

Condensed Consolidated Interim Financial Statements of

POLLARD BANKNOTE LIMITED

(unaudited)

Three months ended March 31, 2018

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

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

	March 31, 2018	December 31, 2017*
Assets		
Current assets		
Cash	\$ 7,664	\$ 5,603
Restricted cash	6,446	5,780
Accounts receivable	38,817	40,749
Inventories (note 6)	33,339	32,008
Prepaid expenses and deposits	5,600	6,331
Total current assets	91,866	90,471
Non-current assets		
Property, plant and equipment	62,023	54,319
Equity investment (note 7)	843	877
Goodwill	57,938	51,768
Intangible assets	34,262	27,746
Deferred income taxes	2,910	3,093
Total non-current assets	157,976	137,803
Total assets	\$ 249,842	\$ 228,274
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 39,460	\$ 36,766
Dividends payable	768	706
Income taxes payable	5,039	3,373
Contract liabilities (note 12)	508	702
Current portion long-term debt (note 8)	589	784
Current portion subordinated debt (note 9)	3,585	3,585
Total current liabilities	49,949	45,916
Non-current liabilities		
Long-term debt (note 8)	67,426	83,771
Subordinated debt (note 9)	4,782	13,149
Contract liabilities (note 12)	723	789
Other non-current liabilities	581	753
Pension liability (note 10)	22,255	22,959
Deferred income taxes	3,374	3,368
Total non-current liabilities	99,141	124,789
Shareholders' equity		
Share capital (note 11)	108,560	73,209
Reserves	5,680	2,965
Deficit	(13,488)	(18,605)
Total shareholders' equity	100,752	57,569
Total liabilities and shareholders' equity	\$ 249,842	\$ 228,274

* Pollard has initially applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* at January 1, 2018. Under the transition methods chosen, comparative information has not been restated. See note 3.

See accompanying notes to condensed consolidated interim financial statements.

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

	Three months ended March 31, 2018	Three months ended March 31, 2017*
Sales	\$ 80,344	\$ 57,420
Cost of sales	60,980	46,030
Gross profit	19,364	11,390
Administration	8,024	5,328
Selling	2,762	1,962
Other (income) expense (note 13)	(4)	344
Income from operations	8,582	3,756
Finance costs (note 14)	2,345	965
Income before income taxes	6,237	2,791
Income taxes (note 15)	1,698	1,004
Net income	\$ 4,539	\$ 1,787
Net income per share (basic) (note 16)	\$ 0.18	\$ 0.08
Net income per share (diluted) (note 16)	\$ 0.18	\$ 0.08

* Pollard has initially applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* at January 1, 2018. Under the transition methods chosen, comparative information has not been restated. See note 3.

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

	Three months ended March 31, 2018	Three months ended March 31, 2017*
Net income	\$ 4,539	\$ 1,787
Other comprehensive income (loss)		
Items that are or may be reclassified to profit and loss		
Foreign currency translation differences – foreign operations	2,715	(175)
Items that will never be reclassified to profit and loss		
Defined benefit plans remeasurements, net of income tax of \$331 (note 10)	974	-
Other comprehensive income (loss)	3,689	(175)
Comprehensive income	\$ 8,228	\$ 1,612

* Pollard has initially applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* at January 1, 2018. Under the transition methods chosen, comparative information has not been restated. See note 3.

See accompanying notes to condensed consolidated interim financial statements.

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

For the three months ended March 31, 2018

	Attributable to equity holders of Pollard Banknote Limited			
	Share capital	Translation reserve	Deficit	Total equity
Balance at December 31, 2017	\$ 73,209	2,965	(18,605)	57,569
Adjustment on initial application of IFRS 15, net of income tax of \$123 (note 3)	-	-	332	332
Adjusted balance at January 1, 2018	\$ 73,209	2,965	(18,273)	57,901
Net income	-	-	4,539	4,539
Other comprehensive income				
Foreign currency translation differences – foreign operations	-	2,715	-	2,715
Defined benefit plans remeasurements, net of income tax of \$331 (note 10)	-	-	974	974
Total other comprehensive income	\$ -	2,715	974	3,689
Total comprehensive income	\$ -	2,715	5,513	8,228
Issue of common shares (note 11)	\$ 35,351	-	-	35,351
Share based compensation	-	-	40	40
Dividends (note 11)	-	-	(768)	(768)
Balance at March 31, 2018	\$ 108,560	5,680	(13,488)	100,752

For the three months ended March 31, 2017*

	Attributable to equity holders of Pollard Banknote Limited			
	Share capital	Translation reserve	Deficit	Total equity
Balance at January 1, 2017	\$ 73,209	3,917	(25,289)	51,837
Net income	-	-	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	-	-	(706)	(706)
Balance at March 31, 2017*	\$ 73,209	3,742	(24,200)	52,751

* Pollard has initially applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* at January 1, 2018. Under the transition methods chosen, comparative information has not been restated. See note 3.

See accompanying notes to condensed consolidated interim financial statements.

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

	Three months ended March 31, 2018	Three months ended March 31, 2017*
Cash increase (decrease)		
Operating activities:		
Net income	\$ 4,539	\$ 1,787
Adjustments		
Income taxes	1,698	1,004
Amortization and depreciation	4,053	2,534
Interest expense	1,167	794
Unrealized foreign exchange (gain) loss	976	(163)
Loss on equity investment (note 7)	538	348
Pension expense	1,608	1,200
Contract liabilities	(85)	-
Interest paid	(1,153)	(724)
Income tax paid	(1,618)	(2,283)
Pension contribution	(1,104)	(1,251)
Change in non-cash operating working capital (note 17)	9,526	9,196
	20,145	12,442
Investing activities		
Additions to property, plant and equipment	(2,956)	(781)
Acquisition of International Gamco, Inc. (note 5)	(21,558)	-
Equity investments (note 7)	(482)	(460)
Additions to intangible assets	(1,647)	(235)
	(26,643)	(1,476)
Financing activities		
Proceeds from issue of share capital (note 11)	35,351	-
Net repayments of long-term debt	(17,335)	(6,507)
Repayments of subordinated debt	(8,367)	(341)
Change in other non-current liabilities	(186)	(258)
Deferred financing charges paid	-	(56)
Dividends paid	(706)	(706)
	8,757	(7,868)
Foreign exchange loss on cash held in foreign currency	(198)	(86)
Change in cash position	2,061	3,012
Cash position, beginning of period	5,603	7,500
Cash position, end of period	\$ 7,664	\$ 10,512

* Pollard has initially applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* at January 1, 2018. Under the transition methods chosen, comparative information has not been restated. See note 3.

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements

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

(unaudited)

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, 2018, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and gaming products.

The controlling entity of Pollard is Pollard Equities Limited ("Equities"), a privately held company. On February 1, 2018, Pollard completed a share offering, (note 11), which reduced Equities ownership to approximately 67.6% of Pollard's increased outstanding share amount.

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

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

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

2. Basis of preparation:

(a) Statement of compliance:

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

On May 9, 2018, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Use of estimates and judgments:

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

In preparing these condensed consolidated interim financial statements, the significant 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, 2017.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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

International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 22 *Foreign Currency Transactions and Advance Consideration* clarifies the date of the transaction for the purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. This interpretation had no material impact on the condensed consolidated interim financial statements.

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

International Financial Reporting Standard ("IFRS") 9 Financial Instruments

IFRS 9 *Financial Instruments*, replaced the previous guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements.

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

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

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

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

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Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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3. Significant accounting policies (continued):

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

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* specifies the steps and timing for recognizing revenue, as well as requiring more informative, relevant disclosures. IFRS 15 supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue*. Pollard has initially adopted the new standard effective January 1, 2018. Pollard has applied IFRS 15 using the cumulative effect method (without practical expedients) and therefore the comparative information has not been restated and continues to be reported under IAS 11 and IAS 18.

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

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

For the three months ended March 31, 2018, Pollard's revenue decreased by \$490 and cost of sales decreased by \$350 as a result of the adoption of IFRS 15. See note 12 for Pollard's updated accounting policies resulting from the adoption of IFRS 15.

4. Future accounting standards:

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16 *Leases* which replaces IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, 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.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

4. Future accounting standards (continued):

Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

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

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

In February 2018, the IASB issued amendments to IAS 19 *Employee Benefits*. The amendments were issued to specify how an entity determines pension expenses when changes to a defined benefit plan occur. When a change to a plan takes place, including an amendment, curtailment or settlement, IAS 19 requires an entity to remeasure its employee benefit plan liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and the net finance cost for the remainder of the reporting period after the change to the plan. The amendments are for annual and interim reporting periods beginning on or after January 1, 2019 and is to be applied prospectively. Pollard is currently assessing the impact of these amendments on its consolidated financial statements.

5. Acquisitions:

INNOVA Gaming Group Inc.

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

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

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

5. Acquisitions (continued):

to the provisions of Section 206 of the Canada Business Corporations Act to complete the acquisition of 100% of the common shares. On September 18, 2017, the Compulsory Acquisition was completed and the Offeror acquired the remaining 976,932 common shares not already held by the Offeror, thereby becoming the holder of 100% of the common shares. On September 19, 2017, INNOVA was formally delisted from the Toronto Stock Exchange. The acquisition was completed for aggregate consideration of \$50,185.

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

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

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

International Gamco, Inc.

On February 1, 2018, Pollard Holdings Inc., a wholly-owned subsidiary of Pollard, acquired 100% of the common shares of International Gamco, Inc. ("Gamco"). The purchase price was funded by proceeds from Pollard's credit facility and cash on hand. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities have been based on

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

5. Acquisitions (continued):

management's best estimates and valuation techniques as at February 1, 2018, the acquisition date. As per the sales agreement, the net purchase price was decreased by the amount of other current liabilities assumed, which were specified in the agreement. The majority of these other current liabilities were paid in March 2018.

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

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

Acquisition costs related to the Gamco purchase in the three months ended March 31, 2018, were \$120. These costs were included in administration expenses.

During the period between the February 1, 2018 and March 31, 2018, Gamco generated revenues of approximately \$4,654 and net income of \$184, which have been recorded in the consolidated financial statements. If Gamco had been acquired on January 1, 2018, incremental revenue of \$2,217 and net loss of \$4,755 (which includes \$5,541 of transaction related expenditures) would have been included in the three months ended March 31, 2018.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

6. Inventories:

	March 31, 2018	December 31, 2017
Raw materials	\$ 12,103	\$ 11,755
Work-in-process	1,703	930
Finished goods	19,533	19,323
	\$ 33,339	\$ 32,008

During the first quarter of 2018, Pollard recorded inventory write-downs of \$136 representing an increase in obsolescence reserves, and a reversal of previous write-downs of \$26 due to changes in foreign exchange rates.

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.

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

7. Equity investment:

	Three months ended March 31, 2018	Three months ended March 31, 2017
Balance – beginning of period	\$ 877	\$ 468
Investment	482	460
Equity loss	(538)	(348)
Effects of movements in exchange rates	22	7
Balance – end of period	\$ 843	\$ 587

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.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

8. Long-term debt:

	March 31, 2018	December 31, 2017
Credit facility, interest of 3.5% to 4.6%, payable monthly, maturing 2019	\$ 67,606	\$ 83,972
Equipment debt, interest of 6.72%, payable monthly, maturing 2019	102	189
Equipment lease, interest of 3.89% to 5.55% payable monthly, maturing 2019	488	647
Deferred financing charges, net of amortization	(181)	(253)
	68,015	84,555
Less current portion	(589)	(784)
	\$ 67,426	\$ 83,771

Credit facility

Effective June 22, 2017, Pollard renewed its credit facility. The credit facility provides loans of up to \$105,000 for its Canadian operations and US\$12,000 for its U.S. subsidiaries. The credit facility also includes an accordion feature which can increase the facility by \$15,000. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of \$105,000 Canadian equivalent. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At March 31, 2018, the outstanding letters of guarantee drawn under the credit facility were \$2,168 (December 2017 - \$1,909).

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

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

As of March 31, 2018, Pollard had unused credit facility available of \$50,706 (December 2017 - \$34,202).

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

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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8. Long-term debt (continued):

Equipment debt and leasing

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

9. Subordinated debt:

	March 31, 2018	December 31, 2017
Subordinated debt, interest of 8.00% payable quarterly, maturing 2024	\$ 8,367	\$ 16,734
Less current portion	(3,585)	(3,585)
	\$ 4,782	\$ 13,149

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

In addition to the mandatory quarterly payments, Pollard has made two lump sum prepayments. On September 20, 2017, Pollard repaid \$7,462 in outstanding principal and on February 23, 2018, Pollard repaid an additional \$7,471 in outstanding principal.

The loans are fully subordinated to the secured credit facility.

10. Pension liability:

During the quarter ended March 31, 2018, Pollard recorded an actuarial gain of \$974 (net of \$331 of income tax) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate, which was partially offset by a remeasurement loss arising on plan assets.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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11. Share capital:

Issue of common shares

On February 1, 2018, Pollard announced that it had entered into an agreement with a syndicate of underwriters led by Canaccord Genuity Corp. (together, the "Underwriters") to purchase on a bought deal basis 1,800,000 common shares of Pollard at a price of \$18.45 per share. Pollard also granted the Underwriters an over-allotment option exercisable at any time up to 30 days following the closing of the offering, to purchase up to an additional 270,000 common shares.

On February 21, 2018, Pollard issued 2,070,000 common shares. The proceeds, net of commissions and offering expenses, was \$35,351. At March 31, 2018, the total number of common shares issued was 25,613,158.

Dividends

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

On March 12, 2018, a dividend of \$0.03 per share was declared, payable on April 13, 2018, to the shareholders of record on March 31, 2018.

12. Revenue:

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

Accounting policies

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

Revenue is recognized when control of the product or service is transferred to the customer. Volume rebates are accrued and recorded as a reduction to revenues based on historical experience and management's expectations regarding sales volume. For printed products sold to the lottery and charitable markets, control transfers to the customer when the products are delivered to the customer and invoicing occurs at this time. Under certain lottery contracts, Pollard is compensated for its products based on its customers' sales of those products at retail. Pollard has concluded that control transfers to its customers at delivery of the product to the customer and therefore recognizes revenue at that point in time.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

12. Revenue (continued):

Contracts relating to lump-sum licensed properties and licensed merchandise sales, iLottery services and digital products have a single performance obligation and therefore revenues are recognized at a point in time when products or services are provided. Under contracts where Pollard receives royalty payments for licensed properties revenues are recognized over time as the related product is sold at retail. Loyalty programs, digital maintenance fees and lottery management services, revenues are also recognized over time as the products or services are provided.

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

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

Disaggregation of revenue

Geographical segment	Three months ended March 31, 2018		
	Instant ticket	Diamond Game	Total
Canada	\$ 17,982	\$ 2,836	\$ 20,818
United States	40,390	3,470	43,860
International	15,666	-	15,666
Total	\$ 74,038	\$ 6,306	\$ 80,344

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

12. Revenue (continued):

Geographical segment	Three months ended March 31, 2017		
	Instant ticket	Diamond Game	Total
Canada	\$ 13,081	\$ -	\$ 13,081
United States	31,907	-	31,907
International	12,432	-	12,432
Total	\$ 57,420	\$ -	\$ 57,420

Product lines	Three months ended March 31, 2018		
	Instant ticket	Diamond Game	Total
Lottery	\$ 62,718	\$ -	\$ 62,718
Charitable	11,320	-	11,320
Gaming systems	-	6,306	6,306
Total	\$ 74,038	\$ 6,306	\$ 80,344

Product lines	Three months ended March 31, 2017		
	Instant ticket	Diamond Game	Total
Lottery	\$ 49,818	\$ -	\$ 49,818
Charitable	7,602	-	7,602
Gaming systems	-	-	-
Total	\$ 57,420	\$ -	\$ 57,420

Contract balances	March 31, 2018	December 31, 2017
Trade receivables, which are included in 'Accounts receivables'	\$ 33,325	\$ 36,263
Contract assets, which are included in 'Accounts receivables' (1)	2,876	3,260
Contract liabilities (2)	1,231	1,491

(1) Pollard recognized contract assets upon adoption IFRS 15 as an adjustment to the opening balance at January 1, 2018.

(2) Contract liabilities were previously classified as deferred revenue.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

12. Revenue (continued):

	Three months ended March 31, 2018
Changes in contract liabilities	
Balance – beginning of period	\$ 1,491
Revenue recognized during the period	(260)
Balance – end of period	\$ 1,231

13. Other (income) expense:

	Three months ended March 31, 2018	Three months ended March 31, 2017
Loss on equity investment (note 7)	\$ 538	\$ 348
EBITDA support agreement	(515)	-
Other income	(27)	(4)
	\$ (4)	\$ 344

EBITDA support agreement

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

14. Finance costs:

	Three months ended March 31, 2018	Three months ended March 31, 2017
Finance costs		
Interest	\$ 1,167	\$ 794
Foreign exchange loss	1,178	171
	\$ 2,345	\$ 965

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

15. Income taxes:

Income tax expense	Three months ended March 31, 2018	Three months ended March 31, 2017
Current income tax	\$ 3,117	\$ 1,351
Deferred income tax (reduction)	(1,419)	(347)
	\$ 1,698	\$ 1,004

Reconciliation of effective tax rate	Three months ended March 31, 2018	Three months ended March 31, 2017
Net income for the period	\$ 4,539	\$ 1,787
Total income taxes	1,698	1,004
Income before income taxes	\$ 6,237	\$ 2,791
Income tax using Pollard's domestic tax rate	27.0% \$ 1,684	27.0% \$ 754
Effect of tax rates in foreign jurisdictions	(1.1%) (66)	8.4% 235
Non-deductible amounts	- -	6.0% 168
Effect of non-taxable items related to foreign exchange	1.3% 80	(5.4%) (153)
	27.2% \$ 1,698	36.0% \$ 1,004

16. Net income per share:

	Three months ended March 31, 2018	Three months ended March 31, 2017
Net income attributable to shareholders for basic and diluted net income per share	\$ 4,539	\$ 1,787
Weighted average number of shares (basic)	24,900,158	23,543,158
Weighted average impact of share options on issue	250,000	125,000
Weighted average number of shares (diluted)	25,150,158	23,668,158
Net income per share (basic)	\$ 0.18	\$ 0.08
Net income per share (diluted)	\$ 0.18	\$ 0.08

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

16. Net income per share (continued):

Pollard issued 2,070,000 common shares on February 1, 2018, which added 1,357,000 shares to the calculation of the weighted average number of share (basic) for the three months ended March 31, 2018.

17. Supplementary cash flow information:

	Three months ended March 31, 2018	Three months ended March 31, 2017
Change in non-cash operating working capital:		
Accounts receivable	\$ 7,937	\$ 11,667
Inventories	810	(3,608)
Prepaid expenses and deposits	1,004	(687)
Income taxes payable	(60)	(60)
Accounts payable and accrued liabilities	42	1,884
Contract liabilities	(207)	-
	\$ 9,526	\$ 9,196

18. Related party transactions:

Pollard Equities Limited and affiliates

During the quarter ended March 31, 2018, Pollard paid property rent of \$793 (2017 - \$795) and \$95 (2017 - \$90) in plane charter costs to affiliates of Equities. In addition, during the quarter, Pollard paid Equities \$263 (2017 - \$129) of interest on Pollard's subordinated debt.

During the quarter, Equities paid Pollard \$18 (2017 - \$18) for accounting and administration fees.

At March 31, 2018, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, interest, expenses and other items of \$35 (December 31, 2017 - \$1,900).

Neogames S.à r.l. and affiliates

During the quarter, Pollard reimbursed operating costs and paid software royalties of \$795 (2017 - \$657) to its iLottery joint venture partner, which are recorded in cost of sales.

At March 31, 2018, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery joint venture partner of \$1,003 (December 31, 2017 - \$698) 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)

18. Related party transactions (continued):

Key management personnel

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

Key management personnel compensation comprised of:

	Three months ended March 31, 2018	Three months ended March 31, 2017
Wages, salaries and benefits	\$ 687	\$ 637
Profit share	5	2
Expenses related to defined benefit plans	153	126
	\$ 845	\$ 765

At March 31, 2018, the Directors and Named Executive Officers of Pollard, as a group, beneficially owned or exercised control or direction over 17,439,058 common shares of Pollard.

19. Segmented information:

Pollard has two reportable segments: Instant ticket and Diamond Game, which are Pollard's strategic business units. The strategic business units offer different products and services, and are managed separately. For each of the strategic business units, Pollard's Co-CEO's review internal management reports on a monthly basis. The Diamond Game segment was acquired August 3, 2017, therefore in the three months ended March 31, 2017, Pollard had only one segment.

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

There was no inter-segment revenue.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

19. Segmented information (continued):

Segment information about profits and assets is as follows:

	Three months ended March 31, 2018		
	Instant ticket	Diamond Game	Total
Revenues from external customers	\$ 74,038	\$ 6,306	\$ 80,344
Operating costs and expenses	68,182	5,925	74,107
Earnings before income taxes	5,856	381	6,237
Total assets	193,216	56,626	249,842

20. Financial instruments:

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

Financial assets and liabilities

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

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

- 1) is held within a business model whose objective is to hold assets to collect contractual cash flows;
and
- 2) the contractual terms give rise on specified dates to cash flows that are solely payments on principal and interest on the principal amount outstanding.

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

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

20. Financial instruments (continued):

Impairment of financial assets

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

Hedge accounting

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

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

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

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

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

21. Financial risk management:

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

Credit risk
Liquidity risk
Currency risk
Interest rate risk

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

Credit risk

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

	March 31, 2018	December 31, 2017
Current	\$ 35,758	\$ 37,786
Past due for 1 to 60 days	2,127	2,635
Past due for more than 60 days	1,014	366
Less: Allowance for doubtful accounts	(82)	(38)
	\$ 38,817	\$ 40,749

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In addition, Pollard maintains a committed credit facility including up to \$105,000 for its Canadian operations and up to US\$12,000 for its U.S. subsidiaries. At March 31, 2018, the unused balance available for drawdown was \$50,706 (December 31, 2017 - \$34,202).

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

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

(unaudited)

21. Financial risk management (continued):

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 \$7 for the three months ended March 31, 2018 (2017 - \$44). 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 \$18 for three months ended March 31, 2018 (2017 - \$16).

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, 2018, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately \$19,994 (December 31, 2017 - \$1,305). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in income before income taxes of approximately \$100 for the three months ended March 31, 2018 (2017 - \$29).

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

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At March 31, 2018, 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 \$85 for the three months ended March 31, 2018 (2017 - \$80).