Condensed Consolidated Interim Financial Statements of

POLLARD BANKNOTE LIMITED

(unaudited)

Six months ended June 30, 2017

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)

		June 30, 2017		December 31, 2016
Assets				
Current assets				
Cash	$	**6,186**	$	7,500
Restricted cash		**3,172**		3,203
Accounts receivable		**35,105**		38,585
Inventories (note 5)		**27,660**		27,232
Prepaid expenses and deposits		**4,897**		3,437
Total current assets		**77,020**		79,957
Non-current assets				
Property, plant and equipment		**44,492**		46,906
Equity investment (note 6)		**764**		468
Goodwill		**37,273**		37,513
Intangible assets		**11,743**		11,916
Deferred income taxes		**2,231**		-
Total non-current assets		**96,503**		96,803
Total assets	$	**173,523**	$	176,760
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	**29,583**	$	25,864
Dividends payable		**706**		706
Income taxes payable		**2,330**		2,541
Current portion subordinated debt (note 8)		**1,363**		1,363
Total current liabilities		**33,982**		30,474
Non-current liabilities				
Long-term debt (note 7)		**57,089**		70,852
Subordinated debt (note 8)		**4,088**		4,769
Other non-current liabilities		**595**		395
Pension liability (note 9)		**20,216**		13,524
Deferred income taxes		**4,610**		4,909
Total non-current liabilities		**86,598**		94,449
Shareholders' equity				
Share capital		**73,209**		73,209
Reserves		**3,238**		3,917
Deficit		**(23,504)**		(25,289)
Total shareholders' equity		**52,943**		51,837
Subsequent events (note 19)				
Total liabilities and shareholders' equity	$	**173,523**	$	176,760

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 June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Sales	**$ 77,913**	$ 54,002	**$ 135,333**	$ 118,043
Cost of sales	**59,320**	43,090	**105,349**	95,727
Gross profit	**18,593**	10,912	**29,984**	22,316
Administration	**6,654**	5,080	**11,982**	10,423
Selling	**2,130**	1,792	**4,092**	3,718
Other expense (income) (note 10)	**548**	(391)	**892**	(425)
Income from operations	**9,261**	4,431	**13,018**	8,600
Finance costs (note 11)	**771**	1,193	**1,736**	2,168
Finance income (note 11)	**(130)**	-	**(130)**	(1,042)
Income before income taxes	**8,620**	3,238	**11,412**	7,474
Income taxes (note 12)	**2,596**	1,193	**3,601**	1,844
Net income	**$ 6,024**	$ 2,045	**$ 7,811**	$ 5,630
Net income per share (basic) (note 13)	**$ 0.25**	$ 0.09	**$ 0.33**	$ 0.24
Net income per share (diluted) (note 13)	**$ 0.25**	$ 0.09	**$ 0.33**	$ 0.24

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 June 30, 2017		Three months ended June 30, 2016		Six months ended June 30, 2017		Six months ended June 30, 2016
Net income	**$**	**6,024**	$	2,045	**$**	**7,811**	$	5,630
Other comprehensive loss:								
Items that are or may be reclassified to profit and loss								
Foreign currency translation differences – foreign operations		**(504)**		(145)		**(679)**		(1,226)
Items that will never be reclassified to profit and loss								
Defined benefit plans remeasurements, net of income tax reduction of ($1,751) (note 9)		**(4,633)**		-		**(4,633)**		-
Other comprehensive loss		**(5,137)**		(145)		**(5,312)**		(1,226)
Comprehensive income	**$**	**887**	$	1,900	**$**	**2,499**	$	4,404

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 six months ended June 30, 2017

		Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2017	$	73,209	3,917	(25,289)	51,837
Net income		-	-	7,811	7,811
Other comprehensive loss					
Foreign currency translation differences – foreign operations		-	(679)	-	(679)
Defined benefit plans remeasurements, net of income tax reduction of ($1,751)		-	-	(4,633)	(4,633)
Total other comprehensive loss	$	-	(679)	(4,633)	(5,312)
Total comprehensive income (loss)	$	-	(679)	3,178	2,499
Share based compensation	$	-	-	20	20
Dividends (note 15)		-	-	(1,413)	(1,413)
Balance at June 30, 2017	$	73,209	3,238	(23,504)	52,943

For the six months ended June 30, 2016

		Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2016	$	73,209	4,384	(34,016)	43,577
Net income		-	-	5,630	5,630
Other comprehensive loss					
Foreign currency translation differences – foreign operations		-	(1,226)	-	(1,226)
Total other comprehensive loss	$	-	(1,226)	-	(1,226)
Total comprehensive income (loss)	$	-	(1,226)	5,630	4,404
Share based compensation	$	-	-	8	8
Dividends		-	-	(1,413)	(1,413)
Balance at June 30, 2016	$	73,209	3,158	(29,791)	46,576

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Cash Flows

(*In thousands of Canadian dollars*)

(unaudited)

	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash increase (decrease)		
Operating activities:		
Net income	$ 7,811	$ 5,630
Adjustments		
Income taxes	3,601	1,844
Amortization and depreciation	5,206	5,621
Interest expense	1,451	1,701
Unrealized foreign exchange (gain) loss	326	(2,040)
Loss on sale of property, plant and equipment	83	-
Loss on equity investment (note 6)	805	178
Pension expense	2,427	2,171
Gain on sale of investment in associate	-	(516)
Interest paid	(1,438)	(1,625)
Income tax paid	(4,025)	(1,313)
Pension contribution	(2,005)	(1,545)
Change in non-cash operating working capital (note 14)	3,191	(5,470)
	17,433	4,636
Investing activities		
Additions to property, plant and equipment	(1,803)	(2,342)
Equity investment (note 6)	(1,048)	(597)
Proceeds from sales of investment in associate	-	516
Additions to intangible assets	(563)	(538)
	(3,414)	(2,961)
Financing activities		
Net proceeds from (repayments of) long-term debt	(13,007)	1,578
Repayments of subordinated debt	(681)	-
Change in other non-current liabilities	222	(170)
Deferred financing charges paid	(228)	(98)
Dividends paid	(1,413)	(1,413)
	(15,107)	(103)
Foreign exchange loss on cash held in foreign currency	(226)	(130)
Change in cash position	(1,314)	1,442
Cash position, beginning of period	7,500	7,587
Cash position, end of period	$ 6,186	$ 9,029

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 six months ended June 30, 2017, 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 73.5% of Pollard's outstanding shares.

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.* These condensed interim financial statements do not include all of the information required for full annual consolidated financial statements and therefore should be read in conjunction with the audited annual consolidated financial statements and notes for the year ended December 31, 2016, which are available at www.sedar.com.

On August 9, 2017, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Use of estimates and judgments:

The preparation of condensed consolidated interim financial statements 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. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments 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, 2016.

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, 2016 and should be read in conjunction with these statements. The following amendments were implemented in the first quarter of 2017 and had no impact on the condensed consolidated interim financial statements.

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.

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.

4. 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 is currently assessing the impact of the new standard 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. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In September 2014, the IASB issued amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments were to be effective for fiscal years beginning on or after January 1, 2016, with early adoption available; however, in December 2015 the IASB decided to defer the effective date for these amendments indefinitely. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

4. Future accounting standards (continued):

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 is currently assessing the impact of the amendments 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 is currently assessing the impact of the Interpretation 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 thousands of Canadian dollars, except for share amounts)

5. Inventories:

		June 30, 2017		December 31, 2016
Raw materials	$	**10,620**	$	11,246
Work-in-process		**946**		784
Finished goods		**16,094**		15,202
	$	**27,660**	$	27,232

During the second quarter of 2017, Pollard recorded inventory write-downs of $94 representing an increase in the obsolescence reserves, and a reversal of previous write-downs of $3 due to changes in foreign exchange rates. During the six months ended June 30, 2017, Pollard recorded inventory write-downs of $202 representing an increase in the obsolescence reserves, and a reversal of previous write-downs of $50 due to changes in foreign exchange rates.

During the second quarter of 2016, Pollard recorded inventory write-downs of $77 representing an increase in the obsolescence reserves, and a reversal of previous write-downs of $33 due to changes in foreign exchange rates. During the six months ended June 30, 2016, Pollard recorded inventory write-downs of $243 representing an increase in the obsolescence reserves, and write-downs of $44 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		**Six months ended June 30, 2017**		Six months ended June 30, 2016
Balance – beginning of period	$	**468**	$	401
Investment		**1,048**		597
Equity loss		**(805)**		(178)
Effects of movements in exchange rates		**53**		23
Balance – end of period	$	**764**	$	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. also operate the iLottery operation for the Michigan Lottery under a separate joint operating agreement. Pollard recognizes its interest in the joint operation by including

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

6. Equity investment (continued):

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.

7. Long-term debt:

		June 30, 2017		December 31, 2016
Credit facility, interest of 3.33% to 3.58% payable monthly, maturing June 2019	**$**	**57,353**	$	71,003
Deferred financing charges, net of amortization		**(264)**		(151)
	$	**57,089**	$	70,852

Included in the total credit facility balance is a U.S. dollar loan balance of US$13,400 (December 31, 2016 - US$13,400).

Effective June 22, 2017, Pollard Banknote Limited 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 June 30, 2017, the outstanding letters of guarantee drawn under the credit facility were $1,268 (December 31, 2016 - $1,205).

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 June 30, 2017, Pollard is in compliance with all financial covenants.

As of June 30, 2017, Pollard has unused credit facility available of $61,919, (December 31, 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)

8. Subordinated debt:

		June 30, 2017		December 31, 2016
Subordinated debt, interest of 9.00% payable quarterly, maturing 2021	**$**	**5,451**	$	6,132
Less current portion		**(1,363)**		(1,363)
	$	**4,088**	$	4,769

On April 2, 2014, Pollard entered into a loan agreement with Equities for a subordinated term loan facility with a seven year term in the amount of $6,813 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%. The loan is fully subordinated to the secured credit facility. The subordinated term loan may be prepaid at any time, subject to certain financial covenants under the secured credit facility.

9. Pension liability:

During the quarter ended June 30, 2017, Pollard recorded an actuarial loss of $4,633 (net of $1,751 income tax reduction) on its defined pension plans. The remeasurement loss resulted from a decrease in the discount rate, partially offset by remeasurement gains arising on plan assets.

10. Other expense (income):

		Three months ended June 30, 2017		Three months ended June 30, 2016		Six months ended June 30, 2017		Six months ended June 30, 2016
Loss on equity investment	**$**	**457**	$	84	**$**	**805**	$	178
Loss on sale of property, plant and equipment		**83**		-		**83**		-
Gain on sale of investment in associate		**-**		(516)		**-**		(516)
Other		**8**		41		**4**		(87)
	$	**548**	$	(391)	**$**	**892**	$	(425)

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

10. Other expense (income) (continued):

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.

11. Finance costs and finance income:

Finance costs	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Foreign exchange loss	**$ -**	$ 327	**$ 171**	$ 327
Interest	**708**	814	**1,451**	1,701
Amortization of deferred financing costs	**63**	52	**114**	140
	$ 771	$ 1,193	**$ 1,736**	$ 2,168

Finance income	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Foreign exchange gain	**$ 130**	$ -	**$ 130**	$ 1,042
	$ 130	$ -	**$ 130**	$ 1,042

12. Income taxes:

Income tax expense	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Current	**$ 2,789**	$ 1,561	**$ 4,141**	$ 2,650
Deferred recovery	**(193)**	(368)	**(540)**	(806)
	$ 2,596	$ 1,193	**$ 3,601**	$ 1,844

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

12. Income taxes (continued):

Reconciliation of effective tax rate			**Three months ended June 30, 2017**			Three months ended June 30, 2016
Net income for the period		**$**	**6,024**		$	2,045
Total income taxes			**2,596**			1,193
Income before income taxes		**$**	**8,620**		$	3,238
Income tax using Pollard's domestic tax rate	**27.0%**	**$**	**2,327**	27.0%	$	874
Changes in expected tax rates and other non-deductible amounts	**1.5%**		**127**	1.9%		62
Effect of non-taxable items related to foreign exchange	**1.6%**		**142**	8.0%		257
	30.1%	**$**	**2,596**	36.9%	$	1,193

Reconciliation of effective tax rate			**Six months ended June 30, 2017**			Six months ended June 30, 2016
Net income for the period		**$**	**7,811**		$	5,630
Total income taxes			**3,601**			1,844
Income before income taxes		**$**	**11,412**		$	7,474
Income tax using Pollard's domestic tax rate	**27.0%**	**$**	**3,081**	27.0%	$	2,018
Changes in expected tax rates and other non-deductible amounts	**2.6%**		**295**	2.5%		187
Effect of non-taxable items related to foreign exchange	**2.0%**		**225**	(4.8%)		(361)
	31.6%	**$**	**3,601**	24.7%	$	1,844

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

13. Net income per share:

	Three months ended June 30, 2017	Three months ended June 30, 2016
Net income attributable to shareholders for basic and diluted net income per share	**$ 6,024**	$ 2,045
Weighted average number of shares (basic)	**23,543,158**	23,543,158
Weighted average impact of share options on issue	**222,527**	100,000
Weighted average number of shares (diluted)	**23,765,685**	23,643,158
Net income per share (basic)	**$ 0.25**	$ 0.09
Net income per share (diluted)	**$ 0.25**	$ 0.09

	Six months ended June 30, 2017	Six months ended June 30, 2016
Net income attributable to shareholders for basic and diluted net income per share	**$ 7,811**	$ 5,630
Weighted average number of shares (basic)	**23,543,158**	23,543,158
Weighted average impact of share options on issue	**174,033**	100,000
Weighted average number of shares (diluted)	**23,717,191**	23,643,158
Net income per share (basic)	**$ 0.33**	$ 0.24
Net income per share (diluted)	**$ 0.33**	$ 0.24

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

14. Supplementary cash flow information:

		Six months ended June 30, 2017		Six months ended June 30, 2016
Change in non-cash operating working capital:				
Accounts receivable	**$**	**2,189**	$	(5,345)
Inventories		**(664)**		(3,427)
Prepaid expenses and deposits		**(1,701)**		(535)
Income taxes payable		**(325)**		(292)
Accounts payable and accrued liabilities		**3,692**		4,129
	$	**3,191**	$	(5,470)

15. 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 May 10, 2017, a dividend of $0.03 per share was declared, payable on July 15, 2017, to the shareholders of record on June 30, 2017.

16. 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 June 30, 2017, the total share options outstanding were 250,000.

17. Related party transactions:

Pollard Equities Limited and affiliates

During the quarter ended June 30, 2017, Pollard paid property rent of $796 (2016 - $777) and $90 (2016 - $57) in plane charter costs to an affiliate of Pollard Equities Limited. During the six months ended June 30, 2017, Pollard paid property rent of $1,591 (2016 - $1,561) and $180 (2016 - $113) in plane charter costs to an affiliate of Equities. In addition, during the quarter, Pollard paid Equities

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

17. Related party transactions (continued):

$122 (2016 – $153) of interest on Pollard's subordinated debt and $251 (2016 – $306) for the six months ended June 30, 2017.

During the quarter, Equities paid Pollard $18 (2016 - $18) for accounting and administration fees and $36 (2016 - $36) during the six months ended June 30, 2017.

At June 30, 2017, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, interest and other expenses of $516 (December 31, 2016 - $907).

Neogames S.à r.l. and affiliates

During the quarter Pollard reimbursed operating costs and paid software royalties of $824 (2016 - $234) to its iLottery joint venture partner, which are recorded in cost of sales, and $1,482 (2016 - $547) during the six months ended June 30, 2017. During the quarter Pollard reimbursed $nil (2016 - $149) of development costs, which were capitalized, and $nil (2016 - $502) during the six months ended June 30, 2017.

At June 30, 2017, included in accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of $825 (December 31, 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.

Key management personnel compensation comprised:

	Three months ended June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Wages, salaries and benefits	**$ 710**	$ 527	**$ 1,348**	$ 1,052
Profit share	**9**	2	**11**	6
Expenses related to defined benefit plans	**126**	118	**251**	237
	$ 845	$ 647	**$ 1,610**	$ 1,295

At June 30, 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.

(In thousands of Canadian dollars, except 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 doubtful accounts:

		June 30, 2017		December 31, 2016
Current	**$**	**31,927**	$	36,670
Past due for 1 to 60 days		**2,948**		1,530
Past due for more than 60 days		**333**		449
Less: Allowance for doubtful accounts		**(103)**		(64)
	$	**35,105**	$	38,585

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. In addition, Pollard maintains a committed credit facility including up to $105,000 for its Canadian operations and US$12,000 for its U.S. subsidiaries. At June 30, 2017, the unused balance available for drawdown under the credit facility was $61,919 (December 31, 2016 - $18,908).

The 2017 funding requirements for capital expenditures, working capital, dividends and pending acquisitions are expected to be financed from cash flow provided by operating activities, the unused credit facility and additional subordinated debt. Pollard enters into contractual obligations in the normal course of business operations.

18. Financial risk management (continued):

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 $45 for the second quarter of 2017 (2016 - $32) and approximately $89 for the six months ended June 30, 2017 (2016 - $39). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and Euro would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $13 for the second quarter of 2017 (2016 - $15) and approximately $29 for the six months ended June 30, 2017 (2016 - $26).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At June 30, 2017, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately $1,757 (December 31, 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 $9 for the three and six months ended June 30, 2017 (2016 - $24).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Two 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 June 30, 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 of these instruments and interest costs.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately $72 for the three months ended June 30, 2017 (2016 - $92) and approximately $143 for the six months ended June 30, 2017 (2016 - $184).

19. Subsequent events:

On April 17, 2017, Pollard announced that a wholly-owned subsidiary formally commenced an offer (the “Offer”) to acquire all of the issued and outstanding common shares (“Shares”) of INNOVA Gaming Group Inc. (“INNOVA”), a provider of gaming systems to the North American gaming industry. On June 30, 2017, INNOVA’s Board of Directors unanimously recommended that the shareholders of INNOVA accept Pollard’s revised offer of cash consideration of $2.50 per Share.

On August 3, 2017, the final day of the original offer, Pollard acquired 17,929,021 Shares (89.3%) of INNOVA, for consideration of $44,823. The Offer is subject to a mandatory minimum extension for the remaining shareholders of INNOVA to tender their shares, which will expire August 15, 2017. Assuming the remaining 2,144,878 shares are tendered, additional incremental consideration of $5,362 will be paid.

In the three and six months ended June 30, 2017, Pollard expensed acquisition costs of $654 and $1,027 respectively. These costs are included in administration expenses. Pollard anticipates expending an additional $1,500 in acquisition costs in the third quarter.

In addition to cash resources and unused credit facility available for drawdown, Equities has committed to provide an additional subordinated term loan, up to $25,092, to assist in the financing of this acquisition. This subordinated term loan will bear interest at 8%, with all other terms consistent with the existing subordinated term loan (note 8).

The allocation of the purchase price to acquired assets and liabilities is to be determined.