Condensed Consolidated Interim Financial Statements of

POLLARD BANKNOTE LIMITED

(unaudited)

Six months ended June 30, 2018

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, 2018		December 31, 2017*
Assets				
Current assets				
Cash	$	9,028	$	5,603
Restricted cash		5,663		5,780
Accounts receivable		38,949		40,749
Inventories (note 6)		32,321		32,008
Prepaid expenses and deposits		5,723		6,331
Income tax receivable		711		-
Total current assets		92,395		90,471
Non-current assets				
Property, plant and equipment		63,345		54,319
Equity investment (note 7)		834		877
Goodwill		58,844		51,768
Intangible assets		35,012		27,746
Deferred income taxes		2,225		3,093
Total non-current assets		160,260		137,803
Total assets	$	252,655	$	228,274
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	31,209	$	36,766
Dividends payable		768		706
Income taxes payable		-		3,373
Contract liabilities (note 12)		1,766		702
Current portion long-term debt (note 8)		385		784
Current portion subordinated debt (note 9)		-		3,585
Total current liabilities		34,128		45,916
Non-current liabilities				
Long-term debt (note 8)		82,127		83,771
Subordinated debt (note 9)		-		13,149
Contract liabilities (note 12)		235		789
Other non-current liabilities		582		753
Pension liability (note 10)		19,457		22,959
Deferred income taxes		5,627		3,368
Total non-current liabilities		108,028		124,789
Shareholders' equity				
Share capital (note 11)		108,560		73,209
Reserves		8,783		2,965
Deficit		(6,844)		(18,605)
Total shareholders' equity		110,499		57,569
Total liabilities and shareholders' equity	$	252,655	$	228,274

* Pollard has initially applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* at January 1, 2018. 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 June 30, 2018		Three months ended June 30, 2017*		**Six months ended June 30, 2018**		Six months ended June 30, 2017*
Sales	**$**	**86,831**	$	77,913	**$**	**167,175**	$	135,333
Cost of sales		**66,315**		59,320		**127,292**		105,349
Gross profit		**20,516**		18,593		**39,883**		29,984
Administration		**7,374**		6,654		**15,398**		11,982
Selling		**3,419**		2,130		**6,181**		4,092
Other expense (note 13)		**101**		548		**98**		892
Income from operations		**9,622**		9,261		**18,206**		13,018
Finance costs (note 14)		**2,363**		771		**4,709**		1,736
Finance income (note 14)		**-**		(130)		**-**		(130)
Income before income taxes		**7,259**		8,620		**13,497**		11,412
Income taxes (note 15)		**2,226**		2,596		**3,925**		3,601
Net income	**$**	**5,033**	$	6,024	**$**	**9,572**	$	7,811
Net income per share (basic) (note 16)	**$**	**0.20**	$	0.25	**$**	**0.38**	$	0.33
Net income per share (diluted) (note 16)	**$**	**0.20**	$	0.25	**$**	**0.38**	$	0.33

* Pollard has initially applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* at January 1, 2018. 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 June 30, 2018	Three months ended June 30, 2017*	**Six months ended June 30, 2018**	Six months ended June 30, 2017*
Net income	**$ 5,033**	$ 6,024	**$ 9,572**	$ 7,811
Other comprehensive income (loss):				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations	**3,103**	(504)	**5,818**	(679)
Items that will never be reclassified to profit and loss				
Defined benefit plans remeasurements, net of income tax (note 10)	**2,352**	(4,633)	**3,326**	(4,633)
Other comprehensive income (loss)	**5,455**	(5,137)	**9,144**	(5,312)
Comprehensive income	**$ 10,488**	$ 887	**$ 18,716**	$ 2,499

* Pollard has initially applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* at January 1, 2018. 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 six months ended June 30, 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 (note 3)		-	-	332	332
Adjusted balance at January 1, 2018	$	73,209	2,965	(18,273)	57,901
Net income		-	-	9,572	9,572
Other comprehensive income					
Foreign currency translation differences – foreign operations		-	5,818	-	5,818
Defined benefit plans remeasurements, net of income tax of $1,181 (note 10)		-	-	3,326	3,326
Total other comprehensive income	$	-	5,818	3,326	9,144
Total comprehensive income	$	-	5,818	12,898	18,716
Issue of common shares (note 11)	$	35,351	-	-	35,351
Share based compensation		-	-	68	68
Dividends (note 11)		-	-	(1,537)	(1,537)
Balance at June 30, 2018	$	108,560	8,783	(6,844)	110,499

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		-	-	(1,413)	(1,413)
Balance at June 30, 2017	$	73,209	3,238	(23,504)	52,943

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, 2018	Six months ended June 30, 2017*
Cash increase (decrease)		
Operating activities:		
Net income	$ 9,572	$ 7,811
Adjustments		
Income taxes	3,925	3,601
Amortization and depreciation	8,368	5,092
Interest expense	2,176	1,565
Unrealized foreign exchange loss	2,354	326
Loss on sale of property, plant and equipment	-	83
Loss on equity investment (note 7)	1,185	805
Pension expense	3,182	2,427
Contract liabilities	(584)	-
Interest paid	(2,258)	(1,438)
Income tax paid	(7,610)	(4,025)
Pension contribution	(2,388)	(2,005)
Change in non-cash operating working capital (note 17)	4,479	3,191
	22,401	17,433
Investing activities		
Additions to property, plant and equipment	(6,692)	(1,803)
Acquisition of International Gamco, Inc. (note 5)	(21,558)	-
Equity investments (note 7)	(1,095)	(1,048)
Additions to intangible assets	(2,875)	(563)
	(32,220)	(3,414)
Financing activities		
Proceeds from issue of share capital (note 11)	35,351	-
Net repayments of long-term debt	(3,377)	(13,007)
Repayments of subordinated debt	(16,734)	(681)
Change in other non-current liabilities	(203)	222
Deferred financing charges paid	(423)	(228)
Dividends paid	(1,475)	(1,413)
	13,139	(15,107)
Foreign exchange gain (loss) on cash held in foreign currency	105	(226)
Change in cash position	3,425	(1,314)
Cash position, beginning of period	5,603	7,500
Cash position, end of period	$ 9,028	$ 6,186

* Pollard has initially applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* at January 1, 2018. 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 six months ended June 30, 2018, 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. On February 1, 2018, Pollard completed a share offering, (note 11), which reduced Equities ownership to approximately 67.6% of Pollard's increased outstanding share amount.

Pollard's consolidated financial statements as at and for the year ended December 31, 2017, are available at www.sedar.com.

The operations of International Gamco, Inc. ("Gamco"), acquired during the first quarter of 2018, are included in the condensed consolidated interim financial statements from February 1, 2018 (note 5).

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 August 8, 2018, 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

2. Basis of preparation (continued):

of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2017.

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, 2017 and should be read in conjunction with these statements.

International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 22 *Foreign Currency Transactions and Advance Consideration* 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. This interpretation had no material impact on the condensed consolidated interim financial statements.

International Financial Reporting Standard ("IFRS") 2 *Share-Based Payments* was amended to clarify how to account for certain types of share-based payment transactions. This amendment had no material impact on the condensed consolidated interim financial statements.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaced the previous 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.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities and the adoption of IFRS 9 did not change Pollard's accounting policies for financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables, and available for sale. The standard contains three classification categories for financial assets: measured at amortized cost; fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL").

The classification changes for each class of Pollard's financial assets and liabilities, upon adoption at January 1, 2018, had no impact on the measurement of financial instruments. Under the new classifications Pollard has classified:

Cash, restricted cash and accounts receivable as amortized cost (formerly loans and receivables under IAS 39);

3. Significant accounting policies (continued):

Accounts payable and accrued liabilities, dividends payable, long-term debt, subordinated debt and other non-current liabilities as amortized cost (formerly other financial liabilities).

Pollard has adopted the new general hedging accounting model in IFRS 9. Currently Pollard has no hedges in place.

The adoption of IFRS 9 did not result in any transition adjustments being recognized as at January 1, 2018. See note 20 for Pollard's updated accounting policies result from the adoption of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* 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*. Pollard has initially adopted the new standard effective January 1, 2018. Pollard has applied IFRS 15 using the cumulative effect method (without practical expedients) and therefore the comparative information has not been restated and continues to be reported under IAS 11 and IAS 18.

Under certain contracts, Pollard is compensated for its products based on its customers' sales of those products at retail. Prior to IFRS 15, Pollard recognized sales under these contracts at the time the product was sold at retail. Under IFRS 15 Pollard has concluded that control transfers to its customers at delivery of the product to the customer. This will accelerate the recognition of sales under these contracts to the time of receipt of shipment. Pollard's sales under these contracts could vary year over year depending on the timing of shipments.

The impact of transition to IFRS 15 on retained earnings at January 1, 2018 was $332, net of $123 of income taxes. The impact on the statement in financial position included an increase in accounts receivable of $3,260, a decrease in inventories of $2,805 and an increase in the deferred income tax liability of $123.

For the six months ended June 30, 2018, Pollard's revenue decreased by $280 and cost of sales decreased by $208 as a result of the adoption of IFRS 15. See note 12 for Pollard's updated accounting policies resulting from the adoption of IFRS 15.

4. Future accounting standards:

In January 2016, the International Accounting Standards Board ("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,

4. Future accounting standards (continued):

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

In October 2017, the IASB issued amendments to IAS 28 *Investments in Associates and Joint Ventures.* The amendments clarify that long-term interests in associates and joint ventures, to which the equity method is not applied, are in the scope of both IFRS 9 *Financial Instruments* (including impairment testing) and IAS 28 in terms of the application of IFRS 9 loss absorption and the impairment requirements of IAS 28. These amendments are effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted. Pollard is currently assessing the impact of these amendments on its consolidated financial statements.

In February 2018, the IASB issued amendments to IAS 19 *Employee Benefits*. The amendments 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 are for annual and interim reporting periods beginning on or after January 1, 2019 and is to be applied prospectively. Pollard is currently assessing the impact of these amendments on its consolidated financial statements.

5. Acquisitions:

INNOVA Gaming Group Inc.

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

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

5. Acquisitions (continued):

On August 15, 2017, an additional 1,167,946 common shares were acquired under the extension of the Offer for $2.50 in cash per common share. A total of 19,096,967 common shares or 95.13% of the issued and outstanding common shares were acquired under the Offer. On August 18, 2017, Pollard mailed to all remaining holders of common shares a Notice of Compulsory Acquisition pursuant to the provisions of Section 206 of the Canada Business Corporations Act to complete the acquisition of 100% of the common shares. On September 18, 2017, the Compulsory Acquisition was completed and the Offeror acquired the remaining 976,932 common shares not already held by the Offeror, thereby becoming the holder of 100% of the common shares. On September 19, 2017, INNOVA was formally delisted from the Toronto Stock Exchange. The acquisition was completed for aggregate consideration of $50,185.

The purchase price was funded by proceeds from Pollard's credit facility and additional subordinated debt. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities have been based on management's best estimates and valuation techniques as at August 3, 2017, the acquisition date. During the period ended June 30, 2018, the allocation of the purchase price to acquired assets and liabilities was finalized.

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

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

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

5. Acquisitions (continued):

International Gamco, Inc.

On February 1, 2018, Pollard Holdings Inc., a wholly-owned subsidiary of Pollard, acquired 100% of the common shares of International Gamco, Inc. ("Gamco"). 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 February 1, 2018, the acquisition date. As per the sales agreement, the net purchase price was decreased by the amount of other current liabilities assumed, which were specified in the agreement. The majority of these other current liabilities were paid in March 2018.

Purchase price	$	21,648
Cash acquired		(90)
Net purchase price	$	21,558
Additional net tangible assets acquired		
Restricted cash - other current liabilities	$	5,999
Accounts receivable		1,554
Inventories		4,511
Prepaid expenses and deposits		329
Property, plant and equipment		7,025
Patents		36
Deferred income tax asset		1,362
Accounts payable and accrued liabilities		(1,252)
Income taxes payable		(156)
Other current liabilities		(5,999)
Deferred income tax liability		(2,372)
Net tangible assets acquired (excluding cash)	$	11,037
Trade name	$	526
Game library		579
Customer relationships		4,058
Identifiable intangible assets acquired	$	5,163
Goodwill acquired	$	5,358

The goodwill acquired is largely attributable to the assembled workforce and the expected synergies from the combined businesses, including a greater share of the charitable gaming market. This goodwill is not expected to be deductible for tax purposes. The allocation of the purchase price to acquired assets and liabilities is preliminary and is subject to change if new information becomes available.

Acquisition costs related to the Gamco purchase in the six months ended June 30, 2018, were $227. These costs were included in administration expenses.

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

5. Acquisitions (continued):

During the period between February 1, 2018 and June 30, 2018, Gamco generated revenues of approximately $11,465 and net income of $445, which have been recorded in the consolidated financial statements. If Gamco had been acquired on January 1, 2018, incremental revenue of $2,217 and net loss of $4,755 (which includes $4,826 of transaction related expenditures, net of income tax) would have been included in the six months ended June 30, 2018.

6. Inventories:

		June 30, 2018		December 31, 2017
Raw materials	**$**	**12,280**	$	11,755
Work-in-process		**1,669**		930
Finished goods		**18,372**		19,323
	$	**32,321**	$	32,008

During the second quarter of 2018, Pollard recorded inventory write-downs of $90 representing an increase in the obsolescence reserves, and an increase in write-downs of $5 due to changes in foreign exchange rates. During the six months ended June 30, 2018, Pollard recorded inventory write-downs of $227 representing an increase in the obsolescence reserves, and a reversal of previous write-downs of $22 due to changes in foreign exchange rates.

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.

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

7. Equity investment:

Interest in joint venture		**Six months ended June 30, 2018**		Six months ended June 30, 2017
Balance – beginning of period	**$**	**877**	$	468
Investment		**1,095**		1,048
Equity loss		**(1,185)**		(805)
Effects of movements in exchange rates		**47**		53
Balance – end of period	**$**	**834**	$	764

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

7. Equity investment (continued):

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 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.

8. Long-term debt:

		June 30, 2018		December 31, 2017
Credit facility, interest of 3.5% to 4.1%, payable monthly, maturing 2021	**$**	**82,636**	$	83,972
Equipment debt, interest of 6.72%, payable monthly, maturing 2019		**62**		189
Equipment leases, interest of 3.89% to 5.55%, payable monthly, maturing 2019		**323**		647
Deferred financing charges, net of amortization		**(509)**		(253)
		82,512		84,555
Less current portion		**(385)**		(784)
	$	**82,127**	$	83,771

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 June 30, 2018, the outstanding letters of guarantee drawn under the credit facility were $1,973 (December 2017 - $1,909).

Included in the total credit facility balance is a U.S. dollar denominated balance of US$21,400 (December 2017 - US$14,700).

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

8. Long-term debt (continued):

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 June 30, 2018, Pollard is in compliance with all financial covenants.

As of June 30, 2018, Pollard had unused credit facility available of $91,349 (December 2017 - $34,202).

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 three-year period, renewable June 22, 2021.

Equipment debt and leasing

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

9. Subordinated debt:

	June 30, 2018	December 31, 2017
Subordinated debt (interest of 8.00% payable quarterly)	**$ -**	$ 16,734
Less current portion	**-**	(3,585)
	$ -	$ 13,149

On June 23, 2017, Pollard entered into a loan agreement with Equities for a subordinated term loan with a seven year term, repayable at any time (subject to meeting certain financial covenants under the secured credit facility). The loan was provided to assist with the purchase of the common shares of INNOVA. A total of $25,092 was drawn in the third quarter of 2017. Interest on the subordinated debt commenced with the first draw at a rate of 8%. Quarterly principal payments on the loan facility commenced the month following the first draw, which occurred August 4, 2017.

In addition to the mandatory quarterly payments, Pollard has made three lump sum prepayments. On September 20, 2017, Pollard repaid $7,462 in outstanding principal and on February 23, 2018, Pollard repaid an additional $7,471 in outstanding principal. On June 29, 2018, Pollard repaid in full the remainder of the outstanding principal in the amount of $7,471.

10. Pension liability:

During the three month period ended June 30, 2018, Pollard recorded a remeasurement gain of $2,352 (net of $850 of income tax) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate and a gain arising on plan asset investments, reducing the net pension liability.

During the six month period ended June 30, 2018, Pollard recorded a remeasurement gain of $3,326 (net of $1,181 of income tax) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate and a gain arising on plan asset investments, reducing the net pension liability. During the three and six month periods ended June 30, 2017, Pollard recorded a remeasurement loss of $4,633 (net of $1,751 of income tax) on its defined pension plans.

11. Share capital:

Issue of common shares

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. The proceeds, net of commissions and offering expenses, was $35,351. At June 30, 2018, the total number of common shares issued was 25,613,158.

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 9, 2018, a dividend of $0.03 per share was declared, payable on July 13, 2018, to the shareholders of record on June 30, 2018.

12. Revenue:

Pollard has adopted IFRS 15 with an initial application date of January 1, 2018. The updated accounting policies and required disclosures are detailed below.

12. Revenue (continued):

Accounting policies

Revenue is recognized through the following steps: 1) identification of the contract with the customer, 2) identification of the performance obligations in the contract, 3) determination of the transaction price, 4) allocation of the transaction price to the performance obligations in the contract and 5) recognition of revenue when the performance obligation is satisfied.

Revenue is recognized when control of the product or service is transferred to the customer. Volume rebates are accrued and recorded as a reduction to revenues based on historical experience and management's expectations regarding sales volume. For printed products sold to the lottery and charitable markets, control transfers to the customer when the products are delivered to the customer and invoicing occurs at this time. Under certain lottery contracts, Pollard is compensated for its products based on its customers' sales of those products at retail. Pollard has concluded that control transfers to its customers at delivery of the product to the customer and therefore recognizes revenue at that point in time. Contracts relating to lump-sum licensed properties and licensed merchandise sales, iLottery services and digital products have a single performance obligation and therefore revenues are recognized at a point in time when products or services are provided. Under contracts where Pollard receives royalty payments for licensed properties revenues are recognized over time as the related product is sold at retail. Loyalty programs, digital maintenance fees and lottery management services revenues are also recognized over time as the products or services are provided.

Certain Pollard subsidiaries provide gaming systems under contracts that contain multiple-element revenue arrangements, including license fees, training, consulting, maintenance, product support services and periodic upgrades. Where such arrangements exist, the amount of revenue allocated to each element is based upon the stand-alone selling prices of the various elements. The estimated price of each element is determined based on the current market price of each of the elements when sold separately. Pollard earns revenue from leasing of gaming systems and capitalizes the costs of installing gaming equipment. Revenue from the provision of gaming systems is generally recognized over time as a daily fee or as a percentage of revenue generated by the gaming machines. Service and maintenance revenue is recognized as the related services are performed.

Contract assets are recognized when Pollard delivers product to certain customers, however under these contracts, Pollard is not able to bill for this product until these products are sold at retail. Pollard transfers these contract assets to trade receivables when Pollard is able to invoice the customer. Contract liabilities consists of customer advances for services to be rendered in the future and is recognized as revenue in future periods.

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

12. Revenue (continued):

Revenue - geographical segment	**Six months ended June 30, 2018**		
	Instant ticket	Diamond Game	Total
Canada	$ 37,551	$ 5,708	$ 43,259
United States	84,048	7,359	91,407
International	32,509	-	32,509
	$ 154,108	$ 13,067	$ 167,175

Revenue - geographical segment	Six months ended June 30, 2017		
	Instant ticket	Diamond Game	Total
Canada	$ 25,811	$ -	$ 25,811
United States	78,740	-	78,740
International	30,782	-	30,782
	$ 135,333	$ -	$ 135,333

Revenue - product lines	**Six months ended June 30, 2018**		
	Instant ticket	Diamond Game	Total
Lottery	$ 128,706	$ -	$ 128,706
Charitable	25,402	-	25,402
Gaming systems	-	13,067	13,067
	$ 154,108	$ 13,067	$ 167,175

Revenue - product lines	Six months ended June 30, 2017		
	Instant ticket	Diamond Game	Total
Lottery	$ 120,929	$ -	$ 120,929
Charitable	14,404	-	14,404
Gaming systems	-	-	-
	$ 135,333	$ -	$ 135,333

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

12. Revenue (continued):

Contract balances		June 30, 2018		January 1, 2018
Trade receivables, which are included in accounts receivable	**$**	**34,305**	$	36,263
Contract assets, which are included in accounts receivable (1)		**3,155**		3,260
Contract liabilities (2)		**2,001**		1,491

(1) Pollard recognized contract assets upon adoption IFRS 15 as an adjustment to the opening balance at January 1, 2018.
(2) Contract liabilities were previously classified as deferred revenue.

Changes in contract liabilities		Six months ended June 30, 2018
Balance – beginning of period	**$**	**1,491**
Increases due to cash received		**951**
Revenue recognized during the period		**(441)**
Balance – end of period	**$**	**2,001**

13. Other expense (income):

		Three months ended June 30, 2018		Three months ended June 30, 2017		Six months ended June 30, 2018		Six months ended June 30, 2017
Loss on equity investment (note 7)	**$**	**647**	$	457	**$**	**1,185**	$	805
EBITDA support agreement		**(494)**		-		**(1,009)**		-
Other income		**(52)**		91		**(78)**		87
	$	**101**	$	548	**$**	**98**	$	892

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

13. Other expense (income) (continued):

EBITDA support agreement

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

14. Finance costs and finance income:

Finance costs	**Three months ended June 30, 2018**	Three months ended June 30, 2017	**Six months ended June 30, 2018**	Six months ended June 30, 2017
Foreign exchange loss	**$ 1,354**	$ -	**$ 2,533**	$ 171
Interest	**1,009**	771	**2,176**	1,565
	$ 2,363	$ 771	**$ 4,709**	$ 1,736

Finance income	**Three months ended June 30, 2018**	Three months ended June 30, 2017	**Six months ended June 30, 2018**	Six months ended June 30, 2017
Foreign exchange gain	**$ -**	$ 130	**$ -**	$ 130
	$ -	$ 130	**$ -**	$ 130

15. Income taxes:

Income tax expense	**Three months ended June 30, 2018**	Three months ended June 30, 2017	**Six months ended June 30, 2018**	Six months ended June 30, 2017
Current	**$ 401**	$ 2,789	**$ 3,518**	$ 4,141
Deferred (reduction)	**1,825**	(193)	**407**	(540)
	$ 2,226	$ 2,596	**$ 3,925**	$ 3,601

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

15. Income taxes (continued):

Reconciliation of effective tax rate		Three months ended June 30, 2018		Three months ended June 30, 2017
Net income for the period		$ 5,033		$ 6,024
Total income taxes		2,226		2,596
Income before income taxes		$ 7,259		$ 8,620
Income tax using Pollard's domestic tax rate	27.0%	$ 1,960	27.0%	$ 2,327
Effect of tax rates in foreign jurisdictions	(0.6%)	(47)	4.8%	413
Non-deductible amounts	1.2%	86	1.6%	140
Effect of non-taxable items related to foreign exchange	3.1%	227	(3.3%)	(284)
	30.7%	$ 2,226	30.1%	$ 2,596

Reconciliation of effective tax rate		Six months ended June 30, 2018		Six months ended June 30, 2017
Net income for the period		$ 9,572		$ 7,811
Total income taxes		3,925		3,601
Income before income taxes		$ 13,497		$ 11,412
Income tax using Pollard's domestic tax rate	27.0%	$ 3,644	27.0%	$ 3,081
Effect of tax rates in foreign jurisdictions	(0.8%)	(113)	5.7%	648
Non-deductible amounts	0.6%	86	2.7%	308
Effect of non-taxable items related to foreign exchange	2.3%	308	(3.8%)	(436)
	29.1%	$ 3,925	31.6%	$ 3,601

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

16. Net income per share:

	Three months ended June 30, 2018	Three months ended June 30, 2017
Net income attributable to shareholders for basic and diluted net income per share	**$ 5,033**	$ 6,024
Weighted average number of shares (basic)	**25,613,158**	23,543,158
Weighted average impact of share options on issue	**250,000**	222,527
Weighted average number of shares (diluted)	**25,863,158**	23,765,685
Net income per share (basic)	**$ 0.20**	$ 0.25
Net income per share (diluted)	**$ 0.20**	$ 0.25

Pollard issued 2,070,000 common shares on February 1, 2018, which added 2,070,000 shares to the calculation of the weighted average number of share (basic) for the three month period ended June 30, 2018.

	Six months ended June 30, 2018	Six months ended June 30, 2017
Net income attributable to shareholders for basic and diluted net income per share	**$ 9,572**	$ 7,811
Weighted average number of shares (basic)	**25,258,628**	23,543,158
Weighted average impact of share options on issue	**250,000**	174,033
Weighted average number of shares (diluted)	**25,508,628**	23,717,191
Net income per share (basic)	**$ 0.38**	$ 0.33
Net income per share (diluted)	**$ 0.38**	$ 0.33

Pollard issued 2,070,000 common shares on February 1, 2018, which added 1,715,470 shares to the calculation of the weighted average number of share (basic) for the six month period ended June 30, 2018.

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

17. Supplementary cash flow information:

		Six months ended June 30, 2018		Six months ended June 30, 2017
Change in non-cash operating working capital:				
Accounts receivable	**$**	**8,227**	$	2,189
Inventories		**2,291**		(664)
Prepaid expenses and deposits		**861**		(1,701)
Income taxes payable		**(238)**		(325)
Accounts payable and accrued liabilities		**(7,665)**		3,692
Contract liabilities		**1,003**		-
	$	**4,479**	$	3,191

18. Related party transactions:

Pollard Equities Limited and affiliates

During the quarter ended June 30, 2018, Pollard paid property rent of $795 (2017 - $796) and $95 (2017 - $90) in plane charter costs to an affiliate of Pollard Equities Limited. During the six months ended June 30, 2018, Pollard paid property rent of $1,588 (2017 - $1,591) and $190 (2017 - $180) in plane charter costs to an affiliate of Equities. In addition, during the quarter, Pollard paid Equities $158 (2017 – $122) of interest on Pollard's subordinated debt and $421 (2017 – $251) for the six months ended June 30, 2018.

During the quarter, Equities paid Pollard $18 (2017 - $18) for accounting and administration fees and $36 (2017 - $36) during the six months ended June 30, 2018.

At June 30, 2018, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, interest and other expenses of $24 (December 31, 2017 - $1,900).

Neogames S.à r.l. and affiliates

During the quarter Pollard reimbursed operating costs and paid software royalties of $766 (2017 - $824) to its iLottery joint venture partner, which are recorded in cost of sales, and $1,561 (2017 - $1,482) during the six months ended June 30, 2018.

At June 30, 2018, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of $566 (December 31, 2017 – $698) for reimbursement of operating costs and capital expenditures, and its share of operating results.

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

18. Related party transactions (continued):

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, 2018	Three months ended June 30, 2017	**Six months ended June 30, 2018**	Six months ended June 30, 2017
Wages, salaries and benefits	**$ 695**	$ 710	**$ 1,382**	$ 1,348
Profit share	**6**	9	**11**	11
Expenses related to defined benefit plans	**152**	126	**304**	251
	$ 853	$ 845	**$ 1,697**	$ 1,610

At June 30, 2018, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,439,058 common shares of Pollard.

19. Segmented information:

Pollard has two reportable segments, Instant ticket 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 Diamond Game segment was acquired August 3, 2017, therefore in the three and six month periods ended June 30, 2017, Pollard had only one segment.

The Instant ticket 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.

There was no inter-segment revenue.

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

19. Segmented information (continued):

Segment information about profits and assets is as follows:

	Three months ended June 30, 2018				
		Instant ticket	Diamond Game		Total
Revenues from external customers	$	80,071	6,760	$	86,831
Operating costs and expenses		74,108	5,464		79,572
Earnings before income taxes		5,963	1,296		7,259
Total assets		193,976	58,679		252,655

	Six months ended June 30, 2018					
		Instant ticket		Diamond Game		Total
Revenues from external customers	$	154,109	$	13,066	$	167,175
Operating costs and expenses		142,289		11,389		153,678
Earnings before income taxes		11,820		1,677		13,497
Total assets		193,976		58,679		252,655

20. Financial instruments:

Pollard has adopted IFRS 9 with an initial application date of January 1, 2018. The adoption of IFRS 9 did not result in any transition adjustments. The updated accounting policies are detailed below.

Financial assets and liabilities

Financial assets are initially measured at fair value. On initial recognition, Pollard classifies its financial assets as either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, unless there are changes in the business model for managing them.

A financial asset is measured at amortized cost if it meets both following conditions and is not designated as at FVTPL:

1) is held within a business model whose objective is to hold assets to collect contractual cash flows; and

20. Financial instruments (continued):

2) the contractual terms give rise on specified dates to cash flows that are solely payments on principal and interest on the principal amount outstanding.

The adoption of IFRS 9 did not change Pollard's accounting policies for financial liabilities.

Impairment of financial assets

For accounts receivable Pollard applies the simplified approach to providing for expected credit losses ("ECL") by applying the lifetime expected credit loss provision. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL's, Pollard considers reasonable and supportable information that is available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on Pollard's historical experience and informed credit assessment and including forward looking information.

Hedge accounting

Pollard may use certain derivative financial instruments to manage risks of fluctuation in interest rates and foreign exchange rates. The hedge accounting model require Pollard to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply qualitative and forward-looking approach to assessing hedge effectiveness. To qualify for hedge accounting, Pollard documents its risk management objective and strategy for undertaking the hedge. The documentation must demonstrate how the hedge relationship is aligned with the actual risk management objective and include an analysis of the sources of ineffectiveness and how it determines the hedge ratio.

Cash flow hedges are fair valued through other comprehensive income. The effective portion of changes in the fair value of derivative instruments that are designated and qualify as cash flow hedges are recognized in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

When forward contracts are used to hedge transactions, Pollard can designate only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognized in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item is recognized within other comprehensive income in the costs of hedging reserve within equity. However, Pollard can also designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognized in the cash flow hedge reserve within equity. Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss.

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

20. Financial instruments (continued):

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the transaction occurs, resulting in the recognition of a non-financial asset. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

21. 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, 2018	December 31, 2017
Current	**$ 36,587**	$ 37,786
Past due for 1 to 60 days	**1,932**	2,635
Past due for more than 60 days	**543**	366
Less: Allowance for doubtful accounts	**(113)**	(38)
	$ 38,949	$ 40,749

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

21. Financial risk management (continued):

$160,000 for its Canadian operations and US$12,000 for its U.S. subsidiaries. At June 30, 2018, the unused balance available for drawdown under the credit facility was $91,349 (December 31, 2017 - $34,202).

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

Currency risk

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

A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and U.S. dollar would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $1 for the second quarter of 2018 (2017 - $45) and approximately $8 for the six months ended June 30, 2018 (2017 - $89). 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 $16 for the second quarter of 2018 (2017 - $13) and approximately $34 for the six months ended June 30, 2018 (2017 - $29).

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, 2018, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately $13,107 (December 31, 2017 - $1,305). 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 $66 for the three and six months ended June 30, 2018 (2017 - $9).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Four 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, 2018, Pollard had no outstanding foreign currency contracts.

21. Financial risk management (continued):

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 $122 for the three months ended June 30, 2018 (2017 - $92) and approximately $207 for the six months ended June 30, 2018 (2017 - $143).