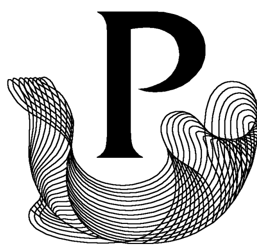


POLLARD BANKNOTE LIMITED

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)

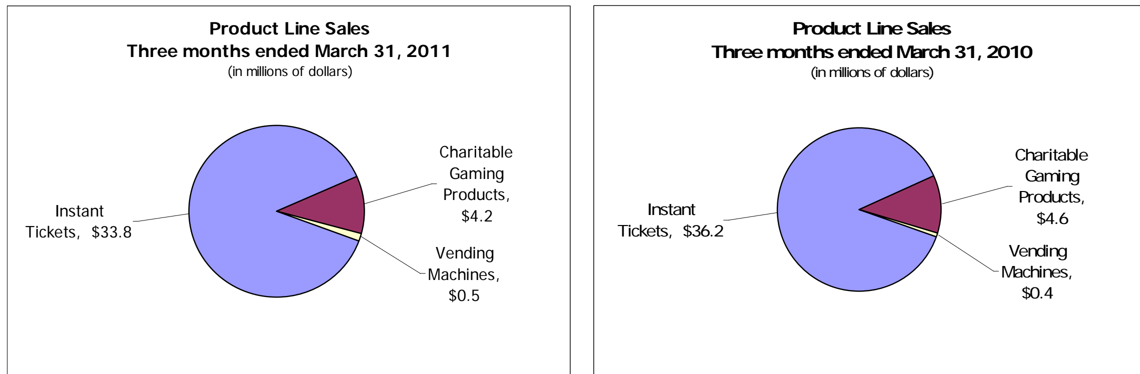
	Three months ended March 31, 2011	Three months ended March 31, 2010
Net Income	$0.9	$1.7
Adjustments:		
Interest	1.2	1.4
Unrealized foreign exchange gain	(0.4)	(1.3)
Mark-to-market gain on foreign currency contracts and interest rate swaps	-	(1.3)
Amortization of de-designated hedges	-	0.5
Income taxes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

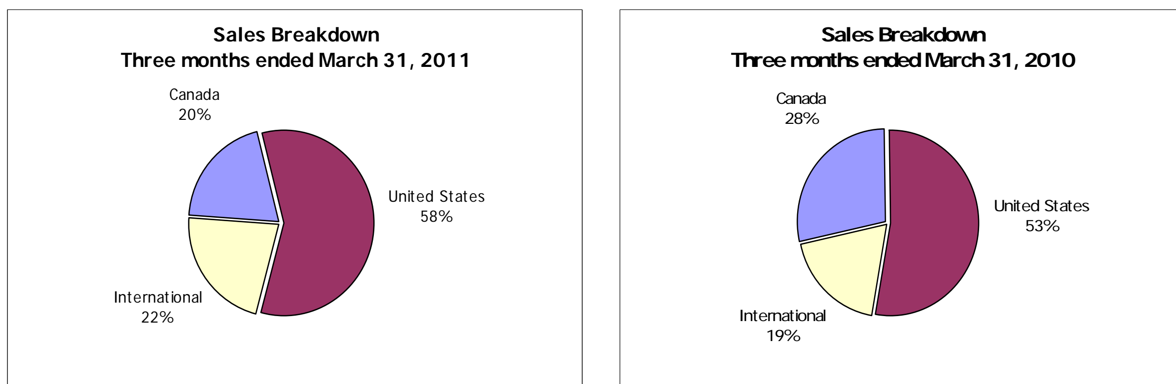
Sales



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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