News Release

POLLARD BANKNOTE REPORTS 4TH QUARTER AND ANNUAL FINANCIAL RESULTS AND ANNOUNCES DIVIDEND INCREASE

WINNIPEG, Manitoba, March 13, 2019 /CNW/ - Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three months and year ended December 31, 2018, reporting record annual revenue and announcing a 33% increase in dividend rate.

"Notwithstanding a temporary slowdown in instant ticket orders and deliveries, and foreign exchange headwinds in the fourth quarter, 2018 overall was a very good year on a number of fronts," stated John Pollard, Co-Chief Executive Officer. "We are very pleased with the foundation we are building to be the partner of choice within the lottery and charitable gaming industries. Our 2018 record annual revenue exceeded $330 million and income from operations was close to $30 million, the highest level in our over one-hundred year history. Our cash generation remained strong with almost $40 million in cash generated from operating activities."

"2018 witnessed a number of significant achievements for our organization. We acquired International Gamco, Inc. in February of 2018 and we are happy to report that the producer of charitable gaming products and Oasis branded eGaming machines has integrated very successfully with our existing operations including both American Games and Diamond Game."

"On October 31 we acquired the operating business of Schafer Systems, the leader in retail point of sale ticket distribution in the lottery market. The leading-edge products produced by this 30 year old operation, combined with their deep knowledge of how to increase instant ticket sales at retail, provide a tremendous fit for our strategic vision to be the partner of choice to help lotteries increase their sales. While still early, we are very pleased with the Schafer results and the collaboration already under way within Pollard."

"Our first full year of owning Diamond Game continues to yield very positive results, highlighted in 2018 with the entrance and development of a new jurisdiction for eGaming machines, North Dakota. The roll out was very successful and with 250 machines currently deployed and more projected as the market develops, we remain confident the Diamond Game and Oasis eGaming machines are an important product alternative for lotteries and the charitable gaming market."

“We were also successful earlier in the year in a common share equity issue, which raised approximately $38 million, before expenses. We are very appreciative of the support shown by our shareholders both at the time of the issue and throughout the year.”

“Our strong overall financial and operational achievements in 2018 were impacted by a temporary slowdown in instant ticket orders and deliveries, and a weakened Canadian dollar in the fourth quarter of 2018. As previously disclosed in our third quarter reporting, our instant ticket order level was lower in the fourth quarter compared to the previous fiscal quarters of 2018, which negatively impacted our income from operations, net income and Adjusted EBITDA. The lower orders were not as a result of any lost contracts or any systemic change in lottery or consumer demand. Lottery order patterns can be somewhat variable depending on launch plans, inventory levels, size of individual games and overall marketing initiatives, and during the fourth quarter a number of existing customers had lower orders based on these factors. Our production volumes were down about 15% compared to our production levels in the first nine months of 2018. The drop in production volumes combined with the fixed nature of much of our cost structure in the short term significantly reduced our earnings.”

“In addition to the lower production volumes, approximately 14% of our actual fourth quarter production was not recognized in revenue due to the timing of shipments. All of our instant tickets produced are pre-sold, however revenue recognition accounting standards do not allow revenue to be recorded until the customer controls the product. This reduction in sales volume, over and above the lower production volumes, further negatively impacted our fourth quarter earnings. The majority of the earnings relating to these deferred volumes will be recognized in the first quarter of 2019. This deferral of revenue is similar to what we experienced in the first quarter of 2017, when the revenue recognition of a significant portion of our production was delayed until the next quarter.”

“The lower production volume and the delay in recognizing the revenue associated with a portion of the tickets produced combined to lower our income before operations and Adjusted EBITDA by approximately $6 million.”

“We believe our first quarter and full year 2019 Adjusted EBITDA will return to expected levels. Our contract portfolio remains unchanged from last year and with continued overall industry growth and a number of instant ticket contract RFP opportunities underway, we remain confident in the outlook for growing volumes in our instant ticket business.”

“Finally, the Canadian dollar weakened significantly towards the end of 2018, generating a large unrealized foreign exchange loss of approximately $3 million as we increased our U.S. dollar denominated debt through 2018 in order to finance the purchase of our new American based businesses. Accounting standards require our foreign exchange losses on the debt to be recorded as a loss in the income statement, however the offsetting increase in value of the U.S. dollar denominated assets is not recorded in the income statement. Unrealized foreign exchange losses do not impact cash flows or Adjusted EBITDA."

"At its meeting today, the Board of Directors was pleased to increase Pollard's regular quarterly common share dividend from 3 cents per common share to 4 cents per common share, an annualized rate of $0.16 from $0.12 per share, commencing with the dividend payable on April 15, 2019."

"Our Directors have recognized our strong growth in cash flow from operations and confidence in our future business vision", commented Doug Pollard, Co-Chief Executive Officer. "This dividend increase reflects the positive results generated during this past year as well as the expected continued growth in our instant ticket lottery business and expanding ancillary operations including charitable gaming and digital offerings. We are committed to provide a reasonable dividend return to our shareholders while at the same time retaining sufficient funds to continue our investments in growth capital and acquisitions. One of the strengths of our business is the high cash conversion rate of our Adjusted EBITDA which supports ongoing growth and shareholder returns simultaneously."

"Our industry remains on the rise, with increasing opportunities to grow in new ways in order to enable our customers to generate the funds needed for their good causes. Our lottery contract portfolio remains solid including recent wins and extensions with key customers like Texas Lottery and Western Canada Lottery Corporation. With our ancillary products like loyalty programs, sales force automation and the addition of the Schafer dispensing expertise, Pollard continues to be the thought leader with lotteries worldwide. At the heart of these offerings is our commitment to innovation. We also remain committed to expanding though strategic acquisitions to augment our offerings."

"While we are disappointed with our fourth quarter results, overall 2018 was another successful year for Pollard and we remain very confident in our future as a leader in the expanding lottery and charitable gaming world," concluded John Pollard. "We believe that our long-term future financial results will reflect our ongoing success in growing our instant ticket and ancillary services business. At the same time we are adding key additional resources through strategic acquisitions, which supports our position as partner of choice to lottery organizations throughout the world."

Use of Non-GAAP Financial Measures

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

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.

HIGHLIGHTS	Three months ended December 31, 2018	Three months ended December 31, 2017
Sales	$ 70.2 million	$ 79.6 million
Gross profit	$ 13.3 million	$ 17.5 million
Gross profit % of sales	*18.9%*	*22.0 %*
Administration expenses	$ 7.9 million	$ 7.5 million
Selling expenses	$ 3.6 million	$ 2.6 million
Net income (loss)	($ 1.9 million)	$ 4.3 million
Adjusted EBITDA:		
Lotteries and charitable gaming	$ 4.9 million	$ 10.1 million
Diamond Game	$ 2.6 million	$ 2.9 million
Total adjusted EBITDA	$ 7.5 million	$ 13.0 million

	Year ended December 31, 2018	Year ended December 31, 2017
Sales	$ 331.9 million	$ 285.6 million
Gross profit	$ 75.7 million	$ 65.7 million
Gross profit % of sales	*22.8 %*	*23.0 %*
Administration expenses	$ 32.2 million	$ 28.6 million
Selling expenses	$ 13.4 million	$ 9.4 million
Net income	$ 14.9 million	$ 16.8 million
Adjusted EBITDA:		
Lotteries and charitable gaming	$ 38.4 million	$ 40.0 million
Diamond Game	$ 10.4 million	$ 4.0 million
Total adjusted EBITDA	$ 48.8 million	$ 44.0 million

POLLARD BANKNOTE LIMITED

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

Results of Operations – Year ended December 31, 2018

SELECTED FINANCIAL INFORMATION

(millions of dollars)	**Year ended December 31, 2018**	**Year ended December 31, 2017**
Sales	$331.9	$285.6
Cost of sales	256.2	219.9
Gross profit	75.7	65.7
Administration expenses	32.2	28.6
Selling expenses	13.4	9.4
Other expenses	0.4	0.7
Income from operations	29.7	27.0
Finance costs	9.8	4.1
Finance income	(0.9)	(1.1)
Income before income taxes	20.8	24.0
Income taxes:		
Current	5.2	7.9
Future (reduction)	0.7	(0.7)
	5.9	7.2
Net income	$14.9	$16.8
Adjustments:		
Amortization and depreciation	18.0	13.1
Interest	4.2	3.9
Unrealized foreign exchange loss (gain)	4.6	(1.4)
Acquisition costs	0.8	2.7
Severance costs	0.4	1.7
Income taxes	5.9	7.2
Adjusted EBITDA	$48.8	$44.0
Lotteries and charitable gaming	$38.4	$40.0
Diamond Game	10.4	4.0
Total Adjusted EBITDA	$48.8	$44.0

	December 31, 2018	December 31, 2017
Total Assets	$305.6	$228.3
Total Non-Current Liabilities	$142.9	$124.8

The selected financial and operating information has been derived from, and should be read in conjunction with, the consolidated financial statements of Pollard, as at and for the year ended December 31, 2018. These financial statements have been prepared in accordance with the International Financial Accounting Standards ("IFRS" or "GAAP").

On February 1, 2018, Pollard acquired International Gamco, Inc. ("Gamco"). Therefore, Gamco's financial results have been included in Pollard's consolidated financial statements for the remainder of the year.

On October 31, 2018, Pollard acquired substantially all the operating assets and business of Schafer Systems Inc. ("Schafer"). Therefore, Schafer's financial results have been included in Pollard's consolidated financial statements for the remainder of the year.

Results of Operations – Year ended December 31, 2018

Sales

During the year ended December 31, 2018 ("Fiscal 2018" or "2018"), Pollard achieved sales of $331.9 million, compared to $285.6 million in the year ended December 31, 2017 ("Fiscal 2017" or "2017"). Factors impacting the $46.3 million sales increase were:

Higher instant ticket sales volumes in the first three quarters of 2018, which were substantially offset by lower sales volumes in the fourth quarter of 2018, increased sales slightly by $1.3 million compared to Fiscal 2017. Additionally, higher instant ticket average selling price increased sales by $1.8 million when compared to 2017. An increase in ancillary instant ticket products and services volumes grew revenue by $0.5 million. This increase primarily resulted from sales due to the addition of Schafer, beginning November 1, 2018, and higher iLottery revenues, partially offset by lower licensed product sales in 2018.

After the first nine months of 2018 our instant ticket volumes were on track to be significantly higher than Fiscal 2017. However, a temporary reduction in orders from our customers in the fourth quarter resulted in Fiscal 2018 sales and production volumes roughly equaling 2017. Our order volumes for the first quarter of 2019 have returned to similar levels of the first three quarters of 2018. In addition, approximately 15% of the instant tickets produced in the fourth quarter 2018 were not recognized in sales due to the timing of shipments but are anticipated to be recognized in the first quarter of 2019.

The addition of Diamond Game in August 2017 added $15.5 million in sales to Fiscal 2018 when compared to 2017. An increase in charitable gaming volumes, primarily as a result of the acquisition of Gamco, including its Oasis division's sale of electronic pull-tab machines into the North Dakota market, increased sales by $26.7 million from 2017. A higher average selling price for charitable games in 2018 further increased sales by $1.1 million.

During Fiscal 2018, Pollard generated approximately 69.8% (2017 – 69.4%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2018 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.292 compared to an average rate of $1.304 during Fiscal 2017. This 1.0% decrease in the U.S. dollar value resulted in an approximate decrease of $1.5 million in revenue relative to Fiscal 2017. Also during 2018 the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.9 million in revenue relative to 2017.

Cost of sales and gross profit

Cost of sales was $256.2 million in Fiscal 2018 compared to $219.9 million in Fiscal 2017. Cost of sales was higher in Fiscal 2018 primarily as a result of the inclusion of Gamco and Schafer, and a full year of Diamond Game, as well as the slight increase in instant ticket sales volumes.

Gross profit was $75.7 million (22.8% of sales) in Fiscal 2018 compared to $65.7 million (23.0% of sales) in Fiscal 2017. This increase of $10.0 million in gross profit was primarily the result of the addition of Gamco and Schafer, and a full year of Diamond Game, which increased gross margin by approximately $11 million. Gross profit generated from the lotteries and charitable gaming business (excluding acquisitions) declined approximately $1 million due to lower licensed games sales and lower gross margin on slightly lower instant ticket production volumes year over year. The significant reduction in the fourth quarter instant ticket production volumes resulted in the total production volume for Fiscal 2018 being slightly lower than Fiscal 2017. The gross profit percentage was slightly lower due to the small decrease in instant ticket production volumes and a reduction in license product sales, partially offset by higher iLottery sales.

Administration expenses

Administration expenses increased to $32.2 million in Fiscal 2018 from $28.6 million in Fiscal 2017. The increase of $3.6 million was partially a result of the inclusion of Gamco and Schafer, and a full year of Diamond Game. Additional reasons for the increase were higher compensation expenses to support Pollard's growth strategies of acquisition and digital innovation, as well as increased professional fees and IT infrastructure related expenses totaling approximately $2 million. These increases were partially offset by the $1.9 million reduction in acquisition costs and $1.3 million reduction in severance costs as compared to 2017.

Selling expenses

Selling expenses increased to $13.4 million in Fiscal 2018 from $9.4 million in Fiscal 2017 primarily due to the addition of Gamco and Diamond Game for an entire year in 2018, as well as higher compensation costs. These increases were partially offset by a decrease in contract support costs.

Other expenses

Other expenses decreased to $0.4 million in Fiscal 2018 from $0.7 million in 2017, primarily due to the increase in the income from the EBITDA support agreement with a full year of Diamond Game, partially offset by the increased loss on equity investment.

Foreign exchange

The net foreign exchange loss was $4.7 million in Fiscal 2018 compared to a net gain of $0.9 million in Fiscal 2017. The 2018 net foreign exchange loss consisted of a $4.6 million unrealized loss primarily as a result of the increased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt with the weakening of the Canadian dollar relative to the U.S. dollar. In 2018 Pollard added almost $29 million of U.S. dollar denominated debt, with the acquisitions of Gamco and Schafer, which is subject to revaluation through the income statement. At December 31, 2018, the Canadian dollar had weakened relative to the U.S. dollar, resulting in the substantial unrealized foreign exchange loss.

In addition to the unrealized foreign exchange loss in 2018, Pollard incurred a realized foreign exchange loss of $0.1 million as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2017 net foreign exchange gain consisted of a $1.4 million unrealized gain primarily as a result of the decreased Canadian equivalent value of U.S. dollar 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.

Adjusted EBITDA

Adjusted EBITDA was $48.8 million in Fiscal 2018 compared to $44.0 million in Fiscal 2017. The primary reasons for the increase in Adjusted EBITDA of $4.8 million were the increase in gross profit of $14.9 million (net of amortization and depreciation), a decrease in other expenses of $0.3 million and a decrease in realized foreign exchange loss of $0.4 million. These increases to Adjusted EBITDA were partially offset by higher administration expenses (net of acquisition and severance costs) of $6.8 million and an increase in selling expenses of $4.0 million.

Our lotteries and charitable gaming business, excluding our 2018 acquisition of Gamco, generated approximately $5.0 million lower Adjusted EBITDA compared to Fiscal 2017. Gross profit decreased by approximately $3.0 million (excluding depreciation and amortization) due to lower licensed games sales and higher costs of goods sold despite slightly lower instant ticket production volumes. Higher administration costs (excluding acquisition costs) increased by approximately $2.0 million primarily due to higher compensation expenses to support Pollard's growth strategies of acquisition and digital innovation, as well as increased professional fees and IT infrastructure related expenses

These decreases in lotteries and charitable gaming Adjusted EBITDA were partially offset by acquisitions of Gamco and Schafer, and the full year impact of Diamond Game, totaling approximately $9.8 million.

Interest expense

Interest expense increased to $4.2 million in Fiscal 2018 from $3.9 million in Fiscal 2017 primarily as a result of the additional interest expense related to increased long-term debt incurred with the acquisitions of Gamco and Schafer.

Amortization and depreciation

Amortization and depreciation, including depreciation of property and equipment and the amortization of intangible assets, totaled $18.0 million during Fiscal 2018 which increased from $13.1 million during Fiscal 2017. The increase was a result of the addition of Diamond Game, Gamco and Schafer including the amortization and depreciation relating to the purchase price allocations to tangible and intangible assets acquired.

Income taxes

Income tax expense was $5.9 million in Fiscal 2018, an effective rate of 28.5%, which was higher than our domestic rate of 27.0% due primarily to non-deductible amounts relating to expenses incurred in the acquisitions and the effect of foreign exchange. Partially offsetting these increases was the lower federal income tax rates in the United States.

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

Net income

Net income was $14.9 million in Fiscal 2018 compared to net income of $16.8 million in Fiscal 2017. Our lotteries and charitable gaming business generated lower net income compared to 2017 due to the lower instant ticket production and sales volumes combined with the large unrealized foreign exchange loss. Partially offsetting these decreases were the net income associated with the 2018 acquisitions and the inclusion of a full year of Diamond Game.

Specifically the reasons for the decrease in net income were the increase in net foreign exchange loss of $5.6 million, the increase in administration expenses of $3.6 million, the increase in selling expenses of $4.0 million and the increase in interest expense of $0.3 million. Partially offsetting these decreases in net income were the increase in gross profit of $10.0 million, the decrease in other expenses of $0.3 million and the decrease in income taxes of $1.3 million.

Earnings per share (basic and diluted) decreased to $0.58 per share in Fiscal 2018 from $0.71 per share in Fiscal 2017.

Results of Operations – Three months ended December 31, 2018

SELECTED FINANCIAL INFORMATION

(millions of dollars)	**Three months ended December 31, 2018**	**Three months Ended December 31, 2017**
	(unaudited)	(unaudited)
Sales	$70.2	$79.6
Cost of sales	56.9	62.1
Gross profit	13.3	17.5
Administration	7.9	7.5
Selling	3.6	2.6
Other income	(0.1)	-
Income from operations	1.9	7.4
Finance costs	4.2	1.3
Income (loss) before income taxes	(2.3)	6.1
Income taxes:		
Current (recovery)	(0.4)	1.5
Future	-	0.3
	(0.4)	1.8
Net income (loss)	($1.9)	$4.3
Adjustments:		
Amortization and depreciation	5.3	4.5
Interest	1.2	1.3
Unrealized foreign exchange loss	3.1	0.5
Acquisition costs	0.2	0.3
Severance costs	-	0.3
Income taxes (recovery)	(0.4)	1.8
Adjusted EBITDA	$7.5	$13.0
Lotteries and charitable gaming	$4.9	$10.1
Diamond Game	2.6	2.9
Total Adjusted EBITDA	$7.5	$13.0

Results of Operations – Three months ended December 31, 2018

During the three months ended December 31, 2018, Pollard achieved sales of $70.2 million, compared to $79.6 million in the three months ended December 31, 2017. Factors impacting the $9.4 million sales decrease were:

Instant ticket sales volumes for the fourth quarter of 2018 were significantly lower, 31.9%, than the fourth quarter of 2017, which decreased sales by $19.4 million. The reduction in instant ticket volumes was two-fold. Production orders were down almost 15% from the fourth quarter of 2017 due to a temporary decline in orders from our customer portfolio as a number of our larger customers had lower orders during the quarter. The reduction in order volumes was temporary and reflects the variability of order patterns and the nature of our sales mix with relatively few orders of a large dollar amount. With the start of the first quarter of 2019 our production volumes and order levels have returned to similar levels experienced in the first three quarters of 2018.

Secondly, approximately 14% of the tickets produced in the quarter did not meet the revenue recognition standards primarily because shipments to the lotteries were not required until early 2019. This is similar to the situation that occurred in the first quarter of 2017 when timing of customer receipts delayed the revenue recognition of produced tickets until the next quarter. We anticipate a majority of these deferred sales volumes to be shipped and recognized in the first quarter of 2019. The impact of these factors resulted in an approximate reduction in Adjusted EBITDA of $6.0 million. A decrease in the average selling prices of instant tickets further reduced sales by $0.4 million.

Partially offsetting these decreases was an increase in our ancillary instant ticket products and services volumes, primarily sales from the addition of Schafer, increased iLottery revenues, and partially offset by lower licensed product sales. The net of these increased revenue by $1.5 million.

The increase in charitable gaming volumes, primarily as a result of the addition of Gamco, increased sales by $7.1 million from 2017, including its Oasis division's sale of electronic pull-tab machines into the North Dakota market. Also the higher average selling price for charitable games in 2018 further increased sales by $0.4 million.

During the three months ended December 31, 2018, Pollard generated approximately 80.5% (2017 – 67.1%) 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 2018 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.311, compared to an average rate of $1.275 during the fourth quarter of 2017. This 2.9% increase in the value of the U.S. dollar resulted in an approximate increase of $1.4 million in revenue relative to 2017.

Cost of sales was $56.9 million in the fourth quarter of 2018 compared to $62.1 million in the fourth quarter of 2017. Cost of sales was lower in the quarter as a result of the decrease in instant ticket volumes discussed above. Partially offsetting the decrease was increases in cost of goods sold incurred with the inclusion of Gamco and Schafer as compared to the fourth quarter of 2017.

Gross profit was $13.3 million (18.9% of sales) in the fourth quarter of 2018 compared to $17.5 million (22.0% of sales) in the fourth quarter of 2017. This decrease in gross profit was primarily the result of the decrease in instant ticket production and sales volumes. The decrease in our order volumes was temporary and reflects the variability of our order patterns and the nature of our sales mix with relatively few orders of a large dollar amount. With the start of the first quarter of 2019 our production volumes and order levels have returned similar to the levels experienced in the first three quarters of 2018.

Partially offsetting this reduction in gross profit was the gross profit earned by Gamco and Schafer and increased iLottery gross profits. The gross profit percentage was lower due to the decrease in instant tickets volumes, partially offset by increased sales of ancillary instant ticket products and services, including higher iLottery sales, and the inclusion of Gamco and Schafer.

Administration expenses increased to $7.9 million in the fourth quarter of 2018 compared to $7.5 million in the fourth quarter of 2017. The increase was partially a result of the inclusion of Schafer and Gamco in 2018. Additional reasons for the increase were higher compensation expenses to support Pollard's growth strategies of digital innovation, as well as increased professional fees. These increases were partially offset by a reduction in Diamond Game compensation and severance costs compared to 2017.

Selling expenses increased to $3.6 million in the fourth quarter of 2018 from $2.6 million in the fourth quarter of 2017. The increase was primarily as a result of the inclusion of Schafer and Gamco, in addition to higher selling related costs in Diamond Game when compared to 2017. Partially offsetting these increases was a decrease in contract support costs.

The net foreign exchange loss was $3.0 million in the fourth quarter of 2018 compared to a net loss of $nil in the fourth quarter of 2017. The 2018 net foreign exchange loss consisted of a $3.1 million unrealized loss primarily as a result of the increased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the weakening of the Canadian dollar relative to the U.S. dollar. The Canadian dollar weakened approximately 5.5% since the beginning of the fourth quarter of 2018 and this movement, combined with higher U.S. dollar denominated debt relating to the acquisitions, generated a substantial unrealized foreign exchange loss. The unrealized foreign exchange 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 exchanges rates.

The 2017 net foreign exchange loss consisted of a $0.5 million unrealized loss which was primarily as 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.

Adjusted EBITDA was $7.5 million in the fourth quarter of 2018 compared to $13.0 million in the fourth quarter of 2017. The primary reason for the reduction were the lower sales and production volumes of instant tickets noted above which negatively impacted Adjusted EBITDA by approximately $6.0 million. In addition, the increase in administration expenses (net of severance and acquisition costs) of $0.8 million, an increase in selling expenses of $1.0 million and the decrease in the realized foreign exchange gain of $0.4 million further lowered Adjusted EBITDA. The 2018 acquisitions increased Adjusted EBITDA by approximately $3.0 million.

Interest expense was $1.2 million in the fourth quarter of 2018 consistent with $1.3 million in the fourth quarter of 2017.

Amortization and depreciation, including depreciation of property, plant and equipment and the amortization of intangible assets, increased to $5.3 million during the fourth quarter of 2018 as compared to $4.5 million during the fourth quarter of 2017. The increase was a result of the additions of Diamond Game, Gamco and Schafer including the amortization and depreciation relating to the purchase price allocations to tangible and intangible assets acquired.

Income tax recovery was $0.4 million in the fourth quarter of 2018, an effective rate of 16.3% which was lower than our domestic rate of 27.0% due primarily to non-deductible amounts relating to expenses incurred in the acquisitions and the effect of foreign exchange. Partially offsetting these decreases were the lower federal income tax rates in the United States.

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

Net loss was $1.9 million in the fourth quarter of 2018 compared to net income of $4.3 million in the fourth quarter of 2017. The primary reasons for the decrease in net income were the lower gross profit of $4.2 million, due to the reduction in instant ticket sales and production volumes partially offset by the impact of the 2018 acquisitions, the increase in foreign exchange loss of $3.0 million, the increase in administration expenses of $0.4

million and the increase in selling expenses of $1.0 million. Partially offsetting these decreases was the reduction in income taxes of $2.2 million.

Earnings (loss) per share (basic and diluted) decreased to ($0.08) per share in the fourth quarter of 2018 from $0.18 per share in the fourth quarter of 2017.

Outlook

The lottery industry remains very robust, with continued consumer demand presenting lotteries with the foundation for growing their revenue and proceeds raised for good causes. Showing particularly strong growth is the instant ticket product line. Higher price points, greater prize payouts, varying ticket sizes and play mechanics, all continue to drive higher retail sales and ultimately greater demand for our instant tickets over the long term. We also believe our ancillary and support products for instant tickets will see increased demand. These items, such as iLottery and digital games, loyalty solutions and other related services, also help expand sales of instant tickets creating more opportunities for Pollard.

We believe our first quarter 2019 Adjusted EBITDA will return to expected levels and we anticipate this trend to continue. Orders can vary in the short-term and on a quarter to quarter basis can impact our results. We believe growing our volumes and market share will help mitigate this variability.

Revenue recognition standards and delivery terms can impact when we are able to recognize our instant ticket production in revenue. Over a longer period of time these variations are lessened but over the short term it can have an impact on our financial results. We anticipate the majority of the instant ticket volumes that were deferred at the end of 2018 to be recognized in the first quarter of 2019.

Much of our revenue is based on long term contracts and our current contract portfolio is well positioned with no large contracts up for expiry in 2019. We renewed or extended all our major contracts that came due in 2018. Many of our contracts allow the lottery to choose from multiple suppliers, which provides Pollard the opportunity to win market share from other suppliers by providing successful products for the lottery. Over the past few years this has been one of the keystones of our growth and we will continue to focus on this strategy in 2019. We have previously disclosed that there were a number of large instant ticket contracts that came up for bid in 2018 where Pollard was not a major supplier. These contract bid processes remain underway as we enter 2019.

The ability to develop and sell proprietary products and services is a key success factor for Pollard. Our specialty instant tickets such as Scratch FX® and laminated products such as PlayBooks® have been very important in supporting lotteries in their growth initiatives and we are planning to continue to invest in the resources to develop more innovative products and services. Ticket features such as Clear Play™ and the development and roll out of our PlayOn™ player engagement solution are examples of the development necessary to remain partner of choice.

We expect our first quarter 2019 revenue to be boosted due to the deferral of completed tickets from 2018 being delivered in the first three months of 2019. This additional sales volume will supplement the revenue from sales of tickets produced in the first quarter.

We anticipate our 2019 CAPEX to be at similar levels expended in 2018 once adjusted for the full year of ownership of our recent acquisitions. Included in our planned capital expenditures are new eGaming machines for our Diamond Game and Oasis operations. These expenditures can vary depending on timing of new machine placements and new contract wins. We expect our operations to generate strong free cash flow after consideration of CAPEX and expect to use these funds to pay down bank debt and to contribute to any additional acquisitions.

Charitable gaming remains steady, with ongoing orders from private distributors supporting pull-tab and bingo paper sales. Third party data has indicated some retail sales growth of these products which is a positive sign. The charitable gaming business generates strong cash flow, as it requires minimal capital investment.

In early 2018 we increased our instant ticket capacity by recommissioning our original press line in Ypsilanti. We are in the process of adding supplementary equipment to this original press line which will add incremental capacity in 2019 to help ensure we will have the capability to effectively and efficiently handle future sales growth.

In January 2019, the United States Department of Justice ("DOJ") issued a new interpretation of its previous 2011 interpretation relating to the applicability of the Wire Act to internet gaming including operations conducted by state lotteries. The 2011 interpretation had determined that the Wire Act, which prohibited gambling or associated gambling activity from utilizing interstate wire communication facilities, including the internet, only applied to sports betting. As a result, a number of state lotteries initiated iLottery businesses to sell their lottery products over the internet within each of their own states to local residents. The new January 2019 interpretation reverses this view and, in effect, indicates the Wire Act is not restricted to just sports gambling. The DOJ granted an initial 90-day grace period from the date of release of their ruling (January 14, 2019) for various organizations to assess the impact. Subsequently the DOJ granted an additional 60-day grace period for a total of 150 days. This new interpretation reverses the 2011 ruling and raises uncertainty as to how the Wire Act will be applied to existing and future gaming activities including those run by state sponsored lotteries.

On February 15, 2019, Pollard Banknote Limited and NeoPollard Interactive LLC. filed a motion with the United States District Court for the District of New Hampshire ("District Court") requesting a formal declatory judgement clarifying that the Wire Act only applies to sports betting. Simultaneously, the State of New Hampshire also filed a motion with the District Court requesting the same definitive clarification.

We believe the January 2019 DOJ interpretation is incorrect on a number of key issues relating to existing and long-time legacy lottery gaming products and we are confident a definitive ruling from the District Court will reconfirm that iLottery and other gaming operations conducted by state lotteries are not subject to the Wire Act and can therefore continue to operate as they have for many years. Notwithstanding the uncertainty brought on with the Department of Justice reinterpretation, interest in iLottery operations continues to rise among many lottery organizations. We expect opportunities to provide these services to lotteries will continue to grow and are actively pursuing a number of them in 2019.

The integration of our recently acquired Schafer retail merchandising business is proceeding as expected and we are looking for opportunities to maximize instant ticket sales through innovative use of point of sale dispensers. The integration of our International Gamco business with our American Games business is also progressing well. At the same time, Diamond Game is pursuing a number of new market opportunities for its eGaming machines and will be increasing the number of machines in developing markets.

Our strategic vision includes pursuing acquisitions to expand our product offerings and we are actively looking at a number of tactical additions that would further enhance Pollard's position as partner of choice for the lottery and charitable gaming industries.

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