Condensed Consolidated Interim Financial Statements of

POLLARD BANKNOTE LIMITED

(unaudited)

Nine months ended September 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)

		September 30, 2017		December 31, 2016
Assets				
Current assets				
Cash	$	**4,797**	$	7,500
Restricted cash		**3,845**		3,203
Accounts receivable		**38,820**		38,585
Inventories (note 6)		**36,433**		27,232
Prepaid expenses and deposits		**6,682**		3,437
Total current assets		**90,577**		79,957
Non-current assets				
Property, plant and equipment		**55,502**		46,906
Equity investment (note 7)		**770**		468
Goodwill		**48,263**		37,513
Intangible assets		**27,850**		11,916
Deferred income taxes		**1,185**		-
Total non-current assets		**133,570**		96,803
Total assets	$	**224,147**	$	176,760
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	**37,694**	$	25,864
Dividends payable		**706**		706
Income taxes payable		**3,586**		2,541
Deferred revenue		**1,431**		-
Current portion long-term debt (note 8)		**939**		-
Current portion subordinated debt (note 9)		**3,585**		1,363
Total current liabilities		**47,941**		30,474
Non-current liabilities				
Long-term debt (note 8)		**84,680**		70,852
Subordinated debt (note 9)		**14,045**		4,769
Deferred revenue		**872**		-
Other non-current liabilities		**1,076**		395
Pension liability (note 10)		**15,590**		13,524
Deferred income taxes		**99**		4,909
Total non-current liabilities		**116,362**		94,449
Shareholders' equity				
Share capital		**73,209**		73,209
Reserves		**2,506**		3,917
Deficit		**(15,871)**		(25,289)
Total shareholders' equity		**59,844**		51,837
Total liabilities and shareholders' equity	$	**224,147**	$	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 September 30, 2017	Three months ended September 30, 2016	**Nine months ended September 30, 2017**	Nine months ended September 30, 2016
Sales	**$ 70,741**	$ 62,676	**$ 206,074**	$ 180,719
Cost of sales	**52,517**	50,059	**157,865**	145,792
Gross profit	**18,224**	12,617	**48,209**	34,927
Administration	**9,139**	5,541	**21,122**	15,958
Selling	**2,674**	2,070	**6,766**	5,788
Other (income) expense (note 11)	**(246)**	57	**646**	(369)
Income from operations	**6,657**	4,949	**19,675**	13,550
Finance costs (note 12)	**1,169**	973	**2,905**	3,142
Finance income (note 12)	**(974)**	-	**(1,104)**	(1,042)
Income before income taxes	**6,462**	3,976	**17,874**	11,450
Income taxes (note 13)	**1,831**	1,132	**5,432**	2,976
Net income	**$ 4,631**	$ 2,844	**$ 12,442**	$ 8,474
Net income per share (basic) (note 14)	**$ 0.20**	$ 0.12	**$ 0.53**	$ 0.36
Net income per share (diluted) (note 14)	**$ 0.20**	$ 0.12	**$ 0.53**	$ 0.36

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 September 30, 2017	Three months ended September 30, 2016	**Nine months ended September 30, 2017**	Nine months ended September 30, 2016
Net income	**$ 4,631**	$ 2,844	**$ 12,442**	$ 8,474
Other comprehensive income (loss):				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations	**(732)**	268	**(1,411)**	(958)
Items that will never be reclassified to profit and loss				
Defined benefit plans remeasurements, net of income tax recovery of $1,376 and reduction of ($375) (note 10)	**3,693**	-	**(940)**	-
Other comprehensive income (loss)	**2,961**	268	**(2,351)**	(958)
Comprehensive income	**$ 7,592**	$ 3,112	**$ 10,091**	$ 7,516

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 nine months ended September 30, 2017

		Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2017	$	73,209	3,917	(25,289)	51,837
Net income		-	-	12,442	12,442
Other comprehensive loss					
Foreign currency translation differences – foreign operations		-	(1,411)	-	(1,411)
Defined benefit plans remeasurements, net of income tax reduction of ($375)		-	-	(940)	(940)
Total other comprehensive loss	$	-	(1,411)	(940)	(2,351)
Total comprehensive income (loss)	$	-	(1,411)	11,502	10,091
Share based compensation	$	-	-	35	35
Dividends (note 16)		-	-	(2,119)	(2,119)
Balance at September 30, 2017	$	73,209	2,506	(15,871)	59,844

For the nine months ended September 30, 2016

		Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2016	$	73,209	4,384	(34,016)	43,577
Net income		-	-	8,474	8,474
Other comprehensive loss					
Foreign currency translation differences – foreign operations		-	(958)	-	(958)
Total other comprehensive loss	$	-	(958)	-	(958)
Total comprehensive income (loss)	$	-	(958)	8,474	7,516
Share based compensation	$	-	-	11	11
Dividends		-	-	(2,119)	(2,119)
Balance at September 30, 2016	$	73,209	3,426	(27,650)	48,985

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Cash Flows

(*In thousands of Canadian dollars*)

(unaudited)

		Nine months ended September 30, 2017		Nine months ended September 30, 2016
Cash increase (decrease)				
Operating activities				
Net income	**$**	**12,442**	$	8,474
Adjustments				
Income taxes		**5,432**		2,976
Amortization and depreciation		**8,791**		8,473
Interest expense		**2,559**		2,586
Unrealized foreign exchange gain		**(1,929)**		(1,936)
Loss on sale of property, plant and equipment		**83**		-
Loss on equity investment		**1,119**		307
Pension expense		**3,691**		3,224
Gain on sale of investment in associate		**-**		(516)
Deferred revenue		**(70)**		-
Interest paid		**(2,381)**		(2,422)
Income tax paid		**(5,154)**		(1,872)
Pension contributions		**(2,707)**		(2,321)
Change in non-cash operating working capital (note 15)		**(1,533)**		(10,913)
		20,343		6,060
Investing activities				
Additions to property, plant and equipment		**(5,124)**		(3,275)
Acquisition of INNOVA Gaming Group Inc. (note 5)		**(39,318)**		-
Equity investment (note 7)		**(1,376)**		(765)
Proceeds from sales of investment in associate		**-**		516
Additions to intangible assets		**(1,345)**		(798)
		(47,163)		(4,322)
Financing activities				
Net proceeds from long-term debt		**14,972**		2,023
Net proceeds from subordinated debt		**11,498**		(340)
Change in other non-current liabilities		**724**		(184)
Deferred financing charges paid		**(562)**		(118)
Dividends paid		**(2,119)**		(2,119)
		24,513		(738)
Foreign exchange loss on cash held in foreign currency		**(396)**		(57)
Change in cash position		**(2,703)**		943
Cash position, beginning of period		**7,500**		7,587
Cash position, end of period	**$**	**4,797**	$	8,530

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 nine months ended September 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 operations of INNOVA Gaming Group Inc. ("INNOVA"), acquired during the quarter, are included in the condensed consolidated interim financial statements from August 3, 2017 (see 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*. 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 November 8, 2017, 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, 2016, accept for as noted below.

2. Basis of preparation (continued):

Acquisition accounting

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

3. 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.

Business combination:

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

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.

4. Future accounting standards (continued):

IFRS 9 is required for fiscal years beginning on or after January 1, 2018. Based on its assessment, Pollard does not expect the standard to have a material impact on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard specifies the steps and timing for recognizing revenue, as well as requiring more informative, relevant disclosures. IFRS 15 supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue*. IFRS 15 is required for fiscal years beginning on or after January 1, 2018 with early adoption available. Based on its assessment, Pollard does not expect the standard to have a material impact 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.

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.

4. Future accounting standards (continued):

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.

5. Acquisition of INNOVA Gaming Group Inc.:

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

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

The purchase price was funded by proceeds from Pollard’s credit facility and additional subordinated debt. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities have been based on management’s preliminary best estimates and valuation techniques as at August 3, 2017, the acquisition date.

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

5. Acquisition of INNOVA Gaming Group Inc. (continued):

Cash purchase price	$	50,185
Cash acquired		10,867
Net purchase price	$	39,318
Additional net tangible assets acquired		
Accounts receivable	$	3,702
Inventories		1,739
Prepaid expenses and deposits		2,255
Property and equipment		10,288
Deferred income tax asset		9,040
Accounts payable and accrued liabilities		(5,915)
Income tax payable		(189)
Deferred revenue		(2,505)
Long-term debt		(1,467)
Deferred income tax liability		(4,892)
Net tangible assets acquired (excluding cash)	$	12,056
Trade names	$	2,616
Software		2,733
Patent and licenses		436
Customer contracts		10,247
Identifiable intangible assets acquired	$	16,032
Goodwill acquired	$	11,230

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. 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 INNOVA purchase in the three months ended September 30, 2017, were $1,379 and $2,406 in the nine months ended September 30, 2017. These costs were included in administration expenses.

During the 58 days between the August 3, 2017 and September 30, 2017, INNOVA generated revenues of approximately $3,822 and had a net loss of $473, which have been recorded in the consolidated financial statements. Included in INNOVA's net loss was $1,347 of severance costs related to the departure of a former executive. If INNOVA had been acquired on January 1, 2017, incremental revenue of $16,858 and net loss of $3,380 (which includes $4,210 of Innova's transaction costs relating to the sale of the company) would have been included in the nine months ended September 30, 2017.

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

6. Inventories:

		September 30, 2017		December 31, 2016
Raw materials	$	12,075	$	11,246
Work-in-process		806		784
Finished goods		23,552		15,202
	$	36,433	$	27,232

During the third quarter of 2017, Pollard recorded inventory write-downs of $88 representing an increase in the obsolescence reserves and inventory write-downs of $5 due to changes in foreign exchange rates. During the nine months ended September 30, 2017, Pollard recorded inventory write-downs of $290 representing an increase in the obsolescence reserves and inventory write-downs of $2 due to changes in foreign exchange rates.

During the third quarter of 2016, Pollard recorded inventory write-downs of $160 representing an increase in the obsolescence reserves and inventory write-downs of $16 due to changes in foreign exchange rates. During the nine months ended September 30, 2016, Pollard recorded inventory write-downs of $403 representing an increase in the obsolescence reserves and inventory write-downs of $56 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		Nine months ended September 30, 2017		Nine months ended September 30, 2016
Balance – beginning of period	$	468	$	401
Investment		1,376		765
Equity loss		(1,119)		(307)
Effects of movements in exchange rates		45		2
Balance – end of period	$	770	$	861

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

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

7. 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.

8. Long-term debt:

	September 30, 2017	December 31, 2016
Credit facility, interest of 3.60% to 3.95% payable monthly, maturing June 2019	**$ 84,689**	$ 71,003
Equipment debt, interest of 6.72% to 9.89% payable monthly, maturing 2018	**865**	-
Equipment lease, interest of 3.89% to 10.89% payable monthly, maturing 2019	**298**	-
Deferred financing charges, net of amortization	**(233)**	(151)
	85,619	70,852
Less current portion	**(939)**	-
	$ 84,680	$ 70,852

Credit facility

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 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 September 30, 2017, the outstanding letters of guarantee drawn under the credit facility were $1,885 (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 September 30, 2017, Pollard is in compliance with all financial covenants.

As of September 30, 2017, Pollard has unused credit facility available of $33,390, (December 31, 2016 - $18,908).

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

8. Long-term debt (continued):

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.

Equipment debt and leasing

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

9. Subordinated debt:

	September 30, 2017	December 31, 2016
Subordinated debt, interest of 9.00%	**$ -**	$ 6,132
Subordinated debt, interest of 8.00% payable quarterly, maturing 2024	**17,630**	-
	$ 17,630	$ 6,132
Less current portion	**(3,585)**	(1,363)
	$ 14,045	$ 4,769

On April 2, 2014, Pollard entered into a loan agreement with Equities for a subordinated term loan with a seven year term, repayable at any time (subject to meeting certain financial covenants under the secured credit facility), in the amount of $6,813. The term loan was provided to assist in the purchase of a printing press. Quarterly principal payments on the subordinated loan facility commenced the quarter following June 30, 2016. Interest on the subordinated debt commenced with the first draw at a rate of 9%. On September 28, 2017, Pollard repaid the remaining balance of the loan.

On June 23, 2017, Pollard entered into a second loan agreement with Equities for an additional subordinated term loan with a seven year term, repayable at any time (subject to meeting certain financial covenants under the secured credit facility). The loan was provided to assist with the purchase of the common shares of INNOVA. A total of $25,092 was drawn in the third quarter of 2017. On September 20, 2017, Pollard repaid $7,462 in outstanding principal. Quarterly principal payments on the second loan facility commenced the month following the first draw, which occurred August 4, 2017. Interest on the subordinated debt commenced with the first draw at a rate of 8%.

The loans are fully subordinated to the secured credit facility.

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

10. Pension liability:

During the quarter ended September 30, 2017, Pollard recorded an actuarial gain of $3,693 (net of $1,376 income tax recovery) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate, plus additional remeasurement gains arising on plan assets.

For the nine months ended September 30, 2017, Pollard recorded an actuarial loss of $940 (net of $375 income tax reduction). The remeasurement loss resulted from a decrease in the discount rate, partially offset by remeasurement gains arising on plan assets.

11. Other (income) expense:

	Three months ended September 30, 2017	Three months ended September 30, 2016	**Nine months ended September 30, 2017**	Nine months ended September 30, 2016
Loss on equity investment (note 7)	**$ 314**	$ 130	**$ 1,119**	$ 307
EBITDA support agreement	**(318)**	-	**(318)**	-
Loss on sale of property, plant and equipment	**-**	-	**83**	-
Gain on sale of investment in associate	**-**	-	**-**	(516)
Other	**(242)**	(73)	**(238)**	(160)
	$ (246)	$ 57	**$ 646**	$ (369)

EBITDA support agreement

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

Gain on sale of investment in associate

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

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

12. Finance costs and finance income:

Finance costs	**Three months ended September 30, 2017**	Three months ended September 30, 2016	**Nine months ended September 30, 2017**	Nine months ended September 30, 2016
Foreign exchange loss	**$ -**	$ 46	**$ 171**	$ 374
Interest	**1,108**	885	**2,559**	2,586
Amortization of deferred financing costs	**61**	42	**175**	182
	$ 1,169	$ 973	**$ 2,905**	$ 3,142

Finance income	**Three months ended September 30, 2017**	Three months ended September 30, 2016	**Nine months ended September 30, 2017**	Nine months ended September 30, 2016
Foreign exchange gain	**$ 974**	$ -	**$ 1,104**	$ 1,042
	$ 974	$ -	**$ 1,104**	$ 1,042

13. Income taxes:

Income tax expense	**Three months ended September 30, 2017**	Three months ended September 30, 2016	**Nine months ended September 30, 2017**	Nine months ended September 30, 2016
Current	**$ 2,295**	$ 1,276	**$ 6,436**	$ 3,926
Deferred (recovery)	**(464)**	(144)	**(1,004)**	(950)
	$ 1,831	$ 1,132	**$ 5,432**	$ 2,976

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

13. Income taxes (continued):

Reconciliation of effective tax rate		Three months ended September 30, 2017		Three months ended September 30, 2016
Net income for the period		$ 4,631		$ 2,844
Total income taxes		1,831		1,132
Income before income taxes		$ 6,462		$ 3,976
Income tax using Pollard's domestic tax rate	27.0%	$ 1,745	27.0%	$ 1,074
Changes in expected tax rates and other non-deductible amounts	6.1%	397	(0.2%)	(9)
Effect of non-taxable items related to foreign exchange	(4.8%)	(311)	1.7%	67
	28.3%	$ 1,831	28.5%	$ 1,132

Reconciliation of effective tax rate		Nine months ended September 30, 2017		Nine months ended September 30, 2016
Net income for the period		$ 12,442		$ 8,474
Total income taxes		5,432		2,976
Income before income taxes		$ 17,874		$ 11,450
Income tax using Pollard's domestic tax rate	27.0%	$ 4,826	27.0%	$ 3,092
Changes in expected tax rates and other non-deductible amounts	3.9%	692	1.6%	178
Effect of non-taxable items related to foreign exchange	(0.5%)	(86)	(2.6%)	(294)
	30.4%	$ 5,432	26.0%	$ 2,976

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

14. Net income per share:

		Three months ended September 30, 2017		Three months ended September 30, 2016
Net income attributable to shareholders for basic and diluted net income per share	**$**	**4,631**	$	2,844
Weighted average number of shares (basic)		**23,543,158**		23,543,158
Weighted average impact of share options on issue		**250,000**		100,000
Weighted average number of shares (diluted)		**23,793,158**		23,643,158
Net income per share (basic)	**$**	**0.20**	$	0.12
Net income per share (diluted)	**$**	**0.20**	$	0.12

		Nine months ended September 30, 2017		Nine months ended September 30, 2016
Net income attributable to shareholders for basic and diluted net income per share	**$**	**12,442**	$	8,474
Weighted average number of shares (basic)		**23,543,158**		23,543,158
Weighted average impact of share options on issue		**199,634**		100,000
Weighted average number of shares (diluted)		**23,742,792**		23,643,158
Net income per share (basic)	**$**	**0.53**	$	0.36
Net income per share (diluted)	**$**	**0.53**	$	0.36

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

15. Supplementary cash flow information:

		Nine months ended September 30, 2017		Nine months ended September 30, 2016
Change in non-cash operating working capital:				
Accounts receivable	**$**	**2,849**	$	(10,409)
Inventories		**(8,026)**		(4,083)
Prepaid expenses and deposits		**(1,468)**		(987)
Income taxes receivable		**(385)**		(356)
Accounts payable and accrued liabilities		**5,629**		4,922
Deferred revenue		**(132)**		-
	$	**(1,533)**	$	(10,913)

16. 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 August 9, 2017, a dividend of $0.03 per share was declared, payable on October 13, 2017, to the shareholders of record on September 30, 2017.

17. 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 September 30, 2017, the total share options outstanding were 250,000.

18. Related party transactions:

Pollard Equities Limited and affiliates

During the quarter ended September 30, 2017, Pollard paid property rent of $790 (2016 - $777) and $90 (2016 - $57) in plane charter costs to affiliates of Equities. In addition, during the quarter, Pollard paid Equities $400 (2016 – $147) of interest on Pollard's subordinated debt. During the nine months ended September 30, 2017, Pollard paid property rent of $2,382 (2016 - $2,338) and $270 (2016 - $170) in plane charter costs to affiliates of Equities. In addition, during the nine months ended September 30, 2017, Pollard paid Equities $651 (2016 – $452) of interest on Pollard's subordinated debt.

During the quarter Equities paid Pollard $18 (2016 - $18) for accounting and administration fees and $54 (2016 - $54) during the nine months ended September 30, 2017.

At September 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 $666 (December 31, 2016 - $907).

Neogames S.à r.l. and affiliates

During the quarter Pollard reimbursed operating costs and paid software royalties of $674 (2016 - $247) to its iLottery partner, which are recorded in cost of sales and $2,156 (2016 - $794) during the nine months ended September 30, 2017. During the quarter Pollard reimbursed $nil (2016 - $98) of development costs, which were capitalized, and $nil (2016 - $600) during the nine months ended September 30, 2017.

At September 30, 2016, included in accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of $490 (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.

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

18. Related party transactions (continued):

Key management personnel compensation comprised:

	Three months ended September 30, 2017	Three months ended September 30, 2016	**Nine months ended September 30, 2017**	Nine months ended September 30, 2016
Wages, salaries and benefits	**$ 853**	$ 701	**$ 2,200**	$ 1,753
Profit share	**6**	4	**18**	9
Expenses related to defined benefit plans	**126**	118	**377**	355
	$ 985	$ 823	**$ 2,595**	$ 2,117

At September 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.

19. 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.

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

19. Financial risk management (continued):

Credit risk

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

		September 30, 2017		December 31, 2016
Current	**$**	**36,879**	$	36,670
Past due for 1 to 60 days		**1,778**		1,530
Past due for more than 60 days		**279**		449
Less: Allowance for doubtful accounts		**(116)**		(64)
	$	**38,820**	$	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. As at September 30, 2017, the unused balance available for drawdown under the credit facility was $33,390, (December 31, 2016 - $18,908).

The 2017 funding 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.

19. 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 cash flow by approximately $28 for the third quarter of 2017 (2016 - $8) and approximately $117 for the nine months ended September 30, 2017 (2016 - $47). 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 cash flow by approximately $18 for the third quarter of 2017 (2016 - $14) and approximately $48 for the nine months ended September 30, 2017 (2016 - $40).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At September 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 $8,704 (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 $44 for the three and nine months ended September 30, 2017 (2016 - $9).

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 September 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 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 $106 for the three months ended September 30, 2017 (2016 - $93) and approximately $318 for the nine months ended September 30, 2017 (2016 - $279).

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

20. Segmented information:

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

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

There was no inter-segment revenue.

Segment information about profits and assets is as follows:

	Three months ended September 30, 2017		
	Instant ticket	Diamond Game (INNOVA)	Total
Revenues from external customers	$ 66,919	$ 3,822	$ 70,741
Operating costs and expenses	59,715	4,563	64,278
Earnings (loss) before income taxes	7,203	(741)	6,462
Total assets	186,896	37,919	224,815

	Nine months ended September 30, 2017		
	Instant ticket	Diamond Game (INNOVA)	Total
Revenues from external customers	$ 202,252	$ 3,822	$ 206,074
Operating costs and expenses	183,636	4,563	188,199
Earnings (loss) before income taxes	18,615	(741)	17,874
Total assets	186,896	37,919	224,815