify opportunities in which to showcase its strategies products and services: formal Requests for Proposals (“RFPs”) issued by entities which operate lotteries and contracts or sales which are awarded outside a formal RFP process. Ultimately success in either forum depends on understanding what products lottery players want to play, developing those products and then executing marketing and distribution strategies that present these products to lotteries and to players. Current and potential lottery clients evaluate these products and strategies and award work accordingly.

The RFP Process

Lottery contracts are typically 2-5 years in length with options to renew for a set number of years. When a lottery contract expires an official RFP is issued. Since these contracts are documents of public record Pollard Banknote is aware of all lottery contracts and when they expire. Well in advance of a contract’s expiration Pollard Banknote begins a systematic marketing campaign to position itself to do well in the RFP process. Pollard Banknote’s strategies are targeted at understanding the markets in question, developing strategies that capitalize on opportunities uncovered and forging relationships with the lottery’s decision makers so that they are intimately aware of all the benefits of becoming a client of Pollard Banknote. RFP’s increasingly allow for multiple supplier awards for secondary suppliers rather than limiting the award to one exclusive supplier.

Awards Outside the RFP Process

Particularly outside North America, Pollard Banknote continuously seeks to identify opportunities to provide lotteries with its products and services. These opportunities may arise from a combination of factors — lotteries may have an existing supplier but may be better served to have a dual-supplier situation due to capacity, price or service capability issues, lotteries may be seeking assistance to enhance their product offering through Pollard Banknote’s proprietary products, or lotteries may award work on a game-by-game basis rather than through a long term contract. Pollard Banknote therefore keeps in regular contact with all lotteries through personal visits and presentations, direct mail and targeted sales efforts to create opportunities to generate work.

In addition, in the international market there are new lottery organizations that are entering the market. Pollard Banknote therefore maintains and implements a marketing strategy to create awareness of its capabilities for those organizations that are seeking out a supplier of products or services that Pollard Banknote provides. This strategy includes advertising in industry journals and directories, maintaining a website, attending and speaking at industry conferences and actively developing and maintaining contacts throughout the industry.

Charitable Gaming Market

Pollard Banknote sells its bingo and pull-tab products to a diverse set of end-user groups through more than 250 independent distributors, Pollard Banknote’s direct sales force and mail order catalogues.

Pollard Banknote uses catalogues and other marketing material to support distributors, some of which are customized with the distributor's name. Catalogues are also used in direct mail campaigns to end-users. Additionally, customers can order product support information through an automated ordering system. Pollard Banknote also markets its products through advertising in gaming publications and through participation in national, regional and local gaming tradeshow and in distributor tradeshow. In 2017 Pollard Banknote was a prominent exhibitor and seminar participant at the Bingo World Expo, one of the largest trade shows dedicated to the charitable gaming market.

SUPPLIERS AND RAW MATERIAL

Pollard Banknote has long-term relationships with most of its suppliers, and typically enters into various commitments for certain supplies of raw materials at fixed prices for various periods of time, frequently for one year.

The main raw materials used in the manufacturing of Pollard Banknote's products are various substrates (foil, paper), inks and coatings and various machine and metal components used in the manufacturing of vending machines, all of which may be sourced from a number of suppliers. In most cases Pollard Banknote sources its primary raw materials from more than one supplier.

EMPLOYEES

As at December 31, 2017, Pollard Banknote had 1,322 full time employees and 107 part-time employees for a total of 1,429. Approximately 301 of the full time employees work on the Charitable Gaming product line.

Approximately 107 of Pollard Banknote's full-time employees, all of whom are employed at the Ypsilanti, Michigan facility, belong to a collective bargaining unit. A 48 month collective agreement was negotiated during 2016 which expires August 31, 2020. Pollard Banknote has never experienced a work stoppage as a result of a labour disruption.

Many key manufacturing personnel — including production managers, supervisors and lead hands — have been with Pollard Banknote since or prior to the commencement of instant ticket production in the mid-1980s. Employee turnover rate is very low and continuing growth has allowed extensive training and advancement opportunities.

PENSION PLANS

Pollard Banknote sponsors four non-contributory defined benefit pension plans, of which three are final pay plans and one is a flat benefit plan. As of December 31, 2017, the aggregate fair value of the assets of Pollard Banknote’s defined benefit pension plans was \$50.5 million, lower than the accrued benefit plan obligation which was \$73.5 million. Pollard Banknote’s total annual funding contribution for all defined benefit pension plans in 2018 is expected to be approximately \$4.4 million compared to the \$3.9 million funded in 2017, provided that long-term expectations of fund performance for the defined benefit plans are met. Included in the 2018 estimated contribution is \$1.1 million in additional solvency payments.

PROPERTIES

Pollard Banknote manufactures its products at seven facilities, two of which are owned by Pollard Banknote. These facilities together provide the capacity that management believes is needed to accommodate the current and anticipated demands of Pollard Banknote’s customers, including during peak periods.

The following table identifies, for each of Pollard Banknote’s material facilities, its approximate square footage, its main activity and whether the facility is owned or leased.

<u>Location</u>	<u>Approximate Square Footage</u>	<u>Use</u>	<u>Owned or Leased</u>
Winnipeg, Manitoba	62,295	Manufacturing	Leased ⁽¹⁾
Winnipeg, Manitoba	144,000	Manufacturing/Warehousing/ Head Office	Leased ⁽²⁾
Barrhead, Alberta.....	21,480	Manufacturing	Owned
Ypsilanti, Michigan.....	88,329	Manufacturing	Owned
Council Bluffs, Iowa.....	125,050	Manufacturing	Leased ⁽³⁾
Sault Ste. Marie, Ontario	35,700	Manufacturing/Warehousing	Leased ⁽⁴⁾
Chatsworth, California.....	28,654	Manufacturing/Office	Leased ⁽⁵⁾
Jefferson City, Missouri.....	10,000	Warehousing/Office	Leased ⁽⁶⁾
Stoney Creek, Ontario.....	8,016	Warehousing/Office	Leased ⁽⁷⁾

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- (1) Effective July 1, 2016, a 5-year lease renewal was entered into with an indirect subsidiary of Pollard Equities Limited (“Equities”) with monthly rent of approximately \$30,277.
 - (2) Effective October 1, 2008, a 12 ½-year lease was entered into with an indirect subsidiary of Equities with monthly rent of approximately \$206,544. On December 24, 2015, Pollard exercised its option to extend the lease for the period April 1, 2021 to September 30, 2023. The monthly rent for the extension period will be \$195,576.
 - (3) The Council Bluffs property was purchased during the first quarter of 2008 from an arms-length party for US \$3.3 million. Effective December 31, 2008, the Council Bluffs property was sold and subsequently leased back from an indirect subsidiary of Equities for US \$3.3 million. The lease is a ten-year lease with monthly rent of US \$22,000.
 - (4) The lease for the Sault Ste. Marie property expires on June 30, 2023, with monthly rent of \$17,910.
 - (5) The lease for the Chatsworth property expires on May 31, 2020, with monthly rent of US \$34,045.
 - (6) The lease for the Jefferson City property expires on August 31, 2018, with monthly rent of US \$3,750.
 - (7) The lease for the Stoney Creek property expires on November 30, 2020, with monthly rent of \$3,435.
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On June 23, 2011, Pollard Banknote sold its Winnipeg facility at 1499 Buffalo Place to an affiliate of Pollard Equities Limited (“Equities”) for \$3.5 million resulting in a gain of \$1.5 million. The selling price was based on fair market value determined through an independent appraisal.

On June 25, 2010, Pollard Banknote sold its Kamloops facility to an affiliate of Equities for \$2.9 million resulting in a gain of \$1.8 million. The selling price was based on fair market value determined through an independent appraisal.

During the second quarter of 2009, Pollard Banknote sold a surplus office building and land to an affiliate of Equities for total proceeds of \$3.4 million resulting in a gain of \$1.7 million. The selling price was based on current fair market value as determined through an independent appraisal.

On September 30, 2008, Pollard Banknote sold a warehouse/office facility to an arms-length party for \$3.3 million. On December 22, 2008, an undeveloped piece of land was sold to an affiliate of Equities for \$0.6 million.

COMPETITION

Lottery Market

The instant ticket and lotto business is highly competitive, and Pollard Banknote faces competition from a number of domestic and foreign instant ticket manufacturers and other competitors. Pollard Banknote currently has two instant ticket competitors in North America: Scientific Games Corporation, (or “Sci Games”), and International Gaming Technology (or “IGT”). Internationally, there are a number of lottery instant ticket vendors which compete with Pollard Banknote including Sci Games, IGT and Eagle Press Group of Companies.

Charitable Gaming Market

The charitable gaming markets in which Pollard Banknote’s products compete are extremely competitive. The industry remains relatively fragmented. The principal competitive factors in the bingo paper and pull-tab ticket markets are quality, service and price. Pollard Banknote’s major competitors in the bingo paper and pull-tab markets are Arrow International, Inc. and Douglas Press Inc.

ENVIRONMENTAL, HEALTH AND SAFETY

Pollard Banknote’s operations and real property are subject to a broad range of increasingly complex federal, provincial, state and local laws and regulations as well as permits and other approvals governing environmental and workers’ health and safety matters, including those relating to air emissions, water discharges, the storage, handling, use, discharge and disposal of hazardous materials and contaminants (including waste) (the “E, H & S Requirements”). Certain E, H & S Requirements may impose joint and several liability on lessees and owners or operators of facilities for the costs of investigation or remediation of contaminated properties regardless of fault or the legality of the original release or disposal.

Pollard Banknote’s past and present operations that are subject to E, H & S Requirements include the use, storage, handling and contracting for recycling or disposal of hazardous and non-hazardous materials such as washes, inks, alcohol-based products, fountain solution, photographic fixer and developer solutions, machine and hydraulic oils and solvents. The use and management of such materials, the nature of the manufacturing and printing process, and the ownership and/or management or control of commercial properties carries an inherent liability risk that must be carefully managed. Pollard Banknote believes that the conduct of its operations is in material

compliance with applicable E, H & S Requirements. Maintaining such compliance in the conduct of its operations has not had a material adverse effect on Pollard Banknote's financial condition or operating results.

As noted earlier, Pollard Banknote manufactures its products at seven facilities, two of which are owned by Pollard Banknote and five of which are leased. Four of the seven facilities (Barrhead, Alberta, Ypsilanti, Michigan, Sault Ste. Marie, Ontario and the Winnipeg, Manitoba, manufacturing facility) were established by Pollard Banknote from green field sites.

Based on all other available information, Pollard Banknote is not aware of any other matter pursuant to E, H & S Requirements that it expects to have a material adverse effect on its business, financial condition or results of operation.

CAPITAL EXPENDITURES

<i>Fiscal Year</i>	<i>Capital Expenditures (CDN)</i>
2017	\$6.9 million
2016	\$5.0 million
2015	\$15.4 million
2014	\$17.6 million
2013	\$4.6 million
2012	\$6.5 million

2017 capital expenditures totaled \$6.9 million. Approximately \$1.6 million was spent on a new corporate data center in order to enhance and augment our IT structure. The remaining \$5.3 million was spent on various pieces of equipment designed to increase efficiencies, lower cost and produce revenue. Included in the \$5.3 million was \$1.1 million relating to our acquisition of INNOVA in 2017. Not included in the total above is an additional \$2.2 million expended for Intangible Assets mainly related to the continuing implementation and roll-out of our ERP system, software development for our SureTrack® lottery management software and game and system development for our INNOVA operation.

2016 capital expenditures totaled \$5.0 million. Approximately \$0.6 million was spent on leasehold improvements related to the 140 Otter Street building. The remaining \$4.4 million was spend on various pieces of equipment and IT infrastructure designed to increase efficiencies and lower cost. Not included in the total above is an additional \$1.0 million expended for Intangible Assets mainly related to the continuing implementation and roll-out of our ERP system.

2015 capital expenditures totaled \$15.4 million. Approximately \$12.0 million was spent to finalize the Tresu press project including auxiliary equipment. The remaining \$3.4 was spent on various pieces of equipment and IT infrastructure designed to increase efficiencies and lower costs. Not included in the total above is an additional \$0.7 million expended for Intangible Assets mainly related to the continuing implementation and roll-out of our ERP system.

2014 capital expenditures totaled \$17.6 million. Approximately \$15.1 million was expended on the new Tresu printing press and related items. The remaining \$2.5 million was spent on various pieces of equipment and IT infrastructure designed to increase efficiencies and lower costs. An additional \$1.2 million was expended for the implementation of our new ERP system in Intangible Assets not included in the total above.

2013 capital expenditures totaled \$4.6 million. Approximately \$0.7 million was expended to complete the installation of our new seven station press. The remaining \$3.9 million was spent on various pieces of equipment and IT infrastructure designed to increase efficiencies and lower cost. Not included in the total above but included in our Intangible Assets is a major expenditure for our new ERP system of \$2.5 million. This system will allow us to integrate our entire manufacturing and finance systems which began development in 2013.

2012 capital expenditures totaled \$6.5 million. Approximately \$2.3 million was expended on our new seven station press. In addition we invested \$0.3 million on our Next Generation Vision Inspection System. The remaining \$3.9 million was spent on various pieces of equipment and IT infrastructure designed to increase efficiencies and lower cost.

Management estimates that future maintenance capital expenditures of \$5.0 million annually will be adequate to support its operations at the current level.

PATENTS, TRADEMARKS AND LICENSES

Patents

Pollard Banknote holds several Canadian, U.S., and international patents it considers integral to business operations. Specific technology associated with Pollard Banknote's lottery products and related gaming procedures constitute the subject matter of the patents. These patents afford Pollard Banknote certain protections pertaining to the production and distribution of instant lottery tickets. Pollard Banknote's Canadian patents include "Instant Bingo Game & Card Therefore," "Integrated Lottery Pouch," "Social Instants" and "Combination Instant Scratch Off/Break Open Ticket." Countries vary with respect to the actual legal term of patents and the nature of the protections granted differs throughout the world, and is based on the type of patent issued, its scope, and the accessibility of legal recourses within individual nations.

Trademarks

Pollard Banknote uses several trademarks, including: Action Pack[®], American Games Inc.[®], Pull Tab Plus, Double Play[™], Fusion[™], PlayBook[®], Social Instants[™], Scratch FX[®], Win for Life[®] and Winner Wonderland[®]. In general, trademark protection extends in Canada, the U.S. and selected countries for as long as the mark is used, but in other countries this protective term is fixed, though renewable.

Licensed Games

Licensed games have become a major product category in many jurisdictions. Following years of successfully designing and printing licensed games for its customers, Pollard Banknote is now bringing lotteries its own suite of game properties. See "Business of Pollard Banknote Limited — Products and Services — Licensed Games."

REGULATORY ENVIRONMENT

General

Lotteries and charitable gaming activities may be lawfully conducted only in jurisdictions that have enacted enabling legislation. In jurisdictions that currently permit gaming operations, regulation is extensive and evolving but usually includes some form of licensing or approval of a supplier. Regulators in those jurisdictions review many facets of an applicant for or holder of a license or approval including, among other items, financial stability, integrity and business experience.

Pollard Banknote believes it is currently in substantial compliance with all regulatory requirements in the jurisdictions where it operates. Pollard Banknote has developed and implemented an extensive internal compliance program in an effort to ensure that it complies with legal requirements imposed in connection with its gaming related activities.

Lottery Market

At the present time, 43 jurisdictions in the United States, all the Canadian provinces and territories, Mexico and many other foreign countries authorize lotteries. Lottery contracts and ongoing operations of lotteries both domestically and abroad are subject to extensive regulation. Although certain of the features of a lottery, such as the percentage of gross revenues that must be paid back to players in prize money, are usually fixed by legislation, the various lottery regulatory authorities generally exercise significant discretion, including the determination of the types of games played, the price of each wager, the manner in which the lottery is marketed and the selection of the vendors of equipment and services and retailers of lottery products. Furthermore, laws and regulations applicable to lotteries in the United States and foreign jurisdictions are subject to change, and the effect of such changes on Pollard Banknote's ongoing and potential operations cannot be predicted with certainty. To ensure the integrity of the contract award and wagering process, most jurisdictions require detailed background disclosure on a continuous basis from, and conduct background investigations of, the vendor, its officers and directors, its subsidiaries and affiliates and its principal shareholders. Background investigations of the vendor's employees who will be directly responsible for the operation of the system are also generally conducted, and most states reserve the right to require the removal of employees whom they deem to be unsuitable or whose presence they believe may adversely affect the operational security or integrity of the lottery. Certain jurisdictions also require extensive personal and financial disclosure and background checks from persons and entities beneficially owning a specified percentage (typically five percent or more) of a vendor's securities.

From time to time Pollard Banknote retains governmental affairs representatives in various states to advise legislators and the public concerning its views on lottery legislation, and to monitor such legislation and to advise Pollard Banknote in its relations with lottery authorities. Pollard Banknote believes it has complied with applicable laws and regulations concerning lobbying disclosures.

The award of lottery contracts and ongoing operations of lotteries in international jurisdictions are also extensively regulated, although this regulation usually varies from that prevailing in the United States. Restrictions are frequently imposed on foreign corporations seeking to do business in such jurisdictions and, as a consequence, Pollard Banknote has, in a number of instances, allied itself with local companies when seeking foreign lottery contracts. Laws and regulations applicable to lotteries in the United States and foreign jurisdictions are subject to

change, and the effect of such changes on Pollard Banknote's ongoing and potential operations cannot be predicted with certainty.

Charitable Gaming Market

Pollard Banknote is subject to regulation in most jurisdictions in which its bingo, bingo-related products (including pull-tabs) are sold or used by persons or entities licensed to conduct gaming activities. The gaming regulatory requirements vary from jurisdiction to jurisdiction and licensing, other approval or finding of suitability processes with respect to Pollard Banknote, its personnel and its products, can be lengthy and expensive. Most jurisdictions have comprehensive licensing, reporting and operating requirements with respect to the sale and manufacture of bingo and bingo-related products, including bingo paper and pull-tab tickets.

GOVERNANCE

DIRECTORS AND OFFICERS OF POLLARD BANKNOTE LIMITED

The following table sets out, for each of the Directors and executive officers of Pollard Banknote Limited as at December 31, 2017, the person's name, municipality of residence, position with Pollard Banknote Limited and principal occupation.

Name and Municipality of Residence	Positions with Pollard Banknote Limited	Principal Occupation
DAVE BROWN Winnipeg, Manitoba	Director	President & CEO, Richardson Capital Limited
JERRY GRAY Winnipeg, Manitoba	Director	Corporate Director
GARRY LEACH Victoria, British Columbia	Director	Corporate Director
GORDON POLLARD Winnipeg, Manitoba	Director and Executive Chair of the Board	Executive Chair of the Board, Pollard Banknote Limited
DOUGLAS POLLARD Winnipeg, Manitoba	Director and Co-Chief Executive Officer	Co-Chief Executive Officer, Pollard Banknote Limited
JOHN POLLARD Winnipeg, Manitoba	Director and Co-Chief Executive Officer	Co-Chief Executive Officer, Pollard Banknote Limited
LAWRENCE POLLARD Winnipeg, Manitoba	Chair Emeritus of the Board	Chair Emeritus of the Board, Pollard Banknote Limited
ROBERT ROSE Winnipeg, Manitoba	Executive Vice-President, Finance and Chief Financial Officer	Executive Vice-President, Finance and Chief Financial Officer, Pollard Banknote Limited
RIVA RICHARD Winnipeg, Manitoba	Executive Vice President, Legal Affairs, General Counsel and Corporate Secretary	Executive Vice President, Legal Affairs, General Counsel and Corporate Secretary, Pollard Banknote Limited

Each of the Directors and executive officers has held the same principal occupation, or in the case of the executive officers, other executive offices, with the Company Group or its predecessors, for the five preceding years. See "Biographies of Directors and Officers" for a description of their previous occupations during the past five years.

The term of office for each of the Directors survives until he or she resigns or is replaced at a meeting of Shareholders.

BIOGRAPHIES OF DIRECTORS AND OFFICERS

The following are brief profiles of the Directors and Executive Officers of Pollard Banknote Limited.

Dave Brown, Director, is currently President and Chief Executive Officer of Richardson Capital and Managing Director of RBM Capital Limited. Previously, he was Corporate Secretary of James Richardson & Sons, Limited, and a partner in the independent law and accounting firm of Gray & Brown. Mr. Brown serves on the Board of Trustees of the Boyd Group Income Fund. In addition, he serves as a Director of GMP Capital, Inc., Richardson Financial Group and Manitoba Hydro. He graduated from the University of Manitoba law school, and is a Chartered Professional Accountant and member of the Manitoba Bar Association.

Jerry Gray, Director, is Dean Emeritus of the I. H. Asper School of Business at the University of Manitoba where he also held the CA Manitoba Endowed Chair in Business Leadership. Dr. Gray is a Director and Chairman of the Board of Gendis, Inc. and Past Chair of the Winnipeg Regional Health Authority. He has consulted with many major corporations in the United States and Canada in the areas of motivation, organizational design, manpower planning, managing change, management development, incentive system design, customer service and strategic planning.

Garry Leach, Director, is the CEO of Mandak Capital Limited (an investment corporation). From 1988 to 2004, Mr. Leach was President and CEO of Gerdau MRM Steel (Manitoba Rolling Mills) and its predecessors. Mr. Leach has previously served on the Board of Directors for Gerdau Ameristeel (TSX, NYSE), GLM Industries, Manitoba Hydro, the Canadian Steel Producers Association, (Ottawa), the Steel Manufacturers Association, (Washington), as well as the Business Council of Manitoba. Mr. Leach also served as Regent for the University of Winnipeg.

Douglas Pollard, Director and Co-Chief Executive Officer, joined Pollard Banknote in 1997 as Vice President, Lottery Management Services and on May 1, 2011, he was appointed Co-Chief Executive Officer. From 1997 to 1999 he was a Director and the General Manager of Imprimerie Spéciale de Banque, a subsidiary of Pollard Banknote based in Paris, France. Prior to 1997 Mr. Pollard was a Senior Consultant with PriceWaterhouseCoopers. Mr. Pollard has an M.B.A. from The Richard Ivey School of Business at the University of Western Ontario and a B.A. from the University of Manitoba.

Gordon Pollard, Director and Executive Chair of the Board, joined Pollard Banknote in 1989 as Vice President, Marketing. He became Co-Chief Executive Officer in 1997 and on May 1, 2011, was appointed Executive Chair of the Board of Directors. Prior to 1989, he practiced law with a major Manitoba firm specializing in corporate and securities law. Mr. Pollard has an LL.B. from the University of Manitoba and a B.A. from the University of Winnipeg.

John Pollard, Director and Co-Chief Executive Officer, joined Pollard Banknote in 1986 as Vice President, Finance. He became Co-Chief Executive Officer in 1997. Prior to 1986, he was an associate with the accounting firm Deloitte & Touche LLP. Mr. Pollard has a B. Comm. from the University of Manitoba, and is a former member of the Institute of Chartered Accountants of Manitoba.

Robert Rose, Executive Vice President, Finance and Chief Financial Officer, joined Pollard Banknote Limited in 1994 as Corporate Controller. He became Chief Financial Officer in 1996. Prior to 1994, Mr. Rose served for 13 years in increasingly senior roles with the accounting firm of

KPMG. He has a B. Comm. from the University of Manitoba and is a member of the Chartered Professional Accountants of Manitoba.

Riva Richard, Executive Vice President, Legal Affairs and General Counsel and Corporate Secretary, joined Pollard Banknote Limited in 2010. Prior to joining Pollard Banknote, Ms. Richard served as Vice President, Legal Affairs and Corporate Secretary of CanWest Global Communications Corp. Until September 2001, Ms. Richard practiced as a corporate law associate with the Toronto office of McCarthy Tétrault LLP. Ms. Richard received her Bachelor of Laws and Bachelor of Civil Law Degrees, with distinction, from McGill University and holds an undergraduate business degree from the Richard Ivey School of Business at the University of Western Ontario. She is a member of the Ontario and Manitoba Bars.

Lawrence Pollard, Chair Emeritus of the Board, has been with Pollard Banknote since 1947. Mr. Pollard is a senior lottery products business executive with 65 years of general management and sales experience. Mr. Pollard has served on the Board of Directors of a number of public and private companies. He has served as president of the Winnipeg Chamber of Commerce and was named Manitoba's Entrepreneur of the Year in 1991. Mr. Pollard is a graduate from the Dunwoody Industrial Institute of Printing Management in Minneapolis and is a past national president of the Canadian Graphic Arts Industries Association.

GOVERNANCE OF POLLARD BANKNOTE LIMITED

Governance

The Governance and Nominating Committee is responsible for developing Pollard Banknote's approach to governance issues, filling vacancies among the directors and periodically reviewing the composition and effectiveness of the directors and the contribution of individual directors.

Audit Committee

The Board of Directors have appointed an Audit Committee consisting of three directors, all of whom are independent of management and financially literate within the meaning of National Instrument 52-110 "Audit Committees." On May 11, 2017, Dave Brown was appointed Chair of the Audit Committee and the other members are Garry Leach and Jerry Gray. The Audit Committee is responsible for the oversight and supervision of: (1) the accounting and financial reporting practices and procedures of Pollard Banknote; (2) the adequacy of Pollard Banknote's internal accounting controls and procedures; and (3) the quality and integrity of Pollard Banknote's financial statements.

In addition to each member's general business experience, the education and experience of each member of the Audit Committee is financially literate, as such terms are defined in National Instrument 52-110 – Audit Committees.

Jerry Gray is Dean Emeritus of the I. H. Asper School of Business at the University of Manitoba where he also held the CA Manitoba Endowed Chair in Business Leadership.

Garry Leach is the CEO of Mandak Capital Limited (an investment corporation). From 1988 to 2004, Mr. Leach was President and CEO of Gerdau MRM Steel (Manitoba Rolling Mills) and its predecessors. Mr. Leach has previously served on the Board of Directors for Gerdau Ameristeel (TSX, NYSE), GLM Industries, Manitoba Hydro, the Canadian Steel Producers Association, (Ottawa), the Steel Manufacturers Association, (Washington), as well as the Business Council of Manitoba. Mr. Leach also served as Regent for the University of Winnipeg.

Dave Brown, Director, is currently President and Chief Executive Officer of Richardson Capital and Managing Director of RBM Capital Limited. Previously, he was Corporate Secretary of James Richardson & Sons, Limited, and a partner in the independent law and accounting firm of Gray & Brown. Mr. Brown serves on the Board of Trustees of the Boyd Group Income Fund. In addition, he serves as a Director of GMP Capital, Inc., Richardson Financial Group and Manitoba Hydro. He graduated from the University of Manitoba law school, and is a Chartered Professional Accountant and member of the Manitoba Bar Association.

A copy of the charter of the Audit Committee of Pollard Banknote Limited is attached as Schedule A to this Annual Information Form.

Committees of the Board of Directors of Pollard Banknote Limited

In addition to the Audit Committee and the Governance and Nominating Committee, the Board of Directors of Pollard Banknote Limited has appointed a Compensation Committee. Garry Leach is the Chair of both the Compensation Committee and the Governance and Nominating Committee. Jerry Gray and Dave Brown are the other members of both of these committees. In addition, the Board of Directors of Pollard Banknote Limited has a Lead Director, Jerry Gray.

Guidelines for Continuous Public Disclosure

The Directors are responsible for adopting and periodically reviewing and updating the Pollard Banknote's written disclosure policy regarding obligations for continuous public disclosure. This policy, among other things:

- articulates the legal obligations of Pollard Banknote, its affiliates and their respective directors, officers and employees with respect to confidential information;
- identifies spokespersons of Pollard Banknote who will be the only persons authorized to communicate with third parties such as analysts, media and investors;
- provides guidelines on the disclosure of forward-looking information;
- establishes a Disclosure Committee of senior representatives of Pollard Banknote to oversee the administration of the disclosure policy;
- requires advance review by the Disclosure Committee of Pollard Banknote of any disclosure of financial information, and to ensure that selective disclosure of material information is not permitted and that when selective disclosure occurs, a news release is issued immediately; and
- establishes black-out periods prior to and following the disclosure of quarterly and annual financial results by Pollard Banknote and prior to the disclosure of certain material changes during which Pollard Banknote, its affiliates and their respective directors, officers and employees may not purchase or sell Shares of Pollard Banknote.

The Directors are also responsible for adopting and periodically reviewing and updating Pollard Banknote's written whistle-blowing procedures and Pollard Banknote's policy regarding the hiring of former employees of the external auditor of the issuer.

OWNERSHIP OF SECURITIES

As at December 31, 2017, the Directors and Named Executive Officers of Pollard Banknote, as a group, beneficially owned or exercised control or direction over 126,500 common shares. Indirectly through Equities, Gordon Pollard, John Pollard and Douglas Pollard control 17,305,158 common shares of Pollard Banknote.

EXTERNAL AUDITOR SERVICE FEES

The aggregate amounts paid or accrued by Pollard Banknote Limited and subsidiaries with respect to fees payable to KPMG LLP, the auditors of Pollard Banknote, for audit, audit-related, tax and other services for the year ended December 31, 2017, and for the year ended December 31, 2016, is as follows:

<i>Category</i>	2017	2016
Audit Fees ⁽¹⁾	\$416,828	\$236,000
Audit-Related Fees ⁽²⁾	\$59,000	-Nil-
Tax Compliance Fees ⁽³⁾	\$80,000	\$ 69,250
Other Tax Fees ⁽⁴⁾	\$112,995	\$ 42,903
Total Fees	<u>\$668,823</u>	<u>\$348,153</u>

- (1) Audit Fees includes fees for annual audit and quarterly reviews.
- (2) Audit-Related Fees includes costs for French translation and specified procedures costs.
- (3) Tax Compliance Fees includes the cost to prepare tax returns and related advisory services.
- (4) Other Tax Fees consists of tax advisory services for various projects.

INDEBTEDNESS OF MANAGEMENT PERSONNEL

None of the Directors or executive officers of Pollard Banknote or its subsidiary entities, nor any associate of such Director or executive officer, is currently indebted to Pollard Banknote or its subsidiary entities. In addition Pollard Banknote and its subsidiary entities have not provided any guarantee, support agreement, letter of credit or similar arrangement or undertaking in respect of any indebtedness of any such person to any other person or entity.

INDEBTEDNESS

CREDIT FACILITY

Effective June 22, 2017, Pollard Banknote Limited and Pollard Holdings, Inc., renewed its syndicated Credit Facility with three Canadian chartered banks (the “Lenders”). The Credit Facility is currently comprised of a committed facility in the amount of CAD equivalent \$105.0 million and USD\$12.0 million.

As at December 31, 2017, the balance drawn under the Credit Facility was CAD equivalent \$84.0 million and outstanding letters of guarantee of \$1.9 million in Canadian equivalent of Euro and USD denominated guarantees.

The Credit Facility is used for general corporate purposes, including funding changes in working capital.

The Credit Facility has a two-year term, currently expiring June 22, 2019. The Credit Facility is prepayable without any prepayment penalties or bonus (subject to normal breakage costs and subject to the continuation of unexpired bankers' acceptances, LIBOR advances, letters of credit and letters of guarantee). Loans under the Credit Facility will bear interest at fixed and floating rates based on the Canadian and U.S. prime bank rates, LIBOR or banker's acceptance rates plus, in each case, an applicable margin to those rates. Letters of credit and letters of guarantee are also available under the Credit Facility on customary terms for facilities of this nature. The rates vary with the ratio of total funded interest bearing debt (the "funded debt") (as adjusted for certain items) to EBITDA.

As security for the Credit Facility, Pollard Banknote Limited and Pollard Holdings, Inc. have granted the Lender a security interest over all of its assets. In addition, certain of its subsidiaries have guaranteed the obligations of Pollard Banknote under the Credit Facility and provided security on all of each of their assets to secure such guarantees.

The Credit Facility is subject to customary terms and conditions for borrowings of this nature, including limits on incurring additional indebtedness, granting liens or selling assets without the consent of the Lenders and incurring capital expenditures above certain levels. The Credit Facility is also subject to the maintenance of a maximum ratio of funded debt to adjusted EBITDA, a minimum ratio of debt service coverage and a minimum ratio of working capital in any one year. As of December 31, 2017, Pollard is in compliance with all covenants.

The failure to comply with the terms of the Credit Facility would entitle the Lender to accelerate all amounts outstanding under the Credit Facility, and upon such acceleration, the Lender would be entitled to begin enforcement procedures against the assets of Pollard Banknote, including accounts receivable and inventory (subject to certain restrictions governing the right to pledge certain assets) and equipment. The Lender would then be repaid from the proceeds of such enforcement proceedings, using all available assets. Only after such repayment and the payment of any other secured and unsecured creditors would the Shareholders receive any proceeds from the liquidation of the assets of Pollard Banknote.

One of Pollard's subsidiaries, INNOVA, entered into agreements to purchase equipment payable in monthly installments including interest. The equipment purchased includes revenue producing assets, machinery and equipment, and computer equipment all relating to the operations of its subsidiary Diamond Game Enterprise. Total balance owing at December 31, 2017, was \$0.8 million.

SUBORDINATED DEBT

On April 2, 2014, Pollard's subsidiary, Pollard Holdings Limited Partnership, entered into a loan agreement with Pollard Equities Limited for a subordinated term loan facility with a seven year term in the amount of \$6.8 million at a 9% interest rate to assist in the purchase of a printing press. Principal payments on the subordinated loan facility commenced in July 2016. On September 28, 2017, Pollard repaid the outstanding balance of the loan.

On June 23, 2017, Pollard entered into a second loan agreement with Equities for an additional subordinated term loan with a seven year term, repayable at any time (subject to meeting

certain financial covenants under the secured credit facility). The loan was provided to assist with the purchase of the common shares of INNOVA. A total of \$25.1 million was drawn in the third quarter of 2017. On September 20, 2017, Pollard repaid \$7.5 million in outstanding principal. Quarterly principal payments on the second loan facility commenced the month following the first draw, which occurred August 4, 2017. Interest on the subordinated debt commenced with the first draw at a rate of 8%.

DESCRIPTION OF POLLARD BANKNOTE LIMITED

INCORPORATION

Pollard Banknote Limited (“Pollard Banknote”), formerly 7510101 Canada Limited, was incorporated under the laws of Canada on March 26, 2010. The principal head and registered office is at 140 Otter Street, Winnipeg, Manitoba, Canada, R3T 0M8. The Company was incorporated to continue the business of Pollard Holdings Limited Partnership.

On January 1, 2015, Pollard Banknote Limited completed a short form amalgamation combining Pollard Holdings Limited Partnership, Pollard Banknote GP Limited, Pollard Banknote Limited Partnership and Pollard (Canada) Inc. with the Company. This had no material impact to the operations of the Company on a consolidated basis and was designed to simplify the organization structure.

DESCRIPTION OF SHARE CAPITAL

The Company is authorized to issue an unlimited number of preference shares, issuable in series, and an unlimited number of common shares.

Preference Shares

The Board of Directors of Pollard Banknote may issue preference shares (the “Preference Shares”) at any time in one or more series and shall fix the number of shares in each series. Before any shares of a particular series are issued, the Board of Directors of Pollard Banknote is required to fix the number of shares in such series and to determine, subject to the limitations set out in the articles, the designation, rights, privileges, restrictions and conditions to be attached to the shares of such series, including, but without in any way limiting or restricting the generality of the foregoing, voting rights, the rate or rates, amount or method or methods of calculation of any dividends thereon and whether such rate(s), amount or method(s) of calculation shall be subject to change or adjustment in the future, the consideration and the terms and conditions of any purchase for cancellation, retraction or redemption rights (if any), the conversion or exchange rights attached thereto (if any) and the terms and conditions of any purchase obligation or sinking fund or other provisions attaching thereto. No rights, privileges, restrictions or conditions attached to a series of Preference Shares will confer upon a series a priority in respect of dividends or return of capital over any other series of Preference Shares then outstanding. The Preference Shares are entitled to priority over the common shares and over any other share ranking prior to the common shares and over any other shares ranking junior to the Preference Shares.

Common Shares

Holders of common shares are entitled to receive notice of any meetings of shareholders of Pollard and to attend and to cast one vote per common shares at all such meetings. Holders of common shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the common shares entitled to vote in any election of directors may elect all directors standing for election. Holders of common shares are entitled to receive on a pro-rata basis such dividends, if any, as and when declared by Pollard Banknote's Board of Directors at its discretion from funds legally available therefore and upon the liquidation, dissolution or winding up of Pollard Banknote are entitled to receive on a pro-rata basis the net assets of Pollard Banknote after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro-rata basis with the holders of common shares with respect to dividends or liquidation. The common shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

The Articles of Incorporation of Pollard Banknote provide that if, in the opinion of the Board of Directors of Pollard Banknote, a person, or group of persons acting in concert (in each case excluding Equities) acquires, agrees to acquire, holds, beneficially owns or controls, either directly or indirectly, a number of common shares that is equal to or in excess of the Ownership Threshold (defined as five percent (5.0%) of the common shares (on a non-diluted basis) issued and outstanding from time to time), the Board of Directors of Pollard Banknote is entitled at any time, in its sole discretion, to take the following actions (each a "Constraint Action"):

- a) place a stop transfer on all or any of the common shares of the person, or group of persons, the Board of Directors of Pollard Banknote reasonably believes holds, beneficially owns, controls or directs, directly or indirectly, a number of common shares that is equal to or in excess of the Ownership Threshold;
- b) suspend all voting and/or dividend rights on all or any of the common shares the person, or group of persons, the Board of Directors of Pollard Banknote reasonably believes holds, beneficially owns, controls or directs, directly or indirectly, a number of common shares that is equal to or in excess of the Ownership Threshold;
- c) apply to a court of competent jurisdiction seeking an injunction to prevent a person or group of persons from acquiring, holding, owning, controlling and/or directing, directly or indirectly, a number of common shares that is equal to or in excess of the Ownership Threshold; and/or
- d) make application to the relevant securities commission, its successors or assigns or such other governmental regulatory agency having jurisdiction over the affairs of Pollard Banknote, to effect a cease trading order or such similar restriction against such person or group of persons until such time as the person or group of persons ceases to hold, own, control or direct, directly or indirectly, a number of common shares that is equal to or in excess of the Ownership Threshold.

In addition, if (i) a Gaming Regulatory Authority has determined that ownership by a holder of common shares is inconsistent with its declared policies, or (ii) the Board of Directors of Pollard Banknote, acting reasonably (including, where necessary or advisable, after receiving the advice of outside regulatory counsel), determines that a Gaming Regulatory Authority is likely to consider that ownership by a holder of common shares is inconsistent with its declared policies, the Board of Directors of Pollard Banknote shall be entitled to take Constraint Action against such shareholder. Any person who holds, owns, controls or directs, directly or indirectly, 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 of the costs of the investigation incurred by any such Gaming Regulatory Authority.

In order to apply the provisions concerning the Ownership Threshold, the Board of Directors of Pollard Banknote may, in their sole discretion:

- a) require a person in whose name common shares of Pollard Banknote are registered, the Agent of such person, the Participant in whose name such shares are registered, or the Securities Depository, to provide a statutory declaration under the Canada Evidence Act or otherwise concerning:
 - i. whether the shareholder is the beneficial owner of, or controls or directs, common shares of Pollard Banknote or holds them for a beneficial owner;
 - ii. whether the shareholder is an associate or affiliate of another shareholder;
 - iii. the number of common shares beneficially owned, controlled or directed, directly or indirectly; and
 - iv. any further facts that the Board of Directors consider relevant in their sole discretion;
- b) require any person seeking to have a transfer of a common share registered in its name or to have a common share issued to it to provide a declaration similar to the declaration a person may be required to provide in (a) directly above; and
- c) determine the circumstances in which any declarations are required, their form and the times when they are to be provided or appoint one or more persons to make such determination on behalf of Pollard Banknote.

RISK FACTORS

The following are certain factors relating to the business and structure of Pollard Banknote and the industry within which it operates. These risks and uncertainties are not the only ones facing Pollard Banknote. Additional risks and uncertainties not presently known to Pollard Banknote, or that Pollard Banknote currently deem immaterial, may also impair the operations of Pollard Banknote. If any such additional risks actually occur, the business, financial condition, liquidity and results of operations of Pollard Banknote could be materially adversely affected and the ability of Pollard Banknote to make dividends on the shares could be adversely affected.

RISKS RELATED TO THE BUSINESS AND THE INDUSTRY

Dependence on Key Products

Instant tickets accounted for approximately 86.7% of Pollard Banknote's revenues for Fiscal 2017. Pollard Banknote's financial results and condition are substantially dependent on the continued success and growth in sales of this product and the profitability of such sales. Competitive efforts by other manufacturers of similar or substitute products, shifts in consumer preferences or the introduction and acceptance of alternative product offerings could have a material adverse effect on Pollard Banknote's business, financial condition, liquidity and results of operations and the amount of cash available for dividends to Shareholders.

Inability to Sustain Sales or EBITDA Margins

Pollard Banknote's income depends upon its ability to generate sales to customers and to sustain its EBITDA margins. These margins are dependent upon Pollard Banknote's ability to continue to profitably sell lottery tickets and gaming products and to continue to provide products and services that make it the supplier of choice to its customers. If Pollard Banknote's cost of sales or operating costs increase, or other manufacturers of gaming products could compete more favourably with it, Pollard Banknote may not be able to sustain its level of sales or EBITDA margins.

General Economic Conditions

Instant lottery tickets account for approximately 86.7% of revenue and Pollard Banknote's financial results and condition are substantially dependent on the continued success and growth in sales of this product and the profitability of such sales. Historically the lottery industry, and particularly the instant ticket product lines, has not shown any significant negative impact during downturns in the economic cycles. However, lotteries, similar to many government agencies, are increasingly under pressure to reduce costs and expenditures. As such, Pollard Banknote has witnessed downward pressure on its selling prices. Continued pressure on lotteries to reduce their costs may further negatively impact Pollard Banknote's selling prices. Significant shifts in consumer preferences or the introduction and acceptance of alternative product offerings could have a material adverse effect on Pollard Banknote's business, financial condition, liquidity and results of operations.

Dependence on Major Customers

Pollard Banknote's 10 largest customers accounted for 57.4% of its Fiscal 2017 revenues. In 2017, sales to one customer amounted to 12.0% of consolidated sales and 11.7% to a second customer. The nature of the worldwide lottery industry limits the absolute number of lottery operations. As is customary in the industry, Pollard Banknote does have long-term contracts with most of its customers. However, most allow the customer to cancel the contract at will and none guarantee volumes or order levels. A significant reduction of purchases by any of Pollard Banknote's largest customers could have a material adverse effect on Pollard Banknote's business, financial condition, liquidity and results of operations.

Exchange Rate Fluctuations

A significant portion of Pollard Banknote's revenues and expenses, principally related to its U.S. operations and to the purchase of raw materials, are denominated in U.S. dollars. In addition a portion of Pollard Banknote's revenues are denominated in Euros. Furthermore, although certain raw materials may be purchased in Canadian dollars, they may have inputs that are denominated in foreign currencies. Any changes in the exchange rate between the Canadian dollar and these foreign

currencies could have a material effect on the results of Pollard Banknote. Pollard Banknote's dividends to Shareholders are denominated in Canadian dollars.

For the purposes of financial reporting, any change in the value of the Canadian dollar against the U.S. dollar or the Euro during a given financial reporting period would result in a foreign exchange loss or gain on the translation of any foreign currency denominated monetary assets and liabilities. Further, Pollard Banknote's reported earnings could fluctuate materially as a result of revenues and expenses denominated in U.S. dollars or Euros under Canadian GAAP. There can be no assurance that changes in the currency exchange rate will not have a material adverse effect on Pollard Banknote Limited or on its ability to maintain a consistent level of dividends in Canadian dollars.

In addition the use of certain cash flow and interest rate hedging strategies may result in increased volatility in net income due to mark-to-market accounting rules.

Additional Capital Requirements

Pollard Banknote believes that its operating income will be sufficient to fund operations and planned capital expenditures in the near term. However, Pollard Banknote may be required to raise additional capital in the future if it decides to make additional acquisitions. The availability of future borrowings and access to capital markets for financing depends on prevailing market conditions and the acceptability of financing terms offered to it. There can be no assurance that future borrowings or equity financing will be available to it, or available on acceptable terms, in an amount sufficient to fund its needs.

Inability to Sustain and Manage Growth

A principal component of Pollard Banknote's strategy is to continue its internal growth. Pollard Banknote may not be successful in growing its business or in managing its growth. Pollard Banknote's growth depends on its ability to accomplish a number of things, including:

- successfully introducing new products;
- identifying and developing new geographic markets;
- developing new products and gaining market acceptance for them;
- establishing and maintaining favourable relationships with customers in new markets and market segments and maintaining these relationships in existing markets; and
- successfully managing expansion and obtaining the required financing.

Any growth Pollard Banknote achieves may require additional employees and an increase in the scope of both its operating and financial systems and the geographic area of its operations. Pollard Banknote may be unable to attract and retain qualified management and employees, and its existing operating and financial systems and controls may not be adequate to support any growth. Pollard Banknote's ability to improve its systems and controls may be limited by increased costs, technological challenges, or lack of qualified employees. The past results of Pollard Banknote may not be indicative of Pollard Banknote's prospects or its ability to penetrate new markets, many of which may have different competitive conditions and demographic characteristics than current markets.

Competition

The instant ticket business is highly competitive, and Pollard Banknote faces competition from a number of domestic and foreign instant ticket manufacturers and other competitors. Pollard

Banknote currently has two instant ticket competitors in North America, Scientific Games Corporation (Sci Games) and IGT. Internationally, there are a number of lottery instant ticket vendors which compete with Pollard Banknote including Sci Games, IGT and Eagle Press Group of Companies.

Some of Pollard Banknote's competitors have longer operating histories, greater name recognition, larger customer bases and greater financial, technical and marketing resources than Pollard Banknote. These resources may allow them to respond more quickly than Pollard Banknote can to new or emerging technologies and to changes in customer requirements. It may also allow them to devote greater resources than Pollard Banknote can to the development, promotion and sale of their products. Pollard Banknote's competitors may also engage in more extensive research and development, undertake more far reaching marketing campaigns and adopt more aggressive pricing policies. The market for Pollard Banknote's products is highly competitive and it is fragmented at both the lottery and charitable gaming levels. Pollard Banknote expects competition to continue to be intense because of capacity in its markets. To the extent one of Pollard Banknote's competitors undertakes a consolidation program, Pollard Banknote's competition would increase further. Pollard Banknote also faces competition from emerging and existing lottery and charitable gaming products, such as internet gaming products and video lottery terminals. Competition from these and other gaming products may weaken demand for Pollard Banknote's products.

Future Acquisition and Integration Risks

To grow by acquisition, Pollard Banknote must identify and acquire suitable acquisition candidates at attractive prices and successfully integrate any acquired businesses with its existing operations. If the expected synergies from acquisitions do not materialize or Pollard Banknote fails to successfully integrate any new businesses into its existing business, Pollard Banknote's financial performance could be significantly impacted. To the extent that businesses acquired by Pollard Banknote or their prior owners failed to comply with or otherwise violated applicable laws, Pollard Banknote, as a successor owner may be financially responsible for these violations.

In connection with future acquisitions by Pollard Banknote, there may be liabilities that Pollard Banknote, as the case may be, failed or was unable to discover in its due diligence prior to the consummation of the acquisition. The discovery of any material liabilities could have a material adverse effect on Pollard Banknote's business, financial condition, liquidity and results of operations or future prospects.

Failure to Realize Anticipated Benefits of INNOVA or Gamco Acquisitions

On September 18, 2017, Pollard Banknote completed the acquisition of INNOVA and on February 1, 2018, Pollard Banknote completed the Gamco acquisition. Achieving the benefits of both of these acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as Pollard Banknote's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Pollard Banknote. The integration of the acquired businesses will require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. In addition, Pollard Banknote may be required to assume greater than expected liabilities due to undisclosed liabilities of both INNOVA and Gamco existing at the time of the acquisitions.

Reliance on Manufacturing Facilities

Pollard Banknote manufactures substantially all of its lottery tickets and gaming products at its facilities. Pollard Banknote expects to continue to expand its manufacturing capabilities by adding production lines and additional acquisitions, either of which could result in disruptions to its manufacturing operations. Pollard Banknote's manufacturing operations use certain custom designed equipment which, if damaged or otherwise rendered inoperable or unavailable, could result in the disruption of its manufacturing operations. Further, Pollard Banknote does not generally maintain an inventory of finished products due, in part, to the customized nature of its product line and its "just in time" approach to manufacturing. Consequently, any interruption of operations at any of its manufacturing facilities or at any facility of a supplier to Pollard Banknote or at which Pollard Banknote outsources production could have a material adverse effect on Pollard Banknote's business, financial condition, liquidity and results of operation.

Reliance on Key Personnel

Pollard Banknote's future performance and development will depend to a significant extent on the efforts and abilities of its executive officers and key management personnel. The loss of the services of one or more of its individuals or other senior managers could harm Pollard Banknote. Pollard Banknote's success will depend largely on Pollard Banknote's continuing ability to attract, develop and retain skilled employees in all areas of its business.

Technological Change

Lotteries continue to investigate the use of the internet to augment their product offerings. Either in conjunction with existing gaming products (such as providing for second chance drawings for customers who have purchased non-winning instant tickets, digital gaming products or through loyalty and engagement programs) or as additional platforms to providing gaming products (for example providing electronic versions of instant tickets). The use of the internet is increasing and will be a key distribution channel as lotteries look to expand their market share both with existing customers and through obtaining new customers. Pollard Banknote may not be able to participate in this growth with its current product mix and the reliance on paper tickets may lessen.

Significant Changes to Government Regulations

Pollard Banknote is subject to various federal, provincial, state and local laws and regulations. There are laws that regulate its transporting products, importing and exporting products and employment. Furthermore, there are extensive gaming laws and approvals. Such laws, regulations and related rules and policies are administered by various federal, provincial, state and local agencies and other governmental authorities. New laws governing its business could be enacted and changes to any existing laws could have a significant impact on business. Failure by Pollard Banknote to comply with applicable laws and regulations may subject it to civil or regulatory proceedings which may have a material adverse effect on Pollard Banknote's business, financial condition, liquidity and results of operations.

Continuing Negotiations on North American Free Trade Agreement (NAFTA)

The governments of Canada, the United States and Mexico are currently renegotiating NAFTA. The outcome of this agreement may have implications to our overall cross-border trade. Pollard Banknote had significant manufacturing presence in both Canada and the United States and the impact of any possible changes to NAFTA at this time is unknown.

Licensing and Regulatory Requirements

Pollard Banknote is subject to regulation in most jurisdictions in which its products are sold or used by persons or entities licensed to conduct gaming activities. The gaming regulatory requirements vary from jurisdiction to jurisdiction and licensing, other approval or finding of suitability processes with respect to Pollard Banknote, its personnel and its products, can be lengthy and expensive. Most jurisdictions have comprehensive licensing, reporting and operating requirements with respect to the sale and manufacture of bingo and bingo related products, including bingo paper and pull-tab tickets. These requirements have a direct impact on the conduct of the day to day operations of Pollard Banknote. There can be no assurance that Pollard Banknote, its products or its personnel will receive or be able to maintain any necessary gaming licenses, other approvals or findings of suitability. Moreover, failure to comply with the licensing, reporting and operating requirements may subject Pollard Banknote to civil or regulatory proceedings, including the imposition of civil penalties or the suspension or revocation of a license. The loss of a license in a particular jurisdiction will prohibit Pollard Banknote from selling products in that jurisdiction and may prohibit Pollard Banknote from selling its products in other jurisdictions. The loss of one or more licenses held by Pollard Banknote could have an adverse effect on the business.

Certain jurisdictions require extensive personal and financial disclosure and background checks from persons and entities beneficially owning a specific percentage (typically five percent or more) of a vendor's or licensee's securities. The failure of beneficial owners of Pollard Banknote's securities to submit to background checks and provide such disclosure could result in the imposition of penalties upon these beneficial owners and could jeopardize the award of a lottery contract or the issuance of a gaming license to Pollard Banknote or provide grounds for termination of an existing lottery contract or gaming license.

Income and Other Taxes

Pollard Banknote is subject to income taxes, withholding taxes, and Canadian and U.S. federal, provincial and state taxes. As taxing regimes change their tax basis and rates or initiate reviews of prior tax returns, Pollard Banknote could be exposed to increased costs of taxation.

Intellectual Property

Pollard Banknote's commercial success depends, in part, on its ability to secure and protect intellectual property rights that are important to its business, including patent, trademark, copyright, and trade secret rights, to operate without infringing third party intellectual property rights, and to avoid having third parties circumvent the intellectual property rights that Pollard Banknote owns or licenses. In particular, the patents and trademarks Pollard Banknote owns or licenses may not be valid or enforceable. In addition, Pollard Banknote cannot be certain that its proprietary technology affords a competitive advantage, does not infringe third party rights, or will not need to be altered in response to competing technologies. Pollard Banknote also cannot be certain that technologies developed in the future will be the subject of valid and enforceable intellectual property rights.

In addition, litigation may be necessary to determine the scope, enforceability and validity of third party intellectual property rights or to establish Pollard Banknote's intellectual property rights. Regardless of merit, any such litigation could be time consuming and expensive, divert management's time and attention, subject Pollard Banknote to significant liabilities, require Pollard Banknote to enter into costly royalty or licensing agreements, or require Pollard Banknote to modify or stop using intellectual property that it owns or licenses.

Litigation

Pollard Banknote is threatened from time to time with, or has been named as a defendant in, various legal proceedings and lawsuits based upon product liability, personal injury, breach of contract and lost profits or other consequential damages claims, in the ordinary course of conducting its business. Management has seen a growing trend across North America in litigation. A significant judgment against Pollard Banknote or the imposition of a significant fine or penalty, as a result of a finding that Pollard Banknote failed to comply with laws or regulations, or being named as a defendant on multiple claims could, have a material adverse effect on Pollard Banknote's business, financial condition, liquidity and results of operations.

Raw Material Price Volatility

Various raw materials are used in the products manufactured by Pollard Banknote, and, while historically such raw materials have not been subject to economic or seasonal cyclicality and wide price variation, future results may differ. Certain raw materials used by Pollard Banknote in its manufacturing processes are made from commodities that are vulnerable to significant fluctuations in price. Sudden increases in the price or a reduction in the availability of raw materials or commodities used to make raw materials used in the manufacture of lottery tickets and gaming products could have a material adverse effect on Pollard Banknote's business, financial condition, liquidity and results of operations. Pollard Banknote may not be able to pass on the increased costs to customers.

Lack of Long-Term Supplier Agreements

Historically, Pollard Banknote has not entered into long-term agreements with its suppliers. Generally, suppliers may terminate their relationship with Pollard Banknote on short notice. In addition, even if suppliers should decide to continue their relationship with Pollard Banknote, there can be no guarantee that suppliers will supply the same amount of product as in the past, or that supply will be on similar terms. Any loss of a significant supplier, or a change in the terms of the relationship with a significant supplier could have a material adverse effect on Pollard Banknote's business, financial condition, liquidity and results of operations.

Dependence on Sole or Limited Sources of Supply

Certain raw materials used in connection with the manufacture of Pollard Banknote's products and packaging materials are obtained from a sole or a limited group of suppliers. Pollard Banknote's reliance on a sole supplier or limited groups of suppliers involves several risks including increased risk of inability to obtain adequate supplies, reduced control over pricing and timely delivery, and in the case of substrate and ink, the long lead times required to approve the specifications necessary to produce products specific to Pollard Banknote's specifications. There are no assurances that this dependence on a limited group of suppliers will not have an adverse effect on Pollard Banknote's business, financial condition, liquidity and results of operations. In addition, were it necessary for Pollard Banknote to source its substrate and ink needs from another supplier, disruption to Pollard Banknote's business would occur during the period in which Pollard Banknote sourced another supplier and was able to receive supplies based on its particular specifications.

Product Liability

Pollard Banknote, like other manufacturers and sellers of retail products, is subject to potential liabilities connected with its business operations, including potential liabilities and expenses associated with product defects, performance, and reliability or delivery delays. A major product liability claim could have a material adverse effect on Pollard Banknote's business,

financial condition, liquidity and results of operations because of the costs of defending against lawsuits, diversion of key employees' time and attention from the business and potential damage to its reputation.

Research and development (“R&D”)

Pollard Banknote has invested, and may continue to invest, significant resources in our R&D efforts. Pollard Banknote invests in a number of areas, including our manufacturing processes, product development for game and system-based hardware, software and game content. There can be no assurance that Pollard Banknote's investment in R&D will lead to successful new technologies or products that gain market acceptance. If a new product is not successful, Pollard Banknote may not recover our development, regulatory approval or promotion costs.

Inability to innovate

The success of Pollard Banknote's products and services is affected by changing technology and evolving industry standards. Pollard Banknote's ability to anticipate or respond to such changes and to develop and introduce new and enhanced products and services, including, but not limited to, games, gaming machines, lottery tickets, gaming products and services, on a timely basis or at all is a significant factor affecting Pollard Banknote's ability to remain competitive, retain existing contracts or business, expand and attract new customers and players. There can be no assurance that Pollard Banknote will achieve the necessary technological advances or have the financial resources needed to introduce new products or services on a timely basis or at all or that Pollard Banknote will otherwise have the ability to compete effectively in the industries we serve.

Pollard Banknote's success depends upon its ability to develop or obtain manufacturing capabilities and processes to meet the demands of producing new and innovative products. Because newer products are generally more technologically sophisticated than those produced in the past, we must continually develop or obtain improved production capabilities to meet the needs of product innovations. If Pollard Banknote cannot efficiently develop its own manufacturing infrastructure or obtain such infrastructure from a reliable source to meet the needs of Pollard Banknote's product innovations, or if Pollard Banknote is unable to increase its production capacity in a timely manner, the business could be negatively impacted. In addition, the social and mobile gaming landscape is rapidly evolving and is characterized by major fluctuations in the popularity of social and mobile products and platforms. Pollard Banknote may be unable to develop products at a rate necessary to successfully enter and compete in the social and mobile product market.

Systems, network or telecommunications failures or cyber-attacks

Any disruption in Pollard Banknote's network or telecommunications services could affect Pollard Banknote's ability to operate its games or financial systems, which would result in reduced revenues and customer down time. Pollard Banknote's network and databases of business or customer information are susceptible to outages due to fire, floods, power loss, break-ins, cyber-attacks, network penetration, data privacy or security breaches, denial of service attacks and similar events. Despite Pollard Banknote's implementation of network security measures and data protection safeguards, including a disaster recovery strategy for back office systems, Pollard Banknote's servers and computer resources are vulnerable to viruses, malicious software, hacking, break-ins or theft, third-party security breaches, employee error or malfeasance, and other potential compromises. Disruptions from unauthorized access to or tampering with Pollard Banknote's computer systems in any such event could have a material adverse effect on Pollard Banknote's business, reputation, operating results and financial condition.

Money laundering/fraudulent activity

Pollard Banknote's success depends on its ability to avoid, detect, replicate and correct software and hardware errors and fraudulent manipulation of our games and systems. Pollard Banknote incorporates security features into the design of its games and other systems which are designed to prevent Pollard Banknote and its customers from being defrauded. However, there can be no guarantee that Pollard Banknote's security features will continue to be effective in the future. If Pollard Banknote's security systems fail to prevent fraud, Pollard Banknote's operating results could be adversely affected. Additionally, if third parties breach Pollard Banknote's security systems and defraud its customers, the public may lose confidence in Pollard Banknote's gaming products or Pollard Banknote could become subject to legal claims by its customers or to investigation by gaming authorities.

The occurrence of fraudulent manipulation of Pollard Banknote's games, gaming machines, systems, or online games and systems may give rise to claims for lost revenues and related litigation by Pollard Banknote's customers and may subject Pollard Banknote to investigation or other action by gaming regulatory authorities including suspension or revocation of Pollard Banknote's gaming licenses, or disciplinary action.

There is also a risk that Pollard Banknote will be subject to fraudulent activities by its employees. Any exposure to fraud and/or money laundering could subject Pollard Banknote to financial losses, business disruption and damage to Pollard Banknote's reputation. In addition, there is a risk that Pollard Banknote may be subject to investigation and sanctions by a regulator and/or to civil and criminal liability if we have failed to comply with Pollard Banknote's legal obligations relating to the reporting of money laundering or other offences.

Labour Disruptions

Approximately 107 of Pollard Banknote's employees, all of whom are employed at the Ypsilanti, Michigan facility, are subject to a collective bargaining agreement which expires on August 31, 2020. While management believes that Pollard Banknote is generally on good terms with its employees, there are no assurances that a strike or other disruption by its unionized employees will not occur. A work disruption at this facility would likely have a material adverse effect on Pollard Banknote's business, financial condition, liquidity and results of operations.

Operating Hazards

Pollard Banknote's revenues are dependent on the continued operation of its facilities. The operation of facilities involves some risks, including the failure or substandard performance of equipment, natural disasters, suspension of operations and new governmental statutes, regulations, guidelines and policies. Pollard Banknote may also have exposure to future claims with respect to workplace exposure, workers' compensation and other matters, arising from events both prior to and after any of its acquisitions. There can be no assurance as to the actual amount or the timing of these liabilities. The occurrence of material operational problems, including but not limited to the above events, may have a material adverse effect on Pollard Banknote's business, financial condition, liquidity and results of operations.

Environment, Health and Safety Requirements and Related Considerations

Pollard Banknote's operations and real property are subject to a broad range of increasingly complex federal, provincial, state and local laws and regulations as well as permits and other approvals governing environmental and workers' health and safety matters, including those relating to air emissions, water discharges, the storage, handling, use, discharge and disposal of hazardous materials and contaminants (including waste) (the "E, H & S Requirements"). Certain E, H & S

Requirements may impose joint and several liability on lessees and owners or operators of facilities for the costs of investigation or remediation of contaminated properties regardless of fault or the legality of the original release or disposal.

Pollard Banknote's past and present operations that are subject to E, H & S Requirements include the use, storage, handling and contracting for recycling or disposal of hazardous and non-hazardous materials such as washes, inks, alcohol-based products, fountain solution, photographic fixer and developer solutions, machine and hydraulic oils and solvents. The use and management of such materials, the nature of the manufacturing and printing process, and the ownership and/or management or control of commercial properties carries an inherent liability risk that must be carefully managed. Pollard Banknote believes that the conduct of its operations is in material compliance with applicable E, H & S Requirements. Maintaining such compliance in the conduct of its operations has not had a material adverse effect on Pollard Banknote's financial condition or operating results.

As noted earlier, Pollard Banknote manufactures its products at seven facilities, two of which are owned by Pollard Banknote and five of which are leased. Four of the seven facilities (Barrhead, Alberta, Ypsilanti, Michigan, Sault Ste. Marie, Ontario and the Winnipeg, Manitoba manufacturing facility site) were established by Pollard Banknote from green field sites.

As a consequence of Pollard Banknote's historical and current operations, and its ownership, management and control of real property, it may be involved from time to time in administrative or judicial proceedings and inquiries relating to E, H & S Requirements. It may also be subject to regulatory orders or actions (including orders to remediate soil and groundwater contamination). Future inquiries, orders, actions or proceedings of this nature could have material adverse effects on Pollard Banknote's business, financial condition, liquidity and results of operations.

Changes to existing E, H & S Requirements and to the enforcement thereof or the adoption of new E, H & S Requirements in the future might, individually or in the aggregate, have a material adverse effect on Pollard Banknote's business, financial condition, liquidity and results of operations. In addition, the discovery of unknown environmental or workers' health and safety issues at properties owned, managed or controlled by Pollard Banknote, including the responsibility to remediate hazardous substances whether or not the contamination was caused by Pollard Banknote, could require expenditures that might materially affect Pollard Banknote's business, financial condition, liquidity and results of operations.

Insufficient Insurance Coverage

Pollard Banknote maintains property, general liability, errors and omissions, business interruption insurance and directors and officer's liability insurance on such terms as it deems appropriate. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of Pollard Banknote's lost investment. This insurance may not remain available to it at commercially reasonable rates. Future increases in insurance costs, coupled with the increase in deductibles, may result in higher operating costs and increased risk. Not all risks faced by Pollard Banknote are insured.

Interest Rates

Pollard Banknote has certain floating rate loans and may be negatively impacted by increases in interest rates, the effects of which would be to reduce the amount of cash available for operations.

RISKS RELATED TO THE COMMON SHARES

Dividends Are Not Guaranteed and Will Fluctuate with Business Performance

Although Pollard Banknote intends to continue a policy of paying dividends, there can be no assurance regarding the amounts of income to be generated by Pollard Banknote's business. The ability of Pollard Banknote to make dividends, and the actual amount declared, will be entirely dependent on the operations and assets of Pollard Banknote, and will be subject to various factors including Pollard Banknote's financial performance, its obligations under applicable credit facilities, fluctuations in its working capital, the sustainability of its margins and its capital expenditure requirements. The market value of the common shares may deteriorate if Pollard Banknote is unable to meet its expected dividends in the future, and that deterioration may be significant.

Leverage and Restrictive Covenants

The ability of Pollard Banknote to pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those entities (including the Credit Facility). The degree to which Pollard Banknote is leveraged could have important consequences to the Shareholders including, Pollard Banknote's ability to obtain additional financing for working capital, capital expenditures or acquisitions may be limited; a significant portion of Pollard Banknote's cash flow from operations may be dedicated to the payment of the principal of, and interest on, its indebtedness, thereby reducing funds available for future operations; certain of Pollard Banknote's borrowings will be at variable rates of interests, which exposes Pollard Banknote to the risk of increased interest rates; and Pollard Banknote may be more vulnerable to economic downturns and be limited in its ability to withstand competitor pressures. These factors may increase the sensitivity of cash available for dividends to interest rate variations.

The Credit Facility contains numerous restrictive covenants that limit the discretion of Pollard Banknote's management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of Pollard Banknote to create liens or other encumbrances, make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the Credit Facility contains a number of financial covenants that require Pollard Banknote to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the Credit Facility could result in a default which, if not cured or waived, could result in a termination of dividends by Pollard Banknote and permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facility were to be accelerated, there can be no assurance that the assets of Pollard Banknote would be sufficient to repay in full that indebtedness. In addition, the Credit Facility has a rolling two-year term. There can be no assurance that future borrowings or equity financing will be available to Pollard Banknote, or available on acceptable terms, in an amount sufficient to fund Pollard Banknote's needs. See "Indebtedness - Credit Facility."

Control and Contractual Restrictions by Pollard Equities Limited

Equities owns approximately 67.6% of the shares of Pollard Banknote after the share offering completed on February 21, 2018. This significant level of voting control enables Equities to determine all matters involving Shareholder approval.

As a result of its voting interest in Pollard Banknote, Equities exercises significant influence over corporate transactions submitted to the Board of Directors for approval. Equities has sufficient voting power to prevent a change in control of Pollard Banknote.

The interests of Equities may conflict with those of the Shareholders.

Future Sales of Shares by Pollard Equities Limited

Equities hold approximately 67.6% of the outstanding common shares of Pollard Banknote on a fully-diluted basis after the share offering completed on February 21, 2018. The market price of the common shares could fall if Equities were to sell substantial amounts of common shares in the public market. The perception among the public that these sales will occur could also produce such effect.

Additional Issuance of Common Shares May Result in Dilution

Pollard Banknote's articles of incorporation allow it to issue an unlimited number of common shares for such consideration and on such terms and conditions as shall be established by the board of directors of the Pollard Banknote, in many cases, without the approval of the Pollard Banknote's shareholders. As part of the recent offering, Pollard Banknote issued 2,070,000 common shares on February 21, 2018. Pollard Banknote may issue additional common shares in subsequent offerings (including through the sale of securities convertible into or exchangeable for common shares) and on the exercise of stock options or other securities exercisable for common shares. Pollard Banknote may also issue common shares to finance future acquisitions. Pollard Banknote cannot predict the size of future issuances of common shares or the effect that future issuances and sales of common shares will have on the market price of the common shares. Issuances of a substantial number of additional common shares, or the perception that such issuances could occur, may adversely affect prevailing market prices for the common shares. With any additional issuance of common shares, investors will suffer dilution to their voting power and Pollard Banknote may experience dilution in its earnings per share.

DIVIDENDS

Prior to May 10, 2010 Pollard Banknote Income Fund (“the Fund”) had paid monthly distributions to Unitholders of \$0.0792 per Unit from the completion of the Initial Public Offering until May 2009, \$0.0475 monthly per Unit from May 2009 until January 2010, and \$0.01 monthly per Unit from February 2010 to April 2010 (other than its initial distribution of \$0.0689 per Unit in respect of the period from August 5, 2005 to August 31, 2005). After the Conversion Pollard Banknote declared a \$0.02 quarterly dividend (for May and June 2010) payable on July 15, 2010 and subsequent quarterly dividends of \$0.03 for the quarters ending September 30, 2010, to December 31, 2017. All quarterly dividends are paid on the 15th of the month following the end of each quarter.

LEGAL PROCEEDINGS

In the normal course of business activities, the Company is subject to various legal actions. Management contests these actions and believes that their resolution will not have a material adverse impact on the Company’s financial condition.

REGISTRAR AND TRANSFER AGENT

The transfer agent and registrar for the common shares is Computershare Trust Company of Canada, at its principal office in Toronto, Ontario.

MARKET FOR SECURITIES

The Shares are listed and posted for trading on the TSX under the symbol “PBL”

Trading Price and Volume

Month	Low (\$)	High (\$)	Trading Volume
January, 2017	7.77	8.30	80,200
February, 2017	7.68	8.35	54,200
March, 2017	7.99	10.19	324,500
April, 2017	9.90	10.76	70,600
May, 2017	10.32	10.90	123,500
June, 2017	9.83	10.50	113,100
July, 2017	10.21	11.60	95,100
August, 2017	10.81	14.36	308,300
September, 2017	13.86	14.81	336,100
October, 2017	14.02	15.00	382,600
November, 2017	13.50	17.50	219,200
December, 2017	16.51	18.00	178,700
January, 2018	16.91	20.50	151,900
February, 2018	18.00	21.52	452,400

PROMOTER

PBL Holdings Inc., parent company of Equities, took the initiative in organizing the business and affairs of Pollard Banknote and, accordingly, may be considered to be a promoter of Pollard Banknote within the meaning of applicable securities legislation. Certain officers of PBL Holdings Inc. are also officers and/or directors of Pollard Banknote.

MATERIAL CONTRACTS

The following are the only material contracts, other than contracts entered into in the ordinary course of business, which has been entered into by Pollard Banknote since its incorporation on March 26, 2010:

- a) the Arrangement Agreement relating to the Conversion to a Corporation. Details of the Conversion including a copy of the Plan of Arrangement and the Arrangement

Agreement dated April 6, 2010, may be found in the Management Information Circular dated April 9, 2010, filed under the Company's profile on SEDAR at www.sedar.com.

INTEREST OF EXPERTS

KPMG LLP are the auditors who prepared the auditors' report on Pollard Banknote Limited's consolidated financial statements for the year ended December 31, 2017. As of March 12, 2018, KPMG LLP and its partners did not hold any registered or beneficial ownerships interests, directly or indirectly, in the securities of Pollard Banknote.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference in this annual information form of Pollard Banknote:

- a) The final prospectus filed on SEDAR on July 27, 2005 relating to the initial public offering (IPO) of the Fund.
- b) The Arrangement Agreement filed on SEDAR on April 9, 2010 relating to the Conversion to a Corporation.
- c) The Business Acquisition report filed on SEDAR on October 16, 2017 relating to the acquisition of the outstanding shares of INNOVA.
- d) The short form prospectus filed on SEDAR on February 14, 2018 relating to the issuance of 1,800,000 plus the over allotment of 270,000 common shares of Pollard Banknote Limited.

ADDITIONAL INFORMATION

Additional information relating to Pollard Banknote may be found on SEDAR at www.sedar.com.

Additional financial information is provided in the consolidated financial statements and the management's discussion and analysis for Pollard Banknote for the year ended December 31, 2017, which may be found on SEDAR at www.sedar.com.

Additional information concerning directors' and officers' remuneration and indebtedness, principal holders of securities, options to purchase securities and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Management Proxy Circular of the Company dated April 7, 2017, which may be found at www.sedar.com.

Copies of the 2017 Annual Information Form and any document or the pertinent pages of any document incorporated by reference in this 2017 Annual Information Form may be obtained upon request from the Chief Financial Officer of Pollard Banknote, 140 Otter Street, Winnipeg, Manitoba, Canada, R3T 0M8. If the securities of Pollard Banknote are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus, copies of the foregoing documents are available free of charge. At all other times, a reasonable fee may be charged if the request for copies is made by a person who is not a shareholder of Pollard Banknote.

SCHEDULE A

CHARTER OF THE AUDIT COMMITTEE

OF

POLLARD BANKNOTE LIMITED

General

The Board of Directors (the “Board”) of Pollard Banknote Limited (the “Corporation”) has established an Audit Committee (the “Committee”) to take steps on its behalf as are necessary to assist the Board in fulfilling its oversight responsibilities regarding:

- a) the integrity of the Corporation’s financial statements;
- b) the internal control systems of the Corporation;
- c) the external audit process;
- d) risk management;
- e) the administration, financial reporting and investment activities of pension plan(s);
- f) the Corporation’s compliance with legal and regulatory requirements;
- g) any additional duties set out in this Charter or otherwise delegated to the Committee by the Board, and;
- h) internal audit.

Members

The Board will in each year appoint a minimum of three (3) directors as members of the Committee. All members of the Committee shall be independent directors.

All members of the Committee shall be financially literate. While the Board shall determine the definition of and criteria for financial literacy, this shall, at a minimum, include the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements.

The Co-Chief Executive Officers (“Co-CEOs”) of the Corporation and, to the extent the Chair of the Board is not otherwise a member of the Committee, the Chair, and all other directors who are not members of the Committee may be invited to attend all meetings of the Committee in an ex-officio capacity but shall not vote. The Co-CEOs shall not attend in-camera sessions.

Duties

The Committee shall have the following duties:

(a) Financial Reporting and Disclosure

1. **Audited Annual Financial Statements**: Review the audited financial statements, all related management discussion and analysis (“MD&A”), and earnings press releases for submission to the Board for approval.
2. **Quarterly Review**: Review the quarterly financial statements, the related MD&A, and earnings press releases for submission to the Board for approval.
3. **Significant Accounting Principles and Disclosure Issues**: Review with management and the external auditor, significant accounting principles and disclosure issues,

including complex or unusual transactions, highly judgmental areas such as reserves or estimates, significant changes to accounting principles, and alternative treatments under Canadian GAAP for material transactions. This shall be undertaken with a view to understanding their impact on the financial statements, and to gaining reasonable assurance that the statements are accurate, complete, do not contain any misrepresentations, and present fairly the Corporation's financial position and the results of its operations in accordance with Canadian GAAP.

4. Compliance: confirm through discussions with management that Canadian GAAP and all applicable laws or regulations related to financial reporting and disclosure have been complied with.
5. Legal Events: Review any actual or anticipated litigation or other events, including tax assessments, which could have a material current or future effect on the Corporation's financial statements, and the manner in which these have been disclosed in the financial statements.
6. Off-Balance-Sheet Transactions: Discuss with management the effect of any off-balance-sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Corporation's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues and expenses.
7. Other Disclosures: Satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information, other than the public disclosure of the information referred to in sections 1 and 2 above, and periodically assess the adequacy of those procedures.

(b) Oversight of Internal Controls

8. Review and Assessment: Review and assess the adequacy and effectiveness of the Corporation's system of internal control and management information systems through discussions with management and the external auditor.
9. Oversight: Oversee system of internal control, by
 - Monitoring and reviewing policies and procedures for internal accounting, financial control and management information;
 - Consulting with the external auditor regarding the adequacy of the Corporation's internal controls;
 - Reviewing with management its philosophy with respect to internal controls and, on a regular basis, all significant control-related findings together with management's response; and

- Obtaining from management adequate assurances that all statutory payments and withholdings have been made.
10. Fraud: Oversee investigations of alleged fraud and illegality relating to the Corporation's finances.
 11. Complaints: Review with management that appropriate procedures exist for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and for the protection from retaliation of those who report such complaints in good faith (the "Whistle Blowing Procedures").

(c) External Audit

12. Appointment or Replacement: Recommend the appointment or replacement of the external auditor to the Board, who will consider the recommendation prior to submitting the nomination to the shareholders for their approval.
13. Compensation: Review with management, and make recommendations to the Board, regarding the compensation of the external auditor. In making a recommendation with respect to compensation, the Committee shall consider the number and nature of reports issued by the external auditor, the quality of internal controls, the size, complexity and financial condition of the Corporation, and the extent of other support provided by the Corporation to the external auditor.
14. Reporting Relationships: The external auditor will report directly to the Committee.
15. Performance: Review with management, on a regular basis, the terms of the external auditor's engagement, accountability, experience, qualifications and performance. Evaluate the performance of the external auditor.
16. Transition: Review management's plans for an orderly transition to a new external auditor, if required.
17. Audit Plan: Review the audit plan and scope of the external audit with the external auditor and management, and consider whether the nature and scope of the planned audit procedures can be relied upon to detect weaknesses in internal controls, frauds or other illegal acts.
18. Audit Plan Changes: Discuss with the external auditor any significant changes required in the approach or scope of their audit plan, management's handling of any proposed adjustments identified by the external auditor, and any actions or inactions by management that limited or restricted the scope of their work.

19. Review of Results: Review, in the absence of management, the results of the annual external audit, the audit report thereon and the auditor's review of the related MD&A, and discuss with the external auditor the quality (not just the acceptability) of accounting principles used, any alternative treatments of financial information that have been discussed with management, the ramifications of their use and the auditor's preferred treatment, and any other material communications with management.
20. Disagreements with Management: Resolve any disagreements between management and the external auditor regarding financial reporting.
21. Material Written Communications: Review all other material written communications between the external auditor and management, including the post-audit management letter containing the recommendations of the external auditor, management's response and, subsequently, follow up identified weaknesses.
22. Other audit matters: Review any other matters related to the external audit that are to be communicated to the Committee under generally accepted auditing standards.
23. Meeting with External Auditor: Meet with the external auditor in the absence of management at least quarterly to discuss and review specific issues as appropriate as well as any significant matters that the auditor may wish to bring to the Committee for its consideration.
24. Correspondence: Review with management and the external auditor any correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Corporation's financial statements or accounting policies.
25. Independence: At least annually, and before the external auditor issues its report on the annual financial statements, review and confirm the independence of the external auditor through discussions with the auditor on their relationship with the Corporation, including details of all non-audit services provided. Consider the safeguards implemented by the external auditor to minimize any threats to their independence, and take action to eliminate all factors that might impair, or be perceived to impair, the independence of the external auditor. Consider the number of years the lead audit partner has been assigned to the Corporation, and consider whether it is appropriate to recommend to the Board a policy of rotating the lead audit partners more frequently than every five years, as is required under the rules of the Canadian Public Accountability Board.
26. Non-Audit/Audit Services: Pre-approve any material non-audit services to be provided to the Corporation by the external auditor, with reference to compatibility of the service with the external auditor's independence.

27. Hiring Policies: Review and approve the hiring policies regarding partners, employees and former partners and employees of the present and former external auditor.
28. Quality Control: Utilizing the Canadian Public Accountability Board (CPAB) Audit Quality Initiative tools, conduct formal assessments of the external audit firm and their external audit quality. On an annual basis conduct an assessment of the external audit and on a once every five year cycle conduct a comprehensive review of the external audit firm.

(d) Risk Management

29. Adequacy of Policies and Procedures: Review and assess the adequacy of the Corporation's risk management policies and procedures with regard to identification of the Corporation's principal risks annually. Review and assess the adequacy of the implementation of appropriate systems to mitigate and manage the risks, and report regularly to the Board.

(e) Retirement/Pension Plan

30. Oversight: Review and assess management's reports on retirement/pension plan oversight including:
 - (a) Review Management controls and processes with respect to the administration of investment activities, financial reporting and funding of the plan(s).
 - (b) Confirm the following appointments for the management of the plan(s), subject to exceptions where the appointment authority is assigned to another party as per plan documents:
 - Trustee
 - Investment Manager
 - (c) Review the actuarial assumptions used for the valuation, including the rate of return on investments and the discount rate used to arrive at the funding requirements.
 - (d) Review and approve the plan(s) investment objectives and guidelines annually and amend if necessary.
 - (e) Review the investment performance of the funds and the investment managers, and their compliance with the investment objectives and applicable legislation.

(f) Compliance

31. Filings with Regulatory Authorities: Review with management the Corporation's relationship with regulators, and the timeliness and accuracy of Corporation filings with regulatory authorities.
32. Code of Business Conduct and Ethics: Review the Corporation's Code of Business Conduct and Ethics and confirm that adequate and effective systems are in place to enforce compliance. Ensure the Code of Business Conduct and Ethics is disclosed in the Corporation's annual report or information circular at least every three years or following a material amendment. Alternatively, confirm with management that an up-to-date version of the Code of Business Conduct and Ethics is disclosed on the Corporation's website.

(g) Related Party Transactions

33. Related Party Transactions: Review with management all related party transactions and the development of policies and procedures related to those transactions.

(h) Board Relationship and Reporting

34. Adequacy of Charter: Review and assess the adequacy of the Committee Charter annually and submit such amendments as the Committee proposes to the Governance and Nominating Committee.
35. Disclosure: Oversee appropriate disclosure of the Committee's Charter, and other information required to be disclosed by applicable legislation, in the Corporation's Annual Information Form and all other applicable documents.
36. Reporting: Report regularly to the Board on Committee activities, issues and related recommendations.

(i) Internal Audit

37. Audit Charter: Approve the internal audit charter.
38. Oversight: Approve decisions regarding the appointment and removal of the internal auditor. Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the internal auditor.
39. Audit Plan: Approve the annual audit plan and all major changes to the plan. Review the internal audit activity's performance relative to its plan.
40. Performance: At least once per year, review the performance of the internal auditor.

41. Effectiveness: Review the effectiveness of the internal audit function, including conformance with The Institute of Internal Auditors' the Definition of Internal Auditing, Code of Ethics and the International Standards for Professional Practice of Internal Auditing.
42. Private Meeting: On a regular basis, meet separately with the internal auditor to discuss any matters that the committee or internal audit believes should be discussed privately.

Chair

The Board will in each year appoint the Chair of the Committee. The Chair shall have accounting or related financial expertise. In the Chair's absence, or if the position is vacant, the Committee may select another member as Chair. The Chair will have the right to exercise all powers of the Committee between meetings but will attempt to involve all other members as appropriate prior to the exercise of any powers and will, in any event, advise all other members of any decisions made or powers exercised.

Meetings

The Committee shall meet at the request of its Chair, but in any event it will meet at least four times a year. Notices calling meetings shall be sent to all Committee members, to the Co-CEOs and CFO of the Corporation, to the Chair of the Board and to all other directors.

Quorum

A majority of members of the Committee, present in person, by teleconferencing, or by videoconferencing will constitute a quorum.

Removal and Vacancy

A member may resign from the Committee, and may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as the member ceases to be a director. The Board will fill vacancies in the Committee by appointment from among the directors of the Board in accordance with Section 2 of this Charter. Subject to quorum requirements, if a vacancy exists on the Committee, the remaining members will exercise all its powers.

Experts and Advisors

The Committee may retain or appoint, at the Corporation's expense, such experts and advisors as it deems necessary to carry out its duties, and to set and pay their compensation. The Committee shall provide notice to the Governance Committee of its actions in this regard.

Secretary and Minutes

The Secretary of the Corporation, or such other person as may be appointed by the Chair of the Committee, will act as Secretary of the Committee. The Minutes of the Committee will be in writing and duly entered into the books of the Corporation. The minutes of the Committee will be circulated to all members of the Board, with a copy to the Co-CEOs.