POLLARD banknote limited

ANNUAL REPORT 2017

CONTENTS

LETTER TO SHAREHOLDERS

Enclosed please find our 2017 Annual Report. 2017 was a record year for Pollard, with net income increasing almost 37% compared to 2016, and we are very proud of our accomplishments. In addition to achieving a number of important goals, we continue to lay the foundation for continued success in future years and are very excited about our prospects for 2018.

Our clear focus on the lottery and charitable gaming market has allowed us to excel in serving customers throughout the world, across a broad platform of products and services. Our instant ticket sales grew significantly during 2017, driven by unparalleled demand for our proprietary specialty products such as Scratch FX® and PlayBook®. Coupled with increased sales of ancillary products such as digital and loyalty products, our total revenue exceeded $285 million in 2017, up 16% over the prior year.

Our Tresu press in our Ypsilanti facility completed its second full year of operation and is meeting our high expectations for productivity and cost efficiency. The quality of instant tickets produced on this press is unmatched and the increased capacity it provided was a critical factor in achieving our 2017 results.

Our acquisition strategy was successful during this past year with the completion of our acquisition of INNOVA Gaming Group Inc. ("INNOVA") in August and, subsequent to year end, the acquisition of International Gamco, Inc. ("Gamco"). These acquisitions are important additions to our long term strategic growth plans and focus on providing the depth of product and services required for our customers, while generating appropriate financial returns for our shareholders.

Sales

2017 revenue reached a new record at over $285 million, an increase of $39 million or 16%. Significantly higher sales volumes of instant tickets generated $17.3 million in increased revenue, with a greater mix of high value, specialty products boosting our average selling price, increasing revenue by $8.0 million compared to 2016. Ancillary sales such as digital products and licensed games spawned incremental revenue of $6.6 million. And, of course, the inclusion of sales from our acquisition of INNOVA and its Diamond Game business added $10.3 million to our sales since joining Pollard at the beginning of August. The Canadian dollar on average increased in value relative to the U.S. dollar, reducing our revenue by $3.5 million when compared to the previous year.

We received key contract renewals in 2017 including those with Ontario and France and our existing contract portfolio provides significant visibility for our future revenue. It was within our existing contract base that we saw increased sales volume as a key factor supporting our higher revenue.

We continue to expand our ancillary products to help lotteries grow their revenue generating opportunities. Loyalty clubs, digital offerings, licensed products and our exclusive lottery management services are examples of areas that provide a wide range of services to complement core instant ticket sales. While still small in absolute terms, these services help lotteries earn additional revenue by expanding the gaming experience, while at the same time capturing important information about their retail customers.

2017 witnessed continued strong demand for our licensed games portfolio, particularly in regard to such classic games as Frogger, PacMan™ and Tetris®. Licensed games generated stronger revenue growth in 2017 by offering important alternatives for lotteries.

Our iLottery operations continued to produce higher results, as our Michigan operation grew strongly again and continues to set the standard in the nation, while at the same time the sale of physical instant tickets at retail stores in Michigan grows at industry leading levels. Consumers are increasing their comfort with purchasing lottery products over the internet, expanding the player base and providing the lottery with key consumer purchasing data. During 2017 we witnessed increased interest and activity from various lottery jurisdictions, particularly in the United States, towards establishing iLottery sites, and we are hopeful this will lead to increased opportunities to expand our iLottery business in 2018.

Charitable games revenue was up slightly in 2017 compared to 2016, reflecting improved mix of slightly higher priced products and a higher volume of vending machine sales. The market for charitable gaming products overall remained fairly steady in 2017 and we have seen some positive trends of higher sales in certain key jurisdictions.

Our newly acquired Diamond Game operation produced steady revenue consistent with the underlying economic model of revenue share and leased gaming machines. The sales cycle of placing additional machines and expanding to new jurisdictions is a long process and we continue to diligently educate the key decision leaders throughout the lottery world as to the advantages of this unique product. The nature of the product and the related contracts generate strong cash flows, allowing an important source of capital to fund expansions when additional machine placements are achieved.

Operations

Our gross margin increased by $16.5 million, or 17.5%, due to a number of factors, including significantly higher revenue driven by higher volumes, higher average selling price and lower operating costs primarily due to improved operating efficiencies of the Tresu press. The inclusion of Diamond Game operating results since August 2017 also provided incremental margin of $6.8 million. As a percentage, our gross margin attained 23%, the highest margin percentage ever attained while Pollard was a public company.

Administration expenses increased $7.7 million primarily due to higher acquisition and transaction costs relating to the purchase of INNOVA of $2.7 million and the inclusion of Diamond Game, which added $3.3 million. Higher compensation expenses relating to the investment made in new product development and ancillary product growth also increased the overall expense. Selling expenses increased $1.4 million over 2016 primarily due to the inclusion of the Diamond Game operations.

Our business model generates significant amounts of free cash flow. During 2017 cash flow from operations before investments in capital expenditures and working capital was $31.2 million. These funds were used to increase our working capital by $2.9 million, invest in $7.0 million in property, plant and equipment, pay dividends of $2.8 million and provide a significant portion of the purchase price of INNOVA Gaming Group Inc. The organic cash generation of our business is a key strength of Pollard and one that will provide us capital to grow.

Acquisitions

During the last few years we have been actively focused on acquisitions as a key complement to our organic growth strategy. 2017 saw the benefit of this investment in time and resources with the completion of the acquisition of INNOVA and its Diamond Game operating business. Shortly after the end of the year we completed the purchase of Gamco.

Diamond Game offers a unique product line of gaming machines that generates proceeds for charities across North America. We believe there are opportunities to slowly expand the penetration of this product among existing customers in addition to opening new jurisdictions in the future. Our integration of Diamond Game has proceeded well since our purchase in the fall of 2017, with the elimination of its former public company related costs providing a base for good returns in 2018.

Gamco`s focus on pull tab ticket production for the charitable gaming market is an important complement to our existing charitable game operation, American Games, with the combination of these two businesses establishing a formidable industry supplier. While still early in the process, we are encouraged by the opportunities for long term efficiencies on the underlying cost platform as well as additional incremental revenue possibilities.

We will continue to actively search for additional opportunities to acquire strategic and financially accretive businesses that can further our goal of being the partner of choice for lotteries around the world. We will be very disciplined in our approach to future acquisitions.

Subsequent to year end we completed a very successful common share offering raising approximately $36 million before costs. This was our first return to the equity capital markets since our initial public offering more than 10 years ago and illustrates our commitment to a conservative, effective capital structure to support our growth.

Outlook for 2018

We anticipate 2018 will be another strong year for Pollard Banknote, building on the success achieved in 2017. The lottery industry remains very healthy, with continued growth expected in the instant ticket and ancillary areas. The investments we have made are paying dividends, with higher sales in our core products, expanded sales in ancillary products as well as increased recognition by lotteries that Pollard Banknote is the thought leader in the lottery world.

Innovation is a key focal point for our team and an important driver of our successful results in 2017. We continue to invest resources to introduce additional innovation into our markets, and we believe this commitment will continue to assist us in remaining a leader in the industry.

Our success was also due to the improved operations of our Tresu press based in Ypsilanti, allowing increased production volume on a cost-efficient basis. Indeed, our strong growth in 2017 has led to the decision to re-commission our original press line alongside our Tresu to provide additional capacity and help improve scheduling flexibility. We expect that line to be back up and running in the 2nd quarter.

These key initiatives should result in strong cash flow during 2018, providing options in funding growth investments, acquisitions and debt repayment.

2017 was an exceptionally successful year and we are grateful for all the people that helped realize our accomplishments: our Pollard team now numbers close to 1,600 dedicated employees who work tirelessly to achieve our goals; our customers in the lottery and charitable gaming world who grace us with their trust in helping them generate funds to support great causes; our suppliers who are continually challenged to help us create innovative products; our board of directors who support and encourage us and last, but not least, our shareholders who provide the foundation for all our success and motivate us to ensure Pollard is the partner of choice in the lottery industry for many years to come. We thank you for your support and look forward to a successful 2018.

Douglas Pollard
Co-Chief Executive Officer

John Pollard
Co-Chief Executive Officer

DIRECTORS OF POLLARD BANKNOTE LIMITED

Gordon Pollard

Executive Chair

Gordon Pollard 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.

Dave Brown

Dave Brown is President and CEO 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. He also serves on the Board of Directors of GMP Capital, Inc. and Richardson Financial Group, and on the Board of Trustees of The Boyd Group Income Fund. He graduated from the University of Manitoba law school, and is a Chartered Professional Accountant and member of the Manitoba Bar.

Jerry Gray

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. He is a Past Chair of the Winnipeg Regional Health Authority and is a director and Chairman of the Board of Gendis, Inc. 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

Garry Leach is the Chief Executive Officer of Mandak Capital Limited (an investment corporation). From 1988 to 2004, Mr. Leach was President and Chief Executive Officer of Gerdau MRM Steel (Manitoba Rolling Mills) and its predecessors. Mr. Leach has previously served on the Board of Directors for Gerdau Ameristeel, 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

Douglas Pollard is Co-Chief Executive Officer of Pollard Banknote. He 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.

John Pollard

John Pollard is Co-Chief Executive Officer of Pollard Banknote. He joined Pollard Banknote in 1986 as Vice President, Finance and 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.

POLLARD
banknote limited

December 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

March 12, 2018

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the year ended December 31, 2017, is prepared as at March 12, 2018, and should be read in conjunction with the accompanying audited financial statements of Pollard and the notes therein as at December 31, 2017. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("GAAP" or "IFRS").

Forward-Looking Statements

Certain statements in this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this document, such statements include such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

Use of Non-GAAP Financial Measures

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

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

Basis of Presentation

The results of operations in the following discussions encompass the consolidated results of Pollard for the year ended December 31, 2017. All figures are in millions except for per share amounts.

POLLARD BANKNOTE LIMITED

Overview

Pollard Banknote Limited ("Pollard") is one of the leading providers of products and services to lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant-win scratch tickets ("instant tickets") based in Canada and the second largest producer of instant tickets in the world. With the acquisition of International Gamco Inc. ("Gamco"), on February 1, 2018, management believes Pollard has also become the second largest supplier to the charitable gaming industry in North America.

During the quarter ending September 30, 2017, Pollard acquired 100% of the common shares of INNOVA Gaming Group Inc. ("INNOVA", "Diamond Game").

Pollard produces and provides a comprehensive line of instant tickets and lottery services including: licensed products, distribution, SureTrack® lottery management system, retail telephone selling ("tel-sell"), marketing, iLottery, interactive gaming, Social Instants™, retail management services and vending machines including charitable game systems and tickets marketed under the Diamond Game trade name. In addition, Pollard's charitable gaming product line includes pull-tab (or break-open) tickets, bingo paper, pull-tab vending machines and ancillary products such as pull-tab counting machines. Pollard also markets products to the commercial gaming and security sector including such items as promotional scratch and win tickets, transit tickets and parking passes.

Pollard's lottery products are sold extensively throughout Canada, the United States and the rest of the world, wherever applicable laws and regulations authorize their use. Pollard serves over 60 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Year ended December 31, 2017	Year ended December 31, 2016
Instant Tickets	86.7%	88.8%
Charitable Gaming Products	9.7%	11.2%
Diamond Game Products (1)	3.6%	-

(1) Diamond Game (INNOVA) was acquired on August 3, 2017.

Geographic breakdown of revenue

	Year ended December 31, 2017	Year ended December 31, 2016
United States	56%	54%
Canada	22%	20%
International	22%	26%

Acquisition of INNOVA Gaming Group Inc.

INNOVA, through its wholly owned subsidiary Diamond Game, designs, develops, produces, markets, and services games, systems and tickets for the North American gaming industry, predominantly in the business to government ("B2G") lottery and charitable gaming sector. INNOVA's strategy is to enhance revenues of government-sponsored lotteries and other regulated operators by offering its unique "extended-play" products in traditional venues and non-traditional venues. INNOVA is licensed or permitted to sell or lease its gaming machines, ticket dispensers or other alternative gaming products ("AGP") in 11 U.S. states, Ontario and Québec.

INNOVA's primary product is the third generation Lucky Tab machine ("LT-3"), an "extended play" instant ticket vending machine ("ITVM") that dispenses tickets while simultaneously displaying the results of each ticket on a video monitor in an entertaining fashion. INNOVA also develops AGP machines, such as Class II bingo, skill games and tribal donation games. Its high quality gaming products, systems and services typically generate recurring revenue, either through revenue sharing agreements or fixed-fee leases. INNOVA also sells products and services, which include tickets for the machines, servers, software licenses, technical support, parts, game conversion kits and hardware upgrade kits.

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 gross consideration of $50.2 million. After consideration of the $10.9 million of cash acquired, the net purchase price was $39.3 million. The net purchase price was funded by proceeds from Pollard's credit facility and additional subordinated debt.

During the period from August 3, 2017 and December 31, 2017, INNOVA generated revenues of approximately $10.3 million and had a net loss of $1.2 million, which have been recorded in the consolidated financial statements. Included in INNOVA's net loss was $1.7 million of severance costs related to the departure of two former executives. If INNOVA had been acquired on January 1, 2017, incremental revenue of $16.9 million, net loss of $4.1 million (which includes $4.6 million of Innova's transaction costs relating to the sale of the company) and Adjusted EBITDA of $4.7 million would have been included in the year ended December 31, 2017. For the entire year ended December 31, 2017, INNOVA's total revenue was $27.2 million and total Adjusted EBITDA was $8.7 million.

Recent developments:

International Gamco, Inc.

On February 1, 2018, Pollard Holdings, Inc., a wholly-owned subsidiary of Pollard, acquired 100% of the common shares of International Gamco, Inc., a manufacturer of charitable gaming products, for a total consideration of $21.6 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.

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.

The following financial information should be read in conjunction with the accompanying financial statements of Pollard and the notes therein as at and for the year ended December 31, 2017.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Sales	**$285.6**	$246.4	$221.0
Cost of sales	**219.9**	197.2	176.7
Gross profit	**65.7**	49.2	44.3
Gross profit as a % of sales	***23.0%***	*20.0%*	*20.0%*
Administration expenses	**28.6**	20.9	19.2
Expenses as a % of sales	***10.0%***	*8.5%*	*8.7%*
Selling expenses	**9.4**	8.0	7.4
Expenses as a % of sales	***3.3%***	*3.2%*	*3.3%*
Net income	**16.8**	12.3	7.5
Net income as a % of sales	***5.9%***	*5.0%*	*3.4%*
Adjusted EBITDA	**44.0**	29.7	26.8
Adjusted EBITDA as a % of sales	***15.4%***	*12.1%*	*12.1%*
Earnings per share (basic)	**$0.71**	$0.52	$0.32
Earnings per share (diluted)	**$0.71**	$0.52	$0.32

	December 31, 2017	December 31, 2016	December 31, 2015
Total Assets	**$228.3**	$176.8	$164.1
Total Non-Current Liabilities	**$124.8**	$94.4	$96.3

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

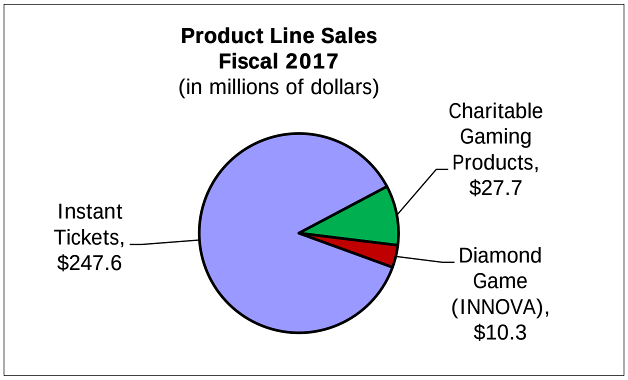
	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Net income	**$16.8**	$12.3	$7.5
Adjustments:			
Amortization and depreciation	**13.1**	10.6	8.1
Interest	**3.9**	3.6	3.2
Unrealized foreign exchange (gain) loss	**(1.4)**	(1.6)	3.8
Acquisition costs	**2.7**	-	-
Severance costs	**1.7**	-	-
Mark-to-market gain on foreign currency contracts	**-**	-	(0.5)
Income taxes	**7.2**	4.8	4.7
Adjusted EBITDA	**$44.0**	$29.7	$26.8
Pollard Banknote Limited	**$40.0**	$29.7	$26.8
Diamond Game (INNOVA)	**4.0**	-	-
Total Adjusted EBITDA	**$44.0**	$29.7	$26.8

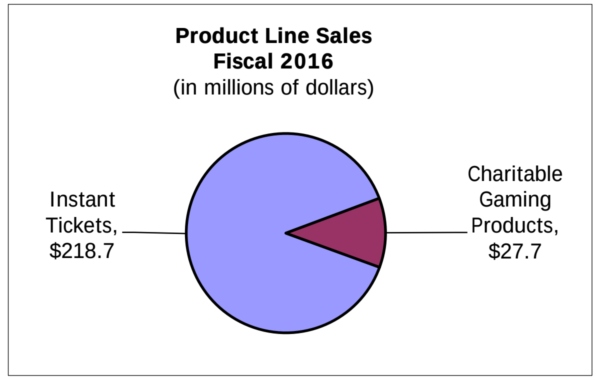
REVIEW OF OPERATIONS

Financial and operating information has been derived from, and should be read in conjunction with, the consolidated financial statements of Pollard and the selected financial information disclosed in this MD&A.

ANALYSIS OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2017

Sales

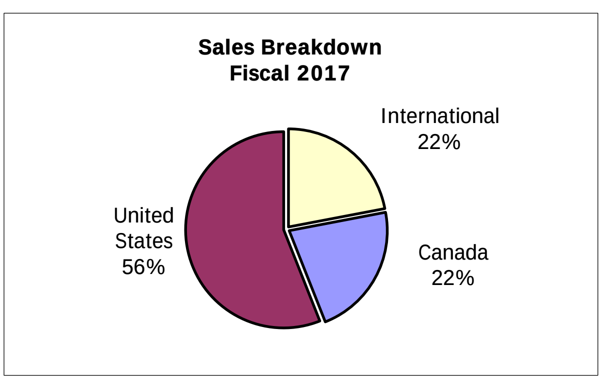


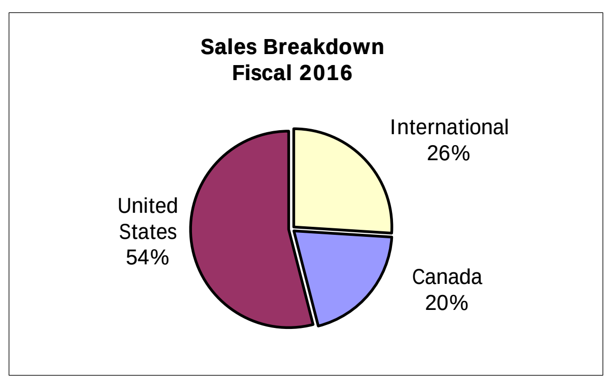


During the year ended December 31, 2017 ("Fiscal 2017" or "2017"), Pollard achieved sales of $285.6 million, compared to $246.4 million in the year ended December 31, 2016 ("Fiscal 2016" or "2016"). Factors impacting the $39.2 million sales increase were:

Higher instant ticket sales volumes increased sales by $17.3 million in Fiscal 2017 compared to Fiscal 2016 due to higher volumes from existing customers. Additionally, higher instant ticket average selling price increased sales by $8.0 million when compared to 2016. This increase was a result of the higher proportion of instant tickets sales coming from Pollard's proprietary products such as Scratch FX® and Playbook®.

Higher sales of our ancillary instant ticket products and services increased sales by $6.6 million from 2016. The increase in these sales was due primarily to higher sales of licensed products, greater revenues from iLottery and added sales from our loyalty solution. As well, the addition of Diamond Game (INNOVA) added $10.3 million in sales. An increase in the average selling price for charitable games increased sales by $0.8 million from 2016, while a decrease in charitable gaming volumes reduced sales by $0.3 million from 2016.





During Fiscal 2017, Pollard generated approximately 69.4% (2016 – 68.8%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2017 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.304 compared to an average rate of $1.328 during Fiscal 2016. This 1.8% decrease in the U.S. dollar value resulted in an approximate decrease of $3.5 million in revenue relative to Fiscal 2016.

Cost of sales and gross profit

Cost of sales was $219.9 million in Fiscal 2017 compared to $197.2 million in Fiscal 2016. Cost of sales was higher in Fiscal 2017 relative to Fiscal 2016 as a result of an increase in instant ticket volumes and increased ancillary lottery products and services sales, partially offset by lower exchange rates on U.S. dollar transactions in 2017. A portion of the increase also related to the inclusion of Diamond Game (INNOVA) financial results which amounted to $6.8 million, including $0.8 million of additional amortization related to intangible assets recognized on the acquisition.

Gross profit was $65.7 million (23.0% of sales) in Fiscal 2017 compared to $49.2 million (20.0% of sales) in Fiscal 2016. This increase in gross profit was primarily the result of the increase in instant ticket volumes, higher instant ticket average selling price, higher ancillary instant ticket products and services sales and the addition of Diamond Game (INNOVA). The higher gross profit percentage was due to the larger volumes of instant tickets, the instant ticket sales mix weighted to higher margin products, increased sales of ancillary instant ticket products and services, including higher iLottery sales, and improved manufacturing efficiencies. Pollard produced a record level of instant tickets in 2017, exceeding 2016 volumes by over 13%, thereby reducing our cost per unit by spreading its fixed manufacturing overhead over the greater volume.

Administration expenses

Administration expenses increased to $28.6 million in Fiscal 2017 from $20.9 million in Fiscal 2016. The increase was partly a result of the inclusion of Diamond Game (INNOVA) of $3.3 million (which includes $1.7 million in severance costs related to the departure of two former executives). Additional reasons for the increase were the $2.7 million in acquisition costs incurred in Fiscal 2017 and an increase in compensation expenses (which primarily related to expansion of our ancillary lottery product and services sales and acquisition efforts) including incentive accruals compared to 2016. These increases were partially offset by lower professional fees, primarily legal costs, which were lower by $0.7 million in 2017 compared to 2016.

Selling expenses

Selling expenses increased to $9.4 million in Fiscal 2017 from $8.0 million in Fiscal 2016 due to higher compensation costs and $1.0 million from the addition of Diamond Game (INNOVA).

Other expenses

Other expenses in Fiscal 2017 increased to $0.7 million, primarily due to the increase in the loss on equity investment, compared to $nil in 2016.

Interest expense

Interest expense, including deferred financing amortization, increased to $3.9 million in Fiscal 2017 from $3.6 million in Fiscal 2016 primarily as a result of the additional interest expense related to long term and subordinated debt incurred with the acquisition of Diamond Game (INNOVA). The increase was partially offset by lower interest rates and higher cash flow reducing long-term debt in 2017 prior to the acquisition.

Foreign exchange gain

The net foreign exchange gain was $0.9 million in Fiscal 2017 compared to a net gain of $0.4 million in Fiscal 2016. The 2017 net foreign exchange gain consisted of a $1.4 million unrealized gain primarily a result of the decreased Canadian equivalent value of U.S. denominated accounts payable and long-term debt with the strengthening of the Canadian dollar relative to the U.S. dollar. This gain was partially offset by the realized foreign exchange loss of $0.5 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2016 net foreign exchange gain consisted of a $1.6 million unrealized gain primarily a result of the decreased Canadian equivalent value of U.S. denominated accounts payable and long-term debt with the strengthening of the Canadian dollar relative to the U.S. dollar. This gain was partially offset by the realized foreign exchange loss of $1.2 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

Amortization and depreciation

Amortization and depreciation, including depreciation of property and equipment and the amortization of intangible assets, totaled $13.1 million during Fiscal 2017 which increased from $10.6 million during Fiscal 2016. The increase was primarily as a result of the inclusion of Diamond Game (INNOVA), with $1.6 million of amortization and depreciation and $0.8 million of additional amortization related to intangible assets recognized upon the acquisition.

Adjusted EBITDA

Adjusted EBITDA was $44.0 million in Fiscal 2017 compared to $29.7 million in Fiscal 2016. The primary reasons for the increase in Adjusted EBITDA of $14.3 million were the increase in gross profit of $19.0 million (net of amortization and depreciation) and a decrease in realized foreign exchange loss of $0.7 million. These increases were partially offset by higher administration expenses (net of acquisition and severance costs) of $3.3 million, an increase in selling expenses of $1.4 million and an increase other expenses of $0.7 million.

Income taxes

Income tax expense was $7.2 million in Fiscal 2017, an effective rate of 30.0%, which was higher than our expected effective rate of 27.0% due primarily to adjustments relating to the acquisition of INNOVA, the effect of higher tax rates in the United States in 2017 and non-deductible amounts primarily relating to expenses incurred in the acquisition of INNOVA. Partially offsetting these increases was the reduction in the future federal income tax rates in the United States.

Income tax expense was $4.8 million in Fiscal 2016, an effective rate of 28.1%, which was similar to our expected effective rate of 27.0%.

Net income

Net income was $16.8 million in Fiscal 2017 compared to net income of $12.3 million in Fiscal 2016. The primary reasons for the increase in net income were the increase in gross profit of $16.5 million and the increase in net foreign exchange gain of $0.5 million. Partially offsetting these increases in net income were the increase in administration expenses of $7.7 million, which includes $2.9 million in acquisition costs and $1.7 million in severance costs. Also reducing net income were the increase in selling expenses of $1.4 million, the increase in other expenses of $0.7 million, the increase in interest expense of $0.3 million and the increase in income taxes of $2.4 million.

Earnings per share (basic and diluted) increased to $0.71 per share in Fiscal 2017 from $0.52 per share in Fiscal 2016.

Liquidity and Capital Resources

Cash provided by operating activities

For the year ended December 31, 2017, cash flow provided by operating activities was $28.4 million compared to $11.7 million in Fiscal 2016. Higher net income before income taxes after non-cash adjustments in Fiscal 2017 contributed to an increase in cash provided by operating activities compared to Fiscal 2016. Changes in the non-cash component of working capital decreased cash flow from operations by $2.9 million for Fiscal 2017 (due primarily to increases in inventory and prepaid expenses and deposits, partially offset by an increase in accounts payable and accrued liabilities), compared to a decrease of $16.9 million for Fiscal 2016 (due primarily to increases in accounts receivable and inventory, partially offset by an increase in accounts payable and accrued liabilities).

Cash used for interest payments increased to $3.7 million in 2017 as compared to $3.3 million in 2016. As well, cash used for pension plan contributions increased to $5.3 million in 2017 as compared to $3.1 million in 2016, primarily because of the initiation of special solvency payments of $1.1 million in 2017. Cash used for income taxes paid was $6.1 million in 2017 compared to $0.7 million of income taxes recovered in 2016. Income taxes paid in 2017 included the final payment for 2016 taxes owing and the required installments for 2017, while the income taxes recovered in 2016 were as a result of tax loss carrybacks generated from accelerated depreciation on U.S. based equipment.

Cash used for investing activities

In the year ended December 31, 2017, cash used for investing activities was $51.2 million compared to $6.4 million in the year ended December 31, 2016. In Fiscal 2017, Pollard used $39.3 million, net of cash acquired, to purchase Diamond Game (INNOVA). In addition, Pollard invested $6.9 million in capital expenditures, $2.2 million in its iLottery joint venture and $2.2 million on additions to intangible assets.

In Fiscal 2016, capital expenditures were $5.0 million. Pollard expended $0.8 million on its investment in its iLottery joint venture and $1.1 million on additions to intangible assets. Proceeds from the sale of Pollard's investment in associate provided cash of $0.5 million.

Cash provided by financing activities

Cash provided by financing activities was $21.3 million in the year ended December 31, 2017, compared to cash used for financing activities of $5.4 million in the year ended December 31, 2016.

During Fiscal 2017, Pollard received net proceeds from long-term debt of $13.5 million and $10.6 million from subordinated debt, primarily to partially fund the acquisition of INNOVA. These receipts of cash were partially offset by $0.3 million of financing costs and dividends paid of $2.8 million.

During Fiscal 2016, cash was used to repay $1.8 million of long-term debt, $0.7 million of subordinated debt, $0.2 million of financing costs and dividends paid of $2.8 million.

As at December 31, 2017, Pollard had unused committed credit facility of $34.2 million, in addition to $5.6 million in available cash resources. These amounts, in addition to cash flow provided by operating activities, are available to be used for future working capital requirements, contractual obligations, capital expenditures, dividends and to assist in financing future acquisitions.

ANALYSIS OF RESULTS FOR THE PERIOD OCTOBER 1, 2017 TO DECEMBER 31, 2017 FOURTH QUARTER OF 2017

SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Three months ended December 31, 2017	Three months ended December 31, 2016
	(unaudited)	(unaudited)
Sales	$79.6	$65.7
Cost of sales	62.1	51.5
Gross profit	17.5	14.2
Administration	7.5	4.9
Selling	2.6	2.2
Other expenses	-	0.3
Income from operations	7.4	6.8
Finance costs	1.3	1.2
Income before income taxes	6.1	5.6
Income taxes:		
Current	1.5	1.2
Future	0.3	0.6
	1.8	1.8
Net income	$4.3	$3.8
Adjustments:		
Amortization and depreciation	4.5	2.2
Interest	1.3	0.9
Unrealized foreign exchange loss	0.5	0.4
Acquisition costs	0.3	-
Severance costs	0.3	-
Income taxes	1.8	1.8
Adjusted EBITDA	$13.0	$9.1
Pollard Banknote Limited	$10.1	$9.1
Diamond Game (INNOVA)	2.9	-
Adjusted EBITDA	$13.0	$9.1

Sales

During the three months ended December 31, 2017, Pollard achieved sales of $79.6 million, compared to $65.7 million in the three months ended December 31, 2016. Factors impacting the $13.9 million sales increase were:

Instant ticket sales volumes for the fourth quarter of 2017 were higher than the fourth quarter of 2016 by 19.8%, which increased sales by $10.6 million, due to higher volumes from existing customers. In addition, an increase in our ancillary instant ticket products and services volumes, primarily sales from iLottery and licensed products, increased revenue by $1.6 million. As well, the addition of Diamond Game (INNOVA) added $6.4 million in sales. Higher average price of charitable game sales added $0.3 million in revenue compared to the fourth quarter of 2016. Partially offsetting these increases in sales was a slight decrease in average selling price of instant tickets compared to 2016 which reduced sales by $1.6 million and a decrease in the volume of charitable game sales which further decreased sales by $1.2 million.

During the three months ended December 31, 2017, Pollard generated approximately 67.1% (2016 – 68.2%) of its revenue in U.S. dollars including a portion of international sales which were priced in U.S. dollars. During the fourth quarter of 2017 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.266, compared to an average rate of $1.332 during the fourth quarter of 2016. This 5.0% decrease in the value of the U.S. dollar resulted in an approximate decrease of $2.3 million in revenue relative to 2016. Also during the fourth quarter of 2017, the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.1 million in revenue relative to 2016.

Cost of sales and gross profit

Cost of sales was $62.1 million in the fourth quarter of 2017 compared to $51.5 million in the fourth quarter of 2016. Cost of sales was higher in the quarter relative to the fourth quarter of 2016 as a result of an increase in instant ticket volumes and higher ancillary instant ticket products and services volumes, partially offset by lower exchange rates on U.S. dollar transactions in the fourth quarter of 2017. A portion of the increase also related to the inclusion of Diamond Game (INNOVA) financial results which amounted to $4.2 million, including $0.6 million of additional amortization related to intangible assets recognized on the acquisition.

Gross profit was $17.5 million (22.0% of sales) in the fourth quarter of 2017 compared to $14.2 million (21.6% of sales) in the fourth quarter of 2016. This increase in gross profit was primarily the result of the increase in instant ticket volumes, higher ancillary instant ticket products and services sales and the addition of Diamond Game (INNOVA). The higher gross profit percentage was due to the larger volumes of instant tickets, increased sales of ancillary instant ticket products and services, including higher iLottery sales, and improved manufacturing efficiencies. Pollard produced over 17% more tickets in the fourth quarter of 2017 as compared to the comparable quarter of 2016, thereby reducing our cost per unit by spreading its fixed manufacturing overhead over the greater volume.

Administration expenses

Administration expenses were $7.5 million in the fourth quarter of 2017 which was higher compared to $4.9 million in the fourth quarter of 2016. The increase was partly a result of the inclusion of Diamond Game (INNOVA) of $1.2 million (which includes $0.3 million in severance costs related to the departure of a former executive). Additional reasons for the increase were $0.3 million in acquisition costs in the fourth quarter of 2017 and an increase in compensation expenses (which primarily related to expansion of our ancillary lottery product and services sales and acquisition efforts) including incentive accruals compared to 2016. In addition, 2016 administration expenses included a credit for a recovery of legal fees.

Selling expenses

Selling expenses increased to $2.6 million in the fourth quarter of 2017 from $2.2 million in the fourth quarter of 2016 primarily as a result of the $0.6 million in expenses resulting from the addition of Diamond Game (INNOVA), partially offset by a decrease in contract support costs.

Interest expense

Interest expense, including deferred financing amortization, increased to $1.3 million in the fourth quarter of 2017 compared to $0.9 million in the fourth quarter of 2016 primarily as a result of the additional interest expense related to long term and subordinated debt incurred with the purchase of Diamond Game (INNOVA).

Foreign exchange loss

The net foreign exchange loss was $nil in the fourth quarter of 2017 compared to a net loss of $0.3 million in the fourth quarter of 2016. The 2017 net foreign exchange loss consisted of a $0.5 million unrealized loss which was primarily a result of the decreased Canadian equivalent value of U.S. denominated accounts receivables with the weakening of the Canadian dollar relative to the U.S. dollar. This loss was fully offset by the realized foreign exchange gain of $0.5 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchanges rates.

The 2016 net foreign exchange loss consisted of a $0.4 million unrealized loss which was primarily a result of the increased Canadian equivalent value of U.S. denominated debt with the weakening of the Canadian dollar relative to the U.S. dollar. This loss was partially offset by the realized foreign exchange gain of $0.1 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchange rates.

Amortization and depreciation

Amortization and depreciation, including depreciation of property, plant and equipment and the amortization of intangible assets, increase to $4.5 million during the fourth quarter of 2017 as compared to $2.2 million during the fourth quarter of 2016. The increase was primarily as a result of the inclusion of Diamond Game (INNOVA), with $1.0 million of amortization and depreciation and $0.6 million of additional amortization related to intangible assets recognized upon the acquisition.

Adjusted EBITDA

Adjusted EBITDA was $13.0 million in the fourth quarter of 2017 compared to $9.1 million in the fourth quarter of 2016. The primary reasons for the increase in Adjusted EBITDA were the increase in gross profit (net of amortization and depreciation) of $5.6 million, the decrease in other expenses of $0.3 million and an increase in realized foreign exchange gain of $0.4 million. Partially offsetting the increases were higher administration expenses (net of severance and acquisition costs) of $2.0 million and an increase in selling expenses of $0.4 million.

Income taxes

Income tax expense was $1.8 million in the fourth quarter of 2017, an effective rate of 28.8% which was higher than our expected effective rate of 27.0% due primarily to adjustments relating to the acquisition of INNOVA, the effect of higher tax rates in the United States in 2017, the effect of foreign exchange and non-deductible amounts primarily relating to expenses incurred in the acquisition of INNOVA. Partially offsetting these increases was the reduction in the future federal income tax rates in the United States.

Income tax expense was $1.8 million in the fourth quarter of 2016, an effective rate of 32.5% which was higher than our expected effective rate of 27.0% due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The significant weakening of the Canadian dollar versus the U.S. dollar in the fourth quarter results in a future gain on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax expense with no related income (as the gain is eliminated on consolidation). This increased the consolidated provision percentage by about 8%. Other permanent differences relating to the foreign exchange translation of property, plant and equipment decreased the provision by approximately 4%.

Net income

Net income was $4.3 million in the fourth quarter of 2017 compared to $3.8 million in the fourth quarter of 2016. The primary reasons for the increase in net income were the higher gross profit of $3.3 million, a reduction in other expenses of $0.3 million and the decrease in net foreign exchange loss of $0.3 million. Partially offsetting these increases were the increase in administration expenses of $2.6 million which included $0.3 million in acquisition costs and $0.3 million in severance costs. Also reducing net income were the increase in selling expenses of $0.4 million and higher interest expense of $0.4 million.

Earnings per share (basic and diluted) increased to $0.18 per share in the fourth quarter of 2017 from $0.16 per share in the fourth quarter of 2016.

Quarterly Information

(unaudited)
(millions of dollars)

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Sales	$79.6	$70.6	$77.9	$57.5	$65.7	$62.7	$54.0	$64.0
Adjusted EBITDA	13.0	11.6	13.1	6.3	9.1	7.8	6.0	6.8
Net income	4.3	4.7	6.0	1.8	3.8	2.8	2.1	3.6

Q4 2017 sales and Adjusted EBITDA were high relative to previous quarters primarily as a result of higher instant ticket volumes and the addition of Diamond Game (INNOVA).

Q3 2017 Adjusted EBITDA was higher relative to quarters prior to Q2 2017 due to increased gross profit (net of amortization and depreciation) as a result of the higher average selling price of instant tickets and increased sales of ancillary lottery products and services. The addition of Diamond Game (INNOVA) also contributed to the increase in Adjusted EBITDA.

Q2 2017 sales, Adjusted EBITDA and net income were higher due to a number of positive factors including sales volumes boosted by the significant amount of product in transit at the end of Q1 2017.

Working Capital

Net non-cash working capital varies throughout the year based on the timing of individual sales transactions and other investments. The nature of the lottery industry is few individual customers who generally order large dollar value transactions. As such, the change in timing of a few individual orders can impact significantly the amount required to be invested in inventory or receivables at a particular period end. The high value, low volume of transactions results in some significant volatility in non-cash working capital, particularly during a period of rising volumes. Similarly, the timing of the completion of the sales cycle through collection can significantly impact non-cash working capital.

Instant tickets are produced specifically for individual clients resulting in a limited investment in finished goods inventory. Customers are predominantly government agencies, which result in regular payments. There are a limited number of individual customers, and therefore net investment in working capital is managed on an individual customer by customer basis, without the need for company wide benchmarks.

The overall impact of seasonality does not have a material impact on the carrying amounts in working capital.

As at December 31, 2017, Pollard's investment in non-cash working capital increased $2.9 million compared to December 31, 2016, primarily as a result of increased investments in inventories and prepaid expenses, which were partially offset by an increase in accounts payable and accrued liabilities.

	December 31, 2017	December 31, 2016
Working Capital	$44.6	$49.5
Total Assets	$228.3	$176.8
Total Non-Current Liabilities	$124.8	$94.4

Credit Facility

Pollard's credit facility was renewed effective June 22, 2017. The credit facility provides loans of up to $105.0 million for its Canadian operations and US$12.0 million for its U.S. subsidiaries. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $105.0 million Canadian equivalent. The credit facility also includes an accordion feature which can increase the facility by $15.0 million. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At December 31, 2017, the outstanding letters of guarantee were $1.9 million. The remaining balance available for drawdown under the credit facility was $34.2 million.

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including working capital ratios, debt to income before interest, income taxes, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at December 31, 2017, Pollard is in compliance with all financial covenants.

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. The facility can be prepaid without penalties. Under the terms of the agreement the facility was committed for a two year period, renewable June 22, 2019.

Pollard believes that its credit facility, funds from the subordinated loan from Pollard Equities Limited ("Equities") and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital and dividends.

Subordinated Debt

On April 2, 2014, Pollard entered into a loan agreement with Equities for a subordinated term loan with a seven year term, repayable at any time (subject to meeting certain financial covenants under the secured credit facility), in the amount of $6.8 million. The term loan was provided to assist in the purchase of a printing press. Quarterly principal payments on the subordinated loan facility commenced the quarter following June 30, 2016. Interest on the subordinated debt commenced with the first draw at a rate of 9%. 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%.

The loans are fully subordinated to the secured credit facility.

Outstanding Share Data

As at December 31, 2017 outstanding share data was as follows:

Common shares	23,543,158

As noted previously in the recent developments section, on February 21, 2018, Pollard closed it's offering for an additional 2,070,000 common shares. As at March 12, 2018, outstanding share data was as follows:

Common shares	25,613,158

Share Options

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares.

On March 13, 2017, the Board of Directors approved the award of 125,000 options to purchase common shares of Pollard for certain key management personnel. The options were granted on April 24, 2017 and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on April 21, 2017. As at December 31, 2017, the total share options outstanding were 250,000.

Contractual Obligations

Pollard rents premises and equipment under long-term operating leases. The following is a schedule by year of commitments and contractual obligations outstanding, including related interest payments:

(millions of dollars)	Total	<1 Year	2-3 Years	4-5 Years	Thereafter
Long-term debt	$89.3	$3.6	$85.7	-	-
Subordinated debt	$19.9	$4.8	$8.7	$6.4	-
Operating leases	$21.2	$5.7	$8.1	$5.5	$1.9
Total	$130.4	$14.1	$102.5	$11.9	$1.9

Pension Obligations

Pollard 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's defined benefit pension plans was $50.5 million and the accrued benefit plan obligations were $73.5 million. Pollard's total annual funding contribution for its defined pension plans in 2018 is expected to be approximately $4.4 million, compared to $3.9 million in 2017, including $1.1 million in additional solvency payments.

One of Pollard's Canadian pension plans was subject to a solvency valuation as of December 31, 2016. The valuation determined there was a deficit of $10.1 million due the low current levels of the mandated interest rate used to discount the future liabilities. As a result, Pollard will be subject to additional special pension plan payments beginning in 2017 of approximately $1.1 million per year through to 2026. These additional solvency payments do not impact pension expense and therefore will not affect our net income or EBITDA. These additional pension solvency payments will be funded from operating cash flows.

Off-Balance Sheet Arrangements

Other than the operating leases described previously, Pollard has no other off-balance sheet arrangements.

Related Party Transactions

Pollard Equities Limited and affiliates

During the year ended December 31, 2017, Pollard paid property rent of $3.2 million (2016 - $3.1 million) and $0.4 million (2016 - $0.4 million) in plane charter costs to affiliates of Equities. In addition, Pollard paid Equities $1.0 million (2016 - $0.6 million) of interest on Pollard's subordinated debt.

During the year ended December 31, 2017, Equities paid Pollard $0.07 million (2016 - $0.07 million) for accounting and administration fees.

At December 31, 2017, Pollard owed Equities and its affiliates $1.9 million (2016 - $0.9 million) for rent, interest, expenses and other items.

Neogames S.à r.l. and affiliates

During the year ended December 31, 2017, Pollard reimbursed operating costs and paid software royalties of $2.9 million (2016 - $1.8 million) to its iLottery partner which are recorded in cost of sales and $nil (2016 - $0.6 million) of development costs.

At December 31, 2017, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of $0.7 million (2016 - $0.8 million) for reimbursement of operating costs and capital expenditures, and its share of operating profits.

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management of Pollard regularly reviews its estimates and assumptions based on historical experience and various other assumptions that it believes would result in reasonable estimates given the circumstances. Actual results could differ from those estimates under different assumptions. The following is a discussion of accounting policies which require significant management judgment and estimation.

Impairment of goodwill

Pollard determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units ("CGUs") to which goodwill is allocated. Estimating a value in use requires Pollard to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Judgment is required in determining the level at which to test goodwill, including the grouping of assets that generate cash inflows.

Employee future benefits

Accounting for defined benefit plans requires Pollard to use actuarial assumptions. These assumptions include the discount rate and the rate of compensation increases. These assumptions depend on underlying factors such as economic conditions, government regulations, investment performance, employee demographics and mortality rates.

Income taxes

Pollard is required to evaluate the recoverability of deferred income tax assets. This requires an estimate of Pollard's ability to utilize the underlying future income tax deductions against future taxable income before they expire. In order to evaluate the recoverability of these deferred income tax assets, Pollard must estimate future taxable income.

Acquisition accounting

For acquisition accounting purposes, all identifiable assets, liabilities and contingent liabilities acquired in a business combination are recognized at fair value at the date of acquisition. Estimates are used to calculate the fair value of these assets and liabilities.

Future Changes in Accounting Policies

In July 2014, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standards ("IFRS") 9 *Financial Instruments*, which replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is required for fiscal years beginning on or after January 1, 2018. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard specifies the steps and timing for recognizing revenue, as well as requiring more informative, relevant disclosures. IFRS 15 supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue*. IFRS 15 is required for fiscal years beginning on or after January 1, 2018, with early adoption available. Under certain contracts, Pollard is compensated for its products based on its customers' sales of those products at retail. Prior to IFRS 15, Pollard recognized sales under these contracts at the time the product was sold at retail. Under IFRS 15 Pollard has concluded that control transfers to its customers at delivery of the product to the customer. This will accelerate the recognition of sales under these contracts to the time of shipment. Pollard's sales under these contracts could vary year over year depending on the timing of shipments. Pollard expects the new standard will not have a material impact on its consolidated financial statements. Pollard intends to adopt the standard retrospectively with the cumulative effect of initially applying the standard recognized at January 1, 2018 in opening retained earnings.

In January 2016, the IASB issued IFRS 16 *Leases* which replaces IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In June 2016, the IASB issued amendments to IAS 2 *Share-Based Payments.* The amendments clarify how to account for certain types of share-based payment transactions. These amendments are effective for annual periods beginning on or after January 1, 2018. Retrospective or earlier application is permitted under certain conditions. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

In December 2016, the IASB issued IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration.* The Interpretation clarifies the date of the transaction for the purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The Interpretation is effective for annual periods beginning on or after January 1, 2018. Retrospective or earlier application is permitted under certain conditions. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

In June 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments.* The Interpretation aims to reduce diversity in how companies recognize and measure a tax liability or tax asset when there is uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after January 1, 2019 and is to be applied retrospectively. Early adoption is permitted. Pollard is currently assessing the impact of the Interpretation on its consolidated financial statements.

In October 2017, the IASB issued amendments to IAS 28 *Investments in Associates and Joint Ventures.* The amendments clarify that long-term interests in associates and joint ventures, to which the equity method is not applied, are in the scope of both IFRS 9 *Financial Instruments* (including impairment testing) and IAS 28 in terms of the application of IFRS 9 loss absorption and the impairment requirements of IAS 28. Pollard is currently assessing the impact of these amendments on its consolidated financial statements.

Industry Risks and Uncertainties

Pollard is exposed to a variety of business and industry risks. A summary of the major risks faced by Pollard is noted below.

Dependence on Key Products

Instant tickets accounted for approximately 86.7% of Pollard's revenues for Fiscal 2017. Pollard'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'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's income depends upon its ability to generate sales to customers and to sustain its EBITDA margins. These margins are dependent upon Pollard'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's cost of sales or operating costs increase, or other manufacturers of gaming products could compete more favourably with it, Pollard 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'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 has witnessed downward pressure on its selling prices. Continued pressure on lotteries to reduce their costs may further negatively impact Pollard'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's business, financial condition, liquidity and results of operations.

Dependence on Major Customers

Pollard'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 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's largest customers could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Exchange Rate Fluctuations

A significant portion of Pollard'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'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. Pollard'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'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 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 believes that its operating income will be sufficient to fund operations and planned capital expenditures in the near term. However, Pollard 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's strategy is to continue its internal growth. Pollard may not be successful in growing its business or in managing its growth. Pollard'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 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 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'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 may not be indicative of Pollard'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 faces competition from a number of domestic and foreign instant ticket manufacturers and other competitors. Pollard 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 including Sci Games, IGT and Eagle Press Group of Companies.

Some of Pollard's competitors have longer operating histories, greater name recognition, larger customer bases and greater financial, technical and marketing resources than Pollard. These resources may allow them to respond more quickly than Pollard can to new or emerging technologies and to changes in customer requirements. It may also allow them to devote greater resources than Pollard can to the development, promotion and sale of their products. Pollard'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's products is highly competitive and it is fragmented at both the lottery and charitable gaming levels. Pollard expects competition to continue to be intense because of capacity in its markets. To the extent one of Pollard's competitors undertakes a consolidation program, Pollard's competition would increase further. Pollard 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's products.

Future Acquisition and Integration Risks

To grow by acquisition, Pollard 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 fails to successfully integrate any new businesses into its existing business, Pollard's financial performance could be significantly impacted. To the extent that businesses acquired by Pollard or their prior owners failed to comply with or otherwise violated applicable laws, Pollard, as a successor owner may be financially responsible for these violations.

In connection with future acquisitions by Pollard, there may be liabilities that Pollard, 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'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 completed the acquisition of INNOVA and on February 1, 2018, Pollard 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's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Pollard. 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 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 manufactures substantially all of its lottery tickets and gaming products at its facilities. Pollard 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'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 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 or at which Pollard outsources production could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operation.

Reliance on Key Personnel

Pollard'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. Pollard's success will depend largely on Pollard'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 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 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 to comply with applicable laws and regulations may subject it to civil or regulatory proceedings which may have a material adverse effect on Pollard'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 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 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, 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. There can be no assurance that Pollard, 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 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 from selling products in that jurisdiction and may prohibit Pollard from selling its products in other jurisdictions. The loss of one or more licenses held by Pollard 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'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 or provide grounds for termination of an existing lottery contract or gaming license.

Income and Other Taxes

Pollard 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 could be exposed to increased costs of taxation.

Intellectual Property

Pollard'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 owns or licenses. In particular, the patents and trademarks Pollard owns or licenses may not be valid or enforceable. In addition, Pollard 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 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's intellectual property rights. Regardless of merit, any such litigation could be time consuming and expensive, divert management's time and attention, subject Pollard to significant liabilities, require Pollard to enter into costly royalty or licensing agreements, or require Pollard to modify or stop using intellectual property that it owns or licenses.

Litigation

Pollard 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 or the imposition of a significant fine or penalty, as a result of a finding that Pollard failed to comply with laws or regulations, or being named as a defendant on multiple claims could, have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Raw Material Price Volatility

Various raw materials are used in the products manufactured by Pollard, 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 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's business, financial condition, liquidity and results of operations. Pollard may not be able to pass on the increased costs to customers.

Lack of Long-Term Supplier Agreements

Historically, Pollard has not entered into long-term agreements with its suppliers. Generally, suppliers may terminate their relationship with Pollard on short notice. In addition, even if suppliers should decide to continue their relationship with Pollard, 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'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's products and packaging materials are obtained from a sole or a limited group of suppliers. Pollard'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's specifications. There are no assurances that this dependence on a limited group of suppliers will not have an adverse effect on Pollard's business, financial condition, liquidity and results of operations. In addition, were it necessary for Pollard to source its substrate and ink needs from another supplier, disruption to Pollard's business would occur during the period in which Pollard sourced another supplier and was able to receive supplies based on its particular specifications.

Product Liability

Pollard, 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'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 has invested, and may continue to invest, significant resources in our R&D efforts. Pollard 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'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 may not recover our development, regulatory approval or promotion costs.

Inability to innovate

The success of Pollard's products and services is affected by changing technology and evolving industry standards. Pollard'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's ability to remain competitive, retain existing contracts or business, expand and attract new customers and players. There can be no assurance that Pollard 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 will otherwise have the ability to compete effectively in the industries we serve.

Pollard'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 cannot efficiently develop its own manufacturing infrastructure or obtain such infrastructure from a reliable source to meet the needs of Pollard's product innovations, or if Pollard 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 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's network or telecommunications services could affect Pollard's ability to operate its games or financial systems, which would result in reduced revenues and customer down time. Pollard'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's implementation of network security measures and data protection safeguards, including a disaster recovery strategy for back office systems, Pollard'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's computer systems in any such event could have a material adverse effect on Pollard's business, reputation, operating results and financial condition.

Money laundering/fraudulent activity

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

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

There is also a risk that Pollard will be subject to fraudulent activities by its employees. Any exposure to fraud and/or money laundering could subject Pollard to financial losses, business disruption and damage to Pollard's reputation. In addition, there is a risk that Pollard 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's legal obligations relating to the reporting of money laundering or other offences.

Labour Disruptions

Approximately 107 of Pollard'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 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's business, financial condition, liquidity and results of operations.

Operating Hazards

Pollard'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 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's business, financial condition, liquidity and results of operations.

Environment, Health and Safety Requirements and Related Considerations

Pollard'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'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 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's financial condition or operating results.

As noted earlier, Pollard manufactures its products at seven facilities, two of which are owned by Pollard 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 from green field sites.

As a consequence of Pollard'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'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'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, including the responsibility to remediate hazardous substances whether or not the contamination was caused by Pollard, could require expenditures that might materially affect Pollard's business, financial condition, liquidity and results of operations.

Insufficient Insurance Coverage

Pollard 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'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 are insured.

Interest Rates

Pollard 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.

Financial Instruments

Pollard is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates, liquidity risk and credit risk. Pollard uses financial instruments, from time to time, to manage these risks.

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls to monitor risks and adherence to limits. The Audit Committee oversees how management monitors compliance with Pollard's risk management policies and procedures. The Audit Committee is assisted in its oversight role by Internal Audit, who undertakes regular reviews of risk management controls and utilizes the annual risk assessment process as the basis for the annual internal audit plan.

Risk Exposure

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to international customers where sales are denominated in U.S. dollars. In addition, a significant portion of its cost inputs are denominated in U.S. dollars. Pollard also generates revenue in currencies other than Canadian and U.S. dollars, primarily in Euros.

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time.

Interest rate risk

Pollard is exposed to interest rate risk relating to its fixed and floating rate instruments. Fluctuation in interest rates will have an effect on the valuation and repayment of these instruments.

Credit risk

Credit risk in the risk of financial loss if a customer or counterpart to a financial instrument fails to meet its financial obligations.

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due.

Risk Management

Currency risk

Pollard utilizes a number of tools to manage its foreign currency risk including sourcing its manufacturing facilities in the U.S. and sourcing other cost of sales in U.S. dollars.

A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and U.S. dollar would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $0.15 million for year ended December 31, 2017 (2016 - $0.06 million). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian dollar and Euro would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $0.07 million for year ended December 31, 2017 (2016 - $0.06 million).

Three manufacturing facilities are located in the U.S. and a significant amount of cost inputs for all production facilities are denominated in U.S. dollars, offsetting a large portion of the U.S. dollar revenue in a natural hedge.

As at December 31, 2017, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately $1.3 million ($2016 - $1.6 million). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in income before income taxes of approximately $0.01 million (2016 - $0.01 million).

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At December 31, 2017, Pollard had no outstanding foreign currency contracts.

Interest rate risk

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of $0.4 million for the year ended December 31, 2017 (2016 - $0.4 million).

Credit risk

Credit risk on Pollard's accounts receivable is minimized since they are mainly from governments and their agencies and are collected in a relatively short period of time. Credit risk on foreign currency contracts is minimized since the counterparties are restricted to Schedule 1 Canadian financial institutions.

The carrying amount of accounts receivable is reduced through the use of an allowance account and any adjustment to the allowance account is recognized in the statement of income within selling and administration expenses. When a receivable balance is considered uncollectible, it is written off against the allowance account.

Liquidity risk

Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. Pollard maintains a committed credit facility including up to $105.0 million for its Canadian operations and up to US$12.0 million for its U.S. subsidiaries. At December 31, 2017, the unused balance available for drawdown was $34.2 million (2016 - $18.9 million).

The 2018 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Outlook

The lottery industry continued to achieve good growth during 2017 and we anticipate this trend to continue in 2018. Of particular strength were instant tickets, as lotteries increasingly look to expand and grow this area of their operations to generate greater proceeds for their various good causes. Consumer demand for instant tickets and related services like digital products are expected to remain robust as lotteries expand their offerings and gaming platforms to meet this demand.

2017 saw our instant ticket volumes increase significantly when compared to the prior year, reflecting overall strong demand across our lottery portfolio. The additional production capacity from our Tresu press allowed us to produce the additional volume created by that demand. To help support further additional volumes, during 2018 we are also recommissioning the original press line in our Ypsilanti facility in order to provide some incremental production capacity. While we don't expect to see the same growth rate profile in 2018 that was achieved in 2017, we anticipate building on these higher levels achieved throughout the upcoming fiscal year. Our focus on manufacturing efficiencies is critical to our success and we expect to see additional improvements in our cost platform going forward, however, significant improvements were already captured during 2017. As a result, 2018 will not see the same level of improvements as achieved in 2017.

One of the drivers of the increased demand was the success of many of our proprietary products such as Scratch FX® and Playbook® products. These value-added products have proven to be very successful in growing the revenue of lotteries and allows us to maintain our average selling prices in a price competitive industry. We have new exciting innovative instant ticket products rolling out in 2018 and are hopeful our ongoing innovations will continue to be a positive factor driving our future revenue growth.

Our core instant ticket business is driven by formal contracts and in 2018 there are a number of large instant ticket lottery contracts coming up for bid, particularly in the United States. Our current contract portfolio is extremely well positioned with existing terms and renewals providing important visibility to our revenue streams for the next number of years. Our recently announced contract extension with the Western Canada Lottery Corporation extends our current contract for an additional ten years and during 2017 the Ontario Lottery Corporation extended our contract for another five years. Both of these events illustrate the strengths of our existing customer relationships and the value of our long-term contracts. Our contract with the British Columbia Lottery Corporation expires in December 2018. We have been the primary supplier to this important customer for over 30 years and we are hopeful of continuing this relationship in future contracts.

The charitable gaming market remains very steady relative to the last few years and, with low capital expenditure requirements, it continues to generate positive cash flows. With the recent addition of International Gamco, Inc. to our existing American Games business, we are uniquely positioned to benefit from this important business line. We believe the combination of these two companies will bring significant synergies and enhanced revenue opportunities in the future as their integration is fully developed.

Our Diamond Game operation continues the integration process with Pollard after being acquired in the fall of 2017. Their unique product is strategically situated to provide revenue for charitable organizations directly or through lottery organizations. The sales development cycle is very long and currently we do not see any major new jurisdiction opportunities in the short term, but continue to focus on key states and provinces, educating them on the benefits of this product. We have achieved expected savings in corporate and public company overhead and will benefit from these lower costs throughout 2018.

Excluding our two recent acquisitions, our budgeted capital expenditures for 2018 are expected to be similar to the expenditures incurred in 2017. As well, we do not anticipate major capital expenditures to be required for Diamond Game or Gamco this upcoming year. We would anticipate strong operating cash flows available for investments in future acquisitions, growth in working capital, as required, and continued reductions in outstanding debt. On February 21, 2018, we raised approximately $38.2 million, before expenses, in new capital through a common share offering, the proceeds from which were used to pay down existing debt. This transaction ensures we have significant capital available to support our future growth plans.

Acquisitions are an important component of our strategy and we have recently been active in this area. We will continue to be disciplined in our search for additional acquisition opportunities, with our focus being organizations that can assist in our vision of being the partner of choice to the lottery and charitable gaming industry.

Disclosure Controls and Procedures

Under National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") regarding the design and effectiveness of the disclosure controls and procedures. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the disclosure controls and procedures as defined in National Instrument 52-109 are designed appropriately and are effective at providing reasonable assurance of achieving the disclosure objectives.

Internal Controls over Financial Reporting

Under National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Certifying Officers regarding the design and effectiveness of the internal controls over financial reporting. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) as the control framework in designing its internal controls over financial reporting. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the internal controls over financial reporting as defined in National Instrument 52-109 are designed appropriately and are effective at providing reasonable assurance of achieving the financial reporting objectives.

Pollard has limited its design of ICFR to exclude controls, policies and procedures of INNOVA, as it was acquired not more than 365 days before the end of the financial period to which this MD&A relates.

No changes were made in Pollard's internal control over financial reporting during the year ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

Additional Information

Shares of Pollard Banknote Limited are traded on the Toronto Stock Exchange under the symbol PBL.

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form for the year ended December 31, 2017, is available on SEDAR at www.sedar.com.

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Management's Report

The accompanying consolidated financial statements and all the information contained in the annual report of Pollard Banknote Limited ("Pollard") are the responsibility of management and have been approved by the Board of Directors of Pollard. Financial and operating data elsewhere in the annual report is consistent with the information contained in the financial statements. The financial statements and all other information have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements include some amounts and assumptions based on management's best estimates which have been derived with careful judgment.

In fulfilling its responsibilities, management of Pollard has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparing the financial statements. The Board of Directors of Pollard carries out its responsibility for the financial statements through the Audit Committee. The Audit Committee reviews Pollard's annual consolidated financial statements and recommends their approval by the Board of Directors. The auditors have full access to the Audit Committee with and without management present.

The consolidated financial statements have been audited by KPMG LLP Chartered Accountants, whose opinion is contained in this annual report.

"John Pollard"	*"Robert Rose"*
JOHN POLLARD Co-Chief Executive Officer	ROBERT ROSE Chief Financial Officer

March 12, 2018

Consolidated Financial Statements of

POLLARD BANKNOTE LIMITED

Years ended December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pollard Banknote Limited

We have audited the accompanying consolidated financial statements of Pollard Banknote Limited, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pollard Banknote Limited as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 12, 2018

Winnipeg, Canada

Pollard Banknote Limited

Consolidated Statements of Financial Position

(*In thousands of Canadian dollars*)

	December 31, 2017	December 31, 2016
Assets		
Current assets		
Cash	$ 5,603	$ 7,500
Restricted cash	5,780	3,203
Accounts receivable	40,749	38,585
Inventories (note 7)	32,008	27,232
Prepaid expenses and deposits	6,331	3,437
Total current assets	90,471	79,957
Non-current assets		
Property, plant and equipment (note 8)	54,319	46,906
Equity investment (note 9)	877	468
Goodwill (note 10)	51,768	37,513
Intangible assets (note 11)	27,746	11,916
Deferred income taxes (note 12)	3,093	-
Total non-current assets	137,803	96,803
Total assets	$ 228,274	$ 176,760

		December 31, 2017		December 31, 2016

Liabilities and Shareholders' Equity

Current liabilities				
Accounts payable and accrued liabilities	$	36,766	$	25,864
Dividends payable		706		706
Income taxes payable		3,373		2,541
Deferred revenue		702		-
Current portion long-term debt (note 13)		784		-
Current portion subordinated debt (note 14)		3,585		1,363
Total current liabilities		45,916		30,474
Non-current liabilities				
Long-term debt (note 13)		83,771		70,852
Subordinated debt (note 14)		13,149		4,769
Deferred revenue		789		-
Other non-current liabilities		753		395
Pension liability (note 15)		22,959		13,524
Deferred income taxes (note 12)		3,368		4,909
Total non-current liabilities		124,789		94,449
Shareholders' equity				
Share capital (note 16)		73,209		73,209
Reserves		2,965		3,917
Deficit		(18,605)		(25,289)
Total shareholders' equity		57,569		51,837
Commitments and contingencies (note 17)				
Subsequent events (note 28)				
Total liabilities and shareholders' equity	$	228,274	$	176,760

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Dave Brown" Director

"John Pollard" Director

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

Years ended December 31

		2017		2016
Sales	$	285,654	$	246,414
Cost of sales		219,916		197,177
Gross profit		65,738		49,237
Administration		28,609		20,919
Selling		9,412		8,037
Other (income) expenses (note 18)		675		(32)
Income from operations		27,042		20,313
Finance costs (note 19)		4,172		4,281
Finance income (note 19)		(1,104)		(1,042)
Income before income taxes		23,974		17,074
Income taxes (note 12)				
Current		7,902		5,144
Deferred (reduction)		(712)		(339)
		7,190		4,805
Net income	$	16,784	$	12,269
Net income per share (basic) (note 20)	$	0.71	$	0.52
Net income per share (diluted) (note 20)	$	0.71	$	0.52

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited

Consolidated Statements of Comprehensive Income

(*In thousands of Canadian dollars*)

Years ended December 31

		2017		2016
Net income	$	16,784	$	12,269
Other comprehensive loss				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations		(952)		(467)
Items that will never be reclassified to profit and loss				
Defined benefit plans remeasurements, net of income tax reduction of ($2,478) and ($291) (note 12 & note 15)		(7,397)		(737)
Other comprehensive loss – net of income tax		(8,349)		(1,204)
Comprehensive income	$	8,435	$	11,065

See accompanying notes to consolidated financial statements.

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

Year ended December 31, 2017

		Attributable to equity holders of Pollard Banknote Limited			
		Share capital	**Translation reserve**	**Deficit**	**Total equity**
Balance at January 1, 2017	$	73,209	3,917	(25,289)	51,837
Net income		-	-	16,784	16,784
Other comprehensive loss					
Foreign currency translation differences – foreign operations		-	(952)	-	(952)
Defined benefit plans remeasurements, net of income tax reduction of ($2,478) (note 15)		-	-	(7,397)	(7,397)
Total other comprehensive loss	$	-	(952)	(7,397)	(8,349)
Total comprehensive income (loss)	$	-	(952)	9,387	8,435
Share based compensation (note 16)		-	-	122	122
Dividends to owners of Pollard Banknote Limited		-	-	(2,825)	(2,825)
Balance at December 31, 2017	$	73,209	2,965	(18,605)	57,569

Year ended December 31, 2016

		Attributable to equity holders of Pollard Banknote Limited			
		Share capital	**Translation reserve**	**Deficit**	**Total equity**
Balance at January 1, 2016	$	73,209	4,384	(34,016)	43,577
Net income		-	-	12,269	12,269
Other comprehensive loss					
Foreign currency translation differences – foreign operations		-	(467)	-	(467)
Defined benefit plans remeasurements, net of income tax reduction of ($291) (note 15)		-	-	(737)	(737)
Total other comprehensive loss	$	-	(467)	(737)	(1,204)
Total comprehensive income (loss)	$	-	(467)	11,532	11,065
Share based compensation		-	-	20	20
Dividends to owners of Pollard Banknote Limited		-	-	(2,825)	(2,825)
Balance at December 31, 2016	$	73,209	3,917	(25,289)	51,837

See accompanying notes to consolidated financial statements.

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

Years ended December 31

	2017	2016
Cash increase (decrease)		
Operating activities		
Net income	$ 16,784	$ 12,269
Adjustments		
Income taxes	7,190	4,805
Amortization and depreciation	13,155	10,573
Interest expense	3,962	3,600
Unrealized foreign exchange gain	(1,436)	(1,532)
Loss on sale of property, plant and equipment	74	-
Loss on equity investment (note 9)	1,727	730
Pension expense (note 15)	5,082	4,417
Gain on sale of investment in associate	-	(516)
Deferred revenue	(163)	-
Interest paid	(3,699)	(3,270)
Income tax recovered (paid)	(6,127)	672
Pension contributions	(5,312)	(3,102)
Change in non-cash operating working capital (note 22)	(2,879)	(16,920)
	28,358	11,726
Investing activities		
Additions to property, plant and equipment (note 8)	(6,948)	(4,996)
Acquisition of INNOVA Gaming Group Inc. (note 6)	(39,318)	-
Acquisition of Integrity (note 6)	(502)	-
Equity investment (note 9)	(2,204)	(807)
Proceeds from sale of investment in associate	-	516
Additions to intangible assets (note 11)	(2,246)	(1,124)
	(51,218)	(6,411)
Financing activities		
Net proceeds from (repayments of) long-term debt (note 13)	13,520	(1,789)
Net proceeds from (repayments of) subordinated debt	10,602	(681)
Change in other non-current liabilities	383	16
Deferred financing charges paid (note 13)	(342)	(165)
Dividends paid	(2,825)	(2,825)
	21,338	(5,444)
Foreign exchange gain (loss) on cash held in foreign currency	(375)	42
Change in cash position	(1,897)	(87)
Cash position, beginning of year	7,500	7,587
Cash position, end of year	$ 5,603	$ 7,500

See accompanying notes to consolidated financial statements.

1. Reporting entity:

Pollard Banknote Limited ("Pollard") was incorporated under the laws of Canada on March 26, 2010. The address of Pollard's registered office is 140 Otter Street, Winnipeg, Manitoba, Canada, R3T 0M8.

The consolidated financial statements of Pollard as at and for the year ended December 31, 2017, comprise Pollard and its subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture, development and sale of lottery and gaming products.

The controlling party of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owns approximately 73.5% of Pollard's outstanding shares. On February 1, 2018, Pollard completed a share offering, (note 28), which reduced Equities ownership to approximately 67.6% of Pollard's increased outstanding share amount.

The operations of INNOVA Gaming Group Inc. and its wholly owned subsidiaries, Diamond Game Enterprises and Diamond Game Enterprises Canada ULC, ("INNOVA"), acquired during the year, are included in the consolidated financial statements from August 3, 2017 (see note 6).

2. Basis of preparation:

(a) Statement of compliance:

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

On March 12, 2018, Pollard's Board of Directors approved these consolidated financial statements.

(b) Basis of preparation:

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

- The pension liability is recognized as the net total of the fair value of plan assets less the present value of the defined benefit obligation.

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

2. Basis of preparation (continued):

(c) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Actual results may differ from these estimates.

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

Impairment of goodwill:

Pollard determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units ("CGUs") to which goodwill is allocated. Estimating a value in use requires Pollard to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Judgment is required in determining the level at which to test goodwill, including the grouping of assets that generate cash inflows. Further details are provided in note 10.

Employee future benefits:

Accounting for defined benefit plans requires Pollard to use actuarial assumptions. These assumptions include the discount rate and the rate of compensation increases. These assumptions depend on underlying factors such as economic conditions, government regulations, investment performance, employee demographics and mortality rates. See note 15 for further information.

Income taxes:

Pollard is required to evaluate the recoverability of deferred income tax assets. This requires an estimate of Pollard's ability to utilize the underlying future income tax deductions against future taxable income before they expire. In order to evaluate the recoverability of these deferred income tax assets, Pollard must estimate future taxable income. Further details are provided in note 12.

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

2. Basis of preparation (continued):

Acquisition accounting:

For acquisition accounting purposes, all identifiable assets and liabilities acquired in a business combination are recognized at fair value at the date of acquisition. Estimates are used to calculate the fair value of these assets and liabilities.

3. Accounting standards implemented in 2017:

The amendments to IAS 7 *Statement of Cash Flows* were issued to improve information provided to users of financial statements about an entity's changes in liabilities arising from financing activities. These amendments had no material impact on the consolidated financial statements.

The amendments to IAS 12 *Income Taxes* were issued to improve information in reference to the recognition of deferred tax assets for unrealized losses relating to debt instruments measured at fair value. These amendments had no material impact on the consolidated financial statements.

4. Significant accounting policies:

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

(a) Principles of consolidation:

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

Significant subsidiaries:	Percent Ownership Interest	
	December 31, 2017	December 31, 2016
Pollard Holdings, Inc.	100	100
Pollard (U.S.) Ltd.	100	100
Pollard Games, Inc.	100	100
Pollard iLottery Inc.	100	100
Diamond Game Enterprises	100	-
Diamond Game Enterprises Canada ULC	100	-

4. Significant accounting policies (continued):

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

Pollard, in conjunction with NeoGames US, LLP, established NeoPollard Interactive LLC ("NPI"). Pollard accounts for its investment in NPI as a joint venture. Under the equity method of accounting Pollard recognizes its share of the income and expenses and equity movements of NPI.

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

(b) Business combination:

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments and liabilities incurred or assumed at the date of exchange. Acquisition costs for business combinations are expensed as incurred and included in administration expenses. Identifiable assets acquired and liabilities assumed are measured at their fair value at the acquisition date. The excess of acquisition costs over the fair value of the identifiable net assets acquired is recorded as goodwill.

(c) Restricted cash:

Under the terms of Pollard's iLottery contract with the Michigan Lottery, Pollard holds iLottery players' deposits in a bank account for the benefit of the lottery and therefore the cash is not available for use by Pollard. Pollard records an equal, offsetting liability within accounts payable and accrued liabilities. Pollard has excluded changes in the restricted cash and related liability from its calculation of the change in cash position in the statements of cash flows.

(d) Revenue recognition:

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

4. Significant accounting policies (continued):

Revenues relating to license and royalty sales, iLottery services, loyalty programs, digital and lottery management services are recognized pursuant to the terms of the applicable contracts. Where Pollard provides software and related infrastructure, revenue is recognized in proportion to the stage of completion of the contracted work.

Certain Pollard subsidiaries' contracts contain multiple-element revenue arrangements, including license fees, training, consulting, maintenance, product support services and periodic upgrades. Where such arrangements exist, the amount of revenue allocated to each element is based upon the relative fair value of the various elements. The fair values of each element are determined based on the current market price of each of the elements when sold separately.

Pollard earns revenue from leasing of gaming machines and other equipment and capitalizes the costs of installing gaming equipment. Revenue from the provision of gaming services is generally recognized as a daily fee or as a percentage of revenue generated by the gaming machines.

Service and maintenance revenue is recognized as the related services are performed. Deferred revenue consists of customer advances for services to be rendered in the future and is recognized as income in future periods. Labour costs associated with performing routine maintenance on participating gaming machines is expensed as incurred and included in cost of sales.

(e) Inventories:

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

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

(f) Goodwill:

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

4. Significant accounting policies (continued):

(g) Intangible assets:

Deferred development:

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

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

Computer software and licenses:

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

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

Customer assets and patents:

Customer assets and patents that have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

4. Significant accounting policies (continued):

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

Asset	Rate
Customer assets	7 to 16 years
Patents	Term of patent
Computer software and licenses	3 to 10 years or term of license
Deferred development	2 to 7 years

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

Trademarks:

Trademarks, which were acquired with the acquisition of INNOVA, have been deemed to have an indefinite life. For purposes of impairment testing, the fair value of the trademarks are determined using the relief from royalty method.

(h) Property, plant and equipment:

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

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

4. Significant accounting policies (continued):

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

Asset	Rate
Buildings	10 to 30 years
Leasehold improvements	Term of lease
Equipment	2 to 11 years
Charitable gaming machines	5 to 8 years
Furniture, fixtures and computers	3 to 9 years

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

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

(i) Investment in associate:

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

(j) Investment in joint venture:

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

The consolidated financial statements include Pollard's share of the income and expenses and equity movements of the entity accounted for under the equity method of accounting.

4. Significant accounting policies (continued):

(k) Investment in joint operation:

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

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

(l) Financial instruments:

Non-derivative financial assets

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

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

i) Financial assets at fair value through profit or loss

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

4. Significant accounting policies (continued):

ii) Held-to-maturity financial assets

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

iii) Loans and receivables

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

iv) Available-for-sale financial assets

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

Non-derivative financial liabilities

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

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

Share Capital

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

4. Significant accounting policies (continued):

Derivatives and hedge accounting

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

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

i) Cash flow hedges

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

ii) Other non-trading derivatives

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

4. Significant accounting policies (continued):

(m) Translation of foreign currencies:

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

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

(n) Employee benefits:

Share based compensation

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

Defined contribution plans

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

Defined benefit plans

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

4. Significant accounting policies (continued):

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

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

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

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

(o) Income taxes:

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

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

4. Significant accounting policies (continued):

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

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

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

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

(p) Provisions:

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

(q) Impairment:

Financial assets

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

4. Significant accounting policies (continued):

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

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

Non-financial assets

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

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

Impairment losses are recognized in net income. Impairment losses recognized in respect to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss in respect to goodwill is not reversed. In respect to other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a

4. Significant accounting policies (continued):

change in the estimates used to determine the recoverable amount. An impairment loss can only be reversed to the extent that the asset's carrying value that would have been determined, net of amortization, if no impairment had been recognized.

(r) Finance costs and finance income:

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

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

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

(s) Leases:

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the arrangement conveys a right to use the asset. When substantially all risk and rewards of ownership are transferred from the lessor to the lessee, lease transactions are accounted for as finance leases. All other leases are accounted for as operating leases.

Certain Pollard subsidiaries, as lessees, have entered into leases which are classified as finance leases. These leases are presented in the consolidated financial statements according to their nature. The interest element of the lease payment is recognized over the term of the lease based on the effective interest rate method and is included in finance expenses.

5. Future accounting standards:

In July 2014, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standards ("IFRS") 9 *Financial Instruments*, which replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is required for fiscal years beginning on or after January 1, 2018. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

5. Future accounting standards (continued):

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard specifies the steps and timing for recognizing revenue, as well as requiring more informative, relevant disclosures. IFRS 15 supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue*. IFRS 15 is required for fiscal years beginning on or after January 1, 2018, with early adoption available. Under certain contracts, Pollard is compensated for its products based on its customers' sales of those products at retail. Prior to IFRS 15, Pollard recognized sales under these contracts at the time the product was sold at retail. Under IFRS 15 Pollard has concluded that control transfers to its customers at delivery of the product to the customer. This will accelerate the recognition of sales under these contracts to the time of shipment. Pollard's sales under these contracts could vary year over year depending on the timing of shipments. Pollard expects the new standard will not have a material impact on its consolidated financial statements. Pollard intends to adopt the standard retrospectively with the cumulative effect of initially applying the standard recognized at January 1, 2018, in opening retained earnings.

In January 2016, the IASB issued IFRS 16 *Leases* which replaces IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In June 2016, the IASB issued amendments to IAS 2 *Share-Based Payments.* The amendments clarify how to account for certain types of share-based payment transactions. These amendments are effective for annual periods beginning on or after January 1, 2018. Retrospective or earlier application is permitted under certain conditions. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

In December 2016, the IASB issued IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration.* The Interpretation clarifies the date of the transaction for the purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The Interpretation is effective for annual periods beginning on or after January 1, 2018. Retrospective or earlier application is permitted under certain conditions. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

5. Future accounting standards (continued):

In June 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments.* The Interpretation aims to reduce diversity in how companies recognize and measure a tax liability or tax asset when there is uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after January 1, 2019 and is to be applied retrospectively. Early adoption is permitted. Pollard is currently assessing the impact of the Interpretation on its consolidated financial statements.

In October 2017, the IASB issued amendments to IAS 28 *Investments in Associates and Joint Ventures.* The amendments clarify that long-term interests in associates and joint ventures, to which the equity method is not applied, are in the scope of both IFRS 9 *Financial Instruments* (including impairment testing) and IAS 28 in terms of the application of IFRS 9 loss absorption and the impairment requirements of IAS 28. Pollard is currently assessing the impact of these amendments on its consolidated financial statements.

6. Acquisitions:

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.

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.

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

6. Acquisitions (continued):

Cash purchase price	$	50,185
Cash acquired		(10,867)
Net purchase price	$	39,318
Additional net tangible assets acquired		
Accounts receivable	$	3,702
Inventories		1,739
Prepaid expenses and deposits		2,255
Property and equipment		10,288
Deferred income tax asset		5,912
Accounts payable and accrued liabilities		(5,915)
Income tax payable		(189)
Deferred revenue		(2,505)
Long-term debt		(1,467)
Deferred income tax liability		(4,892)
Net tangible assets acquired (excluding cash)	$	8,928
Trademarks	$	2,616
Software		2,733
Patents		436
Customer contracts		10,247
Identifiable intangible assets acquired	$	16,032
Goodwill acquired	$	14,358

The goodwill acquired is largely attributable to the assembled workforce and the expected synergies from the combined businesses. This goodwill is not expected to be deductible for tax purposes.

Acquisition costs related to the INNOVA purchase in the year ended December 31, 2017, were $2,694. These costs were included in administration expenses.

Subsequent to the preliminary purchase price allocation, Pollard assessed there to be a high degree of uncertainty that it will be able to recognize value from a portion of the deferred tax asset initially valued. As a result, Pollard has reduced the deferred income tax asset by $3,128, from $9,040 to $5,912 and increased the goodwill from $11,230 to $14,358.

During the period between August 3, 2017 and December 31, 2017, INNOVA generated revenues of approximately $10,267 and had a net loss of $1,233, which have been recorded in the consolidated financial statements. Included in INNOVA's net loss was $1,656 of severance costs related to the departure of two former executives. If INNOVA had been acquired on January 1, 2017, incremental revenue of $16,858 and net loss of $4,088 (which includes $4,637 of Innova's transaction costs relating to the sale of the company) would have been included in the year ended December 31, 2017.

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

6. Acquisitions (continued):

Integrity

On December 22, 2017, Pollard Games Inc., a wholly-owned subsidiary of Pollard, acquired certain bingo assets, predominately inventory, from Integrity Gaming, Inc. and Integrity Gaming of Kansas, Inc. ("Integrity"), the sellers. Pollard's subsidiary also assumed two leases as part of the transaction. The total value of consideration of the transaction was $502. The amount of the purchase price allocated to inventory was $313 with the remainder allocated to goodwill.

7. Inventories:

	December 31, 2017	December 31, 2016
Raw materials	$ 11,755	$ 11,246
Work-in-process	930	784
Finished goods	19,323	15,202
	$ 32,008	$ 27,232

During 2017 Pollard recorded inventory write-downs of $457 representing an increase in the obsolescence reserves and reversal of previous write-downs of $26 due to changes in foreign exchange rates.

During 2016 Pollard recorded inventory write-downs of $622 representing an increase in the obsolescence reserves and write-downs of $22 due to changes in foreign exchange rates.

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

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

8. Property, plant and equipment:

Cost		Land	Buildings	Leasehold improve-ments	Equipment	Charitable gaming machines	Furniture, fixture and computers	Assets in progress & spare parts	Total
Balance at January 1, 2016	$	803	11,879	2,614	150,653	-	4,168	1,784	171,901
Additions/net transfers			189	722	3,578	-	712	(205)	4,996
Effect of movements in exchange rates		-	-	(30)	(177)	-	(1)	-	(208)
Balance at December 31, 2016	$	803	12,068	3,306	154,054	-	4,879	1,579	176,689
INNOVA acquisition		-	-	-	725	7,743	1,527	293	10,288
Additions/net transfers		-	88	284	4,950	724	422	480	6,948
Disposals		-	-	-	(10,087)	-	(6)	-	(10,093)
Effect of movements in exchange rates		-	-	(63)	(385)	76	8	-	(364)
Balance at December 31, 2017	$	803	12,156	3,527	149,257	8,543	6,830	2,352	183,468

Accumulated depreciation		Land	Buildings	Leasehold improve-ments	Equipment	Charitable gaming machines	Furniture, fixture and computers	Assets in progress & spare parts	Total
Balance at January 1, 2016	$	-	4,550	1,688	111,649	-	3,634	-	121,521
Depreciation for the year		-	362	250	7,574	-	237	-	8,423
Effect of movements in exchange rates		-	-	(23)	(138)	-	-	-	(161)
Balance at December 31, 2016	$	-	4,912	1,915	119,085	-	3,871	-	129,783
Depreciation for the year		-	369	424	7,552	917	522	-	9,784
Disposals		-	-	-	(10,013)	-	(6)	-	(10,019)
Effect of movements in exchange rates		-	-	(189)	(199)	(7)	(4)	-	(399)
Balance at December 31, 2017	$	-	5,281	2,150	116,425	910	4,383	-	129,149

Carrying amounts		Land	Buildings	Leasehold improve-ments	Equipment	Charitable gaming machines	Furniture, fixture and computers	Assets in progress & spare parts	Total
At December 31, 2016	$	803	7,156	1,391	34,969	-	1,008	1,579	46,906
At December 31, 2017	$	803	6,875	1,377	32,832	7,633	2,447	2,352	54,319

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

9. Equity investment:

Interest in joint venture		December 31, 2017		December 31, 2016
Balance – beginning of year	$	468	$	401
Investment		2,204		807
Equity loss		(1,727)		(730)
Effects of movements in exchange rates		(68)		(10)
Balance – end of year	$	877	$	468

Pollard has entered into an agreement with NeoGames US, LLP for the establishment of NeoPollard Interactive LLC. The entity was established to provide iLottery services in the United States and Canada, excluding the State of Michigan.

Pollard and Neogames S.à r.l. operate the iLottery operation for the Michigan Lottery under a separate joint operating agreement. Pollard recognizes its interest in the joint operation by including its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

10. Goodwill:

Goodwill is comprised of $30,620 (2016 - $30,620), representing the excess purchase price over the underlying carrying amount of the net assets sold, as at August 5, 2005, as a result of the 26.7% of Pollard sold as part of its IPO. Goodwill of $14,358, which is subject to foreign exchange revaluation, was recognized with the purchase of INNOVA in the third quarter of 2017. The remaining $6,653 (2016 - $6,893) of goodwill is from Pollard's purchase of certain subsidiaries, including $189 from the purchase of Integrity in the fourth quarter of 2017. Goodwill has been allocated to CGUs for impairment testing in this manner, as described in the table below.

		December 31, 2017		December 31, 2016
Lottery	$	30,620	$	30,620
Diamond Game (INNOVA)		14,495		-
Charitable games		6,653		6,893
	$	51,768	$	37,513

During 2017 the value of Charitable games related goodwill decreased $429 (2016 – decreased $204) as a result of changes in foreign exchange rates. Also during 2017 the value of Diamond Game (INNOVA) related goodwill increased $137 (2016 – $nil) as a result of changes in foreign exchange rates.

10. Goodwill (continued):

Impairment assessment methodology

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

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

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

Revenue and related gross profit

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

Foreign exchange rates

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

Discount rates

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

Lottery	10.0%
Diamond Game (INNOVA)	10.0%
Charitable games	11.0%

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

10. Goodwill (continued):

Growth rates

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

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

11. Intangible assets:

Cost		Customer assets	Patents	Trademarks	Deferred development	Computer software and licenses	Total
Balance at January 1, 2016	$	18,645	5,132	-	1,141	6,077	30,995
Additions (net of investment tax credits)		-	55	-	-	898	953
Additions – internally developed (net of investment tax credits)		-	-	-	7	164	171
Balance at December 31, 2016	$	18,645	5,187	-	1,148	7,139	32,119
INNOVA acquisition		10,247	436	2,616	-	2,733	16,032
Additions (net of investment tax credits)		-	69	-	-	867	936
Additions – internally developed (net of investment tax credits)		-	-	-	62	1,248	1,310
Effect of movements in exchange rates		99	4	25	-	17	145
Balance at December 31, 2017	$	28,991	5,696	2,641	1,210	12,004	50,542

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

11. Intangible assets (continued):

Accumulated amortization		Customer assets	Patents	Trademarks	Deferred development	Computer software and licenses	Total
Balance at January 1, 2016	$	12,132	4,667	-	955	901	18,655
Amortization for the year		1,165	114	-	151	118	1,548
Balance at December 31, 2016	$	13,297	4,781	-	1,106	1,019	20,203
Amortization for the year		1,789	128	-	104	595	2,616
Effect of movements in exchange rates		(16)	(1)	-	-	(6)	(23)
Balance at December 31, 2017	$	15,070	4,908	-	1,210	1,608	22,796

Carrying amounts		Customer assets	Patents	Trademarks	Deferred development	Computer software and licenses	Total
At December 31, 2016	$	5,348	406	-	42	6,120	11,916
At December 31, 2017	$	13,921	788	2,641	-	10,396	27,746

Customer assets of $18,645, $3,874 of patents and $229 of computer software were recognized as a result of the excess purchase price over the underlying carrying amount of the intangible assets acquired as at August 5, 2005, as part of the 26.7% of Pollard sold in conjunction with the IPO. As at December 31, 2011, computer software and licenses, and patents recognized at IPO were fully amortized. IPO related customer assets will continue to be amortized until fiscal 2021.

Customer assets of $10,247, $436 of patents, $2,616 of trademarks and $2,733 of computer software were recognized as a result of the acquisition of INNOVA in the third quarter of 2017.

Amortization of intangible assets in 2017 of $2,616 (2016 – $1,548), was included in cost of sales.

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

12. Income taxes:

Income tax expense

		2017		2016
Current	$	7,902	$	5,144
Deferred (reduction)		(712)		(339)
Total	$	7,190	$	4,805

Income tax recognized in other comprehensive income (loss)

		Amount before tax	Tax benefit	2017 Amount net of tax		Amount before tax	Tax expense	2016 Amount net of tax
Defined benefit plans remeasurement loss	$	(9,875)	2,478	(7,397)	$	(1,028)	291	(737)

Reconciliation of effective tax rate

	2017		2017	2016		2016
Net income for the year		$	16,784		$	12,269
Total income tax expense			7,190			4,805
Income before income taxes		$	23,974		$	17,074
Income tax using Pollard's domestic tax rate	27.0%		6,473	27.0%		4,610
Effect of tax rates in foreign jurisdictions	4.1%		996	3.0%		515
Non-deductible amounts	3.7%		887	0.6%		106
Changes in enacted United States federal income tax rates	(9.4%)		(2,261)	(0.8%)		(133)
Adjustment related to INNOVA acquisition	5.1%		1,217	-		-
Other items	1.4%		331	1.7%		285
Effect of non-taxable items related to foreign exchange	(1.9%)		(453)	(3.4%)		(578)
	30.0%	$	7,190	28.1%	$	4,805

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

12. Income taxes (continued):

Deferred income tax assets and liabilities

Recognized deferred income tax assets and liabilities

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

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Property, plant and equipment	$ 48	19	$ (7,762)	(6,926)	$ (7,714)	(6,907)
Intangible assets	685	108	(2,082)	(3,265)	(1,397)	(3,157)
Inventories	432	364	-	-	432	364
Employee benefits	7,738	5,758	(1,488)	(1,458)	6,250	4,300
Unrealized foreign exchange (gains) and losses	393	1,611	(303)	(1,192)	90	419
Unused tax losses	1,855	-	-	-	1,855	-
Deferred revenue	182	-	-	-	182	-
Other	98	72	(71)	-	27	72
Tax assets (liabilities)	$ 11,431	7,932	$ (11,706)	(12,841)	$ (275)	(4,909)

Movement in temporary differences during the year

	Balance January 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2016
Property, plant and equipment	$ (6,199)	(708)	-	(6,907)
Intangible assets	(3,515)	358	-	(3,157)
Inventories	325	39	-	364
Employee benefits	3,743	266	291	4,300
Unrealized foreign exchange (gains) and losses	238	181	-	419
Unused tax losses	-	-	-	-
Deferred revenue	-	-	-	-
Other	(343)	415	-	72
Tax assets (liabilities)	$ (5,751)	551	291	(4,909)

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

12. Income taxes (continued):

		January 1, 2017	Recognized in profit or loss	INNOVA acquisition	Recognized in other comprehensive income	Balance December 31, 2017
Property, plant and equipment	$	(6,907)	2,104	(2,911)	-	(7,714)
Intangible assets		(3,157)	911	849	-	(1,397)
Inventories		364	52	16	-	432
Employee benefits		4,300	(1,506)	978	2,478	6,250
Unrealized foreign exchange (gains) and losses		419	(329)	-	-	90
Unused tax losses		-	193	1,662	-	1,855
Deferred revenue		-	(159)	341	-	182
Other		72	(127)	82	-	27
Tax assets (liabilities)	$	(4,909)	1,139	1,017	2,478	(275)

Recognized in the consolidated statements of financial position as follows:

		December 31, 2017		December 31, 2016
Deferred income tax asset	$	3,093	$	-
Deferred income tax liability		(3,368)		(4,909)
	$	(275)	$	(4,909)

Recognized in the consolidated statements of comprehensive income as follows:

		2017		2016
Deferred income tax reduction	$	(712)	$	(339)
Finance income		(427)		(212)
	$	(1,139)	$	(551)

Amounts included in finance income relate to unrealized foreign exchange.

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect to certain tax losses because it is not probable that future taxable profit will be available against which Pollard can use the benefits therefrom. The amount of tax losses not recognized at December 31, 2017 was $8,426 (2016 - $nil), with an estimated tax effect of $2,232 (2016 - $nil). These tax losses, related to the acquisition of INNOVA in 2017, will expire between 2034 and 2037.

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

13. Long-term debt:

		December 31, 2017		December 31, 2016
Credit facility, interest of 3.3% to 4.3%, payable monthly, maturing 2019	$	83,972	$	71,003
Equipment debt, interest of 6.72%, payable monthly, maturing 2019		189		-
Equipment lease, interest of 3.89% to 10.90% payable monthly, maturing 2019		647		-
Deferred financing charges, net of amortization		(253)		(151)
		84,555		70,852
Less current portion		(784)		-
	$	83,771	$	70,852

Credit facility

Effective June 22, 2017, Pollard renewed its credit facility. The credit facility provides loans of up to $105,000 for its Canadian operations and US$12,000 for its U.S. subsidiaries. The credit facility also includes an accordion feature which can increase the facility by $15,000. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $105,000 Canadian equivalent. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At December 31, 2017, the outstanding letters of guarantee drawn under the credit facility were $1,909 (2016 - $1,205).

Included in the total credit facility balance is a U.S. dollar loan balance of US$14,700 (2016 - US$13,400).

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including working capital ratios, debt to income before interest, income taxes, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at December 31, 2017, Pollard is in compliance with all financial covenants.

As of December 31, 2017, Pollard has unused credit facility available of $34,202 (2016 - $18,908).

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. The facility can be prepaid without penalties. Under the terms of the agreement the facility was committed for a two year period, renewable June 22, 2019.

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

13. Long-term debt (continued):

Equipment debt and leasing

Pollard's subsidiary, INNOVA, entered into agreements to purchase equipment payable in monthly installments including interest. The equipment purchased includes charitable gaming machines, machinery and equipment, and computer equipment all relating to the operations of INNOVA.

		Credit facility	Deferred financing	Equipment debt	Equipment lease	Total
Balance at January 1, 2017	$	71,003	(151)	-	-	70,852
Net proceeds (payments)		14,164	-	(193)	(451)	13,520
Payment of deferred financing charges		-	(342)	-	-	(342)
Total changes from financing cash flows		14,164	(342)	(193)	(451)	13,178
Effect of movements in exchange rates		(1,195)	-	3	10	(1,182)
INNOVA acquisition		-	-	379	1,088	1,467
Amortization of deferred financing charges		-	240	-	-	240
Total other changes		(1,195)	240	382	1,098	525
Balance at December 31, 2017	$	83,972	(253)	189	647	84,555

14. Subordinated debt:

		December 31, 2017		December 31, 2016
Subordinated debt, interest of 9.00%	$	-	$	6,132
Subordinated debt, interest of 8.00% payable quarterly, maturing 2024		16,734		-
	$	16,734	$	6,132
Less current portion		(3,585)		(1,363)
	$	13,149	$	4,769

On April 2, 2014, Pollard entered into a loan agreement with Equities for a subordinated term loan with a seven year term, repayable at any time (subject to meeting certain financial covenants under

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

14. Subordinated debt (continued):

the secured credit facility), in the amount of $6,813. The term loan was provided to assist in the purchase of a printing press. Quarterly principal payments on the subordinated loan facility commenced the quarter following June 30, 2016. Interest on the subordinated debt commenced with the first draw at a rate of 9%. 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 $25,092 was drawn in the third quarter of 2017. On September 20, 2017, Pollard repaid $7,462 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%.

The loans are fully subordinated to the secured credit facility.

15. Pension liability:

		December 31, 2017		December 31, 2016
Fair value of benefit plan assets	$	50,506	$	44,372
Present value of benefit plan obligations		(73,465)		(57,896)
Net pension liability	$	(22,959)	$	(13,524)

Pollard sponsors non-contributory defined benefit plans providing pension benefits to its employees. Pollard has four pension plans of which three are final pay plans and one is a flat benefit plan. None of the plans have indexation features. The measurement date for all the plans is December 31. The two plans of the U.S. subsidiaries require valuations annually with the last valuations being as of January 1, 2017. One of the Canadian plans of Pollard currently requires valuation every year with the last valuation as of December 31, 2016. Pollard's other Canadian plan's valuation was as of January 1, 2017. Pollard's U.S. subsidiaries also maintain three defined contribution plans. The pension expense for these defined contribution plans is the annual funding contribution by the subsidiaries.

Pollard expects to contribute approximately $4,403 to its defined benefit plans in 2018. Included in the 2018 estimated contributions is $1,140 in additional solvency payments.

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

15. Pension liability (continued):

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

	December 31, 2017	December 31, 2016
Equities	60.8%	61.5%
Bonds	36.2%	35.8%
Cash and cash equivalents	3.0%	2.7%
	100.0%	100.0%

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

	2017	2016
Benefit plan assets		
Fair value, beginning of year	$ 44,372	$ 40,073
Expected return on plan assets	1,834	1,733
Employer contributions	4,623	2,577
Benefits paid	(1,773)	(1,743)
Remeasurement gains	1,825	1,866
Effect of movements in exchange rates	(375)	(134)
Fair value, end of year	$ 50,506	$ 44,372

	2017	2016
Accrued benefit plan obligations		
Balance, beginning of year	$ 57,896	$ 51,343
Current service cost	3,934	3,464
Interest cost	2,294	2,161
Benefits paid	(1,773)	(1,743)
Remeasurement losses	11,671	2,894
Effect of movements in exchange rates	(557)	(223)
Balance, end of year	$ 73,465	$ 57,896
Net pension liability	$ (22,959)	$ (13,524)

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

15. Pension liability (continued):

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

	2017	2016
Net defined benefit plans cost		
Current service cost	$ 3,934	$ 3,464
Interest on plan obligations	2,294	2,161
Actual return on plan assets	(3,659)	(3,599)
Difference between expected return and actual return on plan assets	2,190	2,142
Net defined benefit plans cost	4,759	4,168
Defined contribution plans cost	323	249
Net pension plans cost	$ 5,082	$ 4,417

Actuarial assumptions

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

	2017	2016
Discount rate	3.4% to 3.8%	4.0% to 4.3%
Rate of compensation increase	0% to 3.0%	0% to 3.0%

Assumptions regarding future mortality have been based on published statistics and mortality tables. As of December 31, 2017, Pollard used CPM2014 Private Sector projected CPM-B mortality table for its Canadian subsidiary's pension plans and the RP-2017 healthy mortality tables for its U.S. subsidiary's pension plans. As of December 31, 2016, Pollard used CPM2014 Private Sector projected CPM-B mortality table for its Canadian subsidiary's pension plans and the RP-2016 healthy mortality tables for its U.S. subsidiary's pension plans.

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

15. Pension liability (continued):

Sensitivity analysis

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

		Increase		Decrease
Discount rate (1% movement)	$	(13,868)	$	18,604
Rate of compensation increase (1% movement)	$	1,974	$	(1,800)
Future mortality (one year)	$	1,005	$	(1,012)

Remeasurements

		2017		2016
Remeasurement gains arising on plan assets	$	1,825	$	1,866

Remeasurement (gains) losses arising on plan liabilities from:				
Demographic assumptions	$	589	$	(81)
Financial assumptions		8,698		3,223
Experience adjustments		2,384		(248)
Remeasurement losses arising on plan liabilities	$	11,671	$	2,894

Remeasurements recognized in other comprehensive income

		2017		2016
Amount accumulated in deficit, beginning of year	$	(11,996)	$	(11,259)
Recognized during the year		(7,397)		(737)
Amount accumulated in deficit, end of year	$	(19,393)	$	(11,996)

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

16. Share capital:

		December 31, 2017		December 31, 2016
Authorized				
Unlimited common shares				
Unlimited preferred shares				
Issued				
23,543,158 common shares	$	73,209	$	73,209
	$	73,209	$	73,209

Ownership restrictions:

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

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

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

16. Share capital (continued):

Capital management:

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

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

Pollard monitors capital on the basis of funded debt to Adjusted EBITDA, working capital ratio and debt service coverage. Pollard has externally imposed capital requirements as determined through its bank credit facility. As at December 31, 2017, Pollard is in compliance with all financial covenants.

Dividends:

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

On November 8, 2017, a dividend of $0.03 per share was declared, payable on January 15, 2018, to the shareholders of record on December 31, 2017.

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

Share based compensation:

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares.

On March 5, 2014, the Board of Directors approved the award of 100,000 options to purchase common shares of Pollard for certain key management personnel. The options were granted on March 10, 2014, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on March 7, 2014.

On September 7, 2016, the Board of Directors approved the award of 25,000 options to purchase common shares of Pollard for a key management member. The options were granted on October 3, 2016, and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on September 30, 2016.

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

16. Share capital (continued):

On March 13, 2017, the Board of Directors approved the award of 125,000 options to purchase common shares of Pollard for certain key management personnel. The options were granted on April 24, 2017 and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on April 21, 2017.

The grant date fair value of these options was determined based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values of the share based compensation granted are the following:

Option grant date	April 24, 2017	October 3, 2016	March 10, 2014
Fair value at grant date	$ 2.27	$ 1.87	$ 0.82
Share price	$ 10.00	$ 8.12	$ 3.63
Exercise price	$ 10.00	$ 8.12	$ 3.63
Expected volatility	29.3%	30.7%	33.7%
Option life (expected weighted average life)	4.75 years	4.75 years	4.75 years
Risk-free interest rate (based on Canadian government bonds)	0.6% to 0.7%	0.6% to 0.7%	1.7% to 2.1%

	2017		2016	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of year	125,000	$ 4.53	100,000	$ 3.63
Granted during the year	125,000	$ 10.00	25,000	$ 8.12
Balance at end of year	250,000	$ 7.26	125,000	$ 4.53

As of December 31, 2017, no share options had been exercised or expired. Of the 250,000 options outstanding at December 31, 2017, 81,250 were exercisable.

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

17. Commitments and contingencies:

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

2018	$	5,727
2019		4,336
2020		3,733
2021		2,982
2022		2,562
Thereafter		1,867

Pollard is contingently liable for outstanding letters of guarantee in the amount of $1,909 at December 31, 2017 (2016 - $1,205). These letters of guarantee are part of Pollard's credit facility and are secured as disclosed in note 13.

During 2008 Pollard entered into a sale leaseback with an affiliate of Equities for land and building in Council Bluffs, Iowa. The property was sold for $4,081 and leased back for ten years at an annual lease rate of approximately US$260. The sale value was determined through independent appraisal.

Also in 2008 Pollard entered into a lease with an affiliate of Equities for a manufacturing facility in Winnipeg, Manitoba. The lease was for a 12 year 6 month period, ending March 31, 2021, at an annual base rate of approximately $2,453. In 2015, Pollard agreed to exercise its renewal clause. The renewal covers the period from April 2021 to September 2023 with an approximate annual lease rate of $2,400, including an annual amortization of a leasehold improvement allowance of approximately $1,000. The total leasehold allowance is $2,500. The base rental rate was based on current market value as determined through independent appraisal.

During 2011 Pollard entered into a sale leaseback with an affiliate of Equities for land and building in Winnipeg, Manitoba. The property was sold for $3,473 and leased back for five years (with an option to renew for an additional five year term) at an annual lease rate of approximately $313. The sale value was determined through independent appraisal. During 2016, Pollard exercised its option to renew its lease for an additional five year term for annual rent of $363 per year. The rental rate was based on current market value as determined through independent appraisal.

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

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

17. Commitments and contingencies (continued):

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

18. Other (income) expenses:

		2017		2016
Loss on equity investment (note 9)	$	1,727	$	730
EBITDA support agreement		(825)		-
Loss on sale of property, plant and equipment		74		-
Gain on sale of investment in associate		-		(516)
Other income		(301)		(246)
	$	675	$	(32)

EBITDA support agreement

One of Pollard's subsidiaries, INNOVA, previously entered into an EBITDA support agreement with Amaya Inc. pursuant to which, subject to certain terms and conditions, Amaya Inc. will pay INNOVA each year for up to five years from July 1, 2015, an amount equal to the shortfall, if any, between (i) INNOVA's EBITDA directly or indirectly derived from the deployment of INNOVA's products at certain entertainment centers or in connection with INNOVA's relationship with a certain customer, and (ii) $2,000. This agreement remains in effect after the acquisition of INNOVA's common shares by Pollard.

Gain on sale of investment in associate

During the second quarter 2016, Pollard sold its investment in Shenzhen Palm Commerce & Pollard Banknote Technology Co., Ltd. to Palm Commerce Information and Technology (China) Co., Ltd., the majority shareholder, for proceeds of US$400.

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

19. Finance costs and finance income:

Finance costs	2017	2016
Foreign exchange loss	$ 211	$ 681
Interest	3,722	3,374
Amortization of deferred financing costs	239	226
	$ 4,172	$ 4,281

Finance income	2017	2016
Foreign exchange gain	$ 1,104	$ 1,042
	$ 1,104	$ 1,042

20. Net income per share:

	2017	2016
Net income attributable to shareholders for basic and diluted net income per share	$ 16,784	$ 12,269
Weighted average number of shares (basic)	23,543,158	23,543,158
Weighted average impact of share options	212,329	106,216
Weighted average number of shares (diluted)	23,755,487	23,649,374
Net income per share (basic)	$ 0.71	$ 0.52
Net income per share (diluted)	$ 0.71	$ 0.52

21. Personnel expenses:

	2017	2016
Wages and salaries	$ 84,718	$ 70,851
Benefits and government payroll remittances	12,327	11,645
Profit share	2,792	2,028
Expenses related to defined contribution plans	323	249
Expenses related to defined benefit plans	4,759	4,168
	$ 104,919	$ 88,941

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

22. Supplementary cash flow information:

	2017	2016
Change in non-cash operating working capital:		
Accounts receivable	$ 632	$ (14,724)
Inventories	(3,184)	(3,657)
Prepaid expenses and deposits	(1,236)	182
Income taxes payable	(1,086)	(417)
Accounts payable and accrued liabilities	2,877	1,696
Deferred revenue	(882)	-
	$ (2,879)	$ (16,920)

23. Related party transactions:

Pollard Equities Limited and affiliates

During the year ended December 31, 2017, Pollard paid property rent of $3,177 (2016 - $3,146) and $379 (2016 - $357) in plane charter costs to affiliates of Equities. In addition, during the year, Pollard paid Equities $1,006 (2016 - $592) interest on Pollard's subordinated debt.

During the year, Equities paid Pollard $72 (2016 - $72) for accounting and administration fees.

At December 31, 2017, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, expenses and other items of $1,900 (2016 - $907).

Neogames S.à r.l. and affiliates

During the year ended December 31, 2017, Pollard reimbursed operating costs and paid software royalties of $2,878 (2016 - $1,755) to its iLottery partner, which are recorded in cost of sales and $nil (2016 - $633) of development costs.

At December 31, 2017, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of $698 (2016 - $789) for reimbursement of operating costs and capital expenditures, and its share of operating profits.

Key management personnel

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

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

23. Related party transactions (continued):

Key management personnel compensation comprised:

		2017		2016
Wages, salaries and benefits	$	3,115	$	2,631
Profit share		22		14
Expenses related to defined benefit plans		512		447
	$	3,649	$	3,092

As at December 31, 2017, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,431,658 common shares of Pollard.

24. Sales to major customers:

For the year ended December 31, 2017, sales to one customer amounted to 12.0 percent of consolidated sales and 11.7 percent to a second customer. In 2016 sales to one customer amounted to 16.7 percent of consolidated sales.

25. Segmented information:

Pollard has two reportable segments: Instant ticket and Diamond Game (INNOVA), which are Pollard's strategic business units. The strategic business units offer different products and services, and are managed separately. For each of the strategic business units, Pollard's Co-CEO's review internal management reports on a monthly basis. The Diamond Game (INNOVA) segment was acquired August 3, 2017, therefore in 2016 Pollard had only one segment.

The Instant ticket segment derives its revenues from the manufacture of instant tickets and related products. The Diamond Game (INNOVA) segment derives its revenues from the development of game systems.

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

25. Segmented information (continued):

There was no inter-segment revenue.

Segment information about profits and assets is as follows:

	2017		
	Instant ticket	Diamond Game (INNOVA)	Total
Sales from external customers	$ 275,387	$ 10,267	$ 285,654
Operating costs and expenses	251,433	10,246	261,679
Income before income taxes	23,953	21	23,974
Total assets	173,605	54,669	228,274

	2017	2016
Sales:		
Canada	$ 64,302	$ 49,399
U.S.	159,583	134,130
Other	61,769	62,885
	$ 285,654	$ 246,414

	December 31, 2017	December 31, 2016
Property, plant and equipment and goodwill:		
Canada	$ 63,188	$ 43,893
U.S.	42,899	40,526
	$ 106,087	$ 84,419

26. Financial instruments:

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

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

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

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

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

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

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

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

Level 3 - valuation techniques with significant unobservable market inputs

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

As at December 31, 2017, the cash and restricted cash recorded at fair value was classified as level one of the fair value hierarchy.

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

27. Financial risk management:

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

Credit risk
Liquidity risk
Currency risk
Interest rate risk

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Audit Committee oversees how management monitors compliance with Pollard's risk management policies and procedures. The Audit Committee is assisted in its oversight role by Internal Audit, who undertakes regular reviews of risk management controls and utilizes the annual risk assessment process as the basis for the annual internal audit plan.

Credit risk

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

	December 31, 2017	December 31, 2016
Current	$ 37,786	$ 36,670
Past due for 1 to 60 days	2,635	1,530
Past due for more than 60 days	366	449
Less: Allowance for doubtful accounts	(38)	(64)
	$ 40,749	$ 38,585

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due.

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

27. Financial risk management (continued):

The following table outlines Pollard's maturity analysis of the undiscounted cash flows, including related interest payments, of certain non-current financial liabilities and leases as of December 31, 2017:

		Total	2018	2019 - 2020	2021 - 2022	After
Long-term debt	$	89,250	3,571	85,679	-	-
Subordinated debt		19,913	4,792	8,723	6,398	-
Operating leases		21,207	5,727	8,069	5,544	1,867
	$	130,370	14,090	102,471	11,942	1,867

Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In addition, Pollard maintains a committed credit facility including up to $105,000 for its Canadian operations and up to US$12,000 for its U.S. subsidiaries. At December 31, 2017, the unused balance available for drawdown under the credit facility was $34,202 (2016 - $18,908).

The 2018 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and the unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to some international customers where sales are denominated in U.S. dollars. In addition, a significant portion of its cost inputs are denominated in U.S. dollars. Pollard also generates revenue in currencies other than the Canadian and U.S. dollar, primarily in Euros.

A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and U.S. dollar would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $147 for year ended December 31, 2017 (2016 - $64). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian dollar and Euro would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $65 for year ended December 31, 2017 (2016 - $64).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. As at December 31, 2017, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets

27. Financial risk management (continued):

denominated in U.S. dollars by approximately $1,305 (2016 - $1,552). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in income before taxes of approximately $7 for the year ended December 31, 2017 (2016 - $8).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Three manufacturing facilities are located in the U.S. and a significant amount of cost inputs for all production facilities are denominated in U.S. dollars, offsetting a large portion of the U.S. dollar revenue in a natural hedge.

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At December 31, 2017, Pollard had no outstanding foreign currency contracts.

Interest rate risk

Pollard is exposed to interest rate risk relating to its fixed and floating rate instruments. Fluctuation in interest rates will have an effect on the valuation and repayment of these instruments.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately $423 for the year ended December 31, 2017 (2016 - $355).

28. Subsequent events:

International Gamco, Inc.

On February 1, 2018, Pollard Holdings, Inc., a wholly-owned subsidiary of Pollard, acquired 100% of the common shares of International Gamco, Inc. for a total consideration of $21,648.

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.

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.

28. Subsequent events (continued):

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 $38,200.

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

The Board of Directors of Pollard Banknote Limited

Gordon Pollard EXECUTIVE CHAIR
Dave Brown[1]
Jerry Gray[1,2]
Garry Leach[1]
John Pollard
Douglas Pollard

[1] Member of the Audit Committee, Compensation Committee and the Governance and Nominating Committee
[2] Lead Director

Senior Management

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Douglas Pollard
CO-CHIEF EXECUTIVE OFFICER

Paul Franzmann
EXECUTIVE VICE PRESIDENT, CORPORATE DEVELOPMENT

Pedro Melo
EXECUTIVE VICE PRESIDENT, INFORMATION TECHNOLOGY

Riva Richard
GENERAL COUNSEL AND EXECUTIVE VICE PRESIDENT, LEGAL AFFAIRS

Robert Rose
EXECUTIVE VICE PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

Jennifer Westbury
EXECUTIVE VICE PRESIDENT, SALES AND CUSTOMER DEVELOPMENT

Robert Young
EXECUTIVE VICE PRESIDENT, OPERATIONS

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Toronto, Ontario

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Winnipeg, Manitoba

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ANNUAL REPORT

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