Pollard banknote limited

December 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

March 12, 2018

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the year ended December 31, 2017, is prepared as at March 12, 2018, and should be read in conjunction with the accompanying audited financial statements of Pollard and the notes therein as at December 31, 2017. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("GAAP" or "IFRS").

Forward-Looking Statements

Certain statements in this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this document, such statements include such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

Use of Non-GAAP Financial Measures

Reference to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and amortization, unrealized foreign exchange gains and losses and certain non-recurring items including severance costs and acquisition costs. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to net income, Adjusted EBITDA is a useful supplementary measure.

Adjusted EBITDA is a measure not recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, this measure may not be comparable to similar measures presented by other entities. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to net income determined in accordance with GAAP as an indicator of Pollard's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

Basis of Presentation

The results of operations in the following discussions encompass the consolidated results of Pollard for the year ended December 31, 2017. All figures are in millions except for per share amounts.

POLLARD BANKNOTE LIMITED

Overview

Pollard Banknote Limited ("Pollard") is one of the leading providers of products and services to lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant-win scratch tickets ("instant tickets") based in Canada and the second largest producer of instant tickets in the world. With the acquisition of International Gamco Inc. ("Gamco"), on February 1, 2018, management believes Pollard has also become the second largest supplier to the charitable gaming industry in North America.

During the quarter ending September 30, 2017, Pollard acquired 100% of the common shares of INNOVA Gaming Group Inc. ("INNOVA", "Diamond Game").

Pollard produces and provides a comprehensive line of instant tickets and lottery services including: licensed products, distribution, SureTrack® lottery management system, retail telephone selling ("tel-sell"), marketing, iLottery, interactive gaming, Social Instants™, retail management services and vending machines including charitable game systems and tickets marketed under the Diamond Game trade name. In addition, Pollard's charitable gaming product line includes pull-tab (or break-open) tickets, bingo paper, pull-tab vending machines and ancillary products such as pull-tab counting machines. Pollard also markets products to the commercial gaming and security sector including such items as promotional scratch and win tickets, transit tickets and parking passes.

Pollard's lottery products are sold extensively throughout Canada, the United States and the rest of the world, wherever applicable laws and regulations authorize their use. Pollard serves over 60 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Year ended December 31, 2017	Year ended December 31, 2016
Instant Tickets	86.7%	88.8%
Charitable Gaming Products	9.7%	11.2%
Diamond Game Products (1)	3.6%	-

(1) Diamond Game (INNOVA) was acquired on August 3, 2017.

Geographic breakdown of revenue

	Year ended December 31, 2017	Year ended December 31, 2016
United States	56%	54%
Canada	22%	20%
International	22%	26%

Acquisition of INNOVA Gaming Group Inc.

INNOVA, through its wholly owned subsidiary Diamond Game, designs, develops, produces, markets, and services games, systems and tickets for the North American gaming industry, predominantly in the business to government ("B2G") lottery and charitable gaming sector. INNOVA's strategy is to enhance revenues of government-sponsored lotteries and other regulated operators by offering its unique "extended-play" products in traditional venues and non-traditional venues. INNOVA is licensed or permitted to sell or lease its gaming machines, ticket dispensers or other alternative gaming products ("AGP") in 11 U.S. states, Ontario and Québec.

INNOVA's primary product is the third generation Lucky Tab machine ("LT-3"), an "extended play" instant ticket vending machine ("ITVM") that dispenses tickets while simultaneously displaying the results of each ticket on a video monitor in an entertaining fashion. INNOVA also develops AGP machines, such as Class II bingo, skill games and tribal donation games. Its high quality gaming products, systems and services typically generate recurring revenue, either through revenue sharing agreements or fixed-fee leases. INNOVA also sells products and services, which include tickets for the machines, servers, software licenses, technical support, parts, game conversion kits and hardware upgrade kits.

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 gross consideration of $50.2 million. After consideration of the $10.9 million of cash acquired, the net purchase price was $39.3 million. The net purchase price was funded by proceeds from Pollard's credit facility and additional subordinated debt.

During the period from August 3, 2017 and December 31, 2017, INNOVA generated revenues of approximately $10.3 million and had a net loss of $1.2 million, which have been recorded in the consolidated financial statements. Included in INNOVA's net loss was $1.7 million of severance costs related to the departure of two former executives. If INNOVA had been acquired on January 1, 2017, incremental revenue of $16.9 million, net loss of $4.1 million (which includes $4.6 million of Innova's transaction costs relating to the sale of the company) and Adjusted EBITDA of $4.7 million would have been included in the year ended December 31, 2017. For the entire year ended December 31, 2017, INNOVA's total revenue was $27.2 million and total Adjusted EBITDA was $8.7 million.

Recent developments:

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., a manufacturer of charitable gaming products, for a total consideration of $21.6 million.

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.

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 $38.2 million.

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

The following financial information should be read in conjunction with the accompanying financial statements of Pollard and the notes therein as at and for the year ended December 31, 2017.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Sales	**$285.6**	$246.4	$221.0
Cost of sales	**219.9**	197.2	176.7
Gross profit	**65.7**	49.2	44.3
Gross profit as a % of sales	***23.0%***	*20.0%*	*20.0%*
Administration expenses	**28.6**	20.9	19.2
Expenses as a % of sales	***10.0%***	*8.5%*	*8.7%*
Selling expenses	**9.4**	8.0	7.4
Expenses as a % of sales	***3.3%***	*3.2%*	*3.3%*
Net income	**16.8**	12.3	7.5
Net income as a % of sales	***5.9%***	*5.0%*	*3.4%*
Adjusted EBITDA	**44.0**	29.7	26.8
Adjusted EBITDA as a % of sales	***15.4%***	*12.1%*	*12.1%*
Earnings per share (basic)	**$0.71**	$0.52	$0.32
Earnings per share (diluted)	**$0.71**	$0.52	$0.32

	December 31, 2017	December 31, 2016	December 31, 2015
Total Assets	**$228.3**	$176.8	$164.1
Total Non-Current Liabilities	**$124.8**	$94.4	$96.3

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

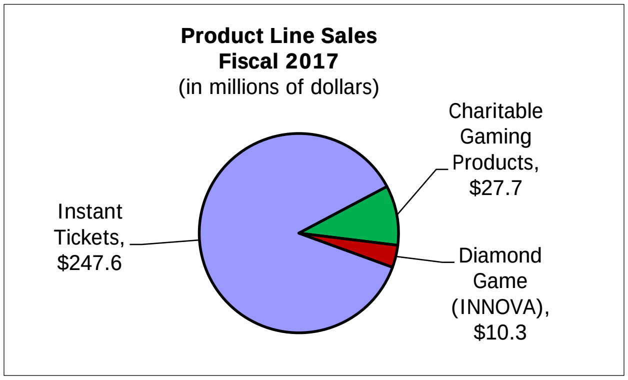
	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Net income	**$16.8**	$12.3	$7.5
Adjustments:			
Amortization and depreciation	**13.1**	10.6	8.1
Interest	**3.9**	3.6	3.2
Unrealized foreign exchange (gain) loss	**(1.4)**	(1.6)	3.8
Acquisition costs	**2.7**	-	-
Severance costs	**1.7**	-	-
Mark-to-market gain on foreign currency contracts	**-**	-	(0.5)
Income taxes	**7.2**	4.8	4.7
Adjusted EBITDA	**$44.0**	$29.7	$26.8
Pollard Banknote Limited	**$40.0**	$29.7	$26.8
Diamond Game (INNOVA)	**4.0**	-	-
Total Adjusted EBITDA	**$44.0**	$29.7	$26.8

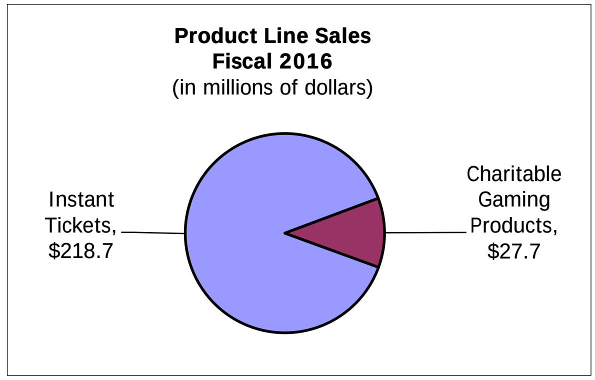
REVIEW OF OPERATIONS

Financial and operating information has been derived from, and should be read in conjunction with, the consolidated financial statements of Pollard and the selected financial information disclosed in this MD&A.

ANALYSIS OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2017

Sales

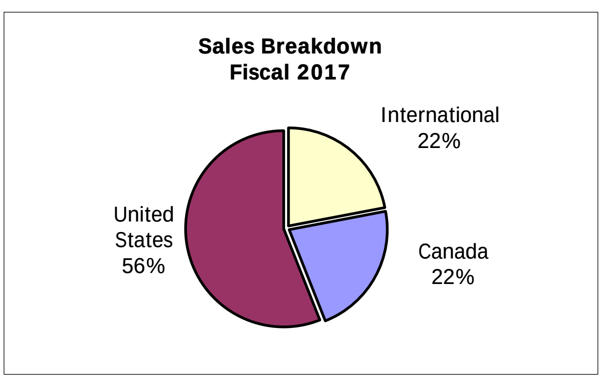


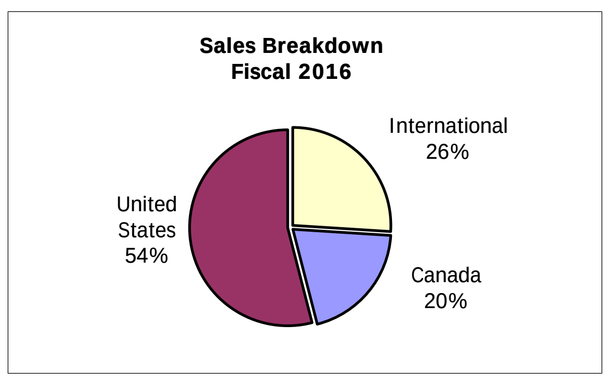


During the year ended December 31, 2017 ("Fiscal 2017" or "2017"), Pollard achieved sales of $285.6 million, compared to $246.4 million in the year ended December 31, 2016 ("Fiscal 2016" or "2016"). Factors impacting the $39.2 million sales increase were:

Higher instant ticket sales volumes increased sales by $17.3 million in Fiscal 2017 compared to Fiscal 2016 due to higher volumes from existing customers. Additionally, higher instant ticket average selling price increased sales by $8.0 million when compared to 2016. This increase was a result of the higher proportion of instant tickets sales coming from Pollard's proprietary products such as Scratch FX® and Playbook®.

Higher sales of our ancillary instant ticket products and services increased sales by $6.6 million from 2016. The increase in these sales was due primarily to higher sales of licensed products, greater revenues from iLottery and added sales from our loyalty solution. As well, the addition of Diamond Game (INNOVA) added $10.3 million in sales. An increase in the average selling price for charitable games increased sales by $0.8 million from 2016, while a decrease in charitable gaming volumes reduced sales by $0.3 million from 2016.





During Fiscal 2017, Pollard generated approximately 69.4% (2016 – 68.8%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2017 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.304 compared to an average rate of $1.328 during Fiscal 2016. This 1.8% decrease in the U.S. dollar value resulted in an approximate decrease of $3.5 million in revenue relative to Fiscal 2016.

Cost of sales and gross profit

Cost of sales was $219.9 million in Fiscal 2017 compared to $197.2 million in Fiscal 2016. Cost of sales was higher in Fiscal 2017 relative to Fiscal 2016 as a result of an increase in instant ticket volumes and increased ancillary lottery products and services sales, partially offset by lower exchange rates on U.S. dollar transactions in 2017. A portion of the increase also related to the inclusion of Diamond Game (INNOVA) financial results which amounted to $6.8 million, including $0.8 million of additional amortization related to intangible assets recognized on the acquisition.

Gross profit was $65.7 million (23.0% of sales) in Fiscal 2017 compared to $49.2 million (20.0% of sales) in Fiscal 2016. This increase in gross profit was primarily the result of the increase in instant ticket volumes, higher instant ticket average selling price, higher ancillary instant ticket products and services sales and the addition of Diamond Game (INNOVA). The higher gross profit percentage was due to the larger volumes of instant tickets, the instant ticket sales mix weighted to higher margin products, increased sales of ancillary instant ticket products and services, including higher iLottery sales, and improved manufacturing efficiencies. Pollard produced a record level of instant tickets in 2017, exceeding 2016 volumes by over 13%, thereby reducing our cost per unit by spreading its fixed manufacturing overhead over the greater volume.

Administration expenses

Administration expenses increased to $28.6 million in Fiscal 2017 from $20.9 million in Fiscal 2016. The increase was partly a result of the inclusion of Diamond Game (INNOVA) of $3.3 million (which includes $1.7 million in severance costs related to the departure of two former executives). Additional reasons for the increase were the $2.7 million in acquisition costs incurred in Fiscal 2017 and an increase in compensation expenses (which primarily related to expansion of our ancillary lottery product and services sales and acquisition efforts) including incentive accruals compared to 2016. These increases were partially offset by lower professional fees, primarily legal costs, which were lower by $0.7 million in 2017 compared to 2016.

Selling expenses

Selling expenses increased to $9.4 million in Fiscal 2017 from $8.0 million in Fiscal 2016 due to higher compensation costs and $1.0 million from the addition of Diamond Game (INNOVA).

Other expenses

Other expenses in Fiscal 2017 increased to $0.7 million, primarily due to the increase in the loss on equity investment, compared to $nil in 2016.

Interest expense

Interest expense, including deferred financing amortization, increased to $3.9 million in Fiscal 2017 from $3.6 million in Fiscal 2016 primarily as a result of the additional interest expense related to long term and subordinated debt incurred with the acquisition of Diamond Game (INNOVA). The increase was partially offset by lower interest rates and higher cash flow reducing long-term debt in 2017 prior to the acquisition.

Foreign exchange gain

The net foreign exchange gain was $0.9 million in Fiscal 2017 compared to a net gain of $0.4 million in Fiscal 2016. The 2017 net foreign exchange gain consisted of a $1.4 million unrealized gain primarily a result of the decreased Canadian equivalent value of U.S. denominated accounts payable and long-term debt with the strengthening of the Canadian dollar relative to the U.S. dollar. This gain was partially offset by the realized foreign exchange loss of $0.5 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2016 net foreign exchange gain consisted of a $1.6 million unrealized gain primarily a result of the decreased Canadian equivalent value of U.S. denominated accounts payable and long-term debt with the strengthening of the Canadian dollar relative to the U.S. dollar. This gain was partially offset by the realized foreign exchange loss of $1.2 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

Amortization and depreciation

Amortization and depreciation, including depreciation of property and equipment and the amortization of intangible assets, totaled $13.1 million during Fiscal 2017 which increased from $10.6 million during Fiscal 2016. The increase was primarily as a result of the inclusion of Diamond Game (INNOVA), with $1.6 million of amortization and depreciation and $0.8 million of additional amortization related to intangible assets recognized upon the acquisition.

Adjusted EBITDA

Adjusted EBITDA was $44.0 million in Fiscal 2017 compared to $29.7 million in Fiscal 2016. The primary reasons for the increase in Adjusted EBITDA of $14.3 million were the increase in gross profit of $19.0 million (net of amortization and depreciation) and a decrease in realized foreign exchange loss of $0.7 million. These increases were partially offset by higher administration expenses (net of acquisition and severance costs) of $3.3 million, an increase in selling expenses of $1.4 million and an increase other expenses of $0.7 million.

Income taxes

Income tax expense was $7.2 million in Fiscal 2017, an effective rate of 30.0%, which was higher than our expected effective rate of 27.0% due primarily to adjustments relating to the acquisition of INNOVA, the effect of higher tax rates in the United States in 2017 and non-deductible amounts primarily relating to expenses incurred in the acquisition of INNOVA. Partially offsetting these increases was the reduction in the future federal income tax rates in the United States.

Income tax expense was $4.8 million in Fiscal 2016, an effective rate of 28.1%, which was similar to our expected effective rate of 27.0%.

Net income

Net income was $16.8 million in Fiscal 2017 compared to net income of $12.3 million in Fiscal 2016. The primary reasons for the increase in net income were the increase in gross profit of $16.5 million and the increase in net foreign exchange gain of $0.5 million. Partially offsetting these increases in net income were the increase in administration expenses of $7.7 million, which includes $2.9 million in acquisition costs and $1.7 million in severance costs. Also reducing net income were the increase in selling expenses of $1.4 million, the increase in other expenses of $0.7 million, the increase in interest expense of $0.3 million and the increase in income taxes of $2.4 million.

Earnings per share (basic and diluted) increased to $0.71 per share in Fiscal 2017 from $0.52 per share in Fiscal 2016.

Liquidity and Capital Resources

Cash provided by operating activities

For the year ended December 31, 2017, cash flow provided by operating activities was $28.4 million compared to $11.7 million in Fiscal 2016. Higher net income before income taxes after non-cash adjustments in Fiscal 2017 contributed to an increase in cash provided by operating activities compared to Fiscal 2016. Changes in the non-cash component of working capital decreased cash flow from operations by $2.9 million for Fiscal 2017 (due primarily to increases in inventory and prepaid expenses and deposits, partially offset by an increase in accounts payable and accrued liabilities), compared to a decrease of $16.9 million for Fiscal 2016 (due primarily to increases in accounts receivable and inventory, partially offset by an increase in accounts payable and accrued liabilities).

Cash used for interest payments increased to $3.7 million in 2017 as compared to $3.3 million in 2016. As well, cash used for pension plan contributions increased to $5.3 million in 2017 as compared to $3.1 million in 2016, primarily because of the initiation of special solvency payments of $1.1 million in 2017. Cash used for income taxes paid was $6.1 million in 2017 compared to $0.7 million of income taxes recovered in 2016. Income taxes paid in 2017 included the final payment for 2016 taxes owing and the required installments for 2017, while the income taxes recovered in 2016 were as a result of tax loss carrybacks generated from accelerated depreciation on U.S. based equipment.

Cash used for investing activities

In the year ended December 31, 2017, cash used for investing activities was $51.2 million compared to $6.4 million in the year ended December 31, 2016. In Fiscal 2017, Pollard used $39.3 million, net of cash acquired, to purchase Diamond Game (INNOVA). In addition, Pollard invested $6.9 million in capital expenditures, $2.2 million in its iLottery joint venture and $2.2 million on additions to intangible assets.

In Fiscal 2016, capital expenditures were $5.0 million. Pollard expended $0.8 million on its investment in its iLottery joint venture and $1.1 million on additions to intangible assets. Proceeds from the sale of Pollard's investment in associate provided cash of $0.5 million.

Cash provided by financing activities

Cash provided by financing activities was $21.3 million in the year ended December 31, 2017, compared to cash used for financing activities of $5.4 million in the year ended December 31, 2016.

During Fiscal 2017, Pollard received net proceeds from long-term debt of $13.5 million and $10.6 million from subordinated debt, primarily to partially fund the acquisition of INNOVA. These receipts of cash were partially offset by $0.3 million of financing costs and dividends paid of $2.8 million.

During Fiscal 2016, cash was used to repay $1.8 million of long-term debt, $0.7 million of subordinated debt, $0.2 million of financing costs and dividends paid of $2.8 million.

As at December 31, 2017, Pollard had unused committed credit facility of $34.2 million, in addition to $5.6 million in available cash resources. These amounts, in addition to cash flow provided by operating activities, are available to be used for future working capital requirements, contractual obligations, capital expenditures, dividends and to assist in financing future acquisitions.

ANALYSIS OF RESULTS FOR THE PERIOD OCTOBER 1, 2017 TO DECEMBER 31, 2017 FOURTH QUARTER OF 2017

SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Three months ended December 31, 2017	**Three months ended December 31, 2016**
	(unaudited)	(unaudited)
Sales	$79.6	$65.7
Cost of sales	62.1	51.5
Gross profit	17.5	14.2
Administration	7.5	4.9
Selling	2.6	2.2
Other expenses	-	0.3
Income from operations	7.4	6.8
Finance costs	1.3	1.2
Income before income taxes	6.1	5.6
Income taxes:		
Current	1.5	1.2
Future	0.3	0.6
	1.8	1.8
Net income	$4.3	$3.8
Adjustments:		
Amortization and depreciation	4.5	2.2
Interest	1.3	0.9
Unrealized foreign exchange loss	0.5	0.4
Acquisition costs	0.3	-
Severance costs	0.3	-
Income taxes	1.8	1.8
Adjusted EBITDA	$13.0	$9.1
Pollard Banknote Limited	$10.1	$9.1
Diamond Game (INNOVA)	2.9	-
Adjusted EBITDA	$13.0	$9.1

Sales

During the three months ended December 31, 2017, Pollard achieved sales of $79.6 million, compared to $65.7 million in the three months ended December 31, 2016. Factors impacting the $13.9 million sales increase were:

Instant ticket sales volumes for the fourth quarter of 2017 were higher than the fourth quarter of 2016 by 19.8%, which increased sales by $10.6 million, due to higher volumes from existing customers. In addition, an increase in our ancillary instant ticket products and services volumes, primarily sales from iLottery and licensed products, increased revenue by $1.6 million. As well, the addition of Diamond Game (INNOVA) added $6.4 million in sales. Higher average price of charitable game sales added $0.3 million in revenue compared to the fourth quarter of 2016. Partially offsetting these increases in sales was a slight decrease in average selling price of instant tickets compared to 2016 which reduced sales by $1.6 million and a decrease in the volume of charitable game sales which further decreased sales by $1.2 million.

During the three months ended December 31, 2017, Pollard generated approximately 67.1% (2016 – 68.2%) of its revenue in U.S. dollars including a portion of international sales which were priced in U.S. dollars. During the fourth quarter of 2017 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.266, compared to an average rate of $1.332 during the fourth quarter of 2016. This 5.0% decrease in the value of the U.S. dollar resulted in an approximate decrease of $2.3 million in revenue relative to 2016. Also during the fourth quarter of 2017, the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.1 million in revenue relative to 2016.

Cost of sales and gross profit

Cost of sales was $62.1 million in the fourth quarter of 2017 compared to $51.5 million in the fourth quarter of 2016. Cost of sales was higher in the quarter relative to the fourth quarter of 2016 as a result of an increase in instant ticket volumes and higher ancillary instant ticket products and services volumes, partially offset by lower exchange rates on U.S. dollar transactions in the fourth quarter of 2017. A portion of the increase also related to the inclusion of Diamond Game (INNOVA) financial results which amounted to $4.2 million, including $0.6 million of additional amortization related to intangible assets recognized on the acquisition.

Gross profit was $17.5 million (22.0% of sales) in the fourth quarter of 2017 compared to $14.2 million (21.6% of sales) in the fourth quarter of 2016. This increase in gross profit was primarily the result of the increase in instant ticket volumes, higher ancillary instant ticket products and services sales and the addition of Diamond Game (INNOVA). The higher gross profit percentage was due to the larger volumes of instant tickets, increased sales of ancillary instant ticket products and services, including higher iLottery sales, and improved manufacturing efficiencies. Pollard produced over 17% more tickets in the fourth quarter of 2017 as compared to the comparable quarter of 2016, thereby reducing our cost per unit by spreading its fixed manufacturing overhead over the greater volume.

Administration expenses

Administration expenses were $7.5 million in the fourth quarter of 2017 which was higher compared to $4.9 million in the fourth quarter of 2016. The increase was partly a result of the inclusion of Diamond Game (INNOVA) of $1.2 million (which includes $0.3 million in severance costs related to the departure of a former executive). Additional reasons for the increase were $0.3 million in acquisition costs in the fourth quarter of 2017 and an increase in compensation expenses (which primarily related to expansion of our ancillary lottery product and services sales and acquisition efforts) including incentive accruals compared to 2016. In addition, 2016 administration expenses included a credit for a recovery of legal fees.

Selling expenses

Selling expenses increased to $2.6 million in the fourth quarter of 2017 from $2.2 million in the fourth quarter of 2016 primarily as a result of the $0.6 million in expenses resulting from the addition of Diamond Game (INNOVA), partially offset by a decrease in contract support costs.

Interest expense

Interest expense, including deferred financing amortization, increased to $1.3 million in the fourth quarter of 2017 compared to $0.9 million in the fourth quarter of 2016 primarily as a result of the additional interest expense related to long term and subordinated debt incurred with the purchase of Diamond Game (INNOVA).

Foreign exchange loss

The net foreign exchange loss was $nil in the fourth quarter of 2017 compared to a net loss of $0.3 million in the fourth quarter of 2016. The 2017 net foreign exchange loss consisted of a $0.5 million unrealized loss which was primarily a result of the decreased Canadian equivalent value of U.S. denominated accounts receivables with the weakening of the Canadian dollar relative to the U.S. dollar. This loss was fully offset by the realized foreign exchange gain of $0.5 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchanges rates.

The 2016 net foreign exchange loss consisted of a $0.4 million unrealized loss which was primarily a result of the increased Canadian equivalent value of U.S. denominated debt with the weakening of the Canadian dollar relative to the U.S. dollar. This loss was partially offset by the realized foreign exchange gain of $0.1 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchange rates.

Amortization and depreciation

Amortization and depreciation, including depreciation of property, plant and equipment and the amortization of intangible assets, increase to $4.5 million during the fourth quarter of 2017 as compared to $2.2 million during the fourth quarter of 2016. The increase was primarily as a result of the inclusion of Diamond Game (INNOVA), with $1.0 million of amortization and depreciation and $0.6 million of additional amortization related to intangible assets recognized upon the acquisition.

Adjusted EBITDA

Adjusted EBITDA was $13.0 million in the fourth quarter of 2017 compared to $9.1 million in the fourth quarter of 2016. The primary reasons for the increase in Adjusted EBITDA were the increase in gross profit (net of amortization and depreciation) of $5.6 million, the decrease in other expenses of $0.3 million and an increase in realized foreign exchange gain of $0.4 million. Partially offsetting the increases were higher administration expenses (net of severance and acquisition costs) of $2.0 million and an increase in selling expenses of $0.4 million.

Income taxes

Income tax expense was $1.8 million in the fourth quarter of 2017, an effective rate of 28.8% which was higher than our expected effective rate of 27.0% due primarily to adjustments relating to the acquisition of INNOVA, the effect of higher tax rates in the United States in 2017, the effect of foreign exchange and non-deductible amounts primarily relating to expenses incurred in the acquisition of INNOVA. Partially offsetting these increases was the reduction in the future federal income tax rates in the United States.

Income tax expense was $1.8 million in the fourth quarter of 2016, an effective rate of 32.5% which was higher than our expected effective rate of 27.0% due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The significant weakening of the Canadian dollar versus the U.S. dollar in the fourth quarter results in a future gain on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax expense with no related income (as the gain is eliminated on consolidation). This increased the consolidated provision percentage by about 8%. Other permanent differences relating to the foreign exchange translation of property, plant and equipment decreased the provision by approximately 4%.

Net income

Net income was $4.3 million in the fourth quarter of 2017 compared to $3.8 million in the fourth quarter of 2016. The primary reasons for the increase in net income were the higher gross profit of $3.3 million, a reduction in other expenses of $0.3 million and the decrease in net foreign exchange loss of $0.3 million. Partially offsetting these increases were the increase in administration expenses of $2.6 million which included $0.3 million in acquisition costs and $0.3 million in severance costs. Also reducing net income were the increase in selling expenses of $0.4 million and higher interest expense of $0.4 million.

Earnings per share (basic and diluted) increased to $0.18 per share in the fourth quarter of 2017 from $0.16 per share in the fourth quarter of 2016.

Quarterly Information

(unaudited)
(millions of dollars)

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Sales	$79.6	$70.6	$77.9	$57.5	$65.7	$62.7	$54.0	$64.0
Adjusted EBITDA	13.0	11.6	13.1	6.3	9.1	7.8	6.0	6.8
Net income	4.3	4.7	6.0	1.8	3.8	2.8	2.1	3.6

Q4 2017 sales and Adjusted EBITDA were high relative to previous quarters primarily as a result of higher instant ticket volumes and the addition of Diamond Game (INNOVA).

Q3 2017 Adjusted EBITDA was higher relative to quarters prior to Q2 2017 due to increased gross profit (net of amortization and depreciation) as a result of the higher average selling price of instant tickets and increased sales of ancillary lottery products and services. The addition of Diamond Game (INNOVA) also contributed to the increase in Adjusted EBITDA.

Q2 2017 sales, Adjusted EBITDA and net income were higher due to a number of positive factors including sales volumes boosted by the significant amount of product in transit at the end of Q1 2017.

Working Capital

Net non-cash working capital varies throughout the year based on the timing of individual sales transactions and other investments. The nature of the lottery industry is few individual customers who generally order large dollar value transactions. As such, the change in timing of a few individual orders can impact significantly the amount required to be invested in inventory or receivables at a particular period end. The high value, low volume of transactions results in some significant volatility in non-cash working capital, particularly during a period of rising volumes. Similarly, the timing of the completion of the sales cycle through collection can significantly impact non-cash working capital.

Instant tickets are produced specifically for individual clients resulting in a limited investment in finished goods inventory. Customers are predominantly government agencies, which result in regular payments. There are a limited number of individual customers, and therefore net investment in working capital is managed on an individual customer by customer basis, without the need for company wide benchmarks.

The overall impact of seasonality does not have a material impact on the carrying amounts in working capital.

As at December 31, 2017, Pollard's investment in non-cash working capital increased $2.9 million compared to December 31, 2016, primarily as a result of increased investments in inventories and prepaid expenses, which were partially offset by an increase in accounts payable and accrued liabilities.

	December 31, 2017	December 31, 2016
Working Capital	$44.6	$49.5
Total Assets	$228.3	$176.8
Total Non-Current Liabilities	$124.8	$94.4

Credit Facility

Pollard's credit facility was renewed effective June 22, 2017. The credit facility provides loans of up to $105.0 million for its Canadian operations and US$12.0 million for its U.S. subsidiaries. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $105.0 million Canadian equivalent. The credit facility also includes an accordion feature which can increase the facility by $15.0 million. 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 were $1.9 million. The remaining balance available for drawdown under the credit facility was $34.2 million.

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.

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.

Pollard believes that its credit facility, funds from the subordinated loan from Pollard Equities Limited ("Equities") and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital and dividends.

Subordinated Debt

On April 2, 2014, Pollard entered into a loan agreement with Equities for a subordinated term loan with a seven year term, repayable at any time (subject to meeting certain financial covenants under the secured credit facility), in the amount of $6.8 million. 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 $25.1 million was drawn in the third quarter of 2017. On September 20, 2017, Pollard repaid $7.5 million 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.

Outstanding Share Data

As at December 31, 2017 outstanding share data was as follows:

Common shares	23,543,158

As noted previously in the recent developments section, on February 21, 2018, Pollard closed it's offering for an additional 2,070,000 common shares. As at March 12, 2018, outstanding share data was as follows:

Common shares	25,613,158

Share Options

Under the Pollard Banknote Limited Stock Option Plan the Board of Directors has the authority to grant options to purchase common shares to eligible persons and to determine the applicable terms. The aggregate maximum number of common shares available for issuance from Pollard's treasury under the Option Plan is 2,354,315 common shares.

On March 13, 2017, the Board of Directors approved the award of 125,000 options to purchase common shares of Pollard for certain key management personnel. The options were granted on April 24, 2017 and have a seven year term, vesting 25% per year over the first four years. The exercise price of the options was equal to the closing price of the common shares on April 21, 2017. As at December 31, 2017, the total share options outstanding were 250,000.

Contractual Obligations

Pollard rents premises and equipment under long-term operating leases. The following is a schedule by year of commitments and contractual obligations outstanding, including related interest payments:

(millions of dollars)	Total	<1 Year	2-3 Years	4-5 Years	Thereafter
Long-term debt	$89.3	$3.6	$85.7	-	-
Subordinated debt	$19.9	$4.8	$8.7	$6.4	-
Operating leases	$21.2	$5.7	$8.1	$5.5	$1.9
Total	$130.4	$14.1	$102.5	$11.9	$1.9

Pension Obligations

Pollard sponsors four non-contributory defined benefit pension plans, of which three are final pay plans and one is a flat benefit plan. As of December 31, 2017, the aggregate fair value of the assets of Pollard's defined benefit pension plans was $50.5 million and the accrued benefit plan obligations were $73.5 million. Pollard's total annual funding contribution for its defined pension plans in 2018 is expected to be approximately $4.4 million, compared to $3.9 million in 2017, including $1.1 million in additional solvency payments.

One of Pollard's Canadian pension plans was subject to a solvency valuation as of December 31, 2016. The valuation determined there was a deficit of $10.1 million due the low current levels of the mandated interest rate used to discount the future liabilities. As a result, Pollard will be subject to additional special pension plan payments beginning in 2017 of approximately $1.1 million per year through to 2026. These additional solvency payments do not impact pension expense and therefore will not affect our net income or EBITDA. These additional pension solvency payments will be funded from operating cash flows.

Off-Balance Sheet Arrangements

Other than the operating leases described previously, Pollard has no other off-balance sheet arrangements.

Related Party Transactions

Pollard Equities Limited and affiliates

During the year ended December 31, 2017, Pollard paid property rent of $3.2 million (2016 - $3.1 million) and $0.4 million (2016 - $0.4 million) in plane charter costs to affiliates of Equities. In addition, Pollard paid Equities $1.0 million (2016 - $0.6 million) of interest on Pollard's subordinated debt.

During the year ended December 31, 2017, Equities paid Pollard $0.07 million (2016 - $0.07 million) for accounting and administration fees.

At December 31, 2017, Pollard owed Equities and its affiliates $1.9 million (2016 - $0.9 million) for rent, interest, expenses and other items.

Neogames S.à r.l. and affiliates

During the year ended December 31, 2017, Pollard reimbursed operating costs and paid software royalties of $2.9 million (2016 - $1.8 million) to its iLottery partner which are recorded in cost of sales and $nil (2016 - $0.6 million) 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 $0.7 million (2016 - $0.8 million) for reimbursement of operating costs and capital expenditures, and its share of operating profits.

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management of Pollard regularly reviews its estimates and assumptions based on historical experience and various other assumptions that it believes would result in reasonable estimates given the circumstances. Actual results could differ from those estimates under different assumptions. The following is a discussion of accounting policies which require significant management judgment and estimation.

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.

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.

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.

Acquisition accounting

For acquisition accounting purposes, all identifiable assets, liabilities and contingent 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.

Future Changes in Accounting Policies

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.

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.

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.

Industry Risks and Uncertainties

Pollard is exposed to a variety of business and industry risks. A summary of the major risks faced by Pollard is noted below.

Dependence on Key Products

Instant tickets accounted for approximately 86.7% of Pollard's revenues for Fiscal 2017. Pollard's financial results and condition are substantially dependent on the continued success and growth in sales of this product and the profitability of such sales. Competitive efforts by other manufacturers of similar or substitute products, shifts in consumer preferences or the introduction and acceptance of alternative product offerings could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations and the amount of cash available for dividends to shareholders.

Inability to Sustain Sales or EBITDA Margins

Pollard's income depends upon its ability to generate sales to customers and to sustain its EBITDA margins. These margins are dependent upon Pollard's ability to continue to profitably sell lottery tickets and gaming products and to continue to provide products and services that make it the supplier of choice to its customers. If Pollard's cost of sales or operating costs increase, or other manufacturers of gaming products could compete more favourably with it, Pollard may not be able to sustain its level of sales or EBITDA margins.

General Economic Conditions

Instant lottery tickets account for approximately 86.7% of revenue and Pollard's financial results and condition are substantially dependent on the continued success and growth in sales of this product and the profitability of such sales. Historically the lottery industry, and particularly the instant ticket product lines, has not shown any significant negative impact during downturns in the economic cycles. However, lotteries, similar to many government agencies, are increasingly under pressure to reduce costs and expenditures. As such, Pollard has witnessed downward pressure on its selling prices. Continued pressure on lotteries to reduce their costs may further negatively impact Pollard's selling prices. Significant shifts in consumer preferences or the introduction and acceptance of alternative product offerings could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Dependence on Major Customers

Pollard's 10 largest customers accounted for 57.4% of its Fiscal 2017 revenues. In 2017, sales to one customer amounted to 12.0% of consolidated sales and 11.7% to a second customer. The nature of the worldwide lottery industry limits the absolute number of lottery operations. As is customary in the industry, Pollard does have long-term contracts with most of its customers. However, most allow the customer to cancel the contract at will and none guarantee volumes or order levels. A significant reduction of purchases by any of Pollard's largest customers could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Exchange Rate Fluctuations

A significant portion of Pollard's revenues and expenses, principally related to its U.S. operations and to the purchase of raw materials, are denominated in U.S. dollars. In addition a portion of Pollard's revenues are denominated in Euros. Furthermore, although certain raw materials may be purchased in Canadian dollars, they may have inputs that are denominated in foreign currencies. Any changes in the exchange rate between the Canadian dollar and these foreign currencies could have a material effect on the results of Pollard. Pollard's dividends to shareholders are denominated in Canadian dollars.

For the purposes of financial reporting, any change in the value of the Canadian dollar against the U.S. dollar or the Euro during a given financial reporting period would result in a foreign exchange loss or gain on the translation of any foreign currency denominated monetary assets and liabilities. Further, Pollard's reported earnings could fluctuate materially as a result of revenues and expenses denominated in U.S. dollars or Euros under Canadian GAAP. There can be no assurance that changes in the currency exchange rate will not have a material adverse effect on Pollard or on its ability to maintain a consistent level of dividends in Canadian dollars.

In addition the use of certain cash flow and interest rate hedging strategies may result in increased volatility in net income due to mark-to-market accounting rules.

Additional Capital Requirements

Pollard believes that its operating income will be sufficient to fund operations and planned capital expenditures in the near term. However, Pollard may be required to raise additional capital in the future if it decides to make additional acquisitions. The availability of future borrowings and access to capital markets for financing depends on prevailing market conditions and the acceptability of financing terms offered to it. There can be no assurance that future borrowings or equity financing will be available to it, or available on acceptable terms, in an amount sufficient to fund its needs.

Inability to Sustain and Manage Growth

A principal component of Pollard's strategy is to continue its internal growth. Pollard may not be successful in growing its business or in managing its growth. Pollard's growth depends on its ability to accomplish a number of things, including:

- successfully introducing new products;
- identifying and developing new geographic markets;
- developing new products and gaining market acceptance for them;
- establishing and maintaining favourable relationships with customers in new markets and market segments and maintaining these relationships in existing markets; and
- successfully managing expansion and obtaining the required financing.

Any growth Pollard achieves may require additional employees and an increase in the scope of both its operating and financial systems and the geographic area of its operations. Pollard may be unable to attract and retain qualified management and employees, and its existing operating and financial systems and controls may not be adequate to support any growth. Pollard's ability to improve its systems and controls may be limited by increased costs, technological challenges, or lack of qualified employees. The past results of Pollard may not be indicative of Pollard's prospects or its ability to penetrate new markets, many of which may have different competitive conditions and demographic characteristics than current markets.

Competition

The instant ticket business is highly competitive, and Pollard faces competition from a number of domestic and foreign instant ticket manufacturers and other competitors. Pollard currently has two instant ticket competitors in North America, Scientific Games Corporation (Sci Games) and IGT. Internationally, there are a number of lottery instant ticket vendors which compete with Pollard including Sci Games, IGT and Eagle Press Group of Companies.

Some of Pollard's competitors have longer operating histories, greater name recognition, larger customer bases and greater financial, technical and marketing resources than Pollard. These resources may allow them to respond more quickly than Pollard can to new or emerging technologies and to changes in customer requirements. It may also allow them to devote greater resources than Pollard can to the development, promotion and sale of their products. Pollard's competitors may also engage in more extensive research and development, undertake more far reaching marketing campaigns and adopt more aggressive pricing policies. The market for Pollard's products is highly competitive and it is fragmented at both the lottery and charitable gaming levels. Pollard expects competition to continue to be intense because of capacity in its markets. To the extent one of Pollard's competitors undertakes a consolidation program, Pollard's competition would increase further. Pollard also faces competition from emerging and existing lottery and charitable gaming products, such as internet gaming products and video lottery terminals. Competition from these and other gaming products may weaken demand for Pollard's products.

Future Acquisition and Integration Risks

To grow by acquisition, Pollard must identify and acquire suitable acquisition candidates at attractive prices and successfully integrate any acquired businesses with its existing operations. If the expected synergies from acquisitions do not materialize or Pollard fails to successfully integrate any new businesses into its existing business, Pollard's financial performance could be significantly impacted. To the extent that businesses acquired by Pollard or their prior owners failed to comply with or otherwise violated applicable laws, Pollard, as a successor owner may be financially responsible for these violations.

In connection with future acquisitions by Pollard, there may be liabilities that Pollard, as the case may be, failed or was unable to discover in its due diligence prior to the consummation of the acquisition. The discovery of any material liabilities could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations or future prospects.

Failure to Realize Anticipated Benefits of INNOVA or Gamco Acquisitions

On September 18, 2017, Pollard completed the acquisition of INNOVA and on February 1, 2018, Pollard completed the Gamco acquisition. Achieving the benefits of both of these acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as Pollard's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Pollard. The integration of the acquired businesses will require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. In addition, Pollard may be required to assume greater than expected liabilities due to undisclosed liabilities of both INNOVA and Gamco existing at the time of the acquisitions.

Reliance on Manufacturing Facilities

Pollard manufactures substantially all of its lottery tickets and gaming products at its facilities. Pollard expects to continue to expand its manufacturing capabilities by adding production lines and additional acquisitions, either of which could result in disruptions to its manufacturing operations. Pollard's manufacturing operations use certain custom designed equipment which, if damaged or otherwise rendered inoperable or unavailable, could result in the disruption of its manufacturing operations. Further, Pollard does not generally maintain an inventory of finished products due, in part, to the customized nature of its product line and its "just in time" approach to manufacturing. Consequently, any interruption of operations at any of its manufacturing facilities or at any facility of a supplier to Pollard or at which Pollard outsources production could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operation.

Reliance on Key Personnel

Pollard's future performance and development will depend to a significant extent on the efforts and abilities of its executive officers and key management personnel. The loss of the services of one or more of its individuals or other senior managers could harm Pollard. Pollard's success will depend largely on Pollard's continuing ability to attract, develop and retain skilled employees in all areas of its business.

Technological Change

Lotteries continue to investigate the use of the internet to augment their product offerings. Either in conjunction with existing gaming products (such as providing for second chance drawings for customers who have purchased non-winning instant tickets, digital gaming products or through loyalty and engagement programs) or as additional platforms to providing gaming products (for example providing electronic versions of instant tickets). The use of the internet is increasing and will be a key distribution channel as lotteries look to expand their market share both with existing customers and through obtaining new customers. Pollard may not be able to participate in this growth with its current product mix and the reliance on paper tickets may lessen.

Significant Changes to Government Regulations

Pollard is subject to various federal, provincial, state and local laws and regulations. There are laws that regulate its transporting products, importing and exporting products and employment. Furthermore, there are extensive gaming laws and approvals. Such laws, regulations and related rules and policies are administered by various federal, provincial, state and local agencies and other governmental authorities. New laws governing its business could be enacted and changes to any existing laws could have a significant impact on business. Failure by Pollard to comply with applicable laws and regulations may subject it to civil or regulatory proceedings which may have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Continuing Negotiations on North American Free Trade Agreement (NAFTA)

The governments of Canada, the United States and Mexico are currently renegotiating NAFTA. The outcome of this agreement may have implications to our overall cross-border trade. Pollard had significant manufacturing presence in both Canada and the United States and the impact of any possible changes to NAFTA at this time is unknown.

Licensing and Regulatory Requirements

Pollard is subject to regulation in most jurisdictions in which its products are sold or used by persons or entities licensed to conduct gaming activities. The gaming regulatory requirements vary from jurisdiction to jurisdiction and licensing, other approval or finding of suitability processes with respect to Pollard, its personnel and its products, can be lengthy and expensive. Most jurisdictions have comprehensive licensing, reporting and operating requirements with respect to the sale and manufacture of bingo and bingo related products, including bingo paper and pull-tab tickets. These requirements have a direct impact on the conduct of the day to day operations of Pollard. There can be no assurance that Pollard, its products or its personnel will receive or be able to maintain any necessary gaming licenses, other approvals or findings of suitability. Moreover, failure to comply with the licensing, reporting and operating requirements may subject Pollard to civil or regulatory proceedings, including the imposition of civil penalties or the suspension or revocation of a license. The loss of a license in a particular jurisdiction will prohibit Pollard from selling products in that jurisdiction and may prohibit Pollard from selling its products in other jurisdictions. The loss of one or more licenses held by Pollard could have an adverse effect on the business.

Certain jurisdictions require extensive personal and financial disclosure and background checks from persons and entities beneficially owning a specific percentage (typically five percent or more) of a vendor's or licensee's securities. The failure of beneficial owners of Pollard's securities to submit to background checks and provide such disclosure could result in the imposition of penalties upon these beneficial owners and could jeopardize the award of a lottery contract or the issuance of a gaming license to Pollard or provide grounds for termination of an existing lottery contract or gaming license.

Income and Other Taxes

Pollard is subject to income taxes, withholding taxes, and Canadian and U.S. federal, provincial and state taxes. As taxing regimes change their tax basis and rates or initiate reviews of prior tax returns, Pollard could be exposed to increased costs of taxation.

Intellectual Property

Pollard's commercial success depends, in part, on its ability to secure and protect intellectual property rights that are important to its business, including patent, trademark, copyright, and trade secret rights, to operate without infringing third party intellectual property rights, and to avoid having third parties circumvent the intellectual property rights that Pollard owns or licenses. In particular, the patents and trademarks Pollard owns or licenses may not be valid or enforceable. In addition, Pollard cannot be certain that its proprietary technology affords a competitive advantage, does not infringe third party rights, or will not need to be altered in response to competing technologies. Pollard also cannot be certain that technologies developed in the future will be the subject of valid and enforceable intellectual property rights.

In addition, litigation may be necessary to determine the scope, enforceability and validity of third party intellectual property rights or to establish Pollard's intellectual property rights. Regardless of merit, any such litigation could be time consuming and expensive, divert management's time and attention, subject Pollard to significant liabilities, require Pollard to enter into costly royalty or licensing agreements, or require Pollard to modify or stop using intellectual property that it owns or licenses.

Litigation

Pollard is threatened from time to time with, or has been named as a defendant in, various legal proceedings and lawsuits based upon product liability, personal injury, breach of contract and lost profits or other consequential damages claims, in the ordinary course of conducting its business. Management has seen a growing trend across North America in litigation. A significant judgment against Pollard or the imposition of a significant fine or penalty, as a result of a finding that Pollard failed to comply with laws or regulations, or being named as a defendant on multiple claims could, have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Raw Material Price Volatility

Various raw materials are used in the products manufactured by Pollard, and, while historically such raw materials have not been subject to economic or seasonal cyclicality and wide price variation, future results may differ. Certain raw materials used by Pollard in its manufacturing processes are made from commodities that are vulnerable to significant fluctuations in price. Sudden increases in the price or a reduction in the availability of raw materials or commodities used to make raw materials used in the manufacture of lottery tickets and gaming products could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations. Pollard may not be able to pass on the increased costs to customers.

Lack of Long-Term Supplier Agreements

Historically, Pollard has not entered into long-term agreements with its suppliers. Generally, suppliers may terminate their relationship with Pollard on short notice. In addition, even if suppliers should decide to continue their relationship with Pollard, there can be no guarantee that suppliers will supply the same amount of product as in the past, or that supply will be on similar terms. Any loss of a significant supplier, or a change in the terms of the relationship with a significant supplier could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Dependence on Sole or Limited Sources of Supply

Certain raw materials used in connection with the manufacture of Pollard's products and packaging materials are obtained from a sole or a limited group of suppliers. Pollard's reliance on a sole supplier or limited groups of suppliers involves several risks including increased risk of inability to obtain adequate supplies, reduced control over pricing and timely delivery, and in the case of substrate and ink, the long lead times required to approve the specifications necessary to produce products specific to Pollard's specifications. There are no assurances that this dependence on a limited group of suppliers will not have an adverse effect on Pollard's business, financial condition, liquidity and results of operations. In addition, were it necessary for Pollard to source its substrate and ink needs from another supplier, disruption to Pollard's business would occur during the period in which Pollard sourced another supplier and was able to receive supplies based on its particular specifications.

Product Liability

Pollard, like other manufacturers and sellers of retail products, is subject to potential liabilities connected with its business operations, including potential liabilities and expenses associated with product defects, performance, and reliability or delivery delays. A major product liability claim could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations because of the costs of defending against lawsuits, diversion of key employees' time and attention from the business and potential damage to its reputation.

Research and development ("R&D")

Pollard has invested, and may continue to invest, significant resources in our R&D efforts. Pollard invests in a number of areas, including our manufacturing processes, product development for game and system-based hardware, software and game content. There can be no assurance that Pollard's investment in R&D will lead to successful new technologies or products that gain market acceptance. If a new product is not successful, Pollard may not recover our development, regulatory approval or promotion costs.

Inability to innovate

The success of Pollard's products and services is affected by changing technology and evolving industry standards. Pollard's ability to anticipate or respond to such changes and to develop and introduce new and enhanced products and services, including, but not limited to, games, gaming machines, lottery tickets, gaming products and services, on a timely basis or at all is a significant factor affecting Pollard's ability to remain competitive, retain existing contracts or business, expand and attract new customers and players. There can be no assurance that Pollard will achieve the necessary technological advances or have the financial resources needed to introduce new products or services on a timely basis or at all or that Pollard will otherwise have the ability to compete effectively in the industries we serve.

Pollard's success depends upon its ability to develop or obtain manufacturing capabilities and processes to meet the demands of producing new and innovative products. Because newer products are generally more technologically sophisticated than those produced in the past, we must continually develop or obtain improved production capabilities to meet the needs of product innovations. If Pollard cannot efficiently develop its own manufacturing infrastructure or obtain such infrastructure from a reliable source to meet the needs of Pollard's product innovations, or if Pollard is unable to increase its production capacity in a timely manner, the business could be negatively impacted. In addition, the social and mobile gaming landscape is rapidly evolving and is characterized by major fluctuations in the popularity of social and mobile products and platforms. Pollard may be unable to develop products at a rate necessary to successfully enter and compete in the social and mobile product market.

Systems, network or telecommunications failures or cyber-attacks

Any disruption in Pollard's network or telecommunications services could affect Pollard's ability to operate its games or financial systems, which would result in reduced revenues and customer down time. Pollard's network and databases of business or customer information are susceptible to outages due to fire, floods, power loss, break-ins, cyber-attacks, network penetration, data privacy or security breaches, denial of service attacks and similar events. Despite Pollard's implementation of network security measures and data protection safeguards, including a disaster recovery strategy for back office systems, Pollard's servers and computer resources are vulnerable to viruses, malicious software, hacking, break-ins or theft, third-party security breaches, employee error or malfeasance, and other potential compromises. Disruptions from unauthorized access to or tampering with Pollard's computer systems in any such event could have a material adverse effect on Pollard's business, reputation, operating results and financial condition.

Money laundering/fraudulent activity

Pollard's success depends on its ability to avoid, detect, replicate and correct software and hardware errors and fraudulent manipulation of our games and systems. Pollard incorporates security features into the design of its games and other systems which are designed to prevent Pollard and its customers from being defrauded. However, there can be no guarantee that Pollard's security features will continue to be effective in the future. If Pollard's security systems fail to prevent fraud, Pollard's operating results could be adversely affected. Additionally, if third parties breach Pollard's security systems and defraud its customers, the public may lose confidence in Pollard's gaming products or Pollard could become subject to legal claims by its customers or to investigation by gaming authorities.

The occurrence of fraudulent manipulation of Pollard's games, gaming machines, systems, or online games and systems may give rise to claims for lost revenues and related litigation by Pollard's customers and may subject Pollard to investigation or other action by gaming regulatory authorities including suspension or revocation of Pollard's gaming licenses, or disciplinary action.

There is also a risk that Pollard will be subject to fraudulent activities by its employees. Any exposure to fraud and/or money laundering could subject Pollard to financial losses, business disruption and damage to Pollard's reputation. In addition, there is a risk that Pollard may be subject to investigation and sanctions by a regulator and/or to civil and criminal liability if we have failed to comply with Pollard's legal obligations relating to the reporting of money laundering or other offences.

Labour Disruptions

Approximately 107 of Pollard's employees, all of whom are employed at the Ypsilanti, Michigan facility, are subject to a collective bargaining agreement which expires on August 31, 2020. While management believes that Pollard is generally on good terms with its employees, there are no assurances that a strike or other disruption by its unionized employees will not occur. A work disruption at this facility would likely have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Operating Hazards

Pollard's revenues are dependent on the continued operation of its facilities. The operation of facilities involves some risks, including the failure or substandard performance of equipment, natural disasters, suspension of operations and new governmental statutes, regulations, guidelines and policies. Pollard may also have exposure to future claims with respect to workplace exposure, workers' compensation and other matters, arising from events both prior to and after any of its acquisitions. There can be no assurance as to the actual amount or the timing of these liabilities. The occurrence of material operational problems, including but not limited to the above events, may have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Environment, Health and Safety Requirements and Related Considerations

Pollard's operations and real property are subject to a broad range of increasingly complex federal, provincial, state and local laws and regulations as well as permits and other approvals governing environmental and workers' health and safety matters, including those relating to air emissions, water discharges, the storage, handling, use, discharge and disposal of hazardous materials and contaminants (including waste) (the "E, H & S Requirements"). Certain E, H & S Requirements may impose joint and several liability on lessees and owners or operators of facilities for the costs of investigation or remediation of contaminated properties regardless of fault or the legality of the original release or disposal.

Pollard's past and present operations that are subject to E, H & S Requirements include the use, storage, handling and contracting for recycling or disposal of hazardous and non-hazardous materials such as washes, inks, alcohol-based products, fountain solution, photographic fixer and developer solutions, machine and hydraulic oils and solvents. The use and management of such materials, the nature of the manufacturing and printing process, and the ownership and/or management or control of commercial properties carries an inherent liability risk that must be carefully managed. Pollard believes that the conduct of its operations is in material compliance with applicable E, H & S Requirements. Maintaining such compliance in the conduct of its operations has not had a material adverse effect on Pollard's financial condition or operating results.

As noted earlier, Pollard manufactures its products at seven facilities, two of which are owned by Pollard and five of which are leased. Four of the seven facilities (Barrhead, Alberta, Ypsilanti, Michigan, Sault Ste. Marie, Ontario and the Winnipeg, Manitoba manufacturing facility site) were established by Pollard from green field sites.

As a consequence of Pollard's historical and current operations, and its ownership, management and control of real property, it may be involved from time to time in administrative or judicial proceedings and inquiries relating to E, H & S Requirements. It may also be subject to regulatory orders or actions (including orders to remediate soil and groundwater contamination). Future inquiries, orders, actions or proceedings of this nature could have material adverse effects on Pollard's business, financial condition, liquidity and results of operations.

Changes to existing E, H & S Requirements and to the enforcement thereof or the adoption of new E, H & S Requirements in the future might, individually or in the aggregate, have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations. In addition, the discovery of unknown environmental or workers' health and safety issues at properties owned, managed or controlled by Pollard, including the responsibility to remediate hazardous substances whether or not the contamination was caused by Pollard, could require expenditures that might materially affect Pollard's business, financial condition, liquidity and results of operations.

Insufficient Insurance Coverage

Pollard maintains property, general liability, errors and omissions, business interruption insurance and directors and officer's liability insurance on such terms as it deems appropriate. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of Pollard's lost investment. This insurance may not remain available to it at commercially reasonable rates. Future increases in insurance costs, coupled with the increase in deductibles, may result in higher operating costs and increased risk. Not all risks faced by Pollard are insured.

Interest Rates

Pollard has certain floating rate loans and may be negatively impacted by increases in interest rates, the effects of which would be to reduce the amount of cash available for operations.

Financial Instruments

Pollard is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates, liquidity risk and credit risk. Pollard uses financial instruments, from time to time, to manage these risks.

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls 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.

Risk Exposure

<u>Currency risk</u>

Pollard sells a significant portion of its products and services to customers in the United States and to 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 Canadian and U.S. dollars, primarily in Euros.

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time.

<u>Interest rate risk</u>

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.

Credit risk

Credit risk in the risk of financial loss if a customer or counterpart to a financial instrument fails to meet its financial obligations.

Liquidity risk

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

Risk Management

Currency risk

Pollard utilizes a number of tools to manage its foreign currency risk including sourcing its manufacturing facilities in the U.S. and sourcing other cost of sales in U.S. dollars.

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 $0.15 million for year ended December 31, 2017 (2016 - $0.06 million). 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 $0.07 million for year ended December 31, 2017 (2016 - $0.06 million).

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.

As at December 31, 2017, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately $1.3 million ($2016 - $1.6 million). 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 income taxes of approximately $0.01 million (2016 - $0.01 million).

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

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of $0.4 million for the year ended December 31, 2017 (2016 - $0.4 million).

Credit risk

Credit risk on Pollard's accounts receivable is minimized since they are mainly from governments and their agencies and are collected in a relatively short period of time. Credit risk on foreign currency contracts is minimized since the counterparties are restricted to Schedule 1 Canadian financial institutions.

The carrying amount of accounts receivable is reduced through the use of an allowance account and any adjustment to the allowance account is recognized in the statement of income within selling and administration expenses. When a receivable balance is considered uncollectible, it is written off against the allowance account.

Liquidity risk

Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. Pollard maintains a committed credit facility including up to $105.0 million for its Canadian operations and up to US$12.0 million for its U.S. subsidiaries. At December 31, 2017, the unused balance available for drawdown was $34.2 million (2016 - $18.9 million).

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

Outlook

The lottery industry continued to achieve good growth during 2017 and we anticipate this trend to continue in 2018. Of particular strength were instant tickets, as lotteries increasingly look to expand and grow this area of their operations to generate greater proceeds for their various good causes. Consumer demand for instant tickets and related services like digital products are expected to remain robust as lotteries expand their offerings and gaming platforms to meet this demand.

2017 saw our instant ticket volumes increase significantly when compared to the prior year, reflecting overall strong demand across our lottery portfolio. The additional production capacity from our Tresu press allowed us to produce the additional volume created by that demand. To help support further additional volumes, during 2018 we are also recommissioning the original press line in our Ypsilanti facility in order to provide some incremental production capacity. While we don't expect to see the same growth rate profile in 2018 that was achieved in 2017, we anticipate building on these higher levels achieved throughout the upcoming fiscal year. Our focus on manufacturing efficiencies is critical to our success and we expect to see additional improvements in our cost platform going forward, however, significant improvements were already captured during 2017. As a result, 2018 will not see the same level of improvements as achieved in 2017.

One of the drivers of the increased demand was the success of many of our proprietary products such as Scratch FX® and Playbook® products. These value-added products have proven to be very successful in growing the revenue of lotteries and allows us to maintain our average selling prices in a price competitive industry. We have new exciting innovative instant ticket products rolling out in 2018 and are hopeful our ongoing innovations will continue to be a positive factor driving our future revenue growth.

Our core instant ticket business is driven by formal contracts and in 2018 there are a number of large instant ticket lottery contracts coming up for bid, particularly in the United States. Our current contract portfolio is extremely well positioned with existing terms and renewals providing important visibility to our revenue streams for the next number of years. Our recently announced contract extension with the Western Canada Lottery Corporation extends our current contract for an additional ten years and during 2017 the Ontario Lottery Corporation extended our contract for another five years. Both of these events illustrate the strengths of our existing customer relationships and the value of our long-term contracts. Our contract with the British Columbia Lottery Corporation expires in December 2018. We have been the primary supplier to this important customer for over 30 years and we are hopeful of continuing this relationship in future contracts.

The charitable gaming market remains very steady relative to the last few years and, with low capital expenditure requirements, it continues to generate positive cash flows. With the recent addition of International Gamco, Inc. to our existing American Games business, we are uniquely positioned to benefit from this important business line. We believe the combination of these two companies will bring significant synergies and enhanced revenue opportunities in the future as their integration is fully developed.

Our Diamond Game operation continues the integration process with Pollard after being acquired in the fall of 2017. Their unique product is strategically situated to provide revenue for charitable organizations directly or through lottery organizations. The sales development cycle is very long and currently we do not see any major new jurisdiction opportunities in the short term, but continue to focus on key states and provinces, educating them on the benefits of this product. We have achieved expected savings in corporate and public company overhead and will benefit from these lower costs throughout 2018.

Excluding our two recent acquisitions, our budgeted capital expenditures for 2018 are expected to be similar to the expenditures incurred in 2017. As well, we do not anticipate major capital expenditures to be required for Diamond Game or Gamco this upcoming year. We would anticipate strong operating cash flows available for investments in future acquisitions, growth in working capital, as required, and continued reductions in outstanding debt. On February 21, 2018, we raised approximately $38.2 million, before expenses, in new capital through a common share offering, the proceeds from which were used to pay down existing debt. This transaction ensures we have significant capital available to support our future growth plans.

Acquisitions are an important component of our strategy and we have recently been active in this area. We will continue to be disciplined in our search for additional acquisition opportunities, with our focus being organizations that can assist in our vision of being the partner of choice to the lottery and charitable gaming industry.

Disclosure Controls and Procedures

Under National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") regarding the design and effectiveness of the disclosure controls and procedures. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the disclosure controls and procedures as defined in National Instrument 52-109 are designed appropriately and are effective at providing reasonable assurance of achieving the disclosure objectives.

Internal Controls over Financial Reporting

Under National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Certifying Officers regarding the design and effectiveness of the internal controls over financial reporting. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) as the control framework in designing its internal controls over financial reporting. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the internal controls over financial reporting as defined in National Instrument 52-109 are designed appropriately and are effective at providing reasonable assurance of achieving the financial reporting objectives.

Pollard has limited its design of ICFR to exclude controls, policies and procedures of INNOVA, as it was acquired not more than 365 days before the end of the financial period to which this MD&A relates.

No changes were made in Pollard's internal control over financial reporting during the year ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

Additional Information

Shares of Pollard Banknote Limited are traded on the Toronto Stock Exchange under the symbol PBL.

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form for the year ended December 31, 2017, is available on SEDAR at www.sedar.com.

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