

# **POLLARD** **banknote** limited

*March 31, 2020*

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

**FOR THE THREE MONTHS ENDED MARCH 31, 2020**

May 6, 2020

*This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three months ended March 31, 2020, is prepared as at May 6, 2020, and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Pollard and the notes therein as at March 31, 2020, and the audited consolidated financial statements of Pollard for the year ended December 31, 2019, and the notes therein. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP").*

### **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, purchase accounting amortization, unrealized foreign exchange gains and losses and certain non-recurring items including severance costs, acquisition costs and contingent consideration fair value adjustments. 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 unaudited consolidated results of Pollard for the three months ended March 31, 2020. 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. In addition, management believes Pollard is also the second largest bingo paper and pull-tab supplier to the charitable gaming industry in North America.

Pollard produces and provides a comprehensive line of instant tickets and lottery services including: licensed products, distribution, SureTrack<sup>®</sup> lottery management system, retail telephone selling (“tel-sell”), marketing, iLottery, interactive digital gaming, PlayOn<sup>™</sup> loyalty program, retail management services, ScanACTIV<sup>™</sup>, lottery ticket dispensers and play stations and vending machines including charitable game systems marketed under the Diamond Game and Oasis trade names. 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 275 independent distributors with the majority of revenue generated from repeat business.

On February 3, 2020, Pollard completed the previously announced acquisition of mkodo Limited (“mkodo”). On December 6, 2019, Pollard signed a definitive agreement to purchase 100% of the share capital of mkodo for a purchase price of £7.8 million prior to standard working capital adjustments and potential future earn-out payments based on certain EBITDA targets. mkodo is a leading provider of digital apps and user interfaces for the lottery and gaming industry.

On February 6, 2020, Pollard entered into an agreement, approved by the courts, to acquire certain assets which were being sold under a bankruptcy process. The transaction was subject to certain closing conditions and closed on March 20, 2020. These assets had previously been used in the operation of a business producing pull-tab tickets for the lottery and charitable gaming business. The total purchase price, including estimated transportation, disassembly and reassembly, and related costs, was \$4.9 million.

## Product line breakdown of revenue

	Three months ended March 31, 2020	Three months ended March 31, 2019
Lottery <sup>(1) (2)</sup>	81.6%	76.7%
Charitable <sup>(3)</sup>	12.1%	14.8%
Gaming Systems <sup>(3)</sup>	6.3%	8.5%

(1) Includes Fastrak Retail (UK) Limited ("Fastrak") which was acquired on May 1, 2019.

(2) Includes mkodo Limited ("mkodo") which was acquired on February 3, 2020.

(3) Effective January 1, 2020, the Oasis egaming division was transferred from International Gamco (Charitable) to Diamond Game (Gaming Systems), comparative figures have been restated.

## Geographic breakdown of revenue

	Three months ended March 31, 2020	Three months ended March 31, 2019
United States	56%	62%
Canada	23%	22%
International	21%	16%

The following financial information should be read in conjunction with the accompanying unaudited consolidated financial statements of Pollard and the notes therein as at and for the three months ended March 31, 2020.

### SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended March 31, 2020	Three months ended March 31, 2019
Sales	\$102.2	\$97.5
Cost of sales	80.5	74.6
Gross profit	21.7	22.9
<i>Gross profit as a % of sales</i>	<i>21.2%</i>	<i>23.5%</i>
Administration expenses	10.2	8.7
<i>Administration expenses as a % of sales</i>	<i>10.0%</i>	<i>8.9%</i>
Selling expenses	3.8	3.5
<i>Selling expenses as a % of sales</i>	<i>3.7%</i>	<i>3.6%</i>
Unrealized foreign exchange loss (gain)	6.2	(1.9)
<i>Unrealized foreign exchange loss (gain) as a % of sales</i>	<i>6.1%</i>	<i>(1.9%)</i>
Net income (loss)	(1.3)	8.0
<i>Net income (loss) as a % of sales</i>	<i>(1.3%)</i>	<i>8.2%</i>
Adjusted EBITDA	16.1	16.4
<i>Adjusted EBITDA as a % of sales</i>	<i>15.8%</i>	<i>16.8%</i>
Net income (loss) per share (basic and diluted)	(\$0.05)	\$0.31
	March 31, 2020	December 31, 2019
Total Assets	\$385.7	\$352.3
Total Non-Current Liabilities	\$183.3	\$175.6

## RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

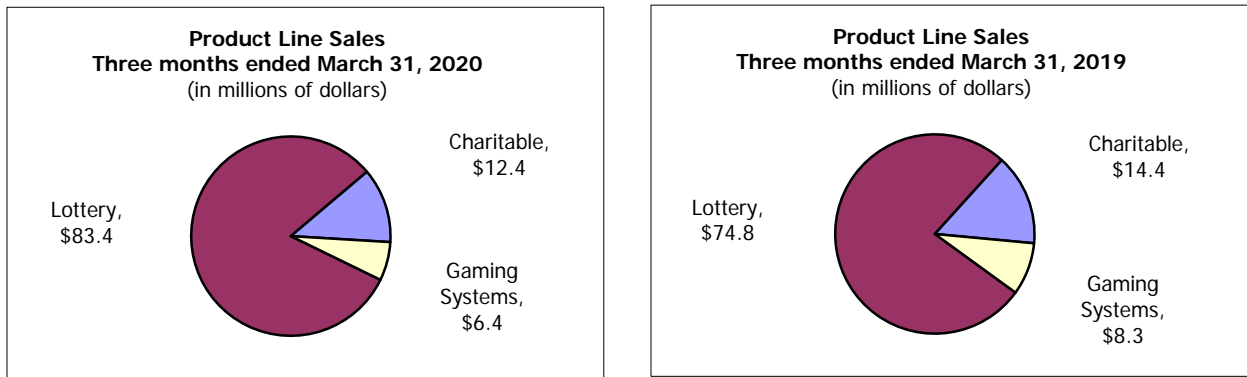
	Three months ended March 31, 2020	Three months ended March 31, 2019
Net income (loss)	(\$1.3)	\$8.0
Adjustments:		
Amortization and depreciation	7.6	6.3
Interest	1.6	1.5
Unrealized foreign exchange loss (gain)	6.2	(1.9)
Acquisition costs	0.7	-
Income taxes	1.3	2.5
Adjusted EBITDA	<u>\$16.1</u>	<u>\$16.4</u>
Lotteries and charitable gaming	\$14.5	\$13.2
Diamond Game	1.6	3.2
Adjusted EBITDA	<u>\$16.1</u>	<u>\$16.4</u>

## REVIEW OF OPERATIONS

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

### ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2020

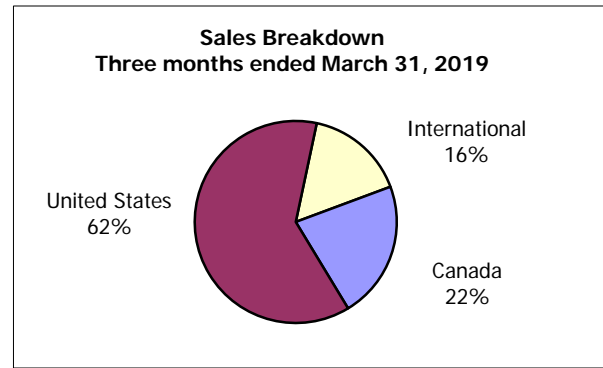
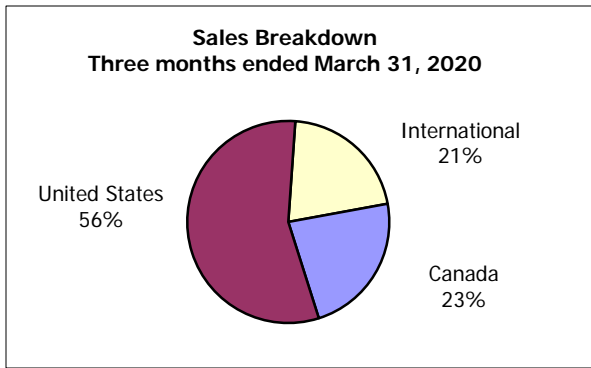
#### Sales



During the three months ended March 31, 2020, Pollard achieved sales of \$102.2 million, compared to \$97.5 million in the three months ended March 31, 2019. Factors impacting the \$4.7 million sales increase were:

Higher sales of ancillary instant ticket products and services increased revenue in 2020 by \$11.2 million. This increase was primarily from higher licensed product sales and increased iLottery revenues. Also, the addition of mkodo and Fastrak further increased sales. In addition, an increase in instant ticket volumes in the quarter increased sales by \$3.0 million. Partially offsetting these increases was a decrease in the instant ticket average selling price in the first quarter of 2020 compared to the first quarter of 2019 which decreased sales by \$4.8 million, due to the customer sales mix, including lower sales of our Scratch FX<sup>®</sup> product compared to the first quarter of 2019.

Charitable gaming revenue, including revenue generated from our Diamond Game and Oasis egaming machines, was significantly affected by the impact of COVID-19 beginning in mid-March. Our products are distributed through various retail establishments including bars, veteran organizations and bingo halls throughout North America. These businesses were effectively shut down in the middle of March which resulted in our revenue being mostly eliminated. As a result, Diamond Game sales decreased by \$1.8 million in the first quarter of 2020 when compared to 2019 and reduced sales volumes of our other charitable gaming products decreased our revenue by \$1.6 million as compared to 2019. In addition, a slightly lower average selling price for charitable games in 2020 further decreased sales by \$0.3 million.



During the three months ended March 31, 2020, Pollard generated approximately 68.5% (2019 – 73.1%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first quarter of 2020, the actual U.S. dollar value was converted to Canadian dollars at \$1.317, compared to a rate of \$1.333 during the first quarter of 2019. This 1.2% decrease in the U.S. dollar value resulted in an approximate decrease of \$0.8 million in revenue relative to the first quarter of 2019. In addition, during the quarter the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of \$0.2 million in revenue relative to the first quarter of 2019.

### **Cost of sales and gross profit**

Cost of sales was \$80.5 million in the first quarter of 2020 compared to \$74.6 million in the first quarter of 2019. The increase in cost of sales was primarily a result of the higher ancillary instant ticket product sales, including the addition of Fastrak and mkodo. These increases in cost of sales were partially offset by the reduction in charitable gaming volumes.

Gross profit was \$21.7 million (21.2% of sales) in the first quarter of 2020 compared to \$22.9 million (23.5% of sales) in the first quarter of 2019. This decrease of \$1.2 million in gross profit was primarily a result of decreased charitable gaming sales volumes in the quarter and the reduction in the instant ticket average selling price. These decreases were partially offset by higher licensed games and iLottery sales, as well as the inclusion of Fastrak and mkodo. The gross profit percentage was lower due to the reduction in Diamond Game and charitable gaming sales at the end of March while costs remained generally fixed, partially offset by higher license product and iLottery sales.

### **Administration expenses**

Administration expenses increased to \$10.2 million in the first quarter of 2020 from \$8.7 million in the first quarter of 2019. The increase of \$1.5 million was primarily a result of higher acquisition costs of \$0.7 million and greater compensation and licensing expenses to support Pollard's growth strategies of developing innovative digital products. Additionally, the inclusion of Fastrak and mkodo further increased administration expenses.

### **Selling expenses**

Selling expenses increased to \$3.8 million in the first quarter of 2020 from \$3.5 million in the first quarter of 2019 primarily due to the addition of Fastrak and mkodo, as well as higher compensation costs.



### **Other expenses**

Other expenses decreased to \$nil in the first quarter of 2020 from \$0.2 million in 2019, primarily due to the decrease in the loss on equity investment of \$0.4 million, partially offset by the decrease in other income of \$0.2 million.

### **Foreign exchange**

Our net foreign exchange loss was \$6.1 million in the first quarter of 2020 compared to a net gain of \$1.5 million in the first quarter of 2019. The Canadian dollar weakened significantly relative to the U.S. dollar in the month of March, which generated a large unrealized foreign exchange loss of \$6.2 million due to the large balance of U.S. dollar denominated accounts payable and long-term debt incurred with the acquisitions of U.S. based businesses over the past few years.

The 2019 net foreign exchange gain consisted of a \$1.9 million unrealized gain primarily as a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt with the strengthening of the Canadian dollar relative to the U.S. dollar. In addition to the unrealized foreign exchange gain in 2019, Pollard incurred a realized foreign exchange loss of \$0.4 million as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

### **Adjusted EBITDA**

Adjusted EBITDA decreased to \$16.1 million in the first quarter of 2020 compared to \$16.4 million in the first quarter of 2019. The primary reason for the decrease in Adjusted EBITDA of \$0.3 million was the decrease in gross profit in the quarter from the reduction in Diamond Game and charitable gaming sales at the end of March, due to closures resulting from Covid-19, and the reduction in our instant ticket average selling price. These reductions in gross profit were partially offset by increased licensed product and iLottery sales. Additionally, higher administration expenses, net of acquisition costs, of \$0.8 million and an increase in selling expenses of \$0.3 million further reduced Adjusted EBITDA in the quarter. These decreases to Adjusted EBITDA were partially offset by a decrease in other expenses of \$0.2 million and an increase in realized foreign exchange gain of \$0.5 million.

### **Interest expenses**

Interest expense increased to \$1.6 million in the first quarter of 2020 from \$1.5 million in the first quarter of 2019 primarily as a result of the additional interest expense related to increased long-term debt incurred with the acquisitions Fastrak and mkodo, partially offset by lower interest rates in 2020.

### **Amortization and depreciation**

Amortization and depreciation, including depreciation of property and equipment and the amortization of intangible assets, totaled \$7.6 million during the first quarter of 2020 which increased from \$6.3 million during the first quarter of 2019. The increase was primarily as a result the addition of Fastrak and mkodo, including the amortization and depreciation relating to the identifiable assets acquired, including intangible assets and property, plant and equipment, and higher depreciation and amortization on new equipment and intangible assets.

## **Income taxes**

Income tax expense was \$1.3 million in the first quarter of 2020, which was higher than the recovery expected based on Pollard's domestic rate of 27.0%. This increased expense was due primarily to the impact of foreign exchange and certain non-tax-deductible expenses.

Income tax expense was \$2.5 million in the first quarter of 2019, an effective rate of 23.3%, lower than our domestic rate of 27.0% due primarily to the impact of lower tax rates in the United States and the effect of foreign exchange.

## **Net income (loss)**

Net loss was \$1.3 million in the first quarter of 2020 compared to net income of \$8.0 million in the first quarter of 2019. The primary reason for the decrease in net income of \$9.3 million was the increase in the foreign exchange loss of \$7.6 million, consisting of a \$6.1 million foreign exchange loss in 2020 compared to a \$1.5 million foreign exchange gain in 2019. Also reducing net income in the quarter was the decrease in gross profit from the reduction in Diamond Game and charitable gaming sales at the end of March, due to closures resulting from Covid-19, and the reduction in our instant ticket average selling price. These reductions in gross profit were partially offset by increased licensed product and iLottery sales. In addition, an increase in administration expenses of \$1.5 million, including \$0.7 million of acquisition costs, and the increase in selling expenses of \$0.3 million further reduced net income in the first quarter of 2020. Partially offsetting these decreases to net income were an increase in other income of \$0.2 million and the decrease in income tax expense of \$1.2 million.

Net income (loss) per share (basic and diluted) decreased to (\$0.05) per share in the first quarter of 2020 from \$0.31 per share in the first quarter of 2019.

## **Liquidity and Capital Resources**

### *Cash provided by operating activities*

For the three months ended March 31, 2020, cash flow provided by operating activities was \$27.4 million compared to cash flow provided by operating activities of \$5.5 million for the first three months of 2019.

The primary reason for the increase in cash flow provided by operations was a significant decrease in our investment in working capital. For the three months ended March 31, 2020, decreases in non-cash working capital provided \$12.9 million compared to increases in 2019 which used \$8.6 million in cash, a \$21.5 million difference.

For the three months ended March 31, 2020, changes in the non-cash working capital increased cash flow from operations were due primarily to a decrease in accounts receivables and an increase in accounts payable and accrued liabilities, partially offset by an increase in inventory. For the three months ended March 31, 2019, changes in the non-cash working capital decreased cash flow from operations were due primarily to an increase in accounts receivables and a decrease in accounts payable and accrued liabilities, partially offset by a decrease in inventory.

Net income before income taxes and after non-cash adjustments in the first quarter of 2020 contributed \$18.0 million to the cash provided by operating activities compared to \$18.8 million in the first quarter of 2019. Cash used for interest increased to \$1.6 million in 2020 as compared to \$1.3 million in 2019.

Cash used for pension plan contributions of \$1.6 million in 2020 was consistent to the \$1.6 million used in 2019. Cash used for income tax payments decreased to \$0.3 million in 2020 from \$1.7 million in 2019.

*Cash used for investing activities*

In the three months ended March 31, 2020, cash used for investing activities was \$27.9 million compared to \$6.3 million in the first three months of 2019. In the three months ended March 31, 2020, Pollard used \$17.4 million, net of cash acquired and debt assumed, to purchase mkodo. In addition, Pollard used \$3.3 million on capital expenditures, \$4.9 million to purchase certain charitable gaming assets, \$0.5 million on its investment in its iLottery joint venture and \$1.7 million on additions to intangible assets.

In the three months ended March 31, 2019, Pollard used \$3.8 million on capital expenditures, \$0.8 million on its investment in its iLottery joint venture and \$1.6 million on additions to intangible assets.

*Cash provided by financing activities*

Cash provided by financing activities was \$3.7 million in the three months ended March 31, 2020, compared to cash used for financing activities of \$7.6 million in the three months ended March 31, 2019.

During the first quarter of 2020, Pollard received net proceeds from long-term debt of \$6.2 million. This receipt of cash was partially offset by \$1.3 million of lease principal payments and \$1.0 million of dividends.

During the first quarter of 2019 cash was used to repay \$5.6 million of long-term debt and pay \$1.2 million of lease principal payments and \$0.8 million of dividends.

As at March 31, 2020, Pollard had unused credit facility of \$69.6 million, in addition to \$11.2 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.

**Quarterly Information**

(unaudited)

(millions of dollars)

	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Sales	\$102.2	\$100.0	\$103.2	\$97.1	\$97.5	\$70.2	\$94.5	\$86.8	\$80.4
Adjusted EBITDA	16.1	14.2	16.0	13.6	16.4	7.5	14.2	14.1	13.0
Net income (loss)	(1.3)	4.6	4.4	5.0	8.0	(1.9)	7.2	5.0	4.6

Effective January 1, 2019, Adjusted EBITDA increased as a result of the implementation of IFRS 16 Leases.

Net loss for the first quarter of 2020 included a \$6.2 million unrealized foreign exchange loss.

The trend of increased sales, Adjusted EBITDA and net income, starting the first quarter of 2018, with the exception of the fourth quarter of 2018, was primarily as a result of higher instant ticket volumes and the acquisitions made during this timeframe.

The significant decrease in instant ticket volumes in the fourth quarter of 2018 reduced sales, Adjusted EBITDA and net income. Net income was further reduced by the large unrealized foreign exchange loss in the quarter.

### ***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 significantly impact 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 March 31, 2020, Pollard's investment in non-cash working capital decreased \$12.9 million compared to December 31, 2019, primarily as a result of a decrease in accounts receivables and an increase in accounts payable and accrued liabilities, partially offset by an increase in inventories.

	March 31, 2020	December 31, 2019
Working Capital	\$72.7	\$79.2
Total Assets	\$385.7	\$352.3
Total Non-Current Liabilities	\$183.3	\$175.6

### ***Credit Facility***

Pollard's credit facility was renewed effective December 31, 2019. The credit facility provides loans of up to \$190.0 million for its Canadian operations and US\$14.0 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 \$190.0 million Canadian equivalent. The credit facility also includes an accordion feature which can increase the facility by \$35.0 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 March 31, 2020, the outstanding letters of guarantee were \$2.1 million. The remaining balance available for drawdown under the credit facility was \$69.6 million.

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including debt to income before interest, income taxes, amortization and depreciation (“Adjusted EBITDA”) ratios and certain debt service coverage ratios. As at March 31, 2020, Pollard was 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. Under the terms of the agreement the facility is committed for a three-year period, renewable December 31, 2022. Principal payments are not required until maturity. The facility can be prepaid without penalties.

Pollard believes that its credit facility and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital, dividends and acquisitions.

### ***Economic Development Canada (“EDC”) Facility***

Effective February 28, 2020, Pollard entered into an agreement with EDC to provide a €15 million facility whereby Pollard can issue qualifying letters of credit against the EDC facility. This facility is guaranteed by a general indemnity from Pollard. As of March 31, 2020, the outstanding letters of credit drawn on this facility were \$9.3 million.

### ***Outstanding Share Data***

As at March 31, 2020 and May 6, 2020, outstanding share data was as follows:

Common shares	25,635,658
---------------	------------

### ***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. As at March 31, 2020, the total share options issued and outstanding were 402,500.

### **Contractual Obligations**

There have been no material changes to Pollard’s contractual obligations since December 31, 2019, that are outside the normal course of business.

### **Off-Balance Sheet Arrangements**

There have been no material changes to Pollard’s off-balance sheet arrangements since December 31, 2019, that are outside the normal course of business.

### **Financial Instruments**

The financial instruments of Pollard remain substantially unchanged from those identified in the MD&A for Pollard for the year ended December 31, 2019.

## **Critical Accounting Policies and Estimates**

The critical accounting policies and estimates of Pollard remain substantially unchanged from those identified in Pollard's consolidated financial statements for the year ended December 31, 2019.

## **Related Party Transactions**

Pollard has not entered into any significant transactions with related parties during the three months ended March 31, 2020, which are not disclosed in the unaudited condensed consolidated interim financial statements.

## **Industry Risks and Uncertainties**

Except as discussed below regarding the current COVID-19 pandemic, the risk factors affecting Pollard remain substantially unchanged from those identified in the MD&A for Pollard for the year ended December 31, 2019.

## **Business Update**

The impact of COVID-19 on all businesses has been truly unprecedented and continues to be a challenge for all organizations including Pollard.

Currently, almost all lotteries have remained operational and are continuing to sell lottery products including instant tickets at retail. The impact of the virus on the retail sale of instant tickets has varied from jurisdiction to jurisdiction, however on average, during the period from mid-March to mid-April, North American lotteries were reporting between 15-20% reductions in retail sales of instant tickets compared to the same period last year. Over the latter half of April retail sales have improved and overall are trending at comparable levels to 2019. While this more recent data covers a short period of time, it is a positive sign that may indicate a strong recovery and the underlying resilience of instant ticket sales. Traditionally lottery products, and in particular instant tickets, have been very resilient in difficult economic times and so far we are seeing evidence that this trend continues.

Our scheduled production and related sales are generally for product that will be sold at retail a number of months into the future. As such, current retail sale trends in instant tickets do not immediately translate into changes in Pollard revenue.

All of our lottery operations remain open and are producing tickets to support our lottery customers. To ensure a safe work environment, including maintaining proper social distancing, we have partially reduced our staffing and production capacity in our Ypsilanti, Michigan facility. The combined impact of this temporary reduction in capacity and some softening in our orders has resulted in reduced instant ticket production of approximately 15% from mid-March to date. We expect our Ypsilanti operation to return to full capacity, as our orders return to normal levels. Nonetheless, if there was a significant future reduction in instant ticket sales at retail Pollard's revenue would be impacted negatively.

Sales from our iLottery operations, which are generated through revenue sharing, have grown noticeably over the past number of weeks as consumers increasingly move their purchases to the internet. As noted previously, only a small number of lotteries have developed iLottery portals and as a result, our increased revenue from iLottery will only modestly mitigate reduced sales in other areas of our business. It is too

early to determine if increases in iLottery sales are a long-term trend, however the increased sales of iLottery demonstrate the strength of this lottery distribution channel.

Our charitable gaming products, pull-tabs, bingo paper and egaming machines, represent approximately 22% of our revenue and are sold to distributors who in turn provide them to charities to sell at various retail locations including bars, veteran organizations and bingo halls. These locations remain mostly shut down throughout North America, effectively eliminating retail sales of the products. Reductions in retail sales for this product line have quickly translated to reduced revenue for Pollard, resulting in the majority of our charitable gaming revenue being eliminated during the shutdown period.

Our pull-tab and bingo paper operations continue to produce inventory to address backlogs which had developed over the past few quarters due to strong customer demand. We will maintain our paper based charitable gaming production in the short term to ensure we are in a strong position to service our customers when markets reopen.

Our Diamond Game egaming business has implemented a number of cost mitigation strategies including reduction of discretionary expenses, salary reductions, workshare programs and temporary furlough of staff to help mitigate the loss of revenue.

While we have initiated policies to reduce our cost structure, our income from charitable gaming is expected to be significantly negatively affected during the period that COVID-19 results in closure of retail establishments.

It is unknown how long the shutdowns of distribution points for the retail sales of charitable gaming products will continue or, once open, how long it will be to return to the previous levels of consumer demand. During 2019 a number of jurisdictions generated positive retail sales growth and we believe the ultimate underlying fundamentals of the charitable gaming industry remains strong.

Our balance sheet and available liquidity remain very robust and positions Pollard extremely well to support our operations during the period that COVID-19 impacts our business. Our current cash resources and undrawn senior debt facilities, including our accordion feature, provides approximately \$116 million in available financial liquidity. We have introduced policies to reduce discretionary expenditures and lowered capital outlays to the minimum required to maintain operations and key ongoing projects. We have introduced a number of payroll cost mitigation strategies in applicable operations including workshare programs, staff furloughs and corporatewide management salary reductions. Our lottery operations continue to generate solid cash flows as the lottery industry weathers these challenging times reasonably well. We are using and continue to monitor various government assistance programs for applicability to our situation.

COVID-19 has generated significant uncertainty which makes it difficult for companies, including Pollard, to confidently project the near and medium-term impacts. Further changes and developments with COVID-19 could ultimately impact our operations and financial results accordingly.

Notwithstanding the head winds and challenges faced in the near term, we believe the fundamentals of the lottery and charitable gaming industries remain very positive in the long term and we believe our organization is uniquely situated to not only manage through this difficult period, but lay the ground work to return to solid growth as markets and the economy open up. Our strategy has been to expand our product lines through organic development and acquisitions, and we have the balance sheet strength and the market opportunities to pursue this strategy even more aggressively. We are confident in our

ability to withstand these short-term challenges and we are excited about the opportunity we have to flourish in the long term.

### **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.

Pollard has limited its design of disclosure controls and procedures to exclude controls, policies and procedures of Fastrak and mkodo, as they were acquired not more than 365 days before the end of the financial period to which this MD&A relates.

### **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 Fastrak and mkodo, as they were 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 three months ended March 31, 2020, 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, 2019, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Pollard Banknote Limited  
140 Otter Street  
Winnipeg, Manitoba R3T 0M8  
(204) 474-2323  
[www.Pollardbanknote.com](http://www.Pollardbanknote.com)