

Condensed Consolidated Interim Financial Statements of

# **POLLARD BANKNOTE LIMITED**

(unaudited)

Three months ended March 31, 2017

These condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent external auditors, KPMG LLP.

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

	<b>March 31, 2017</b>	December 31, 2016
<b>Assets</b>		
Current assets		
Cash	\$ 10,512	\$ 7,500
Restricted cash	2,772	3,203
Accounts receivable	26,861	38,585
Inventories (note 5)	30,768	27,232
Prepaid expenses and deposits	4,001	3,437
<b>Total current assets</b>	<b>74,914</b>	<b>79,957</b>
Non-current assets		
Property, plant and equipment	45,639	46,906
Equity investment (note 6)	587	468
Goodwill	37,448	37,513
Intangible assets	11,785	11,916
Deferred income taxes	552	-
<b>Total non-current assets</b>	<b>96,011</b>	<b>96,803</b>
<b>Total assets</b>	<b>\$ 170,925</b>	<b>\$ 176,760</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 27,330	\$ 25,864
Dividends payable	706	706
Income taxes payable	1,566	2,541
Current portion subordinated debt (note 8)	1,363	1,363
<b>Total current liabilities</b>	<b>30,965</b>	<b>30,474</b>
Non-current liabilities		
Long-term debt (note 7)	64,166	70,852
Subordinated debt (note 8)	4,428	4,769
Other non-current liabilities	132	395
Pension liability	13,438	13,524
Deferred income taxes	5,045	4,909
<b>Total non-current liabilities</b>	<b>87,209</b>	<b>94,449</b>
Shareholders' equity		
Share capital	73,209	73,209
Reserves	3,742	3,917
Deficit	(24,200)	(25,289)
<b>Total shareholders' equity</b>	<b>52,751</b>	<b>51,837</b>
Subsequent events (note 17)		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 170,925</b>	<b>\$ 176,760</b>

See accompanying notes to condensed consolidated interim financial statements.

**Pollard Banknote Limited**  
**Condensed Consolidated Statements of Income**  
*(In thousands of Canadian dollars, except for share amounts)*  
(unaudited)

	<b>Three months ended March 31, 2017</b>	Three months ended March 31, 2016
Sales	<b>\$ 57,420</b>	\$ 64,041
Cost of sales	<b>46,030</b>	52,639
Gross profit	<b>11,390</b>	11,402
Administration	<b>5,328</b>	5,343
Selling	<b>1,962</b>	1,925
Other (income) expense (note 9)	<b>344</b>	(35)
Income from operations	<b>3,756</b>	4,169
Finance costs (note 10)	<b>965</b>	975
Finance income (note 10)	<b>-</b>	(1,042)
Income before income taxes	<b>2,791</b>	4,236
Income taxes (note 11)	<b>1,004</b>	651
Net income	<b>\$ 1,787</b>	\$ 3,585
Net income per share (basic) (note 12)	<b>\$ 0.08</b>	\$ 0.15
Net income per share (diluted) (note 12)	<b>\$ 0.08</b>	\$ 0.15

See accompanying notes to condensed consolidated interim financial statements.

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

	<b>Three months ended March 31, 2017</b>	Three months ended March 31, 2016
Net income	<b>\$ 1,787</b>	\$ 3,585
Other comprehensive loss		
Items that are or may be reclassified to profit and loss		
Foreign currency translation differences – foreign operations	<b>(175)</b>	(1,081)
Other comprehensive loss	<b>(175)</b>	(1,081)
<b>Comprehensive income</b>	<b>\$ 1,612</b>	\$ 2,504

See accompanying notes to condensed consolidated interim financial statements.

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

**For the three months ended March 31, 2017**

	Attributable to equity holders of Pollard Banknote Limited				Total equity
	Share capital	Translation reserve	Deficit		
Balance at January 1, 2017	\$ 73,209	3,917	(25,289)		51,837
Net income	-	-	1,787		1,787
Other comprehensive loss					
Foreign currency translation differences – foreign operations	-	(175)	-		(175)
Total other comprehensive loss	\$ -	(175)	-		(175)
Total comprehensive income (loss)	\$ -	(175)	1,787		1,612
Share based compensation	\$ -	-	8		8
Dividends to owners of Pollard Banknote Limited (note 14)	-	-	(706)		(706)
Balance at March 31, 2017	\$ 73,209	3,742	(24,200)		52,751

**For the three months ended March 31, 2016**

	Attributable to equity holders of Pollard Banknote Limited				Total equity
	Share capital	Translation reserve	Deficit		
Balance at January 1, 2016	\$ 73,209	4,384	(34,016)		43,577
Net income	-	-	3,585		3,585
Other comprehensive loss					
Foreign currency translation differences – foreign operations	-	(1,081)	-		(1,081)
Total other comprehensive loss	\$ -	(1,081)	-		(1,081)
Total comprehensive income (loss)	\$ -	(1,081)	3,585		2,504
Share based compensation	\$ -	-	5		5
Dividends to owners of Pollard Banknote Limited (note 14)	-	-	(706)		(706)
Balance at March 31, 2016	\$ 73,209	3,303	(31,132)		45,380

See accompanying notes to condensed consolidated interim financial statements.

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

	<b>Three months ended March 31, 2017</b>	Three months ended March 31, 2016
Cash increase (decrease)		
Operating activities:		
Net income	\$ 1,787	\$ 3,585
Adjustments		
Income taxes	1,004	651
Amortization and depreciation	2,585	2,752
Interest expense	743	887
Unrealized foreign exchange gain	(163)	(1,123)
Loss on equity investment (note 6)	348	93
Pension expense	1,200	1,129
Interest paid	(724)	(850)
Income tax paid	(2,283)	(1,008)
Pension contribution	(1,251)	(803)
Change in non-cash operating working capital (note 13)	9,196	(5,053)
	<b>12,442</b>	260
Investing activities		
Additions to property, plant and equipment	(781)	(1,141)
Equity investments (note 6)	(460)	(389)
Additions to intangible assets	(235)	(289)
	<b>(1,476)</b>	(1,819)
Financing activities		
Net proceeds from (repayments of) long-term debt	(6,507)	1,228
Repayments of subordinated debt	(341)	-
Change in other non-current liabilities	(258)	(223)
Deferred financing charges paid	(56)	-
Dividends paid	(706)	(706)
	<b>(7,868)</b>	299
Foreign exchange loss on cash held in foreign currency	(86)	(468)
Change in cash position	<b>3,012</b>	(1,728)
Cash position, beginning of period	<b>7,500</b>	7,587
Cash position, end of period	<b>\$ 10,512</b>	\$ 5,859

See accompanying notes to condensed consolidated interim financial statements.

**Pollard Banknote Limited**  
**Notes to Condensed Consolidated Interim Financial Statements**  
*(In thousands of Canadian dollars, except for share amounts)*  
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**1. Reporting entity:**

Pollard Banknote Limited ("Pollard") was incorporated under the laws of Canada on March 26, 2010. The address of Pollard's registered office is 140 Otter Street, Winnipeg, Manitoba, Canada, R3T 0M8.

The condensed consolidated interim financial statements of Pollard as at and for the three months ended March 31, 2017, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and gaming products.

The controlling entity of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owns approximately 73.5% of Pollard's outstanding shares.

Pollard's consolidated financial statements as at and for the year ended December 31, 2016, are available at [www.sedar.com](http://www.sedar.com).

The overall impact of seasonality does not have a significant impact on the operations of Pollard.

**2. Basis of preparation:**

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* and do not include all of the information required for full annual consolidated financial statements.

On May 10, 2017, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Use of estimates and judgments:

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying Pollard's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2016.

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

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#### 3. Significant accounting policies:

Except for the accounting policies described below, these condensed consolidated interim financial statements follow the same significant accounting policies as described and used in Pollard's consolidated financial statements for the year ended December 31, 2016 and should be read in conjunction with these statements. The following amendments were implemented in the first quarter of 2017 and had no impact on the condensed consolidated interim financial statements.

The amendments to IAS 7 *Statement of Cash Flows* were issued to improve information provided to users of financial statements about an entity's changes in liabilities arising from financing activities.

The amendments to IAS 12 *Income Taxes* were in reference to the recognition of deferred tax assets for unrealized losses relating to debt instruments measured at fair value.

#### 4. Future accounting standards:

In July 2014, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standards ("IFRS") 9 *Financial Instruments*, which replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is required for fiscal years beginning on or after January 1, 2018. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard specifies the steps and timing for recognizing revenue, as well as requiring more informative, relevant disclosures. IFRS 15 supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue*. IFRS 15 is required for fiscal years beginning on or after January 1, 2018 with early adoption available. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

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



## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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#### 4. Future accounting standards (continued):

In January 2016, the IASB issued IFRS 16 *Leases* which replaces IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In June 2016, the IASB issued amendments to IAS 2 *Share-Based Payments*. The amendments clarify how to account for certain types of share-based payment transactions. These amendments are effective for annual periods beginning on or after January 1, 2018. Retrospective or earlier application is permitted under certain conditions. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

In December 2016, the IASB issued IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*. The interpretation clarifies the date of the transaction for the purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after January 1, 2018. Retrospective or earlier application is permitted under certain conditions. Pollard is currently assessing the impact of the interpretation on its consolidated financial statements.

#### 5. Inventories:

	<b>March 31, 2017</b>	December 31, 2016
Raw materials	\$ 10,889	\$ 11,246
Work-in-process	1,076	784
Finished goods	18,803	15,202
	<b>\$ 30,768</b>	<b>\$ 27,232</b>

During the first quarter of 2017, Pollard recorded inventory write-downs of \$108 representing an increase in obsolescence reserves, and write-downs of \$48 due to changes in foreign exchange rates.

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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#### 5. Inventories (continued):

During the first quarter of 2016, Pollard recorded inventory write-downs of \$166 representing an increase in obsolescence reserves, and write-downs of \$76 due to changes in foreign exchange rates.

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

#### 6. Equity investment:

	Three months ended March 31, 2017		Three months ended March 31, 2016
Balance – beginning of period	\$ 468	\$	401
Investment	460		389
Equity loss	(348)		(93)
Effects of movements in exchange rates	7		31
Balance – end of period	\$ 587	\$	728

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

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

#### 7. Long-term debt:

	March 31, 2017		December 31, 2016
Credit facility, interest of 3.3% to 3.7%, payable monthly, maturing June 2018	\$ 64,322	\$	71,003
Deferred financing charges, net of amortization	(156)		(151)
	\$ 64,166	\$	70,852

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

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

#### 7. Long-term debt (continued):

Effective June 24, 2016, Pollard Banknote Limited renewed its credit facility. The credit facility provides loans of up to \$75,000 for its Canadian operations (denominated in Canadian or U.S. dollars) and US\$12,000 for its U.S. subsidiaries. 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 March 31, 2017, the outstanding letters of guarantee drawn under the credit facility were \$1,265 (December 2016 - \$1,205).

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including working capital ratios, debt to income before interest, income taxes, amortization and depreciation ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at March 31, 2017, Pollard is in compliance with all financial covenants.

As of March 31, 2017, Pollard has unused credit facility available of \$25,373 (December 2016 - \$18,908).

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. The facility can be prepaid without penalties. Under the terms of the agreement the facility was committed for a two year period, renewable June 24, 2018.

#### 8. Subordinated debt:

	March 31, 2017	December 31, 2016
Subordinated debt, interest of 9.00% payable quarterly, maturing 2021	\$ 5,791	\$ 6,132
Less current portion	(1,363)	(1,363)
	<b>\$ 4,428</b>	<b>\$ 4,769</b>

On April 2, 2014, Pollard entered into a loan agreement with Equities for a subordinated term loan facility with a seven year term in the amount of \$6,813 to assist in the purchase of a printing press.

Quarterly principal payments on the subordinated loan facility commenced the quarter following June 30, 2016. Interest on the subordinated debt commenced with the first draw at a rate of 9%. The loan is fully subordinated to the secured credit facility.

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

#### 9. Other (income) expense:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Loss on equity investment	\$ 348	\$ 93
Other income	(4)	(128)
	\$ 344	\$ (35)

#### 10. Finance costs and finance income:

	Three months ended March 31, 2017	Three months ended March 31, 2016
<b>Finance costs</b>		
Interest	\$ 743	\$ 887
Foreign exchange loss	171	-
Amortization of deferred financing costs	51	88
	\$ 965	\$ 975

	Three months ended March 31, 2017	Three months ended March 31, 2016
<b>Finance income</b>		
Foreign exchange gain	\$ -	\$ 1,042
	\$ -	\$ 1,042

#### 11. Income taxes:

	Three months ended March 31, 2017	Three months ended March 31, 2016
<b>Income tax expense</b>		
Current income tax	\$ 1,351	\$ 1,089
Deferred income tax (reduction)	(347)	(438)
	\$ 1,004	\$ 651

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

#### 11. Income taxes (continued):

<b>Reconciliation of effective tax rate</b>	<b>Three months ended March 31, 2017</b>	<b>Three months ended March 31, 2016</b>
Net income for the period	\$ 1,787	\$ 3,585
Total income taxes	1,004	651
Income before income taxes	\$ 2,791	\$ 4,236
Income tax using Pollard's domestic tax rate	27.0% \$ 754	26.8% \$ 1,135
Changes in expected tax rates and other non-deductible amounts	6.0% 168	3.0% 125
Effect of non-taxable items related to foreign exchange	3.0% 82	(14.4%) (609)
	<b>36.0% \$ 1,004</b>	15.4% \$ 651

#### 12. Net income per share:

	<b>Three months ended March 31, 2017</b>	<b>Three months ended March 31, 2016</b>
Net income attributable to shareholders for basic and diluted net income per share	\$ 1,787	\$ 3,585
Weighted average number of shares (basic)	23,543,158	23,543,158
Weighted average impact of share options on issue	125,000	100,000
Weighted average number of shares (diluted)	23,668,158	23,643,158
Net income per share (basic)	\$ 0.08	\$ 0.15
Net income per share (diluted)	\$ 0.08	\$ 0.15

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

#### 13. Supplementary cash flow information:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Change in non-cash operating working capital:		
Accounts receivable	\$ 11,667	\$ (12,470)
Inventories	(3,608)	964
Prepaid expenses and deposits	(687)	95
Income taxes payable	(60)	(60)
Accounts payable and accrued liabilities	1,884	6,418
	\$ 9,196	\$ (5,053)

#### 14. Dividends:

Dividends are paid on the common shares within 15 days of the end of each quarter and are fully discretionary, as determined by the Board of Directors of Pollard.

On March 13, 2017, a dividend of \$0.03 per share was declared, payable on April 13, 2017, to the shareholders of record on March 31, 2017.

#### 15. Related party transactions:

##### *Pollard Equities Limited and affiliates*

During the quarter ended March 31, 2017, Pollard paid property rent of \$795 (2016 - \$783) and \$90 (2016 - \$57) in plane charter costs to affiliates of Equities. In addition, during the quarter, Pollard paid Equities \$129 (2016 - \$153) of interest on Pollard's subordinated debt.

During the quarter, Equities paid Pollard \$18 (2016 - \$18) for accounting and administration fees.

At March 31, 2017, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, interest and other expenses of \$519 (December 31, 2016 - \$907).

##### *Neogames S.à r.l. and affiliates*

During the quarter, Pollard reimbursed operating costs and paid software royalties of \$657 (2016 - \$313) to its iLottery joint venture partner, which are recorded in cost of sales and \$nil (2016 - \$353) of development costs which were capitalized.

At March 31, 2017, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery joint venture partner of \$602 (December 31, 2016 - \$789) for reimbursement of operating costs and capital expenditures, and its share of operating results.

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

#### 15. Related party transactions (continued):

##### *Key management personnel*

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors and the Executive Committee are considered key management personnel.

Key management personnel compensation comprised of:

	<b>Three months ended March 31, 2017</b>		Three months ended March 31, 2016
Wages, salaries and benefits	\$ 637	\$	526
Profit share	2		4
Expenses related to defined benefit plans	126		118
	<b>\$ 765</b>	<b>\$</b>	<b>648</b>

At March 31, 2017, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,431,658 common shares of Pollard.

#### 16. Financial risk management:

Pollard has exposure to the following risks from its use of financial instruments:

Credit risk  
Liquidity risk  
Currency risk  
Interest rate risk

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Audit Committee oversees how management monitors compliance with Pollard's risk management policies and procedures. The Audit Committee is assisted in its oversight role by Internal Audit, who undertakes regular reviews of risk management controls and utilizes the annual risk assessment process as the basis for the annual internal audit plan.

## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

#### 16. Financial risk management (continued):

##### *Credit risk*

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

	<b>March 31, 2017</b>	December 31, 2016
Current	\$ 25,039	\$ 36,670
Past due for 1 to 60 days	1,074	1,530
Past due for more than 60 days	831	449
Less: Allowance for doubtful accounts	(83)	(64)
	<b>\$ 26,861</b>	<b>\$ 38,585</b>

##### *Liquidity risk*

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In addition, Pollard maintains a committed credit facility including up to \$75,000 for its Canadian operations and up to US\$12,000 for its U.S. subsidiaries. At March 31, 2017, the unused balance available for drawdown was \$25,373 (December 31, 2016 - \$18,908).

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

##### *Currency risk*

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

A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and U.S. dollar would decrease/increase the income before income taxes due to changes in operating cashflow by approximately \$44 for the three months ended March 31, 2017 (2016 - \$7). 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 \$16 for three months ended March 31, 2017 (2016 - \$12).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At March 31, 2017, the amount of



## Pollard Banknote Limited

### Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

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#### 16. Financial risk management (continued):

financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately \$5,887 (December 31, 2016 - \$1,552). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in income before income taxes of approximately \$29 for the three months ended March 31, 2017 (2016 - \$10).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Two manufacturing facilities are located in the U.S. and a significant amount of cost inputs for all production facilities are denominated in U.S. dollars, offsetting a large portion of the U.S. dollar revenue in a natural hedge.

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At March 31, 2017, Pollard had no outstanding foreign currency contracts.

##### *Interest rate risk*

Pollard is exposed to interest rate risk relating to its fixed and floating rate instruments. Fluctuation in interest rates will have an effect on the valuation and repayment of these instruments.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately \$80 for the three months ended March 31, 2017 (2016 - \$92).

#### 17. Subsequent events:

##### *Share based compensation*

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.

##### *Offer to purchase INNOVA Gaming Group Inc.*

On April 17, 2017, Pollard announced that a wholly-owned subsidiary has formally commenced an offer (the "Offer") to acquire all of the issued and outstanding common shares ("Shares") of INNOVA Gaming Group Inc. ("INNOVA") for cash consideration of \$2.10 per Share. The Offer will be open for acceptance until August 3, 2017, being 105 days following the formal filing of our offer to purchase, unless the Offer is extended or withdrawn. INNOVA has the ability to shorten the deposit period to 35 days to allow shareholders to sell their common shares under the Offer without delay.

The Offer is subject to customary conditions, including, among other things: (i) there having been validly deposited under the Offer and not withdrawn that number of Shares representing more than 50% of the outstanding Shares, excluding those Shares beneficially owned, or over which control or

## **Pollard Banknote Limited**

### **Notes to Condensed Consolidated Interim Financial Statements (continued)**

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

(unaudited)

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#### **17. Subsequent events (continued):**

direction is exercised, by Pollard or by any person acting jointly or in concert with Pollard, which is a non-waivable condition, (ii) Pollard having determined, in its sole judgment, that there does not exist and there shall not have occurred or been publicly disclosed since the date of the Offer, a material adverse effect in respect of INNOVA, and (iii) certain regulatory approvals having been obtained and/or waiting periods expired. The Offer is not subject to any due diligence or financing condition. Full details of the Offer are included in the formal offer and take-over bid circular that has been filed with securities regulatory authorities. The Offer documents are available under INNOVA's profile at [www.sedar.com](http://www.sedar.com).

In addition to cash resources and unused credit facility available for drawdown, Equities has committed to provide an additional subordinated term loan should it be required to assist in the financing of this acquisition.