Condensed Consolidated Interim Financial Statements of

POLLARD BANKNOTE LIMITED

(unaudited)

Three months ended March 31, 2019

These condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent external auditors, KPMG LLP.

Pollard Banknote Limited
Condensed Consolidated Statements of Financial Position
(*In thousands of Canadian dollars*)
(unaudited)

		March 31, 2019		December 31, 2018*
Assets				
Current assets				
Cash	$	2,752	$	11,174
Restricted cash		6,962		10,158
Accounts receivable		46,304		34,675
Inventories (note 5)		40,341		45,353
Prepaid expenses and deposits		6,148		6,943
Income tax receivable		2,211		2,279
Total current assets		104,718		110,582
Non-current assets				
Property, plant and equipment (note 3)		89,235		71,606
Equity investment (note 6)		1,060		1,164
Goodwill		68,858		69,667
Intangible assets		49,290		50,086
Deferred income taxes		3,851		2,495
Total non-current assets		212,294		195,018
Total assets	$	317,012	$	305,600
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	37,606	$	43,058
Dividends payable		1,025		768
Income taxes payable		361		408
Contract liabilities (note 7)		729		814
Current portion long-term debt (note 8)		–		40
Current portion lease liabilities (note 3)		4,348		–
Total current liabilities		44,069		45,088
Non-current liabilities				
Contract liabilities (note 7)		20		43
Long-term debt (note 8)		108,979		115,756
Other non-current liabilities		468		466
Pension liability (note 9)		26,085		20,357
Deferred income taxes		6,616		6,252
Lease liabilities (note 3)		13,266		–
Total non-current liabilities		155,434		142,874
Shareholders' equity				
Share capital (note 10)		108,638		108,605
Reserves		9,826		12,698
Deficit		(955)		(3,665)
Total shareholders' equity		117,509		117,638
Subsequent events (note 19)				
Total liabilities and shareholders' equity	$	317,012	$	305,600

* Pollard has initially applied IFRS 16 *Leases* at January 1, 2019. Under the transition methods chosen, comparative information has not been restated. See note 3.

See accompanying notes to condensed consolidated interim financial statements.

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

	Three months ended March 31, 2019	Three months ended March 31, 2018*
Sales (note 7)	$ 97,547	$ 80,344
Cost of sales	74,615	60,980
Gross profit	22,932	19,364
Administration	8,651	8,024
Selling	3,523	2,762
Other (income) expenses (note 11)	263	(4)
Income from operations	10,495	8,582
Finance costs (note 12)	1,487	2,345
Finance income (note 12)	(1,477)	–
Income before income taxes	10,485	6,237
Income taxes (note 13)		
Current	1,802	3,117
Deferred (reduction)	643	(1,419)
	2,445	1,698
Net income	$ 8,040	$ 4,539
Net income per share (basic) (note 14)	$ 0.31	$ 0.18
Net income per share (diluted) (note 14)	$ 0.31	$ 0.18

* Pollard has initially applied IFRS 16 *Leases* at January 1, 2019. Under the transition methods chosen, comparative information has not been restated. See note 3.

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Comprehensive Income
(*In thousands of Canadian dollars*)
(unaudited)

		Three months ended March 31, 2019		Three months ended March 31, 2018*
Net income	$	8,040	$	4,539
Other comprehensive income (loss)				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations		(2,872)		2,715
Items that will never be reclassified to profit and loss				
Defined benefit plans remeasurements, net of income tax (note 9)		(4,312)		974
Other comprehensive income (loss)		(7,184)		3,689
Comprehensive income	$	856	$	8,228

* Pollard has initially applied IFRS 16 *Leases* at January 1, 2019. Under the transition methods chosen, comparative information has not been restated. See note 3.

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Changes in Equity

(*In thousands of Canadian dollars*)

(unaudited)

For the three months ended March 31, 2019

		Share capital	Translation reserve	Deficit	Total equity
Balance at December 31, 2018	$	108,605	12,698	(3,665)	117,638
Net income		–	–	8,040	8,040
Other comprehensive loss					
Foreign currency translation differences – foreign operations		–	(2,872)	–	(2,872)
Defined benefit plans remeasurements, net of income tax		–	–	(4,312)	(4,312)
Total other comprehensive loss	$	–	(2,872)	(4,312)	(7,184)
Total comprehensive income (loss)	$	–	(2,872)	3,728	856
Issue of common shares (note 10)	$	33	–	(14)	19
Share based compensation		–	–	21	21
Dividends (note 10)		–	–	(1,025)	(1,025)
Balance at March 31, 2019	$	108,638	9,826	(955)	117,509

For the three months ended March 31, 2018

		Share capital	Translation reserve	Deficit	Total equity
Balance at December 31, 2017	$	73,209	2,965	(18,605)	57,569
Adjustment on initial application of IFRS 15, net of income tax of $123		–	–	332	332
Adjusted balance at January 1, 2018	$	73,209	2,965	(18,273)	57,901
Net income		–	–	4,539	4,539
Other comprehensive income					
Foreign currency translation differences – foreign operations		–	2,715	–	2,715
Defined benefit plans remeasurements, net of income tax		–	–	974	974
Total other comprehensive income	$	–	2,715	974	3,689
Total comprehensive income	$	–	2,715	5,513	8,228
Issue of common shares	$	35,351	–	–	35,351
Share based compensation		–	–	40	40
Dividends		–	–	(768)	(768)
Balance at March 31, 2018	$	108,560	5,680	(13,488)	100,752

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Cash Flows

(*In thousands of Canadian dollars*)

(unaudited)

	Three months ended March 31, 2019	Three months ended March 31, 2018*
Cash increase (decrease)		
Operating activities:		
Net income	$ 8,040	$ 4,539
Adjustments		
Income taxes	2,445	1,698
Amortization and depreciation	6,254	4,053
Interest expense	1,487	1,167
Unrealized foreign exchange loss (gain)	(1,877)	976
Loss on equity investment (note 6)	920	538
Pension expense	1,522	1,608
Contract liabilities	(22)	(85)
Interest paid	(1,272)	(1,153)
Income tax paid	(1,720)	(1,618)
Pension contribution	(1,624)	(1,104)
Change in non-cash operating working capital (note 15)	(8,642)	9,526
	5,511	20,145
Investing activities		
Additions to property, plant and equipment	(3,800)	(2,956)
Acquisition of International Gamco, Inc.	–	(21,558)
Equity investment (note 6)	(839)	(482)
Additions to intangible assets	(1,624)	(1,647)
	(6,263)	(26,643)
Financing activities		
Proceeds from issue of share capital	19	35,351
Net repayments of long-term debt	(5,645)	(17,335)
Net repayments of subordinated debt	–	(8,367)
Change in other non-current liabilities	10	(186)
Lease principal payments	(1,225)	–
Deferred financing charges paid	(14)	–
Dividends paid	(768)	(706)
	(7,623)	8,757
Foreign exchange loss on cash held in foreign currency	(47)	(198)
Change in cash position	(8,422)	2,061
Cash position, beginning of period	11,174	5,603
Cash position, end of period	$ 2,752	$ 7,664

* Pollard has initially applied IFRS 16 *Leases* at January 1, 2019. Under the transition methods chosen, comparative information has not been restated. See note 3.

See accompanying notes to condensed consolidated interim 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 condensed consolidated interim financial statements of Pollard as at and for the three months ended March 31, 2019, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and gaming products.

The controlling entity of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owns approximately 67.5% of Pollard's outstanding shares.

Pollard's consolidated financial statements as at and for the year ended December 31, 2018, are available at www.sedar.com.

The overall impact of seasonality does not have a significant impact on the operations of Pollard.

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* and do not include all of the information required for full annual consolidated financial statements.

On May 8, 2019, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Use of estimates and judgements:

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying Pollard's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2018.

3. Significant accounting policies:

Except for the accounting policies described below, these condensed consolidated interim financial statements follow the same significant accounting policies as described and used in Pollard's consolidated financial statements for the year ended December 31, 2018 and should be read in conjunction with these statements.

(a) Leases:

Pollard has adopted International Financial Reporting Standards ("IFRS") 16 *Leases* with a date of initial application of January 1, 2019. The new standard introduces a statement of financial position recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. As a result, most leases are recognized on the statement of financial position. Certain exemptions apply for short-term leases and leases for low-value assets. Lessors continue to classify leases as operating and finance leases. IFRS 16 replaces IAS 17 *Leases* and the related interpretations.

Pollard has applied IFRS 16 using the modified retrospective approach, and therefore the comparative information has not been restated and continues to be reported under IAS 17.

Impact on the 2019 Interim Condensed Consolidated Financial Statements

On initial application, Pollard has elected to record right-of-use assets based on the corresponding lease liability. Right-of-use assets (included in property, plant and equipment) of $18,665, current portion of lease liabilities of $4,348, and long-term portion of lease liabilities of $14,317 were recorded as of January 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, Pollard discounted lease payments using its incremental borrowing rate of 4.0% at January 1, 2019.

For leases with a lease term ending within 12 months of the date of initial application and leases for low-value assets, Pollard has elected to apply the practical expedient which allows the recognition of the lease payments associated with these leases as an expense on a straight-line basis over the lease term. The discounted value of the leases classified under the recognition exemption as at January 1, 2019 was $343.

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

3. Significant accounting policies (continued):

The following tables summarize the impact of adopting IFRS 16 on Pollard's condensed consolidated statement of financial position as at March 31, 2019 and its condensed consolidated statement of income for the first quarter of 2019.

Impact on Pollard's condensed consolidated statement of financial position as at March 31, 2019:

	Amount without IFRS 16	IFRS 16 Adjustment	As Reported
Property, plant and equipment	$ 71,689	$ 17,546	$ 89,235
Current portion of lease liabilities	–	4,348	4,348
Lease liabilities	–	13,266	13,266
Deficit	(887)	(68)	(955)

Impact on Pollard's condensed consolidated statement of income for the first quarter of 2019:

	Amount without IFRS 16	IFRS 16 Adjustment	As Reported
Cost of sales	$ 74,721	$ (106)	$ 74,615
Finance costs	1,313	174	1,487

The following table presents a continuity schedule from the date of adoption of Pollard's right-of-use assets:

Opening balance, January 1, 2019	$ 18,665
Additions	–
Depreciation	(1,119)
Closing balance, March 31, 2019	$ 17,546

3. Significant accounting policies (continued):

Accounting policies

Pollard has updated its accounting policies upon adoption of IFRS 16 on January 1, 2019.

At inception of a contract, Pollard assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Pollard recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. The lease liability is subsequently measured at cost less any accumulated depreciation and impairment losses.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Pollard's incremental borrowing rate. Generally, Pollard uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in Pollard's estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

In comparative periods, operating leases were not recognized in Pollard's consolidated statement of financial position. Payments made were recognized in the statement of income on a straight-line basis over the term of the lease, while any lease incentive received was recognized as a reduction of the total lease expense over the term of the lease.

Pollard presents right-of-use assets in “property, plant and equipment” on the statement of financial position.

Pollard's leases are for offices, manufacturing facilities, production equipment and office equipment.

3. Significant accounting policies (continued):

Pollard has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. Pollard recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The adoption of IFRS 16 did not impact Pollard's accounting policies for lessors.

(b) Uncertainty over income tax treatments:

In June 2017, the International Financial Reporting Interpretations Committee ("IFRIC") issued Interpretation 23 *Uncertainty over Income Tax Treatments*, which 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 was implemented with retrospective application, effective January 1, 2019 and had no impact on the condensed consolidated interim financial statements.

(c) Investments in associates and joint ventures:

In October 2017, the International Accounting Standards Board ("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. The amendments were implemented with retrospective application, effective January 1, 2019 and had no impact on the condensed consolidated interim financial statements.

(d) Employee benefits:

In February 2018, amendments to IAS 19 *Employee Benefits* were issued to specify how an entity determines pension expenses when changes to a defined benefit plan occur. When a change to a plan takes place, including an amendment, curtailment or settlement, IAS 19 requires an entity to remeasure its employee benefit plan liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and the net finance cost for the remainder of the reporting period after the change to the plan. The amendments were implemented with prospective application, effective January 1, 2019 and had no impact on the condensed consolidated interim financial statements.

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

4. Acquisitions:

(a) Schafer Systems Inc.:

On October 31, 2018, Pollard Systems Inc., a wholly-owned indirect subsidiary of Pollard, acquired substantially all of the operating assets and business of Schafer Systems Inc. ("Schafer"), the leading global provider of lottery ticket dispensers and play stations. Pollard Systems Inc. was renamed Schafer Systems (2018) Inc. upon completion of the transaction. The purchase price was funded by proceeds from Pollard's credit facility and cash on hand. 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 October 31, 2018, the acquisition date.

Consideration paid	$	30,447
Net tangible assets acquired		
Accounts receivable	$	1,042
Inventories		2,566
Property, plant and equipment		5,409
Accounts payable and accrued liabilities		(374)
Net tangible assets acquired	$	8,643
Customer relationships	$	11,426
Brand		1,013
Patents		132
Identifiable intangible assets acquired	$	12,571
Goodwill acquired	$	9,233

The goodwill acquired is largely attributable to the assembled workforce, market share and the expected synergies and cost savings after integration of the combined businesses. This goodwill is expected to be deductible for tax purposes.

The fair values of identifiable assets and liabilities acquired are preliminary and are subject to change if new information becomes available.

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

5. Inventories:

		March 31, 2019		December 31, 2018
Raw materials	$	14,442	$	18,537
Work-in-process		3,449		2,861
Finished goods		22,450		23,955
	$	40,341	$	45,353

During the first quarter of 2019, Pollard recorded inventory write-downs of $148 representing an increase in the obsolescence reserves, and inventory write-downs of $40 due to changes in foreign exchange rates.

During the first quarter of 2018, Pollard recorded inventory write-downs of $136 representing an increase in the obsolescence reserves, and reversal of previous write-downs of $26 due to changes in foreign exchange rates.

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

6. Equity investment:

Interest in joint venture		Three months ended March 31, 2019		Three months ended March 31, 2018
Balance, beginning of period	$	1,164	$	877
Investment		839		482
Equity loss		(920)		(538)
Effects of movements in exchange rates		(23)		22
Balance, end of period	$	1,060	$	843

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.

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

7. Revenue and contract balances:

In the following tables, revenue from contracts with customers is disaggregated by geographical segment and product line:

Revenue – geographical segment	Three months ended March 31, 2019		
	Lotteries and charitable gaming	Diamond Game	Total
Canada	$ 19,066	$ 2,692	$ 21,758
United States	56,216	4,135	60,351
International	15,438	–	15,438
Total	$ 90,720	$ 6,827	$ 97,547

Revenue – geographical segment	Three months ended March 31, 2018		
	Lotteries and charitable gaming	Diamond Game	Total
Canada	$ 17,982	$ 2,836	$ 20,818
United States	40,390	3,470	43,860
International	15,666	–	15,666
Total	$ 74,038	$ 6,306	$ 80,344

Revenue – product lines	Three months ended March 31, 2019		
	Instant ticket	Diamond Game	Total
Lottery	$ 74,852	$ –	$ 74,852
Charitable	15,868	–	15,868
Gaming systems	–	6,827	6,827
Total	$ 90,720	$ 6,827	$ 97,547

Revenue – product lines	Three months ended March 31, 2018		
	Instant ticket	Diamond Game	Total
Lottery	$ 62,718	$ –	$ 62,718
Charitable	11,320	–	11,320
Gaming systems	–	6,306	6,306
Total	$ 74,038	$ 6,306	$ 80,344

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

7. Revenue and contract balances (continued):

The following tables provide information about receivables, contract assets, and contract liabilities from contracts with customers:

Contract balances		March 31, 2019		December 31, 2018
Trade receivables, which are included in accounts receivable	$	41,220	$	27,061
Contract assets, which are included in accounts receivable		2,836		3,128
Contract liabilities		749		857

Contract liabilities		Three months ended March 31, 2019		Three months ended March 31, 2018
Balance – beginning of period	$	857	$	1,491
Increases due to cash received		–		548
Revenue recognized during the period		(108)		(808)
Balance – end of period		749		1,231
Less current portion		(729)		(508)
	$	20	$	723

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

8. Long-term debt:

		March 31, 2019		December 31, 2018
Credit facility, interest of 4.0% to 4.3%, payable monthly, maturing 2021	$	109,308	$	116,177
Equipment debt		–		4
Equipment lease		–		36
Deferred financing charges, net of amortization		(329)		(421)
		108,979		115,796
Less current portion		–		(40)
	$	108,979	$	115,756

Credit facility

Effective June 22, 2018, Pollard renewed its credit facility. The credit facility provides loans of up to $160,000 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 $25,000. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $160,000 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 March 31, 2019, the outstanding letters of guarantee drawn under the credit facility were $2,411 (December 2018 – $1,337).

Included in the total credit facility balance is a U.S. dollar denominated balance of US$40,400 (December 2018 – US$43,600).

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including debt to income before interest, income taxes, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at March 31, 2019, Pollard is in compliance with all financial covenants.

As of March 31, 2019, Pollard had unused credit facility available of $64,313 (December 2018 – $58,860).

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. Under the terms of the agreement the facility is committed for a three-year period, renewable June 22, 2021. Principal payments are not required until maturity. The facility can be prepaid without penalties.

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

9. Pension liability:

During the three month period ended March 31, 2019, Pollard recorded a remeasurement loss of $4,312 (net of $1,572 of income tax) on its defined pension plans. The remeasurement loss resulted from a decrease in the discount rate, which was partially offset by a gain arising on plan assets.

During the three month period ended March 31, 2018, Pollard recorded a remeasurement gain of $974 (net of $331 of income tax) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate, which was partially offset by a loss arising on plan assets.

10. Share capital:

	Shares		Amount $
Authorized			
Unlimited common shares			
Unlimited preferred shares			
Issued			
Balance at December 31, 2017	23,543,158	$	73,209
Issuance of common shares	2,070,000		35,351
Stock option exercise	12,500		45
Balance at December 31, 2018	25,625,658	$	108,605
Stock option exercise	5,000		33
Balance at March 31, 2019	25,630,658	$	108,638

Stock option exercise

On March 19, 2019, 5,000 common shares were issued in conjunction with the exercise of stock options.

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 March 13, 2019, a dividend of $0.04 per share was declared, payable on April 15, 2019, to the shareholders of record on March 31, 2019.

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

11. Other (income) expenses:

	Three months ended March 31, 2019	Three months ended March 31, 2018
Loss on equity investment (note 6)	$ 920	$ 538
EBITDA support agreement	(500)	(500)
Other income	(157)	(42)
	$ 263	$ (4)

EBITDA support agreement

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

12. Finance costs and finance income:

Finance costs	Three months ended March 31, 2019	Three months ended March 31, 2018
Interest	$ 1,487	$ 1,167
Foreign exchange loss	–	1,178
	$ 1,487	$ 2,345

Finance income	Three months ended March 31, 2019	Three months ended March 31, 2018
Foreign exchange gain	$ 1,477	$ –
	$ 1,477	$ –

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

13. Income taxes:

Income tax expense

	Three months ended March 31, 2019	Three months ended March 31, 2018
Current	$ 1,802	$ 3,117
Deferred (reduction)	643	(1,419)
	$ 2,445	$ 1,698

Reconciliation of effective tax rate

	Three months ended March 31, 2019		Three months ended March 31, 2018	
Net income for the period		$ 8,040		$ 4,539
Total income taxes		2,445		1,698
Income before income taxes		$ 10,485		$ 6,237
Income tax using Pollard's domestic tax rate	27.0%	$ 2,831	27.0%	$ 1,684
Effect of tax rates in foreign jurisdictions	(1.9%)	(199)	(1.1%)	(66)
Effect of non-taxable items related to foreign exchange	(1.8%)	(187)	1.3%	80
	23.3%	$ 2,445	27.2%	$ 1,698

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

14. Net income per share:

		Three months ended March 31, 2019		Three months ended March 31, 2018
Net income attributable to shareholders for basic and diluted net income per share	$	8,040	$	4,539
Weighted average number of shares (basic)		25,626,332		24,900,158
Weighted average impact of share options		236,826		250,000
Weighted average number of shares (diluted)		25,863,158		25,150,158
Net income per share (basic)	$	0.31	$	0.18
Net income per share (diluted)	$	0.31	$	0.18

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. On February 21, 2018, Pollard issued 2,070,000 common shares.

15. Supplementary cash flow information:

		Three months ended March 31, 2019		Three months ended March 31, 2018
Change in non-cash operating working capital:				
Accounts receivable	$	(11,672)	$	7,937
Inventories		4,497		810
Prepaid expenses and deposits		641		1,004
Income taxes payable		(60)		(60)
Accounts payable and accrued liabilities		(1,981)		42
Contract liabilities		(67)		(207)
	$	(8,642)	$	9,526

16. Related party transactions:

Pollard Equities Limited and affiliates

During the quarter ended March 31, 2019, Pollard paid property rent of $809 (2018 – $793) and $118 (2018 – $95) in plane charter costs to affiliates of Equities. In addition, during the quarter, Pollard paid Equities $nil (2018 – $263) interest on Pollard's subordinated debt.

During the quarter, Equities paid Pollard $18 (2018 – $18) for accounting and administration fees.

At March 31, 2019, included in accounts receivable is an amount owing from Equities and its affiliates for expenses and other items of $26. At December 31, 2018, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, expenses and other items of $560.

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. During the quarter ended March 31, 2019, Pollard entered into a new five year lease with the option for an additional five years. The base rental rate is approximately US$375, which is based on the current market value as determined through independent appraisal.

Neogames S.à r.l. and affiliates

During the quarter ended March 31, 2019, Pollard reimbursed operating costs and paid software royalties of $1,153 (2018 – $795) to its iLottery partner, which are recorded in cost of sales.

At March 31, 2019, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of $1,311 (December 31, 2018 – $940) 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 where otherwise noted and for share amounts)

16. Related party transactions (continued):

Key management personnel compensation comprised:

		Three months ended March 31, 2019		Three months ended March 31, 2018
Wages, salaries and benefits	$	692	$	687
Profit share		4		5
Expenses related to defined benefit plans		154		153
	$	850	$	845

At March 31, 2019, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,448,108 common shares of Pollard.

17. Segmented information:

Pollard has two reportable segments: Lotteries and charitable gaming, and Diamond Game, 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 Lotteries and charitable gaming segment derives its revenues from the manufacture of instant tickets and related products. The Diamond Game segment derives its revenues from the development of game systems.

	Three months ended March 31, 2019					
		Lotteries and charitable gaming		Diamond Game		Total
Revenues from external customers	$	90,720	$	6,827	$	97,547
Operating costs and expenses		81,208		5,854		87,062
Earnings before income taxes		9,512		973		10,485
Total assets		256,366		60,646		317,012

	Three months ended March 31, 2018					
		Lotteries and charitable gaming		Diamond Game		Total
Revenues from external customers	$	74,038	$	6,306	$	80,344
Operating costs and expenses		68,182		5,925		74,107
Earnings before income taxes		5,856		381		6,237
Total assets		193,216		56,626		249,842

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

18. 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 losses:

	March 31, 2019	December 31, 2018
Current	$ 42,114	$ 30,929
Past due for 1 to 60 days	2,453	2,647
Past due for more than 60 days	1,877	1,289
Less: Allowance for losses	(140)	(190)
	$ 46,304	$ 34,675

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The 2019 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.

18. Financial risk management (continued):

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 $22 for three months ended March 31, 2019 (2018 – $7). 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 $15 for three months ended March 31, 2019 (2018 – $18).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. As at March 31, 2019, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately $32,728 (December 31, 2018 – $36,147). 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 $164 for the three months ended March 31, 2019 (2018 – $100).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Five 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 March 31, 2019, 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 $137 for the three months ended March 31, 2019 (2018 – $85).

19. Subsequent events:

On May 1, 2019, Pollard acquired 100% of the common shares of Fastrak Retail (UK) Limited (“Fastrak”) for a purchase price of £4.0 million, subject to standard working capital adjustments and potential future earn-out payments. Fastrak, based in the United Kingdom, is a leading provider of lottery ticket dispensers, lottery play points and other retail merchandising products.