POLLARD BANKNOTE LIMITED

March 31 - 2011

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

FOR THE THREE MONTHS ENDED MARCH 31, 2011

May 12, 2011

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three months ended March 31, 2011, is prepared as at May 12, 2011, and should be read in conjunction with the accompanying unaudited interim financial statements of Pollard and the notes therein as at March 31, 2011 and the audited financial statements of Pollard for the year ended December 31, 2010 and the notes therein. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP").

On May 14, 2010, the Pollard Banknote Income Fund ("Fund") and Pollard Holdings Limited Partnership ("Pollard LP") completed the conversion (the "Conversion") to a publically traded corporation. As there was no change in control as a result of the Conversion, the transaction has been accounted for as if the Conversion had occurred at the beginning of the earliest comparative period presented. As a result, one consolidated financial statement, incorporating both the Fund and Pollard LP, has been prepared. Comparative figures have been restated to reflect the combined results of both entities.

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, amortization, unrealized foreign exchange gains and losses, mark-to-market gains and losses on foreign currency contracts and interest rate swaps, and certain non-recurring items including conversion expenses, warranty reserve accruals and restructuring costs. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to Net Income, Adjusted EBITDA is a useful supplementary measure.

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

Basis of Presentation

The results of operations in the following discussions encompass the unaudited interim consolidated results of Pollard for the three months ended March 31, 2011. All figures are in millions except for per share amounts.

These unaudited interim financial statements reflect the entities conducting the business of manufacturing and selling lottery and gaming products of the Pollard group as a corporation subsequent to May 14, 2010 and as an income trust and limited partnership prior to the Conversion. All references to “common shares” collectively refer to Pollard’s common shares on and subsequent to May 14, 2010 and Fund Units and Class B and C Limited Partnership Units prior to the Conversion. All references to “dividends” refer to dividends paid or payable to holders of Pollard common shares on and subsequent to May 14, 2010 and to distributions payable to Fund Unitholders and Class B and C limited partnership Unitholders prior to the Conversion. All references to “shareholders” refer collectively to holders of Pollard common shares on and subsequent to May 14, 2010 and to Fund Unitholders and Class B and C limited partnership Unitholders prior to the Conversion.

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.

Pollard produces and provides a comprehensive line of instant tickets and lottery services including: licensed products, distribution, retail telephone selling ("tel-sell"), marketing and instant ticket vending machines. 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 50 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Three months ended March 31, 2011	Three months ended March 31, 2010
Instant Tickets	87.9%	88.0%
Charitable Gaming Products	10.8%	11.0%
Vending Machines	1.3%	1.0%

Geographic breakdown of revenue

	Three months ended March 31, 2011	Three months ended March 31, 2010
United States	58%	53%
Canada	20%	28%
International	22%	19%

Formation of the Corporation

Pollard was incorporated under the laws of Canada on March 26, 2010, for purposes of implementing the Conversion of the organization from an income fund to a corporation.

Conversion to a Corporation

On January 28, 2010, the Trustees of the Fund, in conjunction with the Board of Directors of Pollard Banknote GP Limited, General Partner of Pollard LP, approved in principle a plan to convert Pollard Banknote Income Fund into a publicly traded corporation. On April 6, 2010, the Ontario Supreme Court of Justice approved the preliminary plan of arrangement for the Conversion. On May 6, 2010, the Unitholders of the Fund voted in favour of the Conversion and on May 13, 2010, the Ontario Securities Commission approved the final plan of arrangement.

The Conversion utilized legislative tax-free conversion options and became effective May 14, 2010. Pursuant to the terms of the Conversion, holders of Fund Units received, in exchange for each of their Fund Units, one common share of Pollard. Pollard Equities Limited ("Equities"), the holder of the Class B and Class C Limited Partnership Units (collectively, the "Exchangeable LP Units") of Pollard LP and the associated Special Voting Units, received, in exchange for each group of one Exchangeable LP Unit (together with the accompanying Special Voting Unit), one common share of Pollard.

As a result of the Conversion, Pollard became the 100% owner of both the Fund and Pollard LP, with Pollard LP continuing to operate the business of manufacturing and selling lottery and gaming products.

Prior to the Conversion, on January 6, 2010, Pollard declared a dividend of $0.0475 for the month of January, payable February 15, 2010. On January 28, 2010, Pollard changed its dividend policy. Dividends of $0.01 per share were declared for the months of February (payable March 15, 2010), March (payable April 15, 2010) and April (payable May 14, 2010).

Following the Conversion, Pollard initiated a dividend rate of $0.03 per share per quarter. The dividend declared on May 5, 2010, payable on July 15, 2010, was $0.02 per share relating to the months of May and June.

A quarterly dividend of $0.03 per share was declared on August 4, 2010, for the quarter ending September 30, 2010, on November 3, 2010, for the quarter ending December 31, 2010 and on March 9, 2011, for the quarter ending March 31, 2011.

Since there was no change in control as a result of the Conversion, the transaction has been accounted for as if the Conversion had occurred at the beginning of the earliest comparative period presented. These condensed consolidated financial statements incorporate the results of both the Fund and Pollard LP with the prior to conversion comparative figures having been restated to reflect the combined results of both entities. The assets and liabilities of the Fund and Pollard LP were combined at their carrying values. As a result of the Conversion, the Canadian operations of Pollard became taxable, under the *Income Tax Act* (Canada). Therefore, the difference between the tax values and the net book value of the Canadian assets and liabilities was recorded as future tax assets and liabilities in the prior to conversion comparative figures.

The costs related to the Conversion of $0.7 million were expensed in the second quarter of 2010.

Kamloops Facility

On February 28, 2010, Pollard permanently closed its Kamloops production facility with all related production being transferred to its other facilities. A one-time facility closing accrual of $4.7 million was accrued in the fourth quarter of 2009, representing the estimated closing costs including employee severance.

As of March 31, 2011, Pollard had expended approximately $4.4 million of the facility closing reserve.

Sale of Kamloops Property

On June 25, 2010, the building and land formally used in the Kamloops operation was sold to an affiliate of Equities for total proceeds of $2.9 million resulting in a gain of $1.8 million. The selling price was based on the current fair market value determined through an independent appraisal.

Restructuring expense

A restructuring expense of $1.2 million was incurred in Fiscal 2010. The expense includes approximately $0.9 million of costs relating to the elimination of approximately 30 salaried positions. In addition, due to changes in the local rules regulating scratch off lottery tickets, our Puerto Rico Lottery operation was restructured to comply with the new rules. Costs incurred of $0.3 million include the write off of existing inventory and the overhead costs incurred during the transition to the new product line.

The following financial information should be read in conjunction with the accompanying financial statements of Pollard and the notes therein as at and for the three months ended March 31, 2011.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended March 31, 2011	Three months ended March 31, 2010
Sales	$38.5	$41.2
Cost of Sales	32.4	34.2
Gross Profit	6.1	7.0
Gross Profit as a % of sales	*15.8%*	*17.0%*
Administration Expenses	3.2	3.4
Administration Expenses as a % of sales	*8.3%*	*8.3%*
Selling Expenses	1.5	1.4
Selling Expenses as a % of sales	*3.9%*	*3.4%*
Realized foreign exchange loss (gain)	(0.4)	0.6
Loss (gain) as a % of sales	*(1.0%)*	*1.5%*
Net Income	0.9	1.7
Net Income as a % of sales	*2.3%*	*4.1%*
Adjusted EBITDA	3.8	3.7
EBITDA as a % of sales	*9.9%*	*9.0%*
Earnings per share	$0.04	$0.07

	March 31, 2011	December 31, 2010
Total Assets	$127.4	$128.2
Total Long Term Liabilities	$74.7	$74.2

The selected financial and operating information has been derived from, and should be read in conjunction with, the consolidated financial statements of Pollard.

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(millions of dollars)

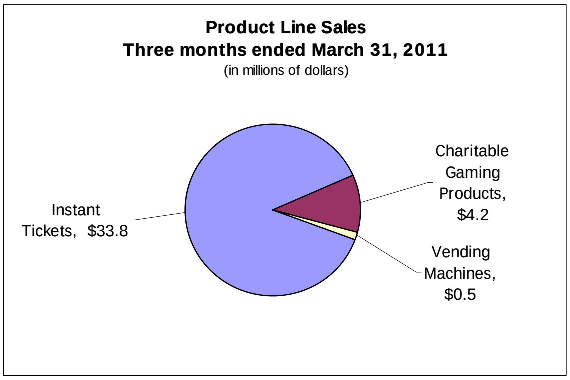
	Three months ended March 31, 2011	Three months ended March 31, 2010
Net Income	$0.9	$1.7
Adjustments:		
Interest	1.2	1.4
Unrealized foreign exchange gain	(0.4)	(1.3)
Mark-to-market gain on foreign currency contracts and interest rate swaps	-	(1.3)
Amortization of de-designated hedges	-	0.5
Income taxes	-	0.5
Amortization	2.1	2.2
Adjusted EBITDA	$3.8	$3.7

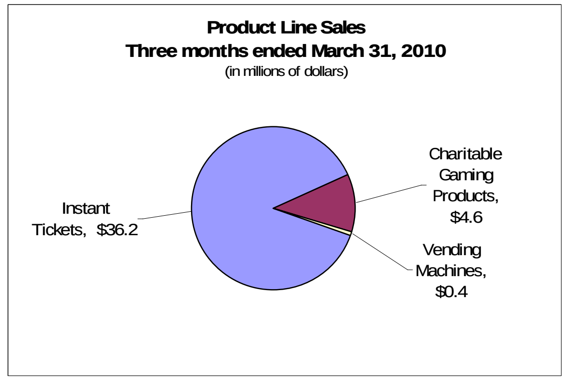
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2011

Sales

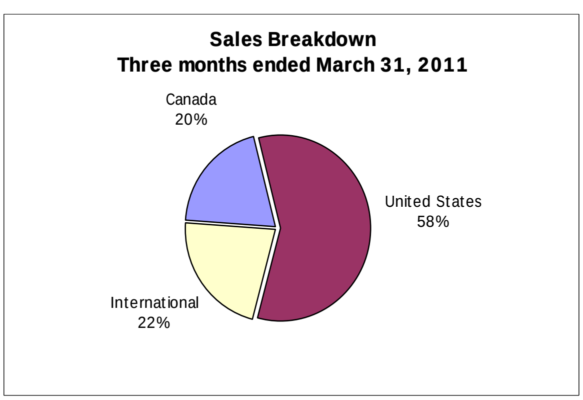


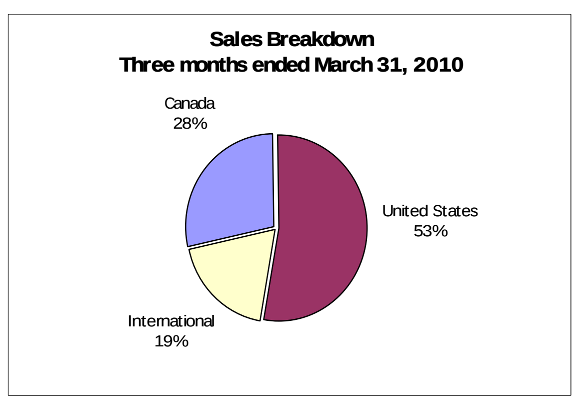


During the three months ended March 31, 2011, Pollard achieved sales of $38.5 million, compared to $41.2 million in the three months ended March 31, 2010. Factors impacting the $2.7 million sales decrease were:

Strengthening of the Canadian dollar

During the three months ended March 31, 2011, Pollard generated approximately 74% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the first quarter of 2011 the actual U.S. dollar value was converted to Canadian dollars at $1.00, compared to a rate of $1.06 during the first quarter of 2010. This decrease in the U.S. dollar value resulted in an approximate decrease of $1.7 million in revenue relative to the first quarter of 2010. Also during the first quarter of 2011, the strengthening of the Canadian dollar against the Euro resulted in an approximate decrease of $0.2 million in revenue relative to the first quarter of 2010.





Other

Instant ticket volumes for the first quarter of 2011 were higher than the first quarter of 2010 by 9% which increased sales by $2.3 million. Offsetting the volume increase was a decrease in average selling price compared to 2010 which reduced sales by $3.0 million as a result of greater mix of lower priced sales.

Cost of sales and gross margin

Cost of sales was $32.4 million in the first quarter of 2011 compared to $34.2 million in the first quarter of 2010. Lower exchange rates on U.S. dollar transactions in the first quarter of 2011 decreased cost of sales approximately $1.1 million. In addition, cost of sales was lower by an additional $0.7 million, despite a 9% increase in volumes, due to cost savings generated by our change initiative process.

Gross profit earned in the first quarter of 2011 was $6.1 million (15.8% of sales) as compared to $7.0 million (17.0% of sales) earned in the first quarter of 2010. This decrease was due mainly to the lower average selling price and the impact of the stronger Canadian dollar, partially offset by the increase in volumes and cost reductions.

Administration expenses

Administration expenses were $3.2 million in the first quarter of 2011 which is lower than $3.4 million in the first quarter of 2010 due to certain cost containment strategies.

Selling expenses

Selling expenses were $1.5 million in the first quarter of 2011 which is similar to $1.4 million in the first quarter of 2010.

Finance Costs and Income

Under IFRS included in the income statement classification “finance costs” are interest, amortization of deferred financing costs, foreign exchange losses and amortization of de-designated hedges. Included in the income statement classification “finance income” are foreign exchange gains and mark-to-market gains on foreign exchange contracts and interest rate swaps.

Interest expense

Interest expense decreased to $1.2 million in the first quarter of 2011 from $1.4 million in the first quarter of 2010 due primarily to the elimination of higher interest rates related to certain interest rate swaps which expired on August 31, 2010, partially offset by higher interest rates associated with the renewal of the syndicated credit facility.

Foreign exchange gain

Foreign exchange gain was $0.8 million in the first quarter of 2011 compared to a gain of $0.6 million in the first quarter of 2010. Within the 2011 foreign exchange gain are unrealized gains of $0.4 million, relating to a $0.3 million unrealized foreign exchange gain on U.S. dollar denominated debt (caused by the strengthening of the Canadian dollar) and $0.1 million on U.S. dollar denominated payables. Within the realized gain of $0.4 million is a $0.7 million realized gain relating to payments made on U.S. dollar denominated debt, partially offset by $0.3 million in realized losses on the decreased value of U.S. dollar denominated receivables and the conversion of U.S. dollars and Euros into Canadian dollars.

Within the first quarter of 2010 foreign exchange gain of $0.6 million was an unrealized gain of $1.3 million relating to the foreign exchange gain on U.S. dollar denominated debt (caused by the strengthening of the Canadian dollar) partially offset by realized losses of $0.7 million. The realized losses were comprised of $0.4 million of realized losses relating to forward hedge contracts (caused by fixed exchange rates in the hedges being lower than actual rates) and $0.3 million in realized losses on the value of U.S. dollar denominated receivables.

Adjusted EBITDA

Adjusted EBITDA was $3.8 million in the first quarter of 2011 compared to $3.7 million in the first quarter of 2010. The primary reasons for the increase in Adjusted EBITDA were an increase in the net impact of change in foreign exchange, with realized foreign exchange gains relating to the repayment of U.S. dollar denominated debt being partially offset by the impact of the strengthening Canadian dollar on gross margin, lower selling and administration expenses and lower profit share expenses.

Income taxes

Income tax expense was nil in the first quarter of 2011 as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Income tax expense was $0.5 million in the first quarter of 2010, an effective rate of 23.3%, as a result of permanent differences relating to the translation of the company's U.S. subsidiaries, differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries and the impact of withholding taxes paid.

Amortization

Amortization includes amortization of property and equipment, deferred financing costs and intangible assets and totaled $2.1 million during the first quarter of 2011 which is similar to $2.2 million during the first quarter of 2010.

Net Income

Net Income decreased to $0.9 million in the first quarter of 2011 from $1.7 million in the first quarter of 2010. The primary reasons for the decline were the decrease in gross profit of $1.0 million and an elimination of the non-cash mark-to-market gain on foreign exchange currency contracts and interest rate swaps of $1.3 million, which were partially offset by the elimination of the amortization of de-designated hedges of $0.5 million, a reduction in income taxes of $0.5 million, lower interest expense and administration costs of $0.1 million respectively and a greater foreign exchange gain of $0.2 million.

Earnings per share decreased to $0.04 per share in the first quarter of 2011 from $0.07 in the first quarter of 2010.

Liquidity and Capital Resources

Cash provided by operating activities

For the three months ended March 31, 2011, cash flow provided by operating activities was $0.5 million compared to cash flow used by operating activities of ($0.4) million for the comparable period in Fiscal 2010. Changes in the non-cash component of working capital decreased cash flow from operations of ($1.4) million for the three months ended March 31, 2011 (due primarily to increases in accounts receivable and inventories, partially offset by an increase in accounts payable and accrued liabilities), compared to a decrease of ($1.4) million for the three months ended March 31, 2010 (due primarily to an increase in accounts receivables and partially offset by an increase in accounts payable and accrued liabilities).

Cash provided by investing activities

In the three months ended March 31, 2011, cash used by investing activities was ($0.8) million compared to ($0.1) million used in the first quarter of 2010. Capital expenditures of ($0.8) were incurred in the three months ending March 31, 2011, compared to ($0.2) million for the three months ending March 31, 2010.

Cash provided by financing activities

Cash used by financing activities was ($0.1) million in the three months ended March 31, 2011, compared to ($0.1) million in the three months ended March 31, 2010. The decrease in cash used by financing activities was primarily due to changes in dividends paid and dividends payable, partially offset by increases in long-term debt.

As at March 31, 2011, Pollard had unused committed debt facility of $13.4 million. This amount is available to be used for future working capital requirements, contractual obligations, capital expenditures and dividends.

Quarterly Information
(unaudited)
(millions of dollars)

	(1) Q1 2011	(1) Q4 2010	(1) Q3 2010	(1) Q2 2010	(1) Q1 2010	(2) Q4 2009	(2) Q3 2009	(2) Q2 2009
Sales	$38.5	$37.3	$41.7	$43.2	$41.2	$46.9	$48.4	$49.5
Adjusted EBITDA	3.8	4.1	4.6	5.8	3.7	5.8	6.4	5.1
Net Income (Loss)	0.9	(0.7)	1.5	(0.7)	1.7	0.1	7.7	9.1

(1) Amounts are based on International Financial Reporting Standards
(2) Amounts are based on previous Canadian GAAP

Fluctuations in Sales, Adjusted EBITDA, and Net Income (Loss) will vary by quarter depending on the timing of contract awards, changes in customer budgets, ticket inventory levels, lottery retail sales and mark-to-market adjustments to financial instruments.

Sales in Q1 2011 were lower primarily due to the strengthening of the Canadian dollar relative to the U.S. dollar and a decrease in average selling prices, offset partially by an increase in volumes.

Sales in 2010 were lower primarily due to the strengthening of the Canadian dollar relative to the U.S. dollar and a decrease in volumes and average selling prices.

Sales in 2009 were higher due to the weaker Canadian dollar over the year relative to the U.S. dollar.

Net Income in Q4 2009 was lower primarily due to the impact of the Kamloops facility closure accrual.

Net Income in Q2 2009 and Q3 2009 was higher primarily due to higher mark-to-market gains on foreign currency contracts. Q2 2009 and Q2 2010 include a gain on sale of property, plant and equipment.

Productive Capacity

Management has defined productive capacity as the level of operations necessary to maintain an Adjusted EBITDA of $20.0 and the current cash flow target of $13.4 million on an annualized basis. Due to varying factors implicit in the nature of the lottery industry and the instant ticket market, productive capacity can best be measured through a financial output such as Adjusted EBITDA and cash flow. A number of factors impact the level of Adjusted EBITDA including physical plant capacity, machine capacity, nature of product and service offerings produced and mix of customers. Changes to productive capacity since August 5, 2005, have occurred primarily through expenditures on fixed assets and improved processes and other internal improvement measures, offset by the impacts of changes in foreign exchange relationships, primarily the strengthening of the Canadian dollar relative to the U.S.

dollar and the Euro, and the closure of the Kamloops facility in February 2010. There have been no increases in productive capacity due to acquisitions since August 5, 2005.

Pollard's strategy with respect to productive capacity is to expend the required funds and resources to maintain the assets required to generate the targeted cash flow. In addition, dependent on certain market conditions and limitations on available funds, projects are incurred to increase cash inflow or decrease cash outflow. The nature of the lottery industry does not in itself lead to significant obsolescence risk with the operating assets. To grow productive capacity, ongoing investment in new technology, new fixed assets and new intangible assets is required. Pollard utilizes a number of individual strategies to maintain and grow productive capacity including a capital expenditure budget and a rigorous formal approval process, flexible individual customer management relationships and structured maintenance programs throughout all of the facilities.

An important component to managing and growing productive capacity is the management of certain intangible assets, including customer contracts and relationships, patents, computer software and goodwill. Certain of these assets are reflected in Pollard's financial statements due to the use of continuity of interest method of accounting during the transfer of the business August 5, 2005.

Management focuses on maintaining and growing the value of the customer relationship through winning contract renewals, pursuing and obtaining new contracts and assisting existing customers growing their instant ticket product lines. Regular commitment to research and development allows continual development of patents, software and additional technological assets that maintain and increase operating income and cash flow. Detailed cost benefit analysis is performed for any significant investment of funds or resources in order to minimize the associated risks that these assets will not be able to generate the expected level of cash flow. Where new opportunities are identified, such as a new marketing opportunity or a new machine or process able to reduce input costs, consideration is given to revise plans and take advantage of these prospects.

Certain risks are associated with projects aimed at increasing the productive capacity, including increases in working capital, acquisition or development of intellectual property, development of additional products or services and purchases of fixed assets. If these investments fail to increase Adjusted EBITDA and cash flow, then productive capacity will ultimately decrease over time due to the consumption of these investment resources. The impact on productive capacity may also depend upon the completion and start up timing of certain investment projects.

Working Capital

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

Instant tickets are produced specifically for individual clients resulting in a limited investment in finished goods inventory. Customers are predominantly government agencies, which result in regular payments. These factors assist in a reasonably quick turnover in net working capital. 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, although production volumes are historically slightly lower in the first quarter relative to the rest of the year.

	March 31, 2011	December 31, 2010
Working Capital	$22.5	$21.7
Total Assets	$127.4	$128.2
Total Long Term Liabilities	$74.7	$74.2

Credit Facility

Pollard's credit facility, which was renewed effective September 30, 2010, consists of one committed term bank loan facility. The committed term bank loan facility provides loans of up to $70.0 million for its Canadian operations and up to US$25.0 million 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, 2011, the outstanding letters of credit were $5.1 million and the remaining balance available for drawdown was $13.4 million.

Under the terms and conditions of the credit facility agreement Pollard is required to maintain financial covenants including working capital ratios, debt to income before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") ratios and certain debt service coverage ratios. Under the syndicated credit facility, Pollard has agreed not to pay dividends in excess of the current quarterly amount of $0.03 per share until the debt to Adjusted EBITDA ratio is reduced to a certain level. As at March 31, 2011 and May 12, 2011, Pollard is in compliance with all covenants.

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard and its operating subsidiaries. The credit facility can be prepaid without penalties. Under the terms of the agreement, the credit facility is committed for a one year period, renewable October 31, 2011. If the credit facility is not renewed, the loans are repayable one year after the credit facility expiry date. As such, the credit facility has effectively a two year term expiring October 31, 2012.

Beginning at the end of the first quarter of 2011 the amount of the facility will be reduced on a quarterly basis by an amount calculated as 50% of the prior quarter's Excess Cash Flow. Excess Cash Flow is defined as Adjusted EBITDA less scheduled principal indebtedness payments (if any), interest and cash income taxes paid. The reduction in the available facility will be waived when the debt to Adjusted EBITDA ratio reaches certain target levels. Based on the Excess Cash Flow generated in the quarter ending March 31, 2011, the credit facility will be reduced by approximately $1.2 million as of June 30, 2011. As of March 31, 2011, Pollard has unused credit facility available of $13.4 million.

As at March 31, 2011, a Pollard subsidiary had entered into an interest rate swap contract to fix the interest rates on approximately 19% of the long-term debt for a period of 5 months. The interest rate swap allows the subsidiary to receive interest at floating rates and pay interest at a fixed rate.

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 and dividends at existing business levels.

Outstanding Share Data

As at March 31, 2011 and May 12, 2011, outstanding share data was as follows:

Common shares	23,543,158

Contractual Obligations

There have been no material changes to Pollard's contractual obligations since December 31, 2010, 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, 2010, 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, 2010.

Critical Accounting Policies and Estimates

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

Cost of good sold with percent of retail sales contracts:

Under certain instant lottery ticket contracts Pollard recognizes revenue for its tickets based on a percentage applied to the applicable lotteries' retail sales. The lotteries have the discretion to remove these games from market prior to selling all available tickets and as such Pollard must estimate the sell-through rate of these games in order to properly match the cost of goods sold to the revenue expected from the game.

Impairment of Goodwill

Pollard determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units ("CGUs") to which goodwill is allocated. Estimating a value in use requires Pollard to make an estimate of the future expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Employee future benefits:

Accounting for defined benefit plans requires Pollard to use actuarial assumptions. These assumptions include the discount rate, expected rate of return on plan assets and the rate of compensation increases. These assumptions depend on underlying factors such as economic conditions, government regulations, investment performance, employee demographics and mortality rates. Pollard was required to use judgment in determining the pension expense to assess the recoverability of the pension plan asset.

Financial instruments

Pollard may use certain derivative financial instruments to manage risks of fluctuation in interest rates and foreign exchange rates. Pollard does not engage in the trading of these derivative financial instruments for profit.

Pollard's subsidiaries may enter into interest rate swap agreements in order to limit exposure to increases in interest rates and fix interest rates on certain portions of long-term debt. Pollard applies hedge accounting for certain interest rate swap agreements that meet the criteria for hedge accounting. The effective portion of the gain or loss on the hedging item is recognized in other comprehensive income and any ineffective portion is recognized in Net Income. Payments and receipts under interest rate swap agreements designated as effective hedges are recognized as adjustments to interest expense on long-term debt in the same period that the underlying hedged transactions are recognized. Pollard formally documents the relationship between the hedging instrument and the hedged item, as well as the nature of the specific risk exposure being hedged and the intended term of the hedging relationship. Any hedging transactions that do not qualify for hedge accounting are marked-to-market at each period end with any resulting gains or losses recorded in income.

Pollard's subsidiaries may enter into foreign currency forward contracts to limit exposure on certain recognized assets or liabilities, firm commitments or foreign currency risk in an unrecognized firm commitment. The foreign currency contracts are recognized in the balance sheet and measured at fair value, with changes in fair value recognized currently in the statement of income.

Income taxes

Pollard's incorporated subsidiaries are taxable entities and as such, income taxes are recorded to reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Deferred income tax assets and liabilities are determined based on the enacted or substantively enacted tax rates, which are expected to be in effect when the underlying items of income and expense are expected to be realized. Valuation allowances are established when necessary to reduce the deferred income tax assets to the amounts expected to be realized. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Leases

In some instances, one of Pollard's subsidiaries will lease vending machines to third-party customers. Depending on the specific terms contained in the lease agreements, the lease is either classified as an operating lease or capitalized as a sales-type lease.

Pollard's subsidiary's leasing operations consist principally of the leasing of Pull-tab Vending Machines ("PTVM") with various private establishments. These leases are classified as sales-type leases. The PTVM leases have three year terms. The net investment in sales-type leases consists of the present value of the future minimum lease payments. Interest revenue is recognized as a constant percentage return on the net investment.

International Financial Reporting Standards

In January 2006, the Accounting Standards Board of Canada ("AcSB") announced that accounting standards in Canada are to converge with the International Financial Reporting Standards ("IFRS"). Canadian publicly accountable enterprises were required to adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The unaudited interim financial statements of Pollard are prepared utilizing IFRS. Reconciliations, with explanatory notes, of the restatement under IFRS are located in Note 19 of the Condensed Consolidated Interim Financial Statements of Pollard for the three months ended March 31, 2011.

Pollard established a four part planning framework in 2008 to ensure an effective and efficient transition regarding the introduction of IFRS in 2011:

Step		Timing
1.	Scoping the Effort	(completed 2008)
2.	Enabling the Resources	(completed 2010)
3.	Executing the Plan	(completed Q1 2011)
4.	Monitoring the Process	(ongoing)

1. Scoping the Effort

A project team was identified utilizing both internal resources and where necessary, external resources. Formal timelines were established and appropriate training was received by all team members including participation in a number of externally led in-depth programs, ongoing formal review of updates and regularly scheduled meetings to confirm ongoing status.

2. Enabling the Resources

A review was undertaken of current accounting policies in comparison to the standards under IFRS. Differences were identified and documented, with those applicable to Pollard specifically reviewed to determine changes required and impact on current financial disclosure, systems and business activities.

3. Executing the Plan

Based on the differences identified in step #2, specific analysis was prepared identifying the recommended accounting policies (where choices are required) and calculations were completed determining the impact of on the opening transition balance sheet as at January 1, 2010.

4. Monitoring the Process

Detailed quarterly updates have been prepared and presented to the Board of Directors and the Audit Committee of Pollard throughout the process.

The IFRS transition plan covers five main areas of Pollard's operations.

A Accounting Policies

There are a number of differences existing between IFRS and previous Canadian GAAP. These differences fall into two areas: Ongoing Accounting Policy Choices and Mandatory and Optional Exceptions. In addition to the change to accounting policies required under IFRS, financial statements presentation and disclosures have changed under IFRS and are reflected in the condensed consolidated unaudited interim financial statements of Pollard.

1. Ongoing Accounting Policy Choices

Significant IFRS accounting policy alternatives under IFRS have been reviewed. Recommendations, where choices are required, have been identified by management and approved by the Audit Committee.

2. Mandatory and Optional Exemptions

IFRS 1 identifies certain voluntary and mandatory exemptions from adopting IFRS policies at transition date. Management has identified the optional exemptions to be utilized by Pollard and these have been approved by the Audit Committee.

For a summary of Pollard's IFRS accounting policies and optional exemptions under IFRS 1 please see the following chart on page 20.

B Internal Controls over Financial Reporting

Our internal controls over financial reporting ("ICFR") have been reviewed and no material changes to any internal controls were required to meet IFRS.

C Disclosure Controls and Procedures

Our controls and procedures relating to the IFRS disclosures were updated to reflect the information required to be disclosed. No material changes were required in the controls or procedures relating to disclosures.

D Information Systems

Our general ledger and financial reporting system is currently structured to allow for IFRS implementation without significant changes. The current fixed asset system allows for detailed component analysis to be tracked separately. No other major systems required significant changes.

E Business Activities

A review of business related activities was undertaken during the scoping phase to identify issues that need to be addressed due to the transition to IFRS. The syndicated credit facility completed effective September 30, 2010, includes an allowance to reflect any potential impact based on IFRS adjustments. No other significant changes were required.

IFRS 1 – First-time Adoption of IFRS and Future Accounting Policy Changes

The initial adoption of IFRS has required Pollard to review each of its accounting policies and determine whether or not a change is required or permitted under IFRS and whether any amended policy is required to be applied on a retrospective or prospective basis. IFRS 1 generally requires retrospective application of the new policies but prospective application is required or permitted in some instances.

The table below is a high-level summary of the significant accounting policies of Pollard and the impact of adopting the new standard under IFRS 1. New standards under IFRS 1 that do not apply to Pollard have not been listed.

Accounting Policy	Policy change expected on transition to IFRS	Is there an IFRS 1 exemption available?	Will the IFRS 1 exemption be applied?
ELECTIVE EXEMPTIONS			
Business Combinations	Yes	Yes	Yes
Fair Value or Revaluation as deemed Cost – Property, Plant and Equipment	No	Yes	No
Borrowing Costs	Yes	Yes	Yes
Employee Benefits – Actuarial Gains and Losses	Yes	Yes	Yes
Employee Benefit Plans – Defined Benefit Plans Disclosures	Yes	Yes	Yes
Cumulative Translation Differences	Yes	Yes	Yes

Business Combinations

IFRS 3 was applied prospectively in the opening IFRS statement of financial position and prior business combinations were not restated due to Pollard choosing to apply the IFRS 1 exemption for business combinations prior to January 1, 2010. As required by the prospective application requirements relating to IFRS 3, Pollard tested its goodwill for impairment in accordance with IFRS at January 1, 2010, ("Date of Transition") and determined no impairment exists.

Property, Plant and Equipment

Under the requirements of International Accounting Standard ("IAS") 16, the company will continue to account for all property, plant and equipment ("PP&E") under the cost model. There are options available under the new standard to account for PP&E on a fair market value basis.

Under IFRS 1 there is an exemption available whereby an organization can elect at its opening transitional balance sheet to revalue some or all of its PP&E on a fair market value basis rather than cost. Pollard has not elected to take this exemption.

IAS 16 also requires that assets be depreciated at the significant parts level. This restatement was applied retrospectively (an adjustment to retained earnings and PP&E at the transitional opening balance sheet) and will impact depreciation expense going forward.

Borrowing Costs

Under IAS 27 companies are required to capitalize borrowing costs directly attributable to acquisitions or construction activities under certain circumstances. Historically Pollard has not capitalized borrowing costs but now after adoption of IFRS is required to prospectively capitalize borrowing costs for qualifying assets. Pollard has elected to take the IFRS 1 exemption and not retrospectively restate our financials to reflect the capitalization of borrowing costs.

Employee Benefits – Actuarial Gains and Losses

Under adoption of IFRS 1 companies have the choice to recognize all cumulative unrecognized Actuarial Gains and Losses ("AGL") at the date of transition. Pollard has elected to take this exemption and has recognized retrospectively the cumulative unrecognized AGL in retained earnings at the Date of Transition.

Companies also currently have the option to account for prospective AGL's using a variety of methods including full recognition in income or recognition over a period of time utilizing the corridor method. Pollard will continue to use the corridor method, which recognizes AGL's into income over a period of time only if the absolute amount exceeds a certain level relative to the assets and liabilities of the pension plan. Under previous Canadian GAAP Pollard also followed the corridor method.

Employee Benefit Plans – Defined Benefit Plans Disclosures

Under IFRS 1 a company can elect not to provide the extensive historical disclosures required under IAS 19. Pollard has elected to take the exemption to exclude the extensive disclosure on transition.

Cumulative Translation Differences

Under IFRS 1 a first-time adopter can elect not to restate and recalculate the Cumulative Translation Differences ("CTA") in accordance with the new standard. If an adopter uses this exemption the CTA difference is deemed to be zero at the transition date. Pollard has elected to utilize this exemption and the CTA related to translations differences was deemed to be zero on transition.

Deferred Income Taxes

Under IAS 12 a company is required to tax effect the difference between historical foreign exchange rates used to convert a company's foreign currency denominated PP&E and the current rate at the date of the financial statements. The impact to the January 1, 2010 balance sheet was a reduction of $0.8 million in the deferred income tax assets and retained earnings.

Impact of Trust Conversion

As described earlier in this MD&A, Pollard Banknote Income Fund converted to a publicly traded corporation during 2010 and accounted for the Conversion under previous Canadian GAAP under the continuity of interests method. IFRS does not have any explicit guidance that prescribes this method. However, based on an analysis of IFRS guidance applicable to business combinations involving entities under common control, Pollard concluded that the Conversion would also be accounted for on a book value basis under IFRS, and that it is permissible to restate its comparatives as if the combination had occurred prior to the start of the earliest period presented. As a result, Pollard's IFRS transition date opening balance sheet was based on its restated previous Canadian GAAP balance sheet and there were no adjustments required under IFRS as a result of the Conversion in 2010.

Impact on Fiscal 2010

Under the transition to IFRS, the only significant adjustments to Net Income for the year ended December 31, 2010 are an increase in the gain on sale of property, plant and equipment ("PP&E") of $0.2 million as a result of the change in net book value under IFRS for the building and land sold in the second quarter of 2010 and an increase of $0.1 million in deferred income tax expense relating to the deferred income taxes calculated on the revised gain on sale of PP&E and the difference between the historical exchange rates used to convert foreign currency denominated PP&E and the current rate at December 31, 2010.

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the three months ended March 31, 2011, which are not disclosed in the unaudited interim financial statements.

Industry Risks and Uncertainties

The risk factors affecting Pollard remain substantially unchanged from those identified in the MD&A for Pollard for the year ended December 31, 2010.

Outlook

The instant ticket retail market continues to show signs of growth. Lotteries are looking at ways to increase their revenue and consumers remain very robust purchasers of instant tickets. We expect the market for instant lottery tickets to remain strong in 2011, with low single digit growth generating improved opportunities for increased revenue for Pollard. Lotteries within North America and internationally are both experiencing renewed vigor at the retail level.

Strong competitive pressures remain in our industry as our competition continues to bid aggressively on public tenders to supply instant tickets. Many lottery operations are also under pressure from their stakeholders to improve profitability, which often results in pressure to reduce our selling prices. While we expect these factors to continue throughout this year, and while we did see lower prices in the first quarter, we believe our average selling price for the balance of 2011 will be similar to the levels achieved in 2010.

Despite the pressures described above, we anticipate a significant increase in our production and sales volumes over the remainder of 2011 when compared to 2010. Greater sales volumes are a result of increased orders from existing customers and orders from new recently awarded contracts. We have no material customer contracts that come due in 2011 (when available extensions are considered) and we continue to actively pursue a number of exciting instant ticket and related opportunities.

Historically sales and order volumes will vary on a quarter-to-quarter basis due to the timing of client orders, new product offerings, inventory management, timing of customer shipments and other factors, and we expect this to continue. Volumes in the first quarter of the year are generally slightly lower than the rest of the year.

Licensed game and merchandise sales are expected to be higher in the remainder of 2011 in comparison to the first quarter, as lotteries tend to purchase more specialized products such as these in the lead up to the Christmas holidays.

Our charitable gaming product line is expected to continue to generate positive results. 2010 was a strong year for this business line. Incremental growth in new jurisdictions and a continued emphasis on a more profitable mix of sales is expected to result in further improved results during 2011.

The Canadian dollar has strengthened significantly (relative to the U.S. dollar) at the end of the first quarter of 2011 and in the beginning of the second quarter. A stronger Canadian dollar results in a negative impact to our net income and operating cash flows due to our ongoing exposure to U.S dollar revenue. Partially offsetting these losses will be gains recognized on our net balance sheet exposure to U.S. dollar denominated liabilities, principally U.S. dollar denominated debt.

Initiatives to improve our cost structures continue to progress. Holding our fixed cost overhead down while at the same time increasing volumes is an important part of increasing profitability. The overall level of our cost structure is showing improvement, reflecting the results of our change initiative efforts. These include costs savings from our head count reduction incurred in the fourth quarter of 2010 and overhead savings generated from the closure of our Kamloops facility in the second quarter of last year.

As discussed in our year end filings, we do not anticipate any significant capital expenditures during 2011 and will use our free cash flow to reduce our long term debt and strengthening our balance sheet.

Pollard Banknote believes that its credit facilities and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital and dividends at existing business levels.

Disclosure Controls and Procedures

Under Multilateral 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") for the interim period regarding the design of the disclosure controls and procedures. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the disclosure controls and procedures as defined in Multilateral Instrument 52-109 will provide reasonable assurance of achieving the disclosure objectives.

Internal Controls over Financial Reporting

Under Multilateral 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 of the internal controls over financial reporting. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the design of the internal controls over financial reporting as defined in Multilateral Instrument 52-109 will provide reasonable assurance of achieving the financial reporting objectives.

No changes were made in Pollard's internal control over financial reporting during the three months ended March 31, 2011, 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 of Pollard for the year ended December 31, 2010, is available on SEDAR at www.sedar.com.

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Condensed Consolidated Interim Financial Statements of

POLLARD BANKNOTE LIMITED

(unaudited)

Three months ended March 31, 2011

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, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash	**$ 4,882**	$ 5,405	$ 3,706
Accounts receivable	**16,390**	14,528	16,361
Loan to Pollard Equities Limited (note 5)	**-**	2,157	12,572
Inventories (note 6)	**18,545**	17,889	20,259
Prepaid expenses and deposits	**2,317**	2,250	2,465
Net investment in leases due within one year	**96**	114	262
	42,230	42,343	55,625
Property, plant and equipment	**33,217**	33,877	38,129
Pension asset	**2,333**	1,942	303
Net investment in leases	**25**	40	194
Goodwill (note 7)	**35,653**	35,802	36,052
Intangible assets (note 8)	**13,322**	13,743	15,590
Deferred income taxes	**619**	497	688
Total assets	**$ 127,399**	$ 128,244	$ 146,581
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	**$ 17,899**	$ 16,208	$ 14,770
Provisions (note 9)	**627**	1,006	4,746
Dividends payable	**706**	706	298
Distributions payable to Pollard Equities Limited (note 5)	**-**	2,157	13,392
Income taxes payable	**553**	608	1,276
	19,785	20,685	34,482
Long-term debt (note 10)	**74,435**	73,955	75,651
Other long-term liabilities	**215**	217	206
Foreign currency contracts	**-**	-	834
Interest rate swap contracts	**182**	374	1,423
Deferred income taxes	**537**	668	-
Shareholders' equity:			
Share capital (note 12)	**73,209**	73,209	73,209
Reserves	**(1,203)**	(919)	(1,220)
Deficit	**(39,761)**	(39,945)	(38,004)
	32,245	32,345	33,985
Total liabilities and shareholders' equity	**$ 127,399**	$ 128,244	$ 146,581

See accompanying notes to condensed consolidated interim financial statements.

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

		Three months ended March 31, 2011		Three months ended March 31, 2010
Sales	**$**	**38,486**	$	41,246
Cost of sales		**32,359**		34,217
		6,127		7,029
Administration		**3,248**		3,373
Selling		**1,496**		1,441
Other income		**(22)**		(30)
Income from operations		**1,405**		2,245
Finance costs (note 17)		**1,295**		1,892
Finance income (note 17)		**(749)**		(1,910)
Income before income taxes		**859**		2,263
Income taxes (note 11):				
Current		**320**		375
Deferred (reduction)		**(351)**		153
		(31)		528
Net income	**$**	**890**	$	1,735
Basic and diluted income per share	**$**	**0.04**	$	0.07
Weighted average number of shares outstanding		**23,543,158**		23,543,158

See accompanying notes to condensed consolidated interim financial statements.

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

		Three months ended March 31, 2011		Three months ended March 31, 2010
Net income	**$**	**890**	$	1,735
Other comprehensive income (loss):				
Foreign currency translation differences – foreign operations		**(400)**		(462)
Unrealized gain (loss) on derivatives designated as cash flow hedges, net of income tax (reduction) of $67 and ($34)		**116**		(60)
Amortization of de-designated hedges, net of income tax of nil and $60		**-**		395
Other comprehensive loss – net of income tax		**(284)**		(127)
Comprehensive income	**$**	**606**	$	1,608

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, 2011	Three months ended March 31, 2010
Cash increase (decrease):		
Operating activities:		
Net income	$ 890	$ 1,735
Adjustments:		
Income taxes (recovery)	(31)	528
Amortization and depreciation	2,140	2,175
Interest expense	1,156	1,383
Unrealized foreign exchange gain	(376)	(1,253)
Mark-to-market gain on foreign currency contracts	-	(834)
Mark-to-market gain on interest rate swap contracts	-	(459)
Amortization of de-designated hedges	-	455
Gain on sale of property, plant and equipment	-	(3)
Interest paid	(1,191)	(1,244)
Income tax paid	(350)	(608)
Change in pension asset	(375)	(848)
Change in non-cash operating working capital (note 13)	(1,411)	(1,392)
	452	(365)
Investing activities:		
Additions to property, plant and equipment	(765)	(231)
Proceeds from sale of property, plant and equipment	-	5
Proceeds from net investment in leases	29	84
Additions to intangible assets	(90)	(4)
	(826)	(146)
Financing activities:		
Proceeds from long-term debt	621	2,413
Change in other long-term liabilities	(1)	(42)
Additions to deferred financing charges	-	(2)
Decrease in loan to Pollard Equities Limited	2,157	10,760
Change in dividends payable	-	(235)
Decrease in distributions payable to Pollard Equities Limited	(2,157)	(11,407)
Dividends paid	(706)	(1,588)
	(86)	(101)
Foreign exchange (loss) gain on cash held in foreign currency	(63)	29
Change in cash position	(523)	(583)
Cash position, beginning of period	5,405	3,706
Cash position, end of period	$ 4,882	$ 3,123

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, 2011

		Attributable to equity holders of Pollard Banknote Limited				
		Share capital	**Translation reserve**	**Hedging reserve**	**Retained deficit**	**Total equity**
Balance at January 1, 2011	$	73,209	(661)	(258)	(39,945)	32,345
Net income for the period		-	-	-	890	890
Other comprehensive income						
Foreign currency translation differences – foreign operations		-	(400)	-	-	(400)
Unrealized loss on derivatives designated as cash flow hedges, net of income tax of $67		-	-	116	-	116
Total other comprehensive income	$	-	(400)	116	-	(284)
Total comprehensive income for the period	$	-	(400)	116	890	606
Dividends to owners of Pollard Banknote Limited		-	-	-	(706)	(706)
Balance at March 31, 2011	$	73,209	(1,061)	(142)	(39,761)	32,245

For the three months ended March 31, 2010

		Attributable to equity holders of Pollard Banknote Limited				
		Share capital	**Translation reserve**	**Hedging reserve**	**Retained deficit**	**Total equity**
Balance at January 1, 2010	$	73,209	-	(1,220)	(38,004)	33,985
Net income for the period		-	-	-	1,735	1,735
Other comprehensive income						
Foreign currency translation differences – foreign operations		-	(462)	-	-	(462)
Unrealized loss on derivatives designated as cash flow hedges, net of income tax reduction of ($34)		-	-	(60)	-	(60)
Amortization of de-designated hedges, net of income tax of $60		-	-	395	-	395
Total other comprehensive income	$	-	(462)	335	-	(127)
Total comprehensive income for the period	$	-	(462)	335	1,735	1,608
Dividends to owners of Pollard Banknote Limited		-	-	-	(1,588)	(1,588)
Balance at March 31, 2010	$	73,209	(462)	(885)	(37,857)	34,005

1. Reporting entity:

Pollard Banknote Limited ("Pollard"), formerly 7510101 Canada Limited, was incorporated under the laws of Canada on March 26, 2010.

The condensed consolidated interim financial statements of Pollard as at and for the three months ended March 31, 2011, comprise Pollard and its subsidiaries. Pollard is primarily involved in the manufacture and sale of lottery and gaming products.

Pollard's consolidated financial statements as at and for the year ended December 31, 2010, which were prepared under previous Canadian Generally Accepted Accounting Principles ("GAAP") are available at www.sedar.com.

On May 14, 2010, the operations of Pollard Banknote Income Fund (the "Fund") and its main operating affiliate Pollard Holdings Limited Partnership ("Pollard LP") converted, by way of a Plan of Arrangement (the "Conversion"), to a corporation, 7510101 Canada Limited, which was subsequently renamed Pollard Banknote Limited. Prior to the Conversion the Fund indirectly owned, through the Pollard Banknote Trust ("Trust"), approximately 26.7 percent of Pollard LP and the remaining approximately 73.3 percent was owned by Pollard Equities Limited ("Equities"). Pursuant to the terms of the Conversion, holders of Fund units received, in exchange for each of their Fund units, one common share of Pollard. Equities, the holder of the Class B and Class C limited partnership units (collectively, the "Exchangeable LP Units") of Pollard LP and the associated Special Voting Units, received, in exchange for each group of one Exchangeable LP Unit (together with the accompanying Special Voting Units) one common share of Pollard.

As a result of the Conversion, Pollard became the 100% owner of both the Fund and Pollard LP, with Pollard LP continuing to operate the business.

Since there was no change in control as a result of the Conversion, the transaction has been accounted for as if the Conversion had occurred at the beginning of the earliest comparative period presented. These condensed consolidated interim financial statements incorporate the results of both the Fund and Pollard LP with the prior to conversion comparative figures having been restated to reflect the combined results of both entities. The assets and liabilities of the Fund and Pollard LP were combined at their carrying values. As a result of the Conversion, the Canadian operations of Pollard became taxable under the *Income Tax Act* (Canada). Therefore, the differences between the tax values and the net book value of the Canadian assets and liabilities have been recorded as deferred tax assets and liabilities in the prior to conversion comparative figures.

These condensed consolidated interim financial statements reflect the entities conducting the business of manufacturing and selling lottery and gaming products of the Pollard group as a corporation subsequent to May 14, 2010 and as an income trust and limited partnership prior to the Conversion. All references to "common shares" collectively refer to Pollard's common shares on and subsequent to May 14, 2010 and Fund Units and Class B and C Limited Partnership Units

1. Reporting entity (continued):

prior to the Conversion. All references to "dividends" refer to dividends paid or payable to holders of Pollard common shares on and subsequent to May 14, 2010 and to distributions payable to Fund Unitholders and Class B and C limited partnership Unitholders prior to the Conversion. All references to "shareholders" refer collectively to holders of Pollard common shares on and subsequent to May 14, 2010 and to Fund Unitholders and Class B and C limited partnership Unitholders prior to the Conversion.

The overall impact of seasonality does not have a significant impact on the operations of Pollard, although production volumes are historically slightly lower in the first quarter relative to the rest of the year.

2. Statement of compliance:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*. These are Pollard's first International Financial Reporting Standards ("IFRS") condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The condensed consolidated interim financial statements do not include all the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of Pollard is provided in Note 19. This note includes reconciliations of shareholders' equity and comprehensive income for comparative periods and of equity at January 1, 2010, the date of transition ("Date of Transition"), reported under previous Canadian GAAP to those reported for those periods and at the Date of Transition under IFRS.

On May 12, 2011 Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Basis of preparation:

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

- Derivative financial instruments are measured at fair value

2. Statement of compliance (continued):

- The pension asset is recognized as the net total of the plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation.

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

(c) Use of estimates and judgments:

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

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

Cost of good sold with percent of retail sales contracts:

Under certain instant lottery ticket contracts Pollard recognizes revenue for its tickets based on a percentage applied to the applicable lotteries' retail sales. The lotteries have the discretion to remove these games from market prior to selling all available tickets and as such Pollard must estimate the sell-through rate of these games in order to properly match the cost of goods sold to the revenue expected from the game.

Impairment of goodwill:

Pollard determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units ("CGUs") to which goodwill is allocated. Estimating a value in use requires Pollard to make an estimate of the future expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are provided in Note 7.

Employee future benefits:

Accounting for defined benefit plans requires Pollard to use actuarial assumptions. These assumptions include the discount rate, expected rate of return on plan assets and the rate of compensation increases. These assumptions depend on underlying factors such as economic conditions, government regulations, investment performance, employee demographics and

2. Statement of compliance (continued):

mortality rates. Pollard was required to use judgment in determining the pension expense to assess the recoverability of the pension plan asset. See Note 3 (j) for further information.

Income taxes:

Pollard is required to evaluate the recoverability of deferred income tax assets. This requires an estimate of Pollard's ability to utilize the underlying future income tax deductions against future taxable income before they expire. In order to evaluate the recoverability of these deferred income tax assets, Pollard must estimate future taxable income.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010, for the purposes of the transition to IFRS, unless otherwise indicated.

(a) Principles of consolidation:

These condensed consolidated interim financial statements include the accounts of Pollard and the following 100 percent owned subsidiaries:

- Pollard Holdings Limited Partnership.
- Pollard Banknote GP Limited
- Pollard (U.S.) Ltd.
- Pollard Banknote Limited Partnership
- Pollard Holdings, Inc.
- Pollard Investments Limited
- Concursos y Promociones Pollard de Puerto Rico, Inc.
- Pollard Banknote Income Fund
- Pollard Banknote Trust
- Pollard (Canada), Inc.
- PBL of Puerto Rico, Inc.
- Pollard Games, Inc.
- Nacako Sdn Bhd

3. Significant accounting policies (continued):

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

As part of its transition to IFRS, Pollard elected not to restate previous business combinations.

In January 2011, Pollard Banknote Trust and Pollard Banknote Income Fund were wound up in contemplation of the completion of the final steps of the Conversion.

(b) Revenue recognition:

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

(c) Leases:

One of Pollard's subsidiaries has leasing operations which consist principally of the leasing of Pull Tab Vending Machines ("PTVM") with various private establishments. These leases are classified as finance leases. The PTVM leases have terms of three years. The net investment in these leases consists of the present value of the future minimum lease payments. Interest income is recognized in other income based on a pattern reflecting a constant periodic return on the net investment in the finance lease.

(d) Inventories:

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

(e) Goodwill:

Goodwill is comprised of the excess sale price over the underlying carrying amount of the net assets sold as at August 5, 2005, as part of the 26.7% of Pollard LP sold in conjunction with

3. Significant accounting policies (continued):

the Initial Public Offering ("IPO") and the excess purchase price over the underlying carrying amount of the net assets acquired of Pollard's U.S. subsidiaries. Goodwill is not amortized but is subject to an annual impairment review to ensure its recoverable value remains greater than, or equal to, book value.

As part of the transition to IFRS, Pollard elected not to restate business combinations that occurred prior to the Date of Transition. As such, goodwill represents the amount recognized under previous Canadian GAAP.

(f) Intangible assets:

Research and development:

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

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

Other intangible assets:

Intangible assets that are acquired by Pollard and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

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

Asset	Rate
Customer assets	16 years
Patents	6 to 15 years
Computer software	5 years
Deferred development	Duration of contract

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

3. Significant accounting policies (continued):

(g) Property, plant and equipment:

Property, plant and equipment ("PP&E") are stated at cost less investment tax credits, accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and related fringes, other costs directly attributable to bringing the assets to working condition for their intended use and borrowing costs incurred in respect to qualifying assets.

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

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

Asset	Rate
Buildings	10 to 30 years
Leasehold improvements	Term of lease
Equipment	3 to 11 years
Furniture, fixtures and computers	3 to 9 years

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

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

(h) Financial instruments:

Non-derivative financial assets

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

3. Significant accounting policies (continued):

instrument. Pollard derecognizes a financial asset when the contractual rights to the cash flows from the asset expire.

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

i) Financial assets at fair value through profit or loss

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

ii) Held-to-maturity financial assets

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

iii) Loans and receivables

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

iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein,

3. Significant accounting policies (continued):

other than impairment losses and foreign exchange differences, are recognized in other comprehensive income and are presented in fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to net income. Pollard has no financial assets classified as available-for-sale.

Non-derivative financial liabilities

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

Pollard classifies accounts payable and accrued liabilities, dividends payable, distributions payable to Pollard Equities Limited, long-term debt and other long-term liabilities as other financial liabilities.

Share Capital

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

Derivatives and hedge accounting

Pollard may use certain derivative financial instruments to manage risks of fluctuation in interest rates and foreign exchange rates. Pollard does not engage in the trading of these derivative financial instruments for profit. On initial designation of the derivative as the hedging instrument, Pollard formally documents the relationship between the hedging instrument and the hedging item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. Pollard makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the change in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent.

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

3. Significant accounting policies (continued):

i) Cash flow hedges

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

ii) Other non-trading derivatives

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

(i) Translation of foreign currencies:

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

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

3. Significant accounting policies (continued):

In accordance with IFRS 1, Pollard has elected to deem all foreign currency translation differences that arose prior to the Date of Transition to be nil, see Note 19.

(j) Employee future benefits:

Defined contribution plans:

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

Defined benefit plans:

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

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

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

Actuarial gains and losses are recognized in net income when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period are in excess of 10 percent of the greater of the benefit obligation or the fair value of plan assets.

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

3. Significant accounting policies (continued):

All actuarial gains and losses at the Date of Transition to IFRS, were recognized in retained deficit, see Note 19.

(k) Income taxes:

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

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

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

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

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

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

(l) Provisions:

Provisions are recognized when Pollard has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of

3. Significant accounting policies (continued):

money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Restructuring

A provision for restructuring is recognized when Pollard has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly.

(m) Impairment:

Financial assets

Financial assets classified as loans and receivables, held-to-maturity and available-for-sale are assessed at each reporting period date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Evidence of impairment may include default or delinquency by a debtor, indications that a debtor will enter bankruptcy or economic conditions that correlate with defaults. Pollard has neither available-for-sale or held-to-maturity instruments.

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

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

3. Significant accounting policies (continued):

Non-financial assets

The carrying amount of Pollard's non-financial assets, other than inventories and deferred income tax assets, are reviewed at each reporting date to determine whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, Pollard estimates the asset's recoverable amount. For goodwill the recoverable amount is estimated as of June 30 each year. An impairment loss is recognized if the carrying amount of an asset or its related cash CGU exceeds its estimated recoverable amount.

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

Impairment losses are recognized in net income. Impairment losses recognized in respect to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other asset in the CGU on a pro rata basis. An impairment loss in respect to goodwill is not reversed. In respect to other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss can only be reversed to the extent that the asset's carrying value that would have been determined, net of amortization, if no impairment had been recognized.

(n) Finance costs and finance income:

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

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

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

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

4. Future accounting standards:

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9 *Financial Instruments.* IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classifications options in IAS 39. IFRS 9 is effective for fiscal years beginning on or after January 1, 2013.

Pollard is currently assessing the impact of this new standard on its consolidated financial statements.

5. Loan to Pollard Equities Limited and distributions payable to Pollard Equities Limited:

Prior to the Conversion, Pollard Equities Limited exercised its right to receive its entitlement to monthly cash dividends by way of a loan. The loan to Pollard Equities Limited and the related distributions payable to Pollard Equities Limited were settled subsequent to December 31, 2010. For purposes of financial presentation, the loan receivable from and related distributions payable to Pollard Equities Limited have been presented separately as there is no legal right of offset against each of these balances.

6. Inventories:

	March 31, 2011	December 31, 2010
Raw materials	**$ 5,289**	$ 4,799
Work-in-process	**713**	935
Finished goods	**12,543**	12,155
	$ 18,545	$ 17,889

During the first quarter of 2011, Pollard recorded inventory write-downs of $2 representing an increase in the obsolescence reserves, and write-downs of $17 due to changes in foreign exchange rates.

During the first quarter of 2010, Pollard recorded inventory write-downs of $19 representing an increase in the obsolescence reserves, and write-downs of $43 due to changes in foreign exchange rates.

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

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

7. Goodwill:

Goodwill is comprised of $30,620 (2010 - $30,620), representing the excess purchase price over the underlying carrying amount of the net assets sold, as at August 5, 2005, as a result of the 26.7% of Pollard LP sold as part of Pollard Banknote Income Fund's IPO with the remaining $5,033 (December 31, 2010 - $5, 182) from Pollard's purchase of its U.S. subsidiaries.

During the first quarter of 2011 the value of goodwill decreased $149 (2010 - $175) as a result of changes in foreign exchange rates.

Goodwill has been allocated to CGUs for impairment testing as described in the table below. The carrying amount of goodwill at March 31, 2011 and December 31, 2010, are as follows:

	March 31, 2011	December 31, 2010
Lottery	$ 30,620	$ 30,620
Charitable games	5,033	5,182
	$ 35,653	$ 35,802

For both the Lottery and Charitable Gaming CGUs the recoverable amounts have been determined based on a value in use calculation using cash flow projections from financial forecasts approved by senior management. These forecasts cover a period of five years and reflect an estimate of a terminal value. Included in these forecasts is an assumption of a 3% growth rate which was based on historical trend and expected future performance.

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

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

Revenue and related gross margin

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

Foreign exchange rates

A significant portion of revenue is denominated in U.S. dollars offset by a portion of U.S. dollar denominated costs. In addition, certain financial assets and liabilities are denominated in U.S.

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

7. Goodwill (continued):

currency. Projected cash flows assume an estimated exchange rate between Canadian dollars to U.S. dollars based on expected exchange rates during the forecast period.

Discount rates

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

Lottery	10.0%
Charitable Gaming	11.0%

Growth rates

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

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

8. Intangible assets:

Intangible assets include patents, deferred development costs and the excess purchase price over the underlying carrying amount of the intangible assets acquired as at August 5, 2005, as part of the 26.7% of Pollard LP sold in conjunction with the IPO.

Amortization of intangible assets the three months ended March 31, 2011, was $511 (2010 - $483).

9. Provisions:

		Restructuring reserve
Balance at January 1, 2011	$	1,006
Utilized		(379)
Balance at March 31, 2011	$	627

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

9. Provisions (continued):

Restructuring reserve

On November 5, 2009, Pollard announced the closing of its Kamloops production facility effective February 28, 2010. In 2009 a facility closing reserve of $4,746 was incurred primarily representing employee severance and related fringe costs. The cash outlays related to the facility closing accrual will be expended, starting March 1, 2010, over a period of approximately two years, consistent with the terms of their salary and benefit continuance based on their individual weeks of severance.

In the fourth quarter of 2010 approximately 30 salaried positions were eliminated. The restructuring expense recorded in that quarter included severance payments and related fringe totaling approximately $886 with approximately $500 to be paid out in 2011.

10. Long-term debt:

		March 31, 2011		December 31, 2010
Credit facility, interest of 4.44% to 7.08% payable monthly, maturing 2012	**$**	**75,341**	$	75,000
Deferred financing charges, net of amortization		**(906)**		(1,045)
	$	**74,435**	$	73,955

Included in the total credit facility balance is a U.S. dollar loan balance of US$20,000 (December 31, 2010 – US$23,000).

Effective September 30, 2010, Pollard's subsidiaries Pollard Holdings Limited Partnership and Pollard Holdings, Inc. renewed their syndicated credit facility. The credit facility provides loans of up to $70,000 for its Canadian operations and up to US$25,000 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, 2011, the outstanding letters of credit drawn under the credit facility were $5,050 (December 31, 2010 - $4,661).

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, depreciation and amortization ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at March 31, 2011, Pollard is in compliance with all financial covenants.

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

10. Long-term debt (continued):

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard and its operating subsidiaries. The credit facility can be prepaid without penalties. Under the terms of the agreement, the credit facility is committed for a one year period, renewable October 31, 2011. If the credit facility is not renewed, the loans are repayable one year after the credit facility expiry date. As such, the credit facility has effectively a two year term expiring October 31, 2012.

Beginning at the end of the first quarter of 2011 the amount of the facility will be reduced on a quarterly basis by an amount calculated as 50% of the prior quarter's Excess Cash Flow. Excess Cash Flow is defined as Adjusted EBITDA less scheduled principal indebtedness payments (if any), interest and cash income taxes paid. The reduction in the available facility will be waived when the debt to Adjusted EBITDA ratio reaches certain target levels. Based on the Excess Cash Flow generated in the quarter ending March 31, 2011, the credit facility will be reduced by approximately $1,150 as of June 30, 2011. As of March 31, 2011, Pollard has unused credit facility available of $13,359.

Pollard Holdings, Inc. entered into one interest rate swap agreement effectively converting variable rate debt obligations in the amount of US$14,778 with underlying current floating rates of 0.50 percent plus applicable credit margin to a fixed rate of 2.95 percent plus applicable credit margin from August 31, 2010 to August 31, 2011.

11. Income taxes:

Reconciliation to statutory rate:

The overall income tax provision differs from the amount that would be obtained by applying the combined statutory income tax rate to income due to the following:

		March 31, 2011		March 31, 2010
Income taxes at Canadian rates:				
Canadian combined federal and provincial income tax rate		**28.3%**		30.0%
Income taxes	**$**	**243**	$	679
Taxable loss allocated to limited partners and therefore not subject to tax		**-**		192
Withholding taxes and other non-taxable items		**61**		249
Effect of non-taxable items related to foreign exchange		**(335)**		(592)
Provision for income taxes	**$**	**(31)**	$	528

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

12. Share capital:

		March 31, 2011		December 31, 2010
Authorized:				
Unlimited common shares				
Unlimited preferred shares				
Issued:				
23,543,158 common shares	**$**	**73,209**	$	73,209
	$	**73,209**	$	73,209

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.

Capital Management:

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

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

Pollard monitors capital on the basis of funded debt to Adjusted EBITDA, working capital ratio and debt service coverage. Pollard has externally imposed capital requirements as determined through its bank credit facility. Under the syndicated credit facility, Pollard has agreed not to pay dividends in excess of the current quarterly amount of $0.03 per share until the debt to Adjusted EBITDA ratio is reduced to a certain level. As at March 31, 2011, Pollard is in compliance with all financial covenants.

On January 6, 2010, Pollard declared a dividend of $0.0475 for the month of January, payable February 15, 2010. On January 28, 2010, Pollard changed its dividend policy. Dividends of $0.01 per share were declared for the months of February, payable March 15, 2010, March, payable April 15, 2010, and April, payable May 14, 2010.

Following the Conversion, Pollard initiated a dividend rate of $0.03 per share per quarter. The dividend declared on May 5, 2010, to shareholders of record on June 30, 2010, for payment July 15, 2010, was $0.02 per share relating to the months of May and June.

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

12. Share capital (continued):

On August 4, 2010, a dividend of $0.03 per share was declared, payable to shareholders of record on September 30, 2010. On November 3, 2010, a dividend of $0.03 per share was declared, payable to shareholders of record on December 31, 2010 and on March 9, 2011, a dividend of $0.03 per share was declared, payable to shareholders of record on March 31, 2011.

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

13. Supplementary cash flow information:

		March 31, 2011		March 31, 2010
Change in non-cash operating working capital:				
Accounts receivable	**$**	**(1,880)**	$	(4,094)
Inventories		**(819)**		459
Prepaid expenses and deposits		**(183)**		223
Accounts payable and accrued liabilities		**1,850**		2,772
Provisions		**(379)**		(752)
	$	**(1,411)**	$	(1,392)

14. Related party transactions:

During the quarter ended March 31, 2011, Pollard paid property rent of $672 (2010 - $669) to affiliates of Equities. During the quarter, Equities paid Pollard $18 (2010 - $18) for accounting and administration fees.

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. During the three months ended March 31, 2011, Pollard compensated its key management personnel $732 (2010 - $769).

At March 31, 2011, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent and other expenses of $634 (December 31, 2010 - $721).

During the second quarter of Fiscal 2010, Pollard disposed of a building and land in Kamloops, British Columbia to an affiliate of Equities for total proceeds of $2,900 resulting in a gain of $1,838. The selling price was based on the current fair market value as determined through an independent appraisal.

14. Related party transactions (continued):

Included in accounts payable and accrued liabilities is an amount owing of $500 (December 31, 2010 - $500) to Equities. According to the terms of the Investment Agreement dated July 27, 2005, Equities agreed to indemnify Pollard for all costs relating to certain outstanding litigation at the time of the IPO, including litigation relating to the closure of Imprimerie Spéciale de Banque (ISB), a French subsidiary of the predecessor company to Pollard which ceased operations as of November 15, 1999. The indemnity was subject to an overriding requirement for Pollard to absorb the first $500 of any indemnified costs. The litigation relating to ISB was settled in 2009 by Equities for $1,798 and as such, Pollard is required to reimburse $500 to Equities. The $500 liability was originally accrued at the time of the August 5, 2005, IPO as Pollard's expected share of the liability related to the ISB litigation.

15. Financial instruments:

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

The fair values of accounts receivable, loan to Pollard Equities Limited, accounts payable and accrued liabilities, provisions and dividends payable approximate their carrying values given their short-term maturities.

The fair value of the investment in leases approximate the carrying value as the interest rates implicit in the leases approximate rates for similar type instruments.

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

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

The fair value of foreign currency forward contracts is estimated utilizing market forward rates of exchange.

The fair value of the interest rate swap contracts is based on the amount at which they could be settled using current interest rates.

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

15. Financial instruments (continued):

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

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

Level 3 - valuation techniques with significant unobservable market inputs

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

As at March 31, 2011, the cash recorded at fair value is classified as level one and interest rate swap contracts recorded at fair value in the condensed consolidated balance sheet are classified as level two, of the fair value hierarchy.

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 polices 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.

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

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:

	March 31, 2011	December 31, 2010
Current	**$ 13,682**	$ 12,388
Past due for 1 to 60 days	**2,449**	1,648
Past due for more than 60 days	**358**	594
Less: Allowance for doubtful accounts	**(99)**	(102)
	$ 16,390	$ 14,528

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 committed credit facilities including up to $70,000 for its Canadian operations and up to US$25,000 for its U.S. subsidiaries. At March 31, 2011, the unused balance available for drawdown was $13,359 (December 31, 2010 - $15,339).

The 2011 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to international customers where sales are denominated in U.S. dollars. In addition, a significant portion of its cost inputs are denominated in U.S. dollars. Pollard also generates a small amount of 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 $45 for the three months ended March 31, 2011 (2010 - $45).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. As at March 31, 2011, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately $13,866 (December 31, 2010 - $14,026). A 50 basis point

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

16. Financial risk management (continued):

weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in net income of approximately $69 (December 31 2010 - $70).

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. As at March 31, 2011, Pollard had entered into an interest rate swap contract to fix the interest rates on approximately 19% of the long-term debt for a period of 5 months. This interest rate swap contract allows one of Pollard LP's subsidiaries to receive interest at floating rates and pay interest at a fixed rate.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately $77 for the three months ended March 31, 2011 (2010 - $45).

17. Finance costs and finance income:

Finance costs:		March 31, 2011		March 31, 2010
Interest	**$**	**1,156**	$	1,383
Amortization of deferred financing costs		**139**		54
Amortization of de-designated hedges		**-**		455
	$	**1,295**	$	1,892

Finance income:		March 31, 2011		March 31, 2010
Foreign exchange gain	**$**	**(749)**	$	(617)
Mark-to-market gain on foreign exchange contracts		**-**		(834)
Mark-to-market gain on interest rate swap contracts		**-**		(459)
	$	**(749)**	$	(1,910)

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

18. Personnel Expenses:

		March 31, 2011		March 31, 2010
Wages, salaries and benefits	**$**	**15,348**	$	15,866
Profit share		**113**		218
Expenses related to defined contribution plans		**39**		38
Expenses related to defined benefit plans		**338**		269
	$	**15,838**	$	16,391

19. Explanation of transition to IFRS:

As stated in Note 2(a), these are Pollard's first condensed consolidated interim financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the interim financial statements for the three months ended March 31, 2011, the comparative information presented in these interim financial statements for both the three months ended March 31, 2010 and year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2011 (Pollard's date of transition).

In preparing its opening IFRS statement of financial position, Pollard has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected Pollard's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

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

19. Explanation of transition to IFRS (continued):

Reconciliation of shareholders' equity:

	Note	Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
		January 1, 2010			March 31, 2010			December 31, 2010		
Assets										
Current assets:										
Cash		$ 3,706		3,706	3,123		3,123	5,405		5,405
Accounts receivable		16,361		16,361	20,226		20,226	14,528		14,528
Loan to Pollard Equities Limited		12,572		12,572	1,812		1,812	2,157		2,157
Inventories		20,259		20,259	19,627		19,627	17,889		17,889
Prepaid expenses and deposits	a	4,113	(1,648)	2,465	4,739	(2,496)	2,243	5,537	(3,287)	2,250
Net investment in leases due within one year		262		262	204		204	114		114
Deferred income taxes	f	2,529	(2,529)	-	1,821	(1,821)	-	730	(730)	-
		59,802	(4,177)	55,625	51,552	(4,317)	47,235	46,360	(4,017)	42,343
Property, plant and equipment	b	39,085	(956)	38,129	37,730	(962)	36,768	34,672	(795)	33,877
Pension asset	a	-	303	303	-	1,151	1,151	-	1,942	1,942
Net investment in leases		194		194	156		156	40		40
Goodwill		36,052		36,052	35,877		35,877	35,802		35,802
Intangible assets		15,590		15,590	15,111		15,111	13,743		13,743
Deferred income taxes	f	3,605	(2,917)	688	5,043	(4,491)	552	5,345	(4,848)	497
		$ 154,328	(7,747)	146,581	145,469	(8,619)	136,850	135,962	(7,718)	128,244

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

19. Explanation of transition to IFRS (continued):
Reconciliation of shareholders' equity (continued):

	Note		Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
			January 1, 2010			March 31, 2010			December 31, 2010		
Liabilities and Shareholders' Equity											
Current liabilities:											
Accounts payable and accrued liabilities	c	$	19,516	(4,746)	14,770	21,732	(3,994)	17,738	17,214	(1,006)	16,208
Provisions	c		-	4,746	4,746	-	3,994	3,994	-	1,006	1,006
Dividends payable			298		298	63		63	706		706
Distributions payable to Pollard Equities Limited			13,392		13,392	1,985		1,985	2,157		2,157
Income taxes payable	d		655	621	1,276	275	621	896	139	469	608
			33,861	621	34,482	24,055	621	24,676	20,216	469	20,685
Long-term debt			75,651		75,651	76,873		76,873	73,955		73,955
Other long-term liabilities	d		827	(621)	206	777	(621)	156	686	(469)	217
Foreign currency contracts			834		834	-		-	-		-
Interest rate swap contracts			1,423		1,423	1,073		1,073	374		374
Deferred income taxes	f		5,336	(5,336)	-	6,178	(6,111)	67	6,030	(5,362)	668
Shareholders' equity:											
Share capital			73,209		73,209	73,209		73,209	73,209		73,209
Reserves	e		(3,408)	2,188	(1,220)	(3,535)	2,188	(1,347)	(3,107)	2,188	(919)
Deficit	g		(33,405)	(4,599)	(38,004)	(33,161)	(4,696)	(37,857)	(35,401)	(4,544)	(39,945)
			36,396	(2,411)	33,985	36,513	(2,508)	34,005	34,701	(2,356)	32,345
		$	154,328	(7,747)	146,581	145,469	(8,619)	136,850	135,962	(7,718)	128,244

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

19. Explanation of transition to IFRS (continued):

Reconciliation of comprehensive income for the three months ended March 31, 2010:

	Note		Previous GAAP	Reclassifications	Effect of transition to IFRS	IFRS
Sales		$	41,246			41,246
Cost of sales	b		33,602	609	6	34,217
			7,644	(609)	(6)	7,029
Selling and administration			4,776	(4,776)		-
Administration			-	3,373		3,373
Selling			-	1,441		1,441
Interest			1,383	(1,383)		-
Foreign exchange gain			(617)	617		-
Amortization of intangibles			483	(483)		-
Mark-to-market gain on foreign currency contracts			(834)	834		-
Mark-to-market gain on interest rate swap contracts			(459)	459		-
Amortization of de-designated hedges			455	(455)		-
Other income			(30)			(30)
Employee profit sharing			218	(218)		-
Income from operations			2,269	(18)	(6)	2,245
Finance cost			-	1,892		1,892
Finance income			-	(1,910)		(1,910)
Income before income taxes			2,269	-	(6)	2,263
Income taxes:						
Current			375			375
Deferred	f		62		91	153
			437		91	528
Net income		$	1,832		(97)	1,735
Other comprehensive loss:						
Foreign currency translation differences – foreign operations			(462)			(462)
Unrealized loss on derivatives designated as cash flow hedges, net of income tax (reduction) of ($34)			(60)			(60)
Amortization of de-designated hedges, net of income tax of $60			395			395
Other comprehensive loss – net of income tax		$	(127)			(127)
Comprehensive income		$	1,705		(97)	1,608

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

19. Explanation of transition to IFRS (continued):

Reconciliation of comprehensive income for the year ended December 31, 2010:

	Note		Previous GAAP	Reclassifications	Effect of transition to IFRS	IFRS
Sales		$	163,448			163,448
Cost of sales	b		132,034	3,781	24	135,839
			31,414	(3,781)	(24)	27,609
Selling and administration			20,325	(20,325)		-
Administration			-	15,477		15,477
Selling			-	6,043		6,043
Interest			5,202	(5,202)		-
Foreign exchange gain			(138)	138		-
Amortization of intangibles			1,984	(1,984)		-
Mark-to-market gain on foreign currency contracts			(834)	834		-
Mark-to-market gain on interest rate swap contracts			(1,246)	1,246		-
Amortization of de-designated hedges			1,233	(1,233)		-
Gain on sale of property, plant and equipment	b		(1.834)	2,019	(185)	-
Conversion costs			673	(673)		-
Warranty reserve			877	(877)		-
Restructuring expense			1,169	(1,169)		-
Other income			(127)	(2,019)		(2,146)
Employee profit sharing			593	(593)		-
Income from operations			3,537	4,537	161	8,235
Finance cost			-	6,755		6,755
Finance income			-	(2,218)		(2,218)
Income before income taxes			3,537	-	161	3,698
Income taxes:						
Current			1,178			1,178
Deferred	f		647		106	753
			1,825		106	1,931
Net income		$	1,712		55	1,767
Other comprehensive income:						
Foreign currency translation differences – foreign operations			(661)			(661)
Unrealized loss on derivatives designated as cash flow hedges, net of income tax (reduction) of ($64)			(113)			(113)
Amortization of de-designated hedges, net of income tax of $158			1,075			1,075
Other comprehensive income – net of income tax		$	301			301
Comprehensive income		$	2,013		55	2,068

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

19. Explanation of transition to IFRS (continued):

Previous GAAP

Previous GAAP amounts have been restated as a result of the Conversion, please refer to Note 1 for further discussion of the accounting treatment of the Conversion.

Statement of cash flows

There are no material differences to the changes in cash from operating, investing and financing activities between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP. However some reclassifications have been made to conform with IFRS presentation requirements.

Notes to reconciliations:

Reclassifications

Under IAS 1 Pollard has the option of classifying expenses on the statement of income based on their nature or their function. Pollard has adopted the functional approach and restated the income statement accordingly.

(a) Under adoption of IFRS 1 Pollard has chosen to recognize the cumulative unrecognized actuarial gains and losses and other pension differences in retained deficit at the Date of Transition. Pollard has classified the remaining pension asset as non-current and reduced the prepaid balances accordingly.

The impact arising from the change is summarized as follows:

	January 1, 2010	March 31, 2010	December 31, 2010
Consolidated statements of financial position			
Prepaids	(1,648)	(2,496)	(3,287)
Pension asset	303	1,151	1,942
Related tax effect	348	348	348
Adjustment to retained deficit	(997)	(997)	(997)

(b) IAS 16 provides more explicit guidance with regard to property, plant and equipment being depreciated at the significant parts level. Pollard has categorized its PP&E in accordance with IFRS and calculated the impact of restating depreciation on this basis.

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

19. Explanation of transition to IFRS (continued):

The impact arising from the change is summarized as follows:

		Three months ended March 31, 2010	Year ended December 31, 2010
Consolidated statements of income			
Cost of goods sold		6	24
Gain on sale of property, plant and equipment		-	(185)
Adjustment to income before income tax		6	(161)
	January 1, 2010	**March 31, 2010**	**December 31, 2010**
Consolidated statements of financial position			
Property, plant and equipment	(956)	(962)	(795)
Related tax effect	295	295	244
Adjustment to retained deficit	(661)	(667)	(551)

(c) In accordance with IAS 37, Pollard has reclassified its restructuring liabilities as a provision.

The impact arising from the change is summarized as follows:

	January 1, 2010	March 31, 2010	December 31, 2010
Consolidated statements of financial position			
Accounts payable and accrued liabilities	(4,746)	(3,994)	(1,006)
Provisions	4,746	3,994	1,006

(d) In accordance with IAS 12, Pollard has reclassified the following amounts as income taxes payable:

	January 1, 2010	March 31, 2010	December 31, 2010
Consolidated statements of financial position			
Income taxes payable	621	621	469
Other long-term liabilities	(621)	(621)	(469)

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

19. Explanation of transition to IFRS (continued):

(e) In accordance with IFRS 1, Pollard has elected to deem all foreign currency translation differences that arose prior to the date of transition in respect to Pollard Games, Inc to be nil at the date of transition.

The impact arising from the change is summarized as follows:

	January 1, 2010	March 31, 2010	December 31, 2010
Consolidated statements of financial position			
Translation reserve	2,188	2,188	2,188
Adjustment to retained deficit	(2,188)	(2,188)	(2,188)

(f) Under IAS 12 a company is required to tax effect the difference between historical foreign exchange rates used to convert a company's foreign currency denominated PP&E and the current rate at the date of the financial statements. This resulted in an increase in deferred income tax liability of $753 at January 1, 2010, $844 at March 31, 2010 and $808 at December 31, 2010, and an increase to deferred income tax expense of $91 for the three months ended March 31, 2010 and an increase in deferred income tax expense of $55 for the year ended December 31, 2010.

The net changes to deferred income taxes are as follows based on an income tax rate of 27.5 percent for the Canadian operations and 36 percent for the U.S. operations:

	Note	January 1, 2010	March 31, 2010	December 31, 2010
Employee benefits	a	348	348	348
Property, plant and equipment	b	295	295	244
Impact of IAS 12 on PP&E	f	(753)	(844)	(808)
Net change to deferred income tax assets and liabilities		(110)	(201)	(216)

Under previous Canadian GAAP Pollard was required to designate deferred income taxes between current and long-term. Under IFRS all deferred income tax assets and liabilities are classified as long-term.

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

19. Explanation of transition to IFRS (continued):

The net impact on deferred income tax asset and liability balances, including the tax effect of the IFRS adjustments and the reclassification of current deferred income tax asset balances, is as follows:

	January 1, 2010	March 31, 2010	December 31, 2010
Change in current deferred income tax asset	(2,529)	(1,821)	(730)
Change in long-term deferred income tax asset	(2,917)	(4,491)	(4,848)
Change in long-term deferred income tax liability	5,336	6,111	5,362
Net change to deferred income tax assets and liabilities	(110)	(201)	(216)

The effect on the statement of income for the three months ended March 31, 2010, was to increase deferred income taxes by $91 and to increase deferred income taxes by $106 for the year ended December 31, 2010.

(g) The changes noted in (a) though (f) (net of income tax affect where applicable) increased retained deficit as follows:

	Note	January 1, 2010	March 31, 2010	December 31, 2010
Employee benefits	a	(997)	(997)	(997)
Property, plant and equipment	b	(661)	(667)	(551)
Translation reserve	e	(2,188)	(2,188)	(2,188)
Deferred income taxes	f	(753)	(844)	(808)
Increase in deficit		(4,599)	(4,696)	(4,544)