Consolidated Financial Statements of

POLLARD BANKNOTE LIMITED

Years ended December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pollard Banknote Limited

We have audited the accompanying consolidated financial statements of Pollard Banknote Limited, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pollard Banknote Limited as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 12, 2018

Winnipeg, Canada

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

	December 31, 2017	December 31, 2016
Assets		
Current assets		
Cash	$ 5,603	$ 7,500
Restricted cash	5,780	3,203
Accounts receivable	40,749	38,585
Inventories (note 7)	32,008	27,232
Prepaid expenses and deposits	6,331	3,437
Total current assets	90,471	79,957
Non-current assets		
Property, plant and equipment (note 8)	54,319	46,906
Equity investment (note 9)	877	468
Goodwill (note 10)	51,768	37,513
Intangible assets (note 11)	27,746	11,916
Deferred income taxes (note 12)	3,093	-
Total non-current assets	137,803	96,803
Total assets	$ 228,274	$ 176,760

		December 31, 2017		December 31, 2016

Liabilities and Shareholders' Equity

Current liabilities				
Accounts payable and accrued liabilities	$	36,766	$	25,864
Dividends payable		706		706
Income taxes payable		3,373		2,541
Deferred revenue		702		-
Current portion long-term debt (note 13)		784		-
Current portion subordinated debt (note 14)		3,585		1,363
Total current liabilities		45,916		30,474
Non-current liabilities				
Long-term debt (note 13)		83,771		70,852
Subordinated debt (note 14)		13,149		4,769
Deferred revenue		789		-
Other non-current liabilities		753		395
Pension liability (note 15)		22,959		13,524
Deferred income taxes (note 12)		3,368		4,909
Total non-current liabilities		124,789		94,449
Shareholders' equity				
Share capital (note 16)		73,209		73,209
Reserves		2,965		3,917
Deficit		(18,605)		(25,289)
Total shareholders' equity		57,569		51,837
Commitments and contingencies (note 17)				
Subsequent events (note 28)				
Total liabilities and shareholders' equity	$	228,274	$	176,760

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Dave Brown" Director

"John Pollard" Director

Pollard Banknote Limited

Consolidated Statements of Income

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

Years ended December 31

		2017		2016
Sales	$	285,654	$	246,414
Cost of sales		219,916		197,177
Gross profit		65,738		49,237
Administration		28,609		20,919
Selling		9,412		8,037
Other (income) expenses (note 18)		675		(32)
Income from operations		27,042		20,313
Finance costs (note 19)		4,172		4,281
Finance income (note 19)		(1,104)		(1,042)
Income before income taxes		23,974		17,074
Income taxes (note 12)				
Current		7,902		5,144
Deferred (reduction)		(712)		(339)
		7,190		4,805
Net income	$	16,784	$	12,269
Net income per share (basic) (note 20)	$	0.71	$	0.52
Net income per share (diluted) (note 20)	$	0.71	$	0.52

See accompanying notes to consolidated financial statements.

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

Years ended December 31

		2017		2016
Net income	$	16,784	$	12,269
Other comprehensive loss				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations		(952)		(467)
Items that will never be reclassified to profit and loss				
Defined benefit plans remeasurements, net of income tax reduction of ($2,478) and ($291) (note 12 & note 15)		(7,397)		(737)
Other comprehensive loss – net of income tax		(8,349)		(1,204)
Comprehensive income	$	8,435	$	11,065

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited
Consolidated Statements of Changes in Equity
(*In thousands of Canadian dollars*)

Year ended December 31, 2017

		Attributable to equity holders of Pollard Banknote Limited			
		Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2017	$	73,209	3,917	(25,289)	51,837
Net income		-	-	16,784	16,784
Other comprehensive loss					
Foreign currency translation differences – foreign operations		-	(952)	-	(952)
Defined benefit plans remeasurements, net of income tax reduction of ($2,478) (note 15)		-	-	(7,397)	(7,397)
Total other comprehensive loss	$	-	(952)	(7,397)	(8,349)
Total comprehensive income (loss)	$	-	(952)	9,387	8,435
Share based compensation (note 16)		-	-	122	122
Dividends to owners of Pollard Banknote Limited		-	-	(2,825)	(2,825)
Balance at December 31, 2017	$	73,209	2,965	(18,605)	57,569

Year ended December 31, 2016

		Attributable to equity holders of Pollard Banknote Limited			
		Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2016	$	73,209	4,384	(34,016)	43,577
Net income		-	-	12,269	12,269
Other comprehensive loss					
Foreign currency translation differences – foreign operations		-	(467)	-	(467)
Defined benefit plans remeasurements, net of income tax reduction of ($291) (note 15)		-	-	(737)	(737)
Total other comprehensive loss	$	-	(467)	(737)	(1,204)
Total comprehensive income (loss)	$	-	(467)	11,532	11,065
Share based compensation		-	-	20	20
Dividends to owners of Pollard Banknote Limited		-	-	(2,825)	(2,825)
Balance at December 31, 2016	$	73,209	3,917	(25,289)	51,837

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited
Consolidated Statements of Cash Flows
(*In thousands of Canadian dollars*)

Years ended December 31

	2017	2016
Cash increase (decrease)		
Operating activities		
Net income	$ 16,784	$ 12,269
Adjustments		
Income taxes	7,190	4,805
Amortization and depreciation	13,155	10,573
Interest expense	3,962	3,600
Unrealized foreign exchange gain	(1,436)	(1,532)
Loss on sale of property, plant and equipment	74	-
Loss on equity investment (note 9)	1,727	730
Pension expense (note 15)	5,082	4,417
Gain on sale of investment in associate	-	(516)
Deferred revenue	(163)	-
Interest paid	(3,699)	(3,270)
Income tax recovered (paid)	(6,127)	672
Pension contributions	(5,312)	(3,102)
Change in non-cash operating working capital (note 22)	(2,879)	(16,920)
	28,358	11,726
Investing activities		
Additions to property, plant and equipment (note 8)	(6,948)	(4,996)
Acquisition of INNOVA Gaming Group Inc. (note 6)	(39,318)	-
Acquisition of Integrity (note 6)	(502)	-
Equity investment (note 9)	(2,204)	(807)
Proceeds from sale of investment in associate	-	516
Additions to intangible assets (note 11)	(2,246)	(1,124)
	(51,218)	(6,411)
Financing activities		
Net proceeds from (repayments of) long-term debt (note 13)	13,520	(1,789)
Net proceeds from (repayments of) subordinated debt	10,602	(681)
Change in other non-current liabilities	383	16
Deferred financing charges paid (note 13)	(342)	(165)
Dividends paid	(2,825)	(2,825)
	21,338	(5,444)
Foreign exchange gain (loss) on cash held in foreign currency	(375)	42
Change in cash position	(1,897)	(87)
Cash position, beginning of year	7,500	7,587
Cash position, end of year	$ 5,603	$ 7,500

See accompanying notes to consolidated 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 consolidated financial statements of Pollard as at and for the year ended December 31, 2017, comprise Pollard and its subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture, development and sale of lottery and gaming products.

The controlling party of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owns approximately 73.5% of Pollard's outstanding shares. On February 1, 2018, Pollard completed a share offering, (note 28), which reduced Equities ownership to approximately 67.6% of Pollard's increased outstanding share amount.

The operations of INNOVA Gaming Group Inc. and its wholly owned subsidiaries, Diamond Game Enterprises and Diamond Game Enterprises Canada ULC, ("INNOVA"), acquired during the year, are included in the consolidated financial statements from August 3, 2017 (see note 6).

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

On March 12, 2018, Pollard's Board of Directors approved these consolidated financial statements.

(b) Basis of preparation:

These consolidated financial statements have been prepared on a historical cost basis, except for the following material items in the statement of financial position:

- The pension liability is recognized as the net total of the fair value of plan assets less the present value of the defined benefit obligation.

These statements are presented in Canadian dollars, Pollard's functional currency, and all values are rounded to the nearest thousand (except share and per share amounts) unless otherwise indicated.

2. Basis of preparation (continued):

(c) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS 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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Actual results may differ from these estimates.

Information about judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next period are as follows:

Impairment of goodwill:

Pollard determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the “value in use” or “fair value less costs to sell” of the cash-generating units (“CGUs”) to which goodwill is allocated. Estimating a value in use requires Pollard to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Judgment is required in determining the level at which to test goodwill, including the grouping of assets that generate cash inflows. Further details are provided in note 10.

Employee future benefits:

Accounting for defined benefit plans requires Pollard to use actuarial assumptions. These assumptions include the discount rate and the rate of compensation increases. These assumptions depend on underlying factors such as economic conditions, government regulations, investment performance, employee demographics and mortality rates. See note 15 for further information.

Income taxes:

Pollard is required to evaluate the recoverability of deferred income tax assets. This requires an estimate of Pollard’s ability to utilize the underlying future income tax deductions against future taxable income before they expire. In order to evaluate the recoverability of these deferred income tax assets, Pollard must estimate future taxable income. Further details are provided in note 12.

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

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. Accounting standards implemented in 2017:

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. These amendments had no material impact on the consolidated financial statements.

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. These amendments had no material impact on the consolidated financial statements.

4. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Principles of consolidation:

These consolidated financial statements include the accounts of Pollard and all its subsidiaries. Subsidiaries are entities which are under Pollard's control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefits from its activities. Pollard holds 100% of the voting rights in, and therefore controls, its subsidiaries.

Significant subsidiaries:	Percent Ownership Interest	
	December 31, 2017	December 31, 2016
Pollard Holdings, Inc.	100	100
Pollard (U.S.) Ltd.	100	100
Pollard Games, Inc.	100	100
Pollard iLottery Inc.	100	100
Diamond Game Enterprises	100	-
Diamond Game Enterprises Canada ULC	100	-

4. Significant accounting policies (continued):

Pollard has entered into a contractual joint agreement with Neogames S.à r.l. for the operation of iLottery gaming for the Michigan Lottery. As such Pollard has recognized in relation to its interest in the joint operation: 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.

Pollard, in conjunction with NeoGames US, LLP, established NeoPollard Interactive LLC ("NPI"). Pollard accounts for its investment in NPI as a joint venture. Under the equity method of accounting Pollard recognizes its share of the income and expenses and equity movements of NPI.

All inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, have been eliminated.

(b) 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.

(c) Restricted cash:

Under the terms of Pollard's iLottery contract with the Michigan Lottery, Pollard holds iLottery players' deposits in a bank account for the benefit of the lottery and therefore the cash is not available for use by Pollard. Pollard records an equal, offsetting liability within accounts payable and accrued liabilities. Pollard has excluded changes in the restricted cash and related liability from its calculation of the change in cash position in the statements of cash flows.

(d) Revenue recognition:

Revenue is recognized when persuasive evidence of an arrangement exists, significant risks and benefits of ownership are transferred, the sales price to the customer is fixed or is determined and collection of the resulting receivable is reasonably assured. The significant risks of ownership and benefits of ownership are normally transferred in accordance with the shipping terms agreed to with the customer. In some instances, revenue is recognized when the customers' tickets are sold at retail. Volume rebates are accrued and recorded as a reduction to sales based on historical experience and management's expectations regarding sales volume.

4. Significant accounting policies (continued):

Revenues relating to license and royalty sales, iLottery services, loyalty programs, digital and lottery management services are recognized pursuant to the terms of the applicable contracts. Where Pollard provides software and related infrastructure, revenue is recognized in proportion to the stage of completion of the contracted work.

Certain Pollard subsidiaries' contracts 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 relative fair value of the various elements. The fair values of each element are determined based on the current market price of each of the elements when sold separately.

Pollard earns revenue from leasing of gaming machines and other equipment and capitalizes the costs of installing gaming equipment. Revenue from the provision of gaming services is generally recognized 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. Deferred revenue consists of customer advances for services to be rendered in the future and is recognized as income in future periods. Labour costs associated with performing routine maintenance on participating gaming machines is expensed as incurred and included in cost of sales.

(e) Inventories:

Raw materials, work-in-process and finished goods are valued at the lower of cost and net realizable value. The cost of raw material inventory is based on its weighted average cost and includes all costs incurred to acquire the materials. In addition to the direct costs of conversion, the cost of work-in-process and finished goods, which Pollard manufactures, also includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion.

(f) Goodwill:

Goodwill is comprised of the excess sale price over the underlying carrying amount of the net assets sold as at August 5, 2005, as part of the 26.7% of Pollard sold in conjunction with the Initial Public Offering ("IPO") and the excess purchase price over the underlying carrying amount of the net assets acquired of Pollard's subsidiaries. Goodwill is not amortized but is subject to an annual impairment test to ensure its recoverable value remains greater than, or equal to, book value.

4. Significant accounting policies (continued):

(g) Intangible assets:

Deferred development:

Development expenditures are recognized as an intangible asset only if Pollard can demonstrate that the development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and Pollard has sufficient resources to complete development and to use or sell the asset. The expenditures capitalized include the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use and borrowing costs incurred in respect of qualifying assets. Other development expenditures are expensed as incurred.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

Computer software and licenses:

Computer software consists of the cost of acquiring, developing and implementing these systems. Cost of implementation include third party costs as well as direct labour and related overhead costs attributable to the asset. Minimum license fees incurred in connection with our licensing agreements for our use of third-party brands are capitalized and amortized over the estimated life of the asset.

Capitalized computer software costs and licenses are measured at cost less accumulated amortization and accumulated impairment losses.

Customer assets and patents:

Customer assets and patents that have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

4. Significant accounting policies (continued):

Intangible assets, with finite useful lives, are amortized, on a straight-line basis, over their estimated useful lives as follows:

Asset	Rate
Customer assets	7 to 16 years
Patents	Term of patent
Computer software and licenses	3 to 10 years or term of license
Deferred development	2 to 7 years

Amortization methods, estimated useful lives and residual value are reviewed each annual reporting date and adjusted prospectively if appropriate.

Trademarks:

Trademarks, which were acquired with the acquisition of INNOVA, have been deemed to have an indefinite life. For purposes of impairment testing, the fair value of the trademarks are determined using the relief from royalty method.

(h) Property, plant and equipment:

Property, plant and equipment ("PP&E") are stated at cost less investment tax credits (including SR&ED credits), accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and related fringes, other costs directly attributable to bringing the assets to working condition for their intended use and borrowing costs incurred in respect to qualifying assets. Major spare parts are treated as PP&E when they have a useful life greater than a year. Once major spare parts are put in service, they are transferred into equipment and amortized accordingly.

An item of PP&E is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on disposal of an item of PP&E is determined by comparing the proceeds from disposal with the carrying value of the PP&E and is recognized in the statement of income on a net basis.

4. Significant accounting policies (continued):

The cost of each component of an item of PP&E is depreciated over its estimated useful life on a straight-line basis, commencing the date it is ready for use. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Asset	Rate
Buildings	10 to 30 years
Leasehold improvements	Term of lease
Equipment	2 to 11 years
Charitable gaming machines	5 to 8 years
Furniture, fixtures and computers	3 to 9 years

Depreciation methods, useful lives and residual values are reviewed each annual reporting date and adjusted prospectively if appropriate.

The carrying value of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(i) Investment in associate:

Pollard accounts for its investment in associate using the equity method of accounting as it has significant influence, but not control. Significant influence is presumed to exist when Pollard holds between 20 and 50 percent of the voting power of another entity. The consolidated financial statements include Pollard's share of the income and expenses and equity movements of the entity accounted for under the equity method of accounting.

(j) Investment in joint venture:

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, rather than rights to the assets and obligations for the liabilities. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require consent of both parties.

The consolidated financial statements include Pollard's share of the income and expenses and equity movements of the entity accounted for under the equity method of accounting.

4. Significant accounting policies (continued):

(k) Investment in joint operation:

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require consent of both parties.

The consolidated financial statements include Pollard's interest in the Michigan Lottery iLottery joint operations: 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.

(l) Financial instruments:

Non-derivative financial assets

Pollard initially recognizes loans and receivables on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which Pollard becomes a party to the contractual provisions of the instrument. Pollard derecognizes a financial asset when the contractual rights to the cash flows from the asset expire.

Financial assets and liabilities are offset and the net amount presented on the statement of financial position when, and only when, Pollard has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Pollard classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Attributable transaction costs are recognized in net income as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income. Pollard has no non-derivative financial assets classified as financial assets at fair value through profit or loss.

4. Significant accounting policies (continued):

ii) Held-to-maturity financial assets

If Pollard has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Pollard has no financial assets classified as held-to-maturity.

iii) Loans and receivables

Loans and receivables are financial assets with fixed or determined payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses, and the net gain or loss is included in finance income. Pollard has classified cash, restricted cash and accounts receivable as loans and receivables.

iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign exchange differences, are recognized in other comprehensive income and are presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to net income. Pollard has no financial assets classified as available-for-sale.

Non-derivative financial liabilities

All non-derivative financial liabilities are classified as other financial liabilities and are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method and the net gain or loss is included in finance costs.

Pollard classifies accounts payable and accrued liabilities, dividends payable, long-term debt, subordinated debt and other non-current liabilities as other financial liabilities.

Share Capital

Common stock is classified as equity. Incremental costs directly attributable to the issue of common stock are recognized as a deduction from equity, net of any tax effects.

4. Significant accounting policies (continued):

Derivatives and hedge accounting

Pollard may use certain derivative financial instruments to manage risks of fluctuation in interest rates and foreign exchange rates. On initial designation of the derivative as the hedging instrument, Pollard formally documents the relationship between the hedging instrument and the hedging item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. Pollard makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the change in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent.

Derivatives are recognized initially at fair value and attributable transaction costs are recognized in net income as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes are accounted for as follows:

i) Cash flow hedges

When a derivative financial instrument is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in fair value of the derivative is recognized immediately in net income. If the hedging instrument no longer meets the criteria for hedge accounting, then hedge accounting is discontinued prospectively. This results in the amortization of the respective derivative's cumulative changes in fair value in the hedging reserve, over the remaining term of the derivative. Any adjustments to fair value after discontinuing hedge accounting are recognized immediately in net income as finance income or loss.

ii) Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognized immediately in net income as finance income or loss.

4. Significant accounting policies (continued):

(m) Translation of foreign currencies:

The functional currency for each of Pollard's subsidiaries is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the respective functional currencies of each entity within the consolidated group using the exchange rates in effect at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates prevailing at the end of the reporting period. Non-monetary items measured at historical cost in a foreign currency are translated to the functional currency using the exchange rate prevalent at the date of acquisition. Non-monetary items denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate prevalent at the date that the fair value was determined. Foreign currency differences arising from translation are recognized in net income, except for exchange differences arising on the translation of financial instruments qualifying as a cash flow hedge, which are recognized directly in other comprehensive income ("OCI").

The results and financial position of entities within the consolidated group that have a functional currency different from the presentation currency are translated into Canadian dollars as follows: assets and liabilities are translated at the exchange rate prevailing at the end of the reporting period; income and expenses are translated at the average rate for the reporting period; all resulting exchange differences are recognized in OCI. On disposal of a foreign operation, the deferred cumulative amount recognized in OCI relating to that particular foreign operation is recognized in net income.

(n) Employee benefits:

Share based compensation

The grant date fair value of stock options granted to employees is recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards.

Defined contribution plans

Pollard's U.S. subsidiaries maintain three defined contribution plans in the United States. The obligation to contribute to these plans is recognized as an employee benefit expense as incurred.

Defined benefit plans

Pollard maintains four non-contributory defined benefit pension plans in Canada and the United States, three being final pay plans and one being a flat benefit plan. None of the plans have indexation features.

4. Significant accounting policies (continued):

The costs of Pollard's defined benefit plans are recognized over the period in which employees render service to Pollard in return for the benefits. The defined benefit obligations associated with the plans are actuarially determined using the projected unit credit method pro-rated on service and management's best estimate of salary escalation and retirement ages of employees. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have maturity terms approximating the maturity terms of the related obligation and that are denominated in the currency in which the benefits will be paid. The expected return on pension plan assets is calculated utilizing the discount rate used to measure the defined benefit obligation at the beginning of the annual period.

Past service costs are recognized as an expense on a straight line basis over the average period until the benefits becomes vested. If the benefits have vested, past service costs are recognized in net income immediately.

Remeasurements that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in OCI.

Pollard's pension asset is limited to the total of any unrecognized past services costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to Pollard's plans. An economic benefit is available to Pollard if it is realizable during the life of the plan, or on settlement of the plan liabilities.

(o) Income taxes:

Current income tax and deferred income tax are recognized in the statement of income except to the extent that the tax relates to items recognized directly in equity or in OCI. Current income tax is the expected tax payable or receivable on the taxable income or loss for the period and any adjustment to tax payable in respect to previous years. Current income tax expense includes withholding taxes.

Deferred income tax is recorded to reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Deferred income tax assets and liabilities are determined based on the enacted or substantively enacted tax rates, which are expected to be in effect when the underlying items of income and expense are expected to be realized.

4. Significant accounting policies (continued):

Deferred income tax is not recognized for: temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future, taxable temporary differences arising on the initial recognition of goodwill or temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment, except if it relates to an item previously recognized in equity, in which case the adjustment is made to equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax liabilities and assets, and they are levied by the same taxation authority on the same taxable entity, or on different tax entities which intend to settle their current income tax assets and liabilities on a net basis.

(p) Provisions:

Provisions are recognized when Pollard has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(q) Impairment:

Financial assets

Financial assets classified as loans and receivables, held-to-maturity and available-for-sale are assessed at each reporting period date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Evidence of impairment may include default or delinquency by a debtor, indications that a debtor will enter bankruptcy or economic conditions that correlate with defaults. Pollard has neither available-for-sale nor held-to-maturity instruments.

4. Significant accounting policies (continued):

For loans and receivables, Pollard first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Pollard determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Individually assessed assets with an impairment loss are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment is increased or reduced by adjusting the allowance account, through the statement of income.

Non-financial assets

The carrying amount of Pollard's non-financial assets, other than inventories and deferred income tax assets, are reviewed at each reporting date to determine whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, Pollard estimates the asset's recoverable amount. For goodwill the recoverable amount is estimated as of December 31 each year. An impairment loss is recognized if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset of CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or CGUs.

Impairment losses are recognized in net income. Impairment losses recognized in respect to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss in respect to goodwill is not reversed. In respect to other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a

4. Significant accounting policies (continued):

change in the estimates used to determine the recoverable amount. An impairment loss can only be reversed to the extent that the asset's carrying value that would have been determined, net of amortization, if no impairment had been recognized.

(r) Finance costs and finance income:

Finance costs comprise interest expense on borrowings, amortization of deferred financing costs, mark-to-market losses on foreign exchange contracts and net foreign exchange losses.

Borrowing costs that are not directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are expensed in the period incurred using the effective interest method.

Finance income comprises mark-to-market gains on foreign exchange contracts and net foreign exchange gains.

(s) Leases:

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the arrangement conveys a right to use the asset. When substantially all risk and rewards of ownership are transferred from the lessor to the lessee, lease transactions are accounted for as finance leases. All other leases are accounted for as operating leases.

Certain Pollard subsidiaries, as lessees, have entered into leases which are classified as finance leases. These leases are presented in the consolidated financial statements according to their nature. The interest element of the lease payment is recognized over the term of the lease based on the effective interest rate method and is included in finance expenses.

5. Future accounting standards:

In July 2014, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standards ("IFRS") 9 *Financial Instruments*, which replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is required for fiscal years beginning on or after January 1, 2018. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

5. Future accounting standards (continued):

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. 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 shipment. Pollard's sales under these contracts could vary year over year depending on the timing of shipments. Pollard expects the new standard will not have a material impact on its consolidated financial statements. Pollard intends to adopt the standard retrospectively with the cumulative effect of initially applying the standard recognized at January 1, 2018, in opening retained earnings.

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 does not expect these amendments to have a material impact on its consolidated financial statements.

In December 2016, the IASB issued IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration.* The Interpretation clarifies the date of the transaction for the purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The Interpretation is effective for annual periods beginning on or after January 1, 2018. Retrospective or earlier application is permitted under certain conditions. Pollard does not expect these amendments to have a material impact on its consolidated financial statements.

5. Future accounting standards (continued):

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. Pollard is currently assessing the impact of these amendments on its consolidated financial statements.

6. 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 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 best estimates and valuation techniques as at August 3, 2017, the acquisition date.

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

6. Acquisitions (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		5,912
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)	$	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.

Acquisition costs related to the INNOVA purchase in the year ended December 31, 2017, were $2,694. These costs were included in administration expenses.

Subsequent to the preliminary purchase price allocation, Pollard assessed there to be a high degree of uncertainty that it will be able to recognize value from a portion of the deferred tax asset initially valued. As a result, Pollard has reduced the deferred income tax asset by $3,128, from $9,040 to $5,912 and increased the goodwill from $11,230 to $14,358.

During the period between August 3, 2017 and December 31, 2017, INNOVA generated revenues of approximately $10,267 and had a net loss of $1,233, which have been recorded in the consolidated financial statements. Included in INNOVA's net loss was $1,656 of severance costs related to the departure of two former executives. If INNOVA had been acquired on January 1, 2017, incremental revenue of $16,858 and net loss of $4,088 (which includes $4,637 of Innova's transaction costs relating to the sale of the company) would have been included in the year ended December 31, 2017.

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

6. Acquisitions (continued):

Integrity

On December 22, 2017, Pollard Games Inc., a wholly-owned subsidiary of Pollard, acquired certain bingo assets, predominately inventory, from Integrity Gaming, Inc. and Integrity Gaming of Kansas, Inc. ("Integrity"), the sellers. Pollard's subsidiary also assumed two leases as part of the transaction. The total value of consideration of the transaction was $502. The amount of the purchase price allocated to inventory was $313 with the remainder allocated to goodwill.

7. Inventories:

	December 31, 2017	December 31, 2016
Raw materials	$ 11,755	$ 11,246
Work-in-process	930	784
Finished goods	19,323	15,202
	$ 32,008	$ 27,232

During 2017 Pollard recorded inventory write-downs of $457 representing an increase in the obsolescence reserves and reversal of previous write-downs of $26 due to changes in foreign exchange rates.

During 2016 Pollard recorded inventory write-downs of $622 representing an increase in the obsolescence reserves and write-downs of $22 due to changes in foreign exchange rates.

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

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

8. Property, plant and equipment:

Cost		Land	Buildings	Leasehold improve-ments	Equipment	Charitable gaming machines	Furniture, fixture and computers	Assets in progress & spare parts	Total
Balance at January 1, 2016	$	803	11,879	2,614	150,653	-	4,168	1,784	171,901
Additions/net transfers			189	722	3,578	-	712	(205)	4,996
Effect of movements in exchange rates		-	-	(30)	(177)	-	(1)	-	(208)
Balance at December 31, 2016	$	803	12,068	3,306	154,054	-	4,879	1,579	176,689
INNOVA acquisition		-	-	-	725	7,743	1,527	293	10,288
Additions/net transfers		-	88	284	4,950	724	422	480	6,948
Disposals		-	-	-	(10,087)	-	(6)	-	(10,093)
Effect of movements in exchange rates		-	-	(63)	(385)	76	8	-	(364)
Balance at December 31, 2017	$	803	12,156	3,527	149,257	8,543	6,830	2,352	183,468

Accumulated depreciation		Land	Buildings	Leasehold improve-ments	Equipment	Charitable gaming machines	Furniture, fixture and computers	Assets in progress & spare parts	Total
Balance at January 1, 2016	$	-	4,550	1,688	111,649	-	3,634	-	121,521
Depreciation for the year		-	362	250	7,574	-	237	-	8,423
Effect of movements in exchange rates		-	-	(23)	(138)	-	-	-	(161)
Balance at December 31, 2016	$	-	4,912	1,915	119,085	-	3,871	-	129,783
Depreciation for the year		-	369	424	7,552	917	522	-	9,784
Disposals		-	-	-	(10,013)	-	(6)	-	(10,019)
Effect of movements in exchange rates		-	-	(189)	(199)	(7)	(4)	-	(399)
Balance at December 31, 2017	$	-	5,281	2,150	116,425	910	4,383	-	129,149

Carrying amounts		Land	Buildings	Leasehold improve-ments	Equipment	Charitable gaming machines	Furniture, fixture and computers	Assets in progress & spare parts	Total
At December 31, 2016	$	803	7,156	1,391	34,969	-	1,008	1,579	46,906
At December 31, 2017	$	803	6,875	1,377	32,832	7,633	2,447	2,352	54,319

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

9. Equity investment:

Interest in joint venture		December 31, 2017		December 31, 2016
Balance – beginning of year	$	468	$	401
Investment		2,204		807
Equity loss		(1,727)		(730)
Effects of movements in exchange rates		(68)		(10)
Balance – end of year	$	877	$	468

Pollard has entered into an agreement with NeoGames US, LLP for the establishment of NeoPollard Interactive LLC. The entity was established to provide iLottery services in the United States and Canada, excluding the State of Michigan.

Pollard and Neogames S.à r.l. operate the iLottery operation for the Michigan Lottery under a separate joint operating agreement. Pollard recognizes its interest in the joint operation by including its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

10. Goodwill:

Goodwill is comprised of $30,620 (2016 - $30,620), representing the excess purchase price over the underlying carrying amount of the net assets sold, as at August 5, 2005, as a result of the 26.7% of Pollard sold as part of its IPO. Goodwill of $14,358, which is subject to foreign exchange revaluation, was recognized with the purchase of INNOVA in the third quarter of 2017. The remaining $6,653 (2016 - $6,893) of goodwill is from Pollard's purchase of certain subsidiaries, including $189 from the purchase of Integrity in the fourth quarter of 2017. Goodwill has been allocated to CGUs for impairment testing in this manner, as described in the table below.

		December 31, 2017		December 31, 2016
Lottery	$	30,620	$	30,620
Diamond Game (INNOVA)		14,495		-
Charitable games		6,653		6,893
	$	51,768	$	37,513

During 2017 the value of Charitable games related goodwill decreased $429 (2016 – decreased $204) as a result of changes in foreign exchange rates. Also during 2017 the value of Diamond Game (INNOVA) related goodwill increased $137 (2016 – $nil) as a result of changes in foreign exchange rates.

10. Goodwill (continued):

Impairment assessment methodology

For each CGU the recoverable amounts have been determined based on a value in use calculation using cash flow projections from financial forecasts approved by senior management. These forecasts cover a period of five years and reflect an estimate of a terminal value. Included in these forecasts is an assumption of certain growth rates which was based on historical trend and expected future performance.

The calculation of value in use for the CGUs described above are most sensitive to the following key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Revenue and related gross profit
- Foreign exchange rates
- Discount rates
- Growth rates

Revenue and related gross profit

Projected cash flows from revenue assumes the continuation of recent historical trends adjusted for expected new contract wins, anticipated contract renewal pricing pressures and the expected impact of sales initiatives in conjunction with certain production efficiencies that are being developed or are expected to be developed.

Foreign exchange rates

A significant portion of revenue is denominated in U.S. dollars and Euros, partially offset by U.S. dollar denominated costs. In addition, certain financial assets and liabilities are denominated in U.S. currency. Projected cash flows assume an estimated exchange rate between Canadian dollars to U.S. dollars and Euros based on expected exchange rates during the forecast period.

Discount rates

Discount rates were calculated based on the estimated cost of equity capital and debt capital considering data and factors relevant to the economy, the industry and the CGUs. These costs were then weighted in terms of a typical industry capital structure to arrive at an estimated weighted average cost of capital. The after-tax discount rates applied to the cash flow projections for the CGUs described above were as follows:

Lottery	10.0%
Diamond Game (INNOVA)	10.0%
Charitable games	11.0%

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

10. Goodwill (continued):

Growth rates

Growth rates are based on estimated sustainable long-term growth rates of the CGUs.

Management believes that any reasonable possible change in any of the key assumptions on which the cash generating unit's recoverable amounts are based would not cause the unit's carrying amounts to exceed its recoverable amount.

11. Intangible assets:

Cost		Customer assets	Patents	Trademarks	Deferred development	Computer software and licenses	Total
Balance at January 1, 2016	$	18,645	5,132	-	1,141	6,077	30,995
Additions (net of investment tax credits)		-	55	-	-	898	953
Additions – internally developed (net of investment tax credits)		-	-	-	7	164	171
Balance at December 31, 2016	$	18,645	5,187	-	1,148	7,139	32,119
INNOVA acquisition		10,247	436	2,616	-	2,733	16,032
Additions (net of investment tax credits)		-	69	-	-	867	936
Additions – internally developed (net of investment tax credits)		-	-	-	62	1,248	1,310
Effect of movements in exchange rates		99	4	25	-	17	145
Balance at December 31, 2017	$	28,991	5,696	2,641	1,210	12,004	50,542

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

11. Intangible assets (continued):

Accumulated amortization		Customer assets	Patents	Trademarks	Deferred development	Computer software and licenses	Total
Balance at January 1, 2016	$	12,132	4,667	-	955	901	18,655
Amortization for the year		1,165	114	-	151	118	1,548
Balance at December 31, 2016	$	13,297	4,781	-	1,106	1,019	20,203
Amortization for the year		1,789	128	-	104	595	2,616
Effect of movements in exchange rates		(16)	(1)	-	-	(6)	(23)
Balance at December 31, 2017	$	15,070	4,908	-	1,210	1,608	22,796

Carrying amounts		Customer assets	Patents	Trademarks	Deferred development	Computer software and licenses	Total
At December 31, 2016	$	5,348	406	-	42	6,120	11,916
At December 31, 2017	$	13,921	788	2,641	-	10,396	27,746

Customer assets of $18,645, $3,874 of patents and $229 of computer software were recognized as a result of the excess purchase price over the underlying carrying amount of the intangible assets acquired as at August 5, 2005, as part of the 26.7% of Pollard sold in conjunction with the IPO. As at December 31, 2011, computer software and licenses, and patents recognized at IPO were fully amortized. IPO related customer assets will continue to be amortized until fiscal 2021.

Customer assets of $10,247, $436 of patents, $2,616 of trademarks and $2,733 of computer software were recognized as a result of the acquisition of INNOVA in the third quarter of 2017.

Amortization of intangible assets in 2017 of $2,616 (2016 – $1,548), was included in cost of sales.

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

12. Income taxes:

Income tax expense

		2017		2016
Current	$	7,902	$	5,144
Deferred (reduction)		(712)		(339)
Total	$	7,190	$	4,805

Income tax recognized in other comprehensive income (loss)

		Amount before tax	Tax benefit	2017 Amount net of tax		Amount before tax	Tax expense	2016 Amount net of tax
Defined benefit plans remeasurement loss	$	(9,875)	2,478	(7,397)	$	(1,028)	291	(737)

Reconciliation of effective tax rate

	2017		2017	2016		2016
Net income for the year		$	16,784		$	12,269
Total income tax expense			7,190			4,805
Income before income taxes		$	23,974		$	17,074
Income tax using Pollard's domestic tax rate	27.0%		6,473	27.0%		4,610
Effect of tax rates in foreign jurisdictions	4.1%		996	3.0%		515
Non-deductible amounts	3.7%		887	0.6%		106
Changes in enacted United States federal income tax rates	(9.4%)		(2,261)	(0.8%)		(133)
Adjustment related to INNOVA acquisition	5.1%		1,217	-		-
Other items	1.4%		331	1.7%		285
Effect of non-taxable items related to foreign exchange	(1.9%)		(453)	(3.4%)		(578)
	30.0%	$	7,190	28.1%	$	4,805

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

12. Income taxes (continued):

Deferred income tax assets and liabilities

Recognized deferred income tax assets and liabilities

Deferred income tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Property, plant and equipment	$ 48	19	$ (7,762)	(6,926)	$ (7,714)	(6,907)
Intangible assets	685	108	(2,082)	(3,265)	(1,397)	(3,157)
Inventories	432	364	-	-	432	364
Employee benefits	7,738	5,758	(1,488)	(1,458)	6,250	4,300
Unrealized foreign exchange (gains) and losses	393	1,611	(303)	(1,192)	90	419
Unused tax losses	1,855	-	-	-	1,855	-
Deferred revenue	182	-	-	-	182	-
Other	98	72	(71)	-	27	72
Tax assets (liabilities)	$ 11,431	7,932	$ (11,706)	(12,841)	$ (275)	(4,909)

Movement in temporary differences during the year

	Balance January 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2016
Property, plant and equipment	$ (6,199)	(708)	-	(6,907)
Intangible assets	(3,515)	358	-	(3,157)
Inventories	325	39	-	364
Employee benefits	3,743	266	291	4,300
Unrealized foreign exchange (gains) and losses	238	181	-	419
Unused tax losses	-	-	-	-
Deferred revenue	-	-	-	-
Other	(343)	415	-	72
Tax assets (liabilities)	$ (5,751)	551	291	(4,909)

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

12. Income taxes (continued):

		January 1, 2017	Recognized in profit or loss	INNOVA acquisition	Recognized in other comprehensive income	Balance December 31, 2017
Property, plant and equipment	$	(6,907)	2,104	(2,911)	-	(7,714)
Intangible assets		(3,157)	911	849	-	(1,397)
Inventories		364	52	16	-	432
Employee benefits		4,300	(1,506)	978	2,478	6,250
Unrealized foreign exchange (gains) and losses		419	(329)	-	-	90
Unused tax losses		-	193	1,662	-	1,855
Deferred revenue		-	(159)	341	-	182
Other		72	(127)	82	-	27
Tax assets (liabilities)	$	(4,909)	1,139	1,017	2,478	(275)

Recognized in the consolidated statements of financial position as follows:

		December 31, 2017		December 31, 2016
Deferred income tax asset	$	3,093	$	-
Deferred income tax liability		(3,368)		(4,909)
	$	(275)	$	(4,909)

Recognized in the consolidated statements of comprehensive income as follows:

		2017		2016
Deferred income tax reduction	$	(712)	$	(339)
Finance income		(427)		(212)
	$	(1,139)	$	(551)

Amounts included in finance income relate to unrealized foreign exchange.

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect to certain tax losses because it is not probable that future taxable profit will be available against which Pollard can use the benefits therefrom. The amount of tax losses not recognized at December 31, 2017 was $8,426 (2016 - $nil), with an estimated tax effect of $2,232 (2016 - $nil). These tax losses, related to the acquisition of INNOVA in 2017, will expire between 2034 and 2037.

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

13. Long-term debt:

		December 31, 2017		December 31, 2016
Credit facility, interest of 3.3% to 4.3%, payable monthly, maturing 2019	$	83,972	$	71,003
Equipment debt, interest of 6.72%, payable monthly, maturing 2019		189		-
Equipment lease, interest of 3.89% to 10.90% payable monthly, maturing 2019		647		-
Deferred financing charges, net of amortization		(253)		(151)
		84,555		70,852
Less current portion		(784)		-
	$	83,771	$	70,852

Credit facility

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 December 31, 2017, the outstanding letters of guarantee drawn under the credit facility were $1,909 (2016 - $1,205).

Included in the total credit facility balance is a U.S. dollar loan balance of US$14,700 (2016 - US$13,400).

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 December 31, 2017, Pollard is in compliance with all financial covenants.

As of December 31, 2017, Pollard has unused credit facility available of $34,202 (2016 - $18,908).

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. The facility can be prepaid without penalties. Under the terms of the agreement the facility was committed for a two year period, renewable June 22, 2019.

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

13. Long-term debt (continued):

Equipment debt and leasing

Pollard's subsidiary, INNOVA, 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 INNOVA.

		Credit facility	Deferred financing	Equipment debt	Equipment lease	Total
Balance at January 1, 2017	$	71,003	(151)	-	-	70,852
Net proceeds (payments)		14,164	-	(193)	(451)	13,520
Payment of deferred financing charges		-	(342)	-	-	(342)
Total changes from financing cash flows		14,164	(342)	(193)	(451)	13,178
Effect of movements in exchange rates		(1,195)	-	3	10	(1,182)
INNOVA acquisition		-	-	379	1,088	1,467
Amortization of deferred financing charges		-	240	-	-	240
Total other changes		(1,195)	240	382	1,098	525
Balance at December 31, 2017	$	83,972	(253)	189	647	84,555

14. Subordinated debt:

		December 31, 2017		December 31, 2016
Subordinated debt, interest of 9.00%	$	-	$	6,132
Subordinated debt, interest of 8.00% payable quarterly, maturing 2024		16,734		-
	$	16,734	$	6,132
Less current portion		(3,585)		(1,363)
	$	13,149	$	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

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

14. Subordinated debt (continued):

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 outstanding 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.

15. Pension liability:

		December 31, 2017		December 31, 2016
Fair value of benefit plan assets	$	50,506	$	44,372
Present value of benefit plan obligations		(73,465)		(57,896)
Net pension liability	$	(22,959)	$	(13,524)

Pollard sponsors non-contributory defined benefit plans providing pension benefits to its employees. Pollard has four pension plans of which three are final pay plans and one is a flat benefit plan. None of the plans have indexation features. The measurement date for all the plans is December 31. The two plans of the U.S. subsidiaries require valuations annually with the last valuations being as of January 1, 2017. One of the Canadian plans of Pollard currently requires valuation every year with the last valuation as of December 31, 2016. Pollard's other Canadian plan's valuation was as of January 1, 2017. Pollard's U.S. subsidiaries also maintain three defined contribution plans. The pension expense for these defined contribution plans is the annual funding contribution by the subsidiaries.

Pollard expects to contribute approximately $4,403 to its defined benefit plans in 2018. Included in the 2018 estimated contributions is $1,140 in additional solvency payments.

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

15. Pension liability (continued):

The benefit plan assets are held in trust and are invested as follows:

	December 31, 2017	December 31, 2016
Equities	60.8%	61.5%
Bonds	36.2%	35.8%
Cash and cash equivalents	3.0%	2.7%
	100.0%	100.0%

Information about Pollard's defined benefit plans, in aggregate, is as follows:

	2017	2016
Benefit plan assets		
Fair value, beginning of year	$ 44,372	$ 40,073
Expected return on plan assets	1,834	1,733
Employer contributions	4,623	2,577
Benefits paid	(1,773)	(1,743)
Remeasurement gains	1,825	1,866
Effect of movements in exchange rates	(375)	(134)
Fair value, end of year	$ 50,506	$ 44,372

	2017	2016
Accrued benefit plan obligations		
Balance, beginning of year	$ 57,896	$ 51,343
Current service cost	3,934	3,464
Interest cost	2,294	2,161
Benefits paid	(1,773)	(1,743)
Remeasurement losses	11,671	2,894
Effect of movements in exchange rates	(557)	(223)
Balance, end of year	$ 73,465	$ 57,896
Net pension liability	$ (22,959)	$ (13,524)

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

15. Pension liability (continued):

The total net cost for Pollard's defined benefit and defined contribution pension plans recognized in cost of sales is as follows:

	2017	2016
Net defined benefit plans cost		
Current service cost	$ 3,934	$ 3,464
Interest on plan obligations	2,294	2,161
Actual return on plan assets	(3,659)	(3,599)
Difference between expected return and actual return on plan assets	2,190	2,142
Net defined benefit plans cost	4,759	4,168
Defined contribution plans cost	323	249
Net pension plans cost	$ 5,082	$ 4,417

Actuarial assumptions

The principal actuarial assumptions used in measuring at the reporting date are as follows:

	2017	2016
Discount rate	3.4% to 3.8%	4.0% to 4.3%
Rate of compensation increase	0% to 3.0%	0% to 3.0%

Assumptions regarding future mortality have been based on published statistics and mortality tables. As of December 31, 2017, Pollard used CPM2014 Private Sector projected CPM-B mortality table for its Canadian subsidiary's pension plans and the RP-2017 healthy mortality tables for its U.S. subsidiary's pension plans. As of December 31, 2016, Pollard used CPM2014 Private Sector projected CPM-B mortality table for its Canadian subsidiary's pension plans and the RP-2016 healthy mortality tables for its U.S. subsidiary's pension plans.

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

15. Pension liability (continued):

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts show below:

		Increase		Decrease
Discount rate (1% movement)	$	(13,868)	$	18,604
Rate of compensation increase (1% movement)	$	1,974	$	(1,800)
Future mortality (one year)	$	1,005	$	(1,012)

Remeasurements

		2017		2016
Remeasurement gains arising on plan assets	$	1,825	$	1,866

Remeasurement (gains) losses arising on plan liabilities from:				
Demographic assumptions	$	589	$	(81)
Financial assumptions		8,698		3,223
Experience adjustments		2,384		(248)
Remeasurement losses arising on plan liabilities	$	11,671	$	2,894

Remeasurements recognized in other comprehensive income

		2017		2016
Amount accumulated in deficit, beginning of year	$	(11,996)	$	(11,259)
Recognized during the year		(7,397)		(737)
Amount accumulated in deficit, end of year	$	(19,393)	$	(11,996)

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

16. Share capital:

		December 31, 2017		December 31, 2016
Authorized				
Unlimited common shares				
Unlimited preferred shares				
Issued				
23,543,158 common shares	$	73,209	$	73,209
	$	73,209	$	73,209

Ownership restrictions:

The holders of the common shares are entitled to one vote in respect to each common share held, subject to the Board of Directors ability to take constraint actions when a person, or group of persons acting in concert acquires, agrees to acquire, holds, beneficially owns or controls, either directly or indirectly, a number of shares equal to or in excess of 5% of the common shares (on a non-diluted basis) issued and outstanding ("Ownership Threshold"). The Board of Directors, in its sole discretion, can take the following constraint actions:

- place a stop transfer on all or any of the common shares believed to be in excess of the Ownership Threshold;
- suspend all voting and/or dividend rights on all or any of common share held believed to be in excess of the Ownership Threshold;
- apply to a court seeking an injunction to prevent a person from acquiring, holding, owning, controlling and/or directing, directly or indirectly, common shares in excess of the Ownership Threshold; and/or
- make application to the relevant securities commission to effect a cease trading order or such similar restriction, until the person no longer controls common shares equal to or in excess of the Ownership Threshold.

In addition, if a Gaming Regulatory Authority has determined that ownership by a holder of common shares is inconsistent with its declared policies, the Board of Directors is entitled to take constraint action against such shareholder. Any person who controls common shares equal to or in excess of the Ownership Threshold, may be required to file an application, be investigated and have suitability as a shareholder determined by a Gaming Regulatory Authority, if such Gaming Regulatory Authority has reason to believe such ownership would otherwise be inconsistent with its declared policies. The shareholder must pay all the costs of the investigation incurred by any such Gaming Regulatory Authority.

16. Share capital (continued):

Capital management:

Pollard's objectives in managing capital are to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Pollard also strives to maintain an optimal capital structure to reduce the overall cost of capital.

In the management of capital, Pollard includes long-term debt, subordinated debt, share capital and deficit, but excludes reserves. The Board of Directors regularly monitors the levels of debt, equity and dividends.

Pollard monitors capital on the basis of funded debt to Adjusted EBITDA, working capital ratio and debt service coverage. Pollard has externally imposed capital requirements as determined through its bank credit facility. As at December 31, 2017, Pollard is in compliance with all financial covenants.

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 November 8, 2017, a dividend of $0.03 per share was declared, payable on January 15, 2018, to the shareholders of record on December 31, 2017.

There were no other changes in Pollard's approach to capital management during the current period.

Share based compensation:

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 5, 2014, the Board of Directors approved the award of 100,000 options to purchase common shares of Pollard for certain key management personnel. The options were granted on March 10, 2014, 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 March 7, 2014.

On September 7, 2016, the Board of Directors approved the award of 25,000 options to purchase common shares of Pollard for a key management member. The options were granted on October 3, 2016, 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 September 30, 2016.

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

16. Share capital (continued):

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.

The grant date fair value of these options was determined based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values of the share based compensation granted are the following:

Option grant date		April 24, 2017		October 3, 2016		March 10, 2014
Fair value at grant date	$	2.27	$	1.87	$	0.82
Share price	$	10.00	$	8.12	$	3.63
Exercise price	$	10.00	$	8.12	$	3.63
Expected volatility		29.3%		30.7%		33.7%
Option life (expected weighted average life)		4.75 years		4.75 years		4.75 years
Risk-free interest rate (based on Canadian government bonds)		0.6% to 0.7%		0.6% to 0.7%		1.7% to 2.1%

	2017			2016		
	Number		Weighted average exercise price	Number		Weighted average exercise price
Balance at beginning of year	125,000	$	4.53	100,000	$	3.63
Granted during the year	125,000	$	10.00	25,000	$	8.12
Balance at end of year	250,000	$	7.26	125,000	$	4.53

As of December 31, 2017, no share options had been exercised or expired. Of the 250,000 options outstanding at December 31, 2017, 81,250 were exercisable.

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

17. Commitments and contingencies:

Pollard and certain subsidiaries rent premises and equipment under long-term operating leases. The following is a schedule by fiscal year of rental payment commitments under operating leases outstanding:

2018	$	5,727
2019		4,336
2020		3,733
2021		2,982
2022		2,562
Thereafter		1,867

Pollard is contingently liable for outstanding letters of guarantee in the amount of $1,909 at December 31, 2017 (2016 - $1,205). These letters of guarantee are part of Pollard's credit facility and are secured as disclosed in note 13.

During 2008 Pollard entered into a sale leaseback with an affiliate of Equities for land and building in Council Bluffs, Iowa. The property was sold for $4,081 and leased back for ten years at an annual lease rate of approximately US$260. The sale value was determined through independent appraisal.

Also in 2008 Pollard entered into a lease with an affiliate of Equities for a manufacturing facility in Winnipeg, Manitoba. The lease was for a 12 year 6 month period, ending March 31, 2021, at an annual base rate of approximately $2,453. In 2015, Pollard agreed to exercise its renewal clause. The renewal covers the period from April 2021 to September 2023 with an approximate annual lease rate of $2,400, including an annual amortization of a leasehold improvement allowance of approximately $1,000. The total leasehold allowance is $2,500. The base rental rate was based on current market value as determined through independent appraisal.

During 2011 Pollard entered into a sale leaseback with an affiliate of Equities for land and building in Winnipeg, Manitoba. The property was sold for $3,473 and leased back for five years (with an option to renew for an additional five year term) at an annual lease rate of approximately $313. The sale value was determined through independent appraisal. During 2016, Pollard exercised its option to renew its lease for an additional five year term for annual rent of $363 per year. The rental rate was based on current market value as determined through independent appraisal.

Pollard is involved in litigation and claims associated with operations, the aggregate amounts of which are not determinable. While it is not possible to estimate the outcome of the proceedings, management is of the opinion that any resulting settlements would not materially affect the financial position of Pollard. Should a loss occur on resolution of these claims, such loss would be accounted for as a charge to income in the period in which the settlement occurs.

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

17. Commitments and contingencies (continued):

Pollard has agreed to indemnify Pollard's current and former directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain usual limitations. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

18. Other (income) expenses:

		2017		2016
Loss on equity investment (note 9)	$	1,727	$	730
EBITDA support agreement		(825)		-
Loss on sale of property, plant and equipment		74		-
Gain on sale of investment in associate		-		(516)
Other income		(301)		(246)
	$	675	$	(32)

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)

19. Finance costs and finance income:

Finance costs		2017		2016
Foreign exchange loss	$	211	$	681
Interest		3,722		3,374
Amortization of deferred financing costs		239		226
	$	4,172	$	4,281

Finance income		2017		2016
Foreign exchange gain	$	1,104	$	1,042
	$	1,104	$	1,042

20. Net income per share:

		2017		2016
Net income attributable to shareholders for basic and diluted net income per share	$	16,784	$	12,269
Weighted average number of shares (basic)		23,543,158		23,543,158
Weighted average impact of share options		212,329		106,216
Weighted average number of shares (diluted)		23,755,487		23,649,374
Net income per share (basic)	$	0.71	$	0.52
Net income per share (diluted)	$	0.71	$	0.52

21. Personnel expenses:

		2017		2016
Wages and salaries	$	84,718	$	70,851
Benefits and government payroll remittances		12,327		11,645
Profit share		2,792		2,028
Expenses related to defined contribution plans		323		249
Expenses related to defined benefit plans		4,759		4,168
	$	104,919	$	88,941

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

22. Supplementary cash flow information:

	2017	2016
Change in non-cash operating working capital:		
Accounts receivable	$ 632	$ (14,724)
Inventories	(3,184)	(3,657)
Prepaid expenses and deposits	(1,236)	182
Income taxes payable	(1,086)	(417)
Accounts payable and accrued liabilities	2,877	1,696
Deferred revenue	(882)	-
	$ (2,879)	$ (16,920)

23. Related party transactions:

Pollard Equities Limited and affiliates

During the year ended December 31, 2017, Pollard paid property rent of $3,177 (2016 - $3,146) and $379 (2016 - $357) in plane charter costs to affiliates of Equities. In addition, during the year, Pollard paid Equities $1,006 (2016 - $592) interest on Pollard's subordinated debt.

During the year, Equities paid Pollard $72 (2016 - $72) for accounting and administration fees.

At December 31, 2017, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, expenses and other items of $1,900 (2016 - $907).

Neogames S.à r.l. and affiliates

During the year ended December 31, 2017, Pollard reimbursed operating costs and paid software royalties of $2,878 (2016 - $1,755) to its iLottery partner, which are recorded in cost of sales and $nil (2016 - $633) of development costs.

At December 31, 2017, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of $698 (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)

23. Related party transactions (continued):

Key management personnel compensation comprised:

	2017	2016
Wages, salaries and benefits	$ 3,115	$ 2,631
Profit share	22	14
Expenses related to defined benefit plans	512	447
	$ 3,649	$ 3,092

As at December 31, 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.

24. Sales to major customers:

For the year ended December 31, 2017, sales to one customer amounted to 12.0 percent of consolidated sales and 11.7 percent to a second customer. In 2016 sales to one customer amounted to 16.7 percent of consolidated sales.

25. 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.

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

25. Segmented information (continued):

There was no inter-segment revenue.

Segment information about profits and assets is as follows:

	2017		
	Instant ticket	Diamond Game (INNOVA)	Total
Sales from external customers	$ 275,387	$ 10,267	$ 285,654
Operating costs and expenses	251,433	10,246	261,679
Income before income taxes	23,953	21	23,974
Total assets	173,605	54,669	228,274

	2017	2016
Sales:		
Canada	$ 64,302	$ 49,399
U.S.	159,583	134,130
Other	61,769	62,885
	$ 285,654	$ 246,414

	December 31, 2017	December 31, 2016
Property, plant and equipment and goodwill:		
Canada	$ 63,188	$ 43,893
U.S.	42,899	40,526
	$ 106,087	$ 84,419

26. Financial instruments:

The fair value of a financial instrument is the estimated amount that Pollard would receive or pay to terminate the instrument agreement at the reporting date. The following methods and assumptions were used to estimate the fair value of each type of financial instrument by reference to various market value data and other valuation techniques as appropriate.

The fair values of accounts receivable, accounts payable and accrued liabilities and dividends payable approximate their carrying values given their short-term maturities.

The fair value of the long-term debt approximates the carrying value due to the variable interest rate of the debt.

The fair value of the subordinated debt approximates the carrying value based on the terms associated with the debt.

The fair value of the other non-current liabilities approximates the carrying value based on the expected settlement amount of these liabilities.

Certain financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on the quoted prices observed in active markets for identical assets or liabilities

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 - valuation techniques with significant unobservable market inputs

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

As at December 31, 2017, the cash and restricted cash recorded at fair value was classified as level one of the fair value hierarchy.

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

27. 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:

	December 31, 2017	December 31, 2016
Current	$ 37,786	$ 36,670
Past due for 1 to 60 days	2,635	1,530
Past due for more than 60 days	366	449
Less: Allowance for doubtful accounts	(38)	(64)
	$ 40,749	$ 38,585

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due.

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

27. Financial risk management (continued):

The following table outlines Pollard's maturity analysis of the undiscounted cash flows, including related interest payments, of certain non-current financial liabilities and leases as of December 31, 2017:

		Total	2018	2019 - 2020	2021 - 2022	After
Long-term debt	$	89,250	3,571	85,679	-	-
Subordinated debt		19,913	4,792	8,723	6,398	-
Operating leases		21,207	5,727	8,069	5,544	1,867
	$	130,370	14,090	102,471	11,942	1,867

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 up to US$12,000 for its U.S. subsidiaries. At December 31, 2017, the unused balance available for drawdown under the credit facility was $34,202 (2016 - $18,908).

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 $147 for year ended December 31, 2017 (2016 - $64). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian dollar and Euro would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $65 for year ended December 31, 2017 (2016 - $64).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. As at December 31, 2017, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets

27. Financial risk management (continued):

denominated in U.S. dollars by approximately $1,305 (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 $7 for the year ended December 31, 2017 (2016 - $8).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Three 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 December 31, 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 $423 for the year ended December 31, 2017 (2016 - $355).

28. Subsequent events:

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. for a total consideration of $21,648.

The purchase price was funded by proceeds from Pollard’s credit facility and cash on hand. The acquisition will be accounted for using the acquisition method. The allocation of the purchase price to the identifiable assets and liabilities has not yet been completed.

Share offering

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.

28. Subsequent events (continued):

The offering, including the full over-allotment, closed on February 21, 2018. The total gross proceeds, prior to any commissions and offering expenses, from the sale of 2,070,000 common shares was approximately $38,200.

Pollard used the net proceeds to repay indebtedness under the Company's credit facility and subordinated debt.