POLLARD BANKNOTE LIMITED

June 30 - 2011

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011

August 3, 2011

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and six months ended June 30, 2011, is prepared as at August 3, 2011, and should be read in conjunction with the accompanying unaudited interim financial statements of Pollard and the notes therein as at June 30, 2011, the unaudited interim financial statements of Pollard and the notes therein as at March 31, 2011 (Pollard's first financial statements prepared under International Financial Reporting Standards) 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 and six months ended June 30, 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, internet support 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 June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Instant Tickets	89.5%	88.4%	88.8%	88.2%
Charitable Gaming Products	9.3%	10.7%	9.9%	10.9%
Vending Machines	1.2%	0.9%	1.3%	0.9%

Geographic breakdown of revenue

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
United States	55%	60%	57%	56%
Canada	28%	19%	24%	24%
International	17%	21%	19%	20%

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 per share 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, on March 9, 2011, for the quarter ending March 31, 2011, on May 12, 2011, for the quarter ending June 30, 2011 and on August 3, 2011, for the quarter ending September 30, 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 relating 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 June 30, 2011, Pollard had expended approximately $4.6 million of the facility closing reserve.

Sale of Property

On June 23, 2011, Pollard sold its building and land in Winnipeg, Manitoba to an affiliate of Equities for total proceeds of $3.5 million resulting in a gain of $1.5 million. The selling price was based on the current fair market value determined through an independent appraisal. Pollard subsequently leased the property back for a five year term (with an option to renew for an additional five year term) for annual rent of $0.3 million.

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 $2.0 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 and six months ended June 30, 2011.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Sales	$44.4	$43.1	$83.6	$84.4
Cost of Sales	36.7	36.6	69.8	70.9
Gross Profit	7.7	6.5	13.8	13.5
Gross Profit as a % of sales	*17.3%*	*15.1%*	*16.5%*	*16.0%*
Administration Expenses	3.4	4.4	6.7	7.8
Expenses as a % of sales	*7.7%*	*10.2%*	*8.0%*	*9.2%*
Selling Expenses	1.6	1.6	3.1	3.0
Expenses as a % of sales	*3.6%*	*3.7%*	*3.7%*	*3.6%*
Realized foreign exchange loss (gain)	(1.5)	0.2	(1.8)	0.9
Loss (gain) as a % of sales	*(3.4%)*	*0.5%*	*(2.2%)*	*1.1%*
Net Income (Loss)	1.8	(0.7)	2.7	1.0
Net Income (Loss) as a % of sales	*4.1%*	*(1.6%)*	*3.2%*	*1.2%*
Adjusted EBITDA	7.7	5.8	11.5	9.5
Adjusted EBITDA as a % of sales	*17.3%*	*13.5%*	*13.8%*	*11.3%*
Adjusted EBITDA excluding gain on sale of property, plant and equipment	6.2	3.8	10.0	7.5
As a % of sales	*14.0%*	*8.8%*	*12.0%*	*8.9%*
Earnings per share	$0.08	($0.03)	$0.11	$0.04

	June 30, 2011	December 31, 2010
Total Assets	$130.3	$128.2
Total Long Term Liabilities	$74.0	$74.2

RECONCILIATION OF NET INCOME (LOSS) TO ADJUSTED EBITDA

(millions of dollars)

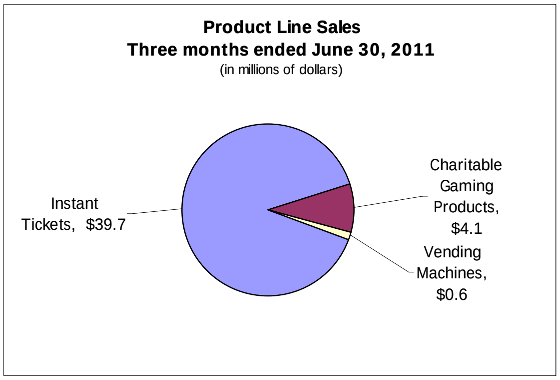
	Three months ended June 30, 2011	**Three months ended June 30, 2010**	**Six months ended June 30, 2011**	**Six months ended June 30, 2010**
Net Income (Loss)	$1.8	$(0.7)	$2.7	$1.0
Adjustments:				
Interest	1.2	1.4	2.4	2.8
Unrealized foreign exchange loss (gain)	1.6	0.4	1.2	(0.9)
Mark-to-market gain on foreign currency contracts and interest rate swaps	-	(0.5)	-	(1.8)
Amortization of de-designated hedges	-	0.5	-	0.9
Conversion costs	-	0.7	-	0.7
Warranty reserve	-	0.7	-	0.7
Income taxes	0.9	1.3	0.9	1.8
Amortization	2.2	2.0	4.3	4.3
Adjusted EBITDA	$7.7	$5.8	$11.5	$9.5
Gain on sale of property, plant and equipment	1.5	2.0	1.5	2.0
Adjusted EBITDA excluding gain on sale of property, plant and equipment	$6.2	$3.8	$10.0	$7.5

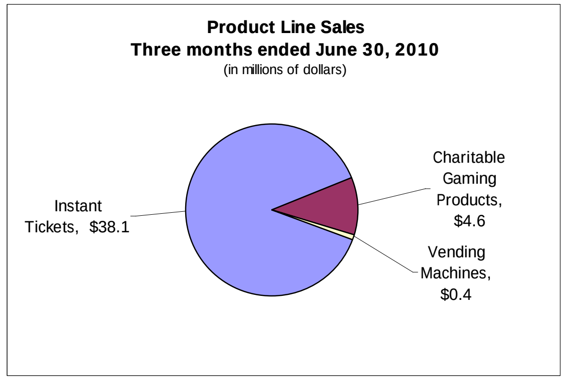
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2011

Sales

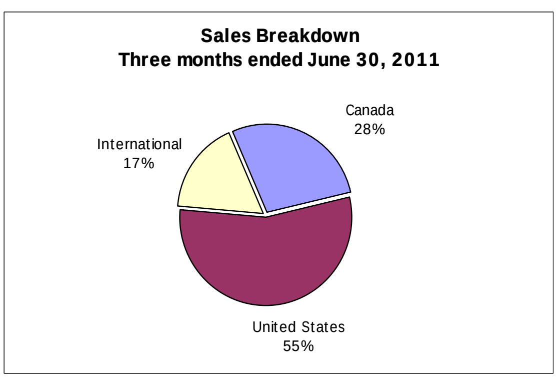


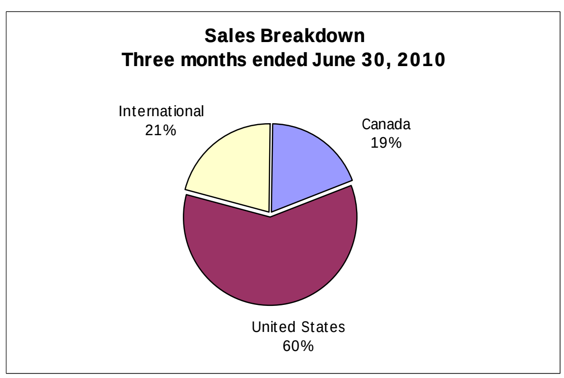


During the three months ended June 30, 2011, Pollard achieved sales of $44.4 million, compared to $43.1 million in the three months ended June 30, 2010. Factors impacting the $1.3 million sales increase were:

Strengthening of the Canadian dollar

During the three months ended June 30, 2011, Pollard generated approximately 66% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the second quarter of 2011 the actual U.S. dollar value was converted to Canadian dollars at $0.97, compared to a rate of $1.04 during the second quarter of 2010. This 7% decrease in the U.S. dollar value resulted in an approximate decrease of $1.9 million in revenue relative to the second quarter of 2010. Also during the second quarter of 2011, the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.1 million in revenue relative to the second quarter of 2010.





Other

Instant ticket volumes for the second quarter of 2011 were higher than the second quarter of 2010 by 5.3% which, combined with our ancillary instant ticket products and services, increased sales by $1.6 million. Sales volumes were higher primarily due to increased sales to existing customers. In addition, an increase in average selling price compared to 2010 increased sales by $1.5 million. Charitable Gaming volume decreased slightly during the quarter reducing sales by $0.2 million when compared to 2010, which was offset by an increase in sales as a result of increased machine volumes in the quarter when compared to 2010.

Cost of sales and gross margin

Cost of sales was $36.7 million in the second quarter of 2011 compared to $36.6 million in the second quarter of 2010. Lower exchange rates on U.S. dollar transactions in the second quarter of 2011 decreased cost of sales approximately $0.8 million. Cost of sales were higher in the quarter relative to 2010 as a result of the increased instant ticket volumes, partially offset by costs savings generated by our Change Initiative process as well as the decrease in the warranty reserve of $0.7 million.

Gross profit was $7.7 million (17.3% of sales) in the second quarter of 2011 compared to $6.5 million (15.1% of sales) in the second quarter of 2010. This increase is due mainly to higher average selling prices and a decrease of the 2010 warranty reserve, partially offset by the impact of foreign exchange.

Administration expenses

Administration expenses were $3.4 million in the second quarter of 2011 which is lower than $4.4 million in the second quarter of 2010 due to costs savings generated by our change initiative process as well as the decrease in the Conversion expenses of $0.7 million (primarily legal and accounting fees) which were expensed in the second quarter of 2010 relating to the Conversion of Pollard to a publically traded corporation.

Selling expenses

Selling expenses were $1.6 million in the second quarter of 2011 which is similar to $1.6 million in the second 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 second quarter of 2011 from $1.4 million in the second quarter of 2010 due primarily to the elimination of higher interest rates relating to certain interest rate swaps which expired on August 31, 2010, partially offset by higher interest rates associated with the credit facility in 2011.

Foreign exchange loss

The foreign exchange loss was $0.1 million in the second quarter of 2011 compared to a loss of $0.6 million in the second quarter of 2010. Within the 2011 foreign exchange loss are unrealized losses of $1.6 million, relating to a $1.7 million unrealized foreign exchange loss on U.S. dollar denominated debt (caused by the reversal of previously recorded unrealized foreign exchange gains from the strengthening of the Canadian dollar which were realized upon repayment) and a $0.1 million unrealized gain on U.S. dollar denominated payables. Within the realized gain of $1.5 million was a $1.6 million realized gain relating to payments made on U.S. dollar denominated debt, partially offset by $0.1 million in realized losses on the decreased value of U.S. dollar denominated receivables.

Within the 2010 foreign exchange loss of $0.6 million are unrealized losses of $0.4 million, relating to a an unrealized $0.7 million foreign exchange loss on U.S. dollar denominated debt (caused by the weakening of the Canadian dollar between the balance sheets dates of March 31, 2010 and June 30, 2010) offset by unrealized net gains of $0.3 million on U.S. dollar denominated receivables and payables, and $0.2 million in realized losses on write-downs of U.S. dollar denominated receivables.

Other income - Gain on sale of property, plant and equipment

During the quarter ended June 30, 2011, Pollard sold a building and land in Winnipeg, Manitoba to an affiliate of Equities for total proceeds of $3.5 million resulting in a gain of $1.5 million. The selling price was based on the current fair market value as determined through an independent appraisal.

During the second quarter of 2010, Pollard disposed of a surplus building and land in Kamloops, British Columbia to an affiliate of Equities for total proceeds of $2.9 million resulting in a gain of approximately $2.0 million. The selling price was based on the current fair market value determined through an independent appraisal.

Adjusted EBITDA

Adjusted EBITDA was $7.7 million in the second quarter of 2011 compared to $5.8 million in the second quarter of 2010. The primary reasons for the increase in Adjusted EBITDA were an increase in gross margin and higher realized foreign exchange gains (relating to the repayment of U.S. dollar dominated debt), partially offset by a lower gain on sale of property, plant and equipment.

Adjusted EBITDA excluding the gain on sale of property, plant and equipment was $6.2 million in the second quarter of 2011 compared to $3.8 million in 2010.

Income taxes

Income tax expense was $0.9 million in the second quarter of 2011, an effective rate of 33.3%, 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 $1.3 million in the second quarter of 2010, an effective rate of 226.3%, 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 allocation of partnership losses and distributions to the Limited Partners prior to the Conversion.

Amortization

Amortization includes amortization of property and equipment, deferred financing costs and intangible assets and totaled $2.2 million during the second quarter of 2011 as compared to $2.0 million during the second quarter of 2010, due primarily to higher amortization of deferred financing costs.

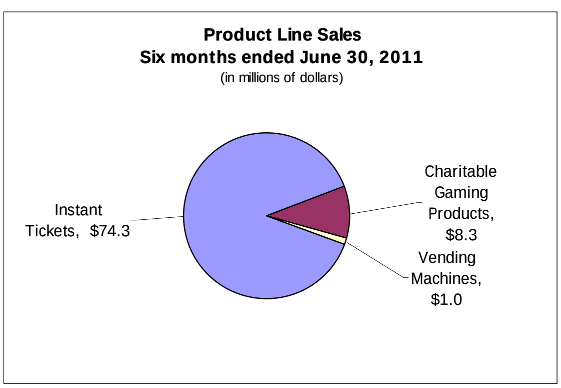
Net Income (Loss)

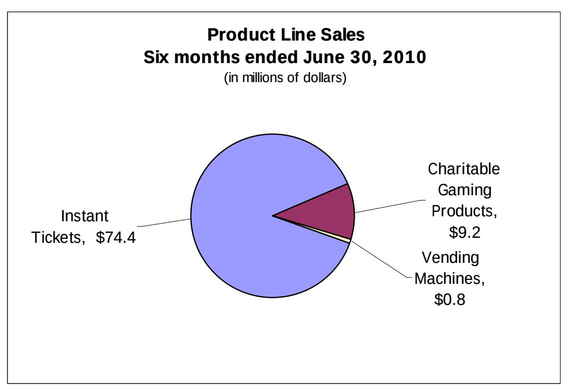
Net Income was $1.8 million in the second quarter of 2011 compared to a Net Loss of $0.7 million in the second quarter of 2010. The primary reasons for the increase were an increase in gross profit of $1.2 million, a decrease in administration expenses of $1.0 million, the elimination of amortization of de-designated hedges of $0.5 million and a decrease in foreign exchange loss of $0.5 million, partially offset by a reduction in the gain on sale of property, plant and equipment of $0.5 million and a reduction in the non-cash mark-to-market gain on interest rate swap contracts of $0.5 million.

Earnings per share increased to $0.08 per share in the second quarter of 2011 from ($0.03) in the second quarter of 2010.

ANALYSIS OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2011

Sales

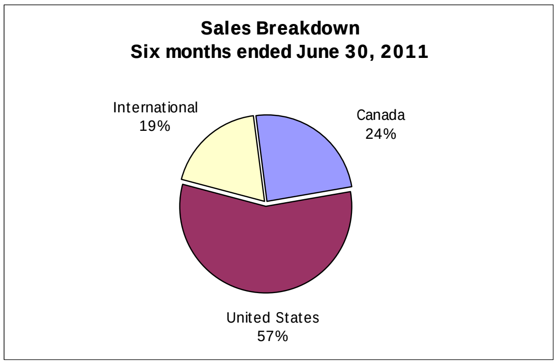


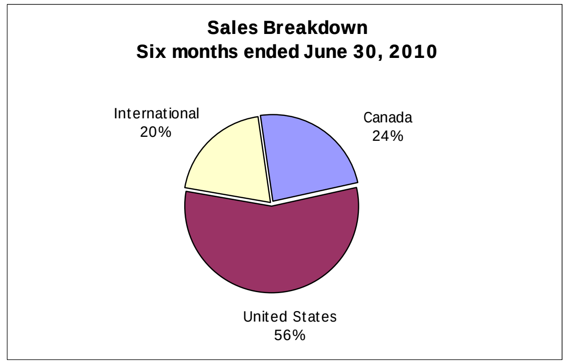


During the six months ended June 30, 2011, Pollard achieved sales of $83.6 million, compared to $84.4 million in the six months ended June 30, 2010. Factors impacting the $0.8 million sales decrease were:

Strengthening of the Canadian dollar

During the six months ended June 30, 2011, Pollard generated approximately 70% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the first six months of 2011 the actual U.S. dollar value was converted to Canadian dollars at $0.99, compared to a rate of $1.05 during the first six months of 2010. This 6% decrease in the U.S. dollar value resulted in an approximate decrease of $3.7 million in revenue relative to the first six months of 2010. In addition, during the six months ended June 30, 2011, the strengthening of the Canadian dollar against the Euro resulted in an approximate decrease of $0.1 million in revenue relative to the first six months of 2010.





Other

Instant ticket volumes for the first six months of 2011 were higher by 7.3% than the first six months of 2010 which, combined with our ancillary instant ticket products and services, increased sales by $3.9 million. Sales volumes were higher primarily due to increased sales to existing customers. A decrease in the average selling price of instant tickets reduced sales by $0.8 million compared to the first half of 2010. Charitable Gaming Products volumes were slightly lower than the first six months of 2010 reducing revenues by $0.4 million, while an increase in machine volumes in the quarter increased sales by $0.3 when compared to 2010.

Cost of sales and gross margin

Cost of sales was $69.8 million in the six months ended June 30, 2011 compared to $70.9 million in the first six months of 2010. Lower exchange rates on U.S. dollar transactions in 2011 decreased cost of sales approximately $1.8 million. Cost of sales were higher as a result of the increased instant ticket volumes, partially offset by costs savings generated by our Change Initiative process as well as the decrease in the warranty reserve of $0.7 million.

Gross profit increased to $13.8 million (16.5% of sales) in the first six months of 2011 from $13.5 million (16.0% of sales) in the six months ended June 30, 2010. This increase is due mainly to the increased sales volume and decrease of the 2010 warranty reserve, partially offset by the impact of the stronger Canadian dollar and the lower average selling price.

Administration expenses

Administration expenses were $6.7 million in the first six months of 2011 which is lower than $7.8 million in the first six months of 2010 due to costs savings generated by our change initiative process as well as the decrease in the Conversion expenses of $0.7 million (primarily legal and accounting fees) which was expensed in the second quarter of 2010 relating to the Conversion of Pollard to a publically traded corporation.

Selling expenses

Selling expenses were $3.1 million in the first six months of 2011 which is similar to $3.0 million in the first six months 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 $2.4 million in the first six months of 2011 from $2.8 million in the first six months of 2010 due primarily to the elimination of higher interest rates relating to certain interest rate swaps which expired on August 31, 2010, partially offset by higher interest rates associated with the credit facility in 2011.

Foreign exchange gain/loss

The net foreign exchange gain was $0.6 million in the first six months of 2011. Within the 2011 net foreign exchange gain are unrealized losses of $1.2 million, relating to a $1.4 million unrealized foreign exchange loss on U.S. dollar denominated debt (caused by the reversal of previously recorded unrealized foreign exchange gains from the strengthening of the Canadian dollar which were realized upon repayment) and a $0.2 million unrealized gain on U.S. dollar denominated payables. Within the realized gain of $1.8 million is a $2.2 million realized gain relating to payments made on U.S. dollar denominated debt, partially offset by $0.4 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 2010 foreign exchange gain/(loss) is an unrealized gain of $0.9 million, consisting of an unrealized $0.5 million gain on U.S. dollar denominated debt (caused by the strengthening of the Canadian dollar) and net unrealized gains of $0.4 million on U.S. dollar denominated receivables and payables. Offsetting the unrealized gains are $0.4 million in realized losses relating to forward hedge contracts (caused by a stronger Canadian dollar relative to fixed exchange rates in the hedges) and $0.5 million in realized losses on write-downs of U.S. dollar denominated accounts receivable.

Other income - Gain on sale of property, plant and equipment

During the first six months of 2011, Pollard sold a building and land in Winnipeg, Manitoba to an affiliate of Equities for total proceeds of $3.5 million resulting in a gain of $1.5 million. The selling price was based on the current fair market value as determined through an independent appraisal.

During the first six months of 2010, Pollard disposed of a surplus building and land in Kamloops, British Columbia to an affiliate of Equities for total proceeds of $2.9 million resulting in a gain of approximately $2.0 million. The selling price was based on the current fair market value as determined through an independent appraisal.

Adjusted EBITDA

Adjusted EBITDA was $11.5 million in the first six months of 2011 compared to $9.5 million in the first six months of 2010. The primary reasons for the increase in Adjusted EBITDA were an increase in gross margin and higher realized foreign exchange gains (relating to the repayment of U.S. dollar dominated debt), partially offset by a lower gain on sale of property, plant and equipment.

Adjusted EBITDA excluding the gain on sale of property, plant and equipment was $10.0 million in the six months ending June 30, 2011 as compared to $7.5 million in 2010.

Income taxes

Income tax expense was $0.9 million in the first six months of 2011, an effective rate of 24.4%, primarily 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 $1.8 million in the first six months of 2010, an effective rate of 63.4%, primarily due to the allocation of partnership losses and distributions to the Limited Partners prior to the Conversion.

Amortization

Amortization includes amortization of property and equipment, deferred financing costs and intangible assets and totaled $4.3 million during the first six months of 2011 which is similar to $4.3 million during the first six months of 2010.

Net Income

Net Income was $2.7 million in the first six months of 2011 compared to $1.0 million in the first six months of 2010. The primary reasons for the increase were an increase in gross profit of $0.3 million, a decrease in administration expenses of $1.1 million, an elimination of amortization of de-designated hedges of $0.9 million, a decrease in income taxes of $0.9 million and an increase in foreign exchange gains of $0.6 million, partially offset by the reduction in the gain on sale of property, plant and equipment of $0.5 million and a reduction in the non-cash mark-to-market gains on interest rate swap contracts and foreign currency contracts of $1.8 million.

Earnings per share increased to $0.11 per share in the six months ending June 30, 2011 from $0.04 in the first half of 2010.

Liquidity and Capital Resources

Cash provided by operating activities

For the six months ended June 30, 2011, cash flow provided by operating activities was $1.9 million compared to cash flow provided by operating activities of $0.7 million for the comparable period in Fiscal 2010. Changes in the non-cash component of working capital decreased cash flow from operations of ($4.3) million for the six months ended June 30, 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 ($0.3) million for the six months ended June 30, 2010 (due primarily to an decrease in provisions and accounts payable and accrued liabilities, an increase in accounts receivable, partially offset by a decrease in inventories).

Cash provided by investing activities

In the six months ended June 30, 2011, cash provided by investing activities was $1.7 million compared to $2.3 million provided in the first half of 2010. Proceeds from the sale of property, plant and equipment in the six months ended June 30, 2011, provided $3.5 million in cash as compared to $2.9 million in the comparable period of 2010. Capital expenditures of ($1.7) million were incurred in the six months ended June 30, 2011, compared to ($0.7) million for the six months ended June 30, 2010.

Cash provided by financing activities

Cash used by financing activities was ($3.2) million in the six months ended June 30, 2011, compared to ($0.9) million in the six months ended June 30, 2010. The increase in cash used by financing activities was primarily due to the repayment of long-term debt.

As at June 30, 2011, Pollard had unused committed debt facility of $16.0 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) Q2 2011	(1) Q1 2011	(1) Q4 2010	(1) Q3 2010	(1) Q2 2010	(1) Q1 2010	(2) Q4 2009	(2) Q3 2009
Sales	$44.4	$39.2	$37.4	$41.7	$43.1	$41.2	$46.9	$48.4
Adjusted EBITDA	7.7	3.8	4.1	4.6	5.8	3.7	5.8	6.4
Net Income (Loss)	1.8	0.9	(0.7)	1.5	(0.7)	1.7	0.1	7.7

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

Sales in Q2 2011 were higher do to an increase in instant ticket volumes and higher average prices, offset partially by the strengthening of the Canadian dollar relative to the U.S. dollar.

Adjusted EBITDA in Q2 2011 was higher as a result of higher gross margin due to greater realized foreign exchange gains on repayment of U.S. dollar dominated debt and a gain on sale of property, plant and equipment.

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.

Q2 2010 Adjusted EBITDA and Net Income include a gain on sale of property, plant and equipment.

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 Q3 2009 was higher primarily due to higher mark-to-market gains on foreign currency contracts.

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.

Investment in accounts receivable and inventories increased approximately $3.7 million during the six months ended June 30, 2011 due to the significant increases in volume and sales orders during 2011. This investment has been partially offset through increases in accounts payable and accrued liabilities and provisions by $3.0 million and through funds generated by operations.

	June 30, 2011	December 31, 2010
Working Capital	$26.0	$21.7
Total Assets	$130.3	$128.2
Total Long Term Liabilities	$74.0	$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$23.9 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 June 30, 2011, the outstanding letters of credit were $2.1 million and the remaining balance available for drawdown was $16.0 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 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 June 30, 2011 and August 3, 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 with 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. For the quarter ending June 30, 2011, the credit facility will be reduced by approximately $2.4 million as of August 29, 2011.

As at June 30, 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 2 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 June 30, 2011 and August 3, 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 and its 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. Additional discussion regarding the IFRS conversion plan and process is located in the March 31, 2011 MD&A.

Related Party Transactions

Pollard has not entered into any significant transactions with related parties during the six months ended June 30, 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

Our second quarter production volumes increased significantly when compared to the same period last year as well as the first quarter in 2011. Sales volumes increased at a slightly smaller pace over the same time periods due to the timing of certain shipments to our customers. We expect our order volumes to continue at these higher levels for at least the remainder of 2011. We continue to see higher sales orders from our existing customer base. In addition, we anticipate our recent new contract wins to start generating increased new orders in the third and fourth quarter.

The overall retail market for instant tickets remains healthy, with mid-single-digit sales growth at the retail level being experienced in most major markets. Lotteries world-wide are looking at ways to grow their lottery revenue and profits which in turn generates opportunities for suppliers like Pollard. Consumer confidence is returning to the retail space in general and with regards to lottery products. We expect demand for lottery products and, in particular, instant tickets to remain strong.

Competition remains challenging within the instant ticket industry with all suppliers bidding aggressively for new work through competitive bid situations. We have been successful throughout the first half of 2011 adding a number of new lotteries to our customer portfolio, particularly in the international lottery space, and although there are no major lottery bids expected in the last half of 2011, we are hopeful that we will continue to be successful with the opportunities that are available.

Consistent with the historical sales patterns, our licensed game and merchandise sales increased during the second quarter and we expect this higher level of sales to be maintained in the remainder of 2011. The market appears to be more receptive to these unique product offerings and we will pursue both the acquisition of new licenses and increased sales from our existing licensed product portfolio.

We expect our charitable gaming product line to continue to generate favourable operating margins. The overall market for these products is fairly stable, however we expect continuing focus on increasing our mix to more profitable products and ongoing cost improvements to maintain our strong operating profits achieved in this area in 2011.

The Canadian dollar continues to show strength relative to the U.S. dollar. A strong Canadian dollar results in a negative impact on our operating results, reducing net income and free cash flow due to our net exposure to cash inflows based in U.S. dollars.

One of the reasons for the improved Net Income in the second quarter of 2011 was the impact of cost improvements achieved through our Change Initiatives process, our formal program for organizational improvement. Lower administrative and selling expenses have been achieved despite experiencing growth in volumes and we expect the cost savings achieved so far to continue. In addition, we are working diligently on many aspects of our production processes to identify further opportunities for cost improvements and increased efficiencies. Despite some cost pressures in specific areas due to the significant volume increases, we are confident further improvements will be attained in the future.

As disclosed 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 strengthen our balance sheet.

Pollard Banknote 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.

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 and six months ended June 30, 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)

Six months ended June 30, 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)

		June 30, 2011		December 31, 2010
Assets				
Current assets:				
Cash	**$**	**5,751**	$	5,405
Accounts receivable		**19,705**		14,528
Loan to Pollard Equities Limited (note 4)		**-**		2,157
Inventories (note 5)		**19,258**		17,889
Prepaid expenses and deposits		**2,721**		2,250
Net investment in leases due within one year		**82**		114
		47,517		42,343
Property, plant and equipment		**30,697**		33,877
Pension asset		**2,907**		1,942
Net investment in leases		**14**		40
Goodwill (note 6)		**35,653**		35,802
Intangible assets (note 7)		**12,884**		13,743
Deferred income taxes		**612**		497
Total assets	**$**	**130,284**	$	128,244
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	**$**	**20,033**	$	16,208
Provisions (note 8)		**282**		1,006
Dividends payable		**706**		706
Distributions payable to Pollard Equities Limited (note 4)		**-**		2,157
Income taxes payable		**524**		608
		21,545		20,685
Long-term debt (note 9)		**73,788**		73,955
Other long-term liabilities		**261**		217
Interest rate swap contracts		**182**		374
Deferred income taxes		**1,158**		668
Shareholders' equity:				
Share capital (note 11)		**73,209**		73,209
Reserves		**(1,201)**		(919)
Deficit		**(38,658)**		(39,945)
		33,350		32,345
Total liabilities and shareholders' equity	**$**	**130,284**	$	128,244

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 June 30, 2011	Three months ended June 30, 2010	**Six months ended June 30, 2011**	Six months ended June 30, 2010
Sales	**$ 44,400**	$ 43,151	**$ 83,635**	$ 84,397
Cost of sales	**36,715**	36,635	**69,791**	70,852
	7,685	6,516	**13,844**	13,545
Administration	**3,378**	4,399	**6,652**	7,772
Selling	**1,639**	1,559	**3, 134**	3,000
Other income (note 16)	**(1,503)**	(2,065)	**(1,525)**	(2,095)
Income from operations	**4,171**	2,623	**5,583**	4,868
Finance costs (note 17)	**1,459**	2,542	**2,760**	4,434
Finance income (note 17)	**-**	(475)	**(749)**	(2,385)
Income before income taxes	**2,712**	556	**3,572**	2,819
Income taxes (note 10):				
Current	**270**	402	**590**	777
Deferred	**632**	856	**282**	1,009
	902	1,258	**872**	1,786
Net income (loss)	**$ 1,810**	$ (702)	**$ 2,700**	$ 1,033
Basic and diluted income per share	**$ 0.08**	$ (0.03)	**$ 0.11**	$ 0.04
Weighted average number of shares outstanding	**23,543,158**	23,543,158	**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 June 30, 2011	Three months ended June 30, 2010	**Six months ended June 30, 2011**	Six months ended June 30, 2010
Net income (loss)	**$ 1,810**	$ (702)	**$ 2,700**	$ 1,033
Other comprehensive income (loss):				
Foreign currency translation differences – foreign operations	**2**	596	**(398)**	134
Unrealized gain (loss) on derivatives designated as cash flow hedges, net of income tax (reduction) of nil and $67 (2010- ($11) and ($45))	**-**	(19)	**116**	(79)
Amortization of de-designated hedges, net of income tax of nil (2010 - $58 and $118)	**-**	405	**-**	800
Other comprehensive income (loss) – net of income tax	**2**	982	**(282)**	855
Comprehensive income	**$ 1,812**	$ 280	**$ 2,418**	$ 1,888

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Cash Flows

(*In thousands of Canadian dollars*)

(unaudited)

		Six months ended June 30, 2011		Six months ended June 30, 2010
Cash increase (decrease):				
Operating activities:				
Net income	$	**2,700**	$	1,033
Adjustments:				
Income taxes		**872**		1,786
Amortization and depreciation		**4,320**		4,266
Interest expense		**2,375**		2,766
Unrealized foreign exchange loss (gain)		**1,250**		(861)
Mark-to-market gain on foreign currency contracts		**-**		(834)
Mark-to-market gain on interest rate swap contracts		**-**		(934)
Amortization of de-designated hedges		**-**		860
Gain on sale of property, plant and equipment		**(1,469)**		(2,008)
Interest paid		**(2,212)**		(2,513)
Income tax paid		**(649)**		(1,330)
Change in pension asset		**(970)**		(1,226)
Change in non-cash operating working capital (note 12)		**(4,287)**		(346)
		1,930		659
Investing activities:				
Additions to property, plant and equipment		**(1,653)**		(662)
Proceeds from sale of property, plant and equipment		**3,473**		2,881
Proceeds from net investment in leases		**54**		156
Additions to intangible assets		**(174)**		(59)
		1,702		2,316
Financing activities:				
Proceeds from (repayments of) long-term debt		**(1,846)**		2,261
Change in other long-term liabilities		**45**		62
Additions to deferred financing charges		**(3)**		(296)
Decrease in loan to Pollard Equities Limited		**2,157**		10,415
Change in dividends payable		**-**		173
Decrease in distributions payable to Pollard Equities Limited		**(2,157)**		(11,235)
Dividends paid		**(1,413)**		(2,294)
		(3,217)		(914)
Foreign exchange (loss) gain on cash held in foreign currency		**(69)**		79
Change in cash position		**346**		2,140
Cash position, beginning of period		**5,405**		3,706
Cash position, end of period	**$**	**5,751**	$	5,846

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 six months ended June 30, 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		-	-	-	2,700	2,700
Other comprehensive income (loss)						
Foreign currency translation differences – foreign operations		-	(398)	-	-	(398)
Unrealized gain on derivatives designated as cash flow hedges, net of income tax of $67		-	-	116	-	116
Total other comprehensive income (loss)	$	-	(398)	116	-	(282)
Total comprehensive income (loss) for the period	$	-	(398)	116	2,700	2,418
Dividends to owners of Pollard Banknote Limited		-	-	-	(1,413)	(1,413)
Balance at June 30, 2011	$	73,209	(1,059)	(142)	(38,658)	33,350

For the six months ended June 30, 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		-	-	-	1,033	1,033
Other comprehensive income						
Foreign currency translation differences – foreign operations		-	134	-	-	134
Unrealized loss on derivatives designated as cash flow hedges, net of income tax reduction of ($45)		-	-	(79)	-	(79)
Amortization of de-designated hedges, net of income tax of $118		-	-	800	-	800
Total other comprehensive income	$	-	134	721	-	855
Total comprehensive income for the period	$	-	134	721	1,033	1,888
Dividends to owners of Pollard Banknote Limited		-	-	-	(2,294)	(2,294)
Balance at June 30, 2010	$	73,209	134	(499)	(39,265)	33,579

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 six months ended June 30, 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. Pollard's condensed consolidated interim financial statements as at and for the three months ended March 31, 2011, were Pollard's initial financial statements prepared under International Financial Reporting Standards ("IFRS") and include Pollard's accounting policies under IFRS as well as reconciliations of the financial statements from GAAP to IFRS as of January 1, 2010, the date of transition ("Date of Transition") to IFRS, and as at and for the year ended December 31, 2010, are also 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.

1. Reporting entity (continued):

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 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 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.

On August 3, 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.

- 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.

2. Statement of compliance (continued):

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 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 6.

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.

2. Statement of compliance (continued):

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. 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 *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for fiscal years beginning on or after January 1, 2013. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In January 2011, the IASB amended IFRS 7 *Financial Instruments: Disclosures*. The amendment requires increased disclosure for the transfer of financial assets; to assist users of financial statements evaluate risk exposures relating to such transfers and the effects of those risks on the entity's financial position. IFRS 7 is effective for fiscal years beginning on or after July 1, 2011. Pollard is currently assessing the impact of the amendment on its consolidated financial statements.

In May 2011, the IASB issued the following group of new standards and amendments to existing standards relating to consolidations and joint ventures. Each of these new standards is effective for fiscal years beginning on or after January 1, 2013. Pollard is currently assessing the impact of the new standards and amendments on its consolidated financial statements.

- IFRS 10 *Consolidated Financial Statements* replaces the guidance on control and consolidation in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control.

- IFRS 11 *Joint Arrangements* replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 reduces the types of joint arrangements to two: joint ventures and joint operations. IFRS 11 requires the use of equity accounting for interests in joint ventures, eliminating the existing policy choice of proportionate consolidation for jointly controlled entities under IAS 31. Entities that participate in joint operations will recognize their share of the assets, liabilities, revenue and expenses of the joint operation.

- IFRS 12 *Disclosure of Interests in Other Entities* replaces the disclosure requirements currently found in IAS 28 *Investments in Associates*.

3. Future accounting standards (continued):

- IAS 27 has been amended and renamed *Separate Financial Statements* and deals solely with separate financial statements and the guidance for which remains unchanged.

- IAS 28 has been amended to include joint ventures in its scope and to address changes in IFRS 10 through 12 as explained above.

In May 2011, the IASB published IFRS 13 *Fair Value Measurements* which replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance, with enhanced disclosure requirements for information about fair value measurements. IFRS 13 is required for fiscal years beginning on or after January 1, 2013. Prospective application is required. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In June 2011, the IASB published an amended version of IAS 19 *Employee Benefits*. The amendments require actuarial gains and losses to be recognized immediately in other comprehensive income, as well, past service cost must be recognized immediately in profit or loss. This amendment also requires that the expected return on plan assets recognized in profit or loss be calculated based on the rate used to discount the defined benefit obligation. Additional disclosures are also now required. IAS 19 is required for fiscal years beginning on or after January 1, 2013. Pollard is currently assessing the impact of the amendment on its consolidated financial statements as the corridor method currently used will no longer be permitted upon adoption of the amended standard.

In June 2011, the IASB published amendments to IAS 1 *Financial Statement Presentation*. The amendments require items presented in other comprehensive income to be separated into two groups, based on whether or not they may be recycled to the statement of income later. The amendments are effective for fiscal years beginning on or after July 1, 2012. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

4. 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.

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

5. Inventories:

		June 30, 2011		December 31, 2010
Raw materials	$	**5,163**	$	4,799
Work-in-process		**1,207**		935
Finished goods		**12,888**		12,155
	$	**19,258**	$	17,889

During the second quarter of 2011, Pollard recorded inventory write-downs of $52 as a result of increases in the obsolescence reserves, and reversals of previous write-downs of $58 due to changes in foreign exchange rates. During the six months ended June 30, 2011, Pollard recorded inventory write-downs of $54 representing an increase in the obsolescence reserves, and reversals of previously written-down amounts of $41 due to changes in foreign exchange rates.

During the second quarter of 2010, Pollard recorded inventory write-downs of $50 as a result of increases in the obsolescence reserves, and reversals of previous write-downs of $15 due to changes in foreign exchange rates. During the six months ended June 30, 2010, Pollard recorded inventory write-downs of $116, representing an increase in the obsolescence reserves, and write-downs of $1 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.

6. 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 second quarter of 2011 the value of goodwill did not change (2010 – increased $596) as a result of changes in foreign exchange rates. During the six months ended June 30, 2011, the value of goodwill decreased $149 (2010 – increased $421) 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 as at June 30, 2011 and December 31, 2010, are as follows:

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

6. Goodwill (continued):

		June 30, 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. 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:

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

6. Goodwill (continued):

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.

7. 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 for the second quarter of 2011 was $520 (2010 - $488) and for the six months ended June 30, 2011, was $1,031 (2010 - $971).

8. Provisions:

		Restructuring reserve
Balance at January 1, 2011	$	1,006
Utilized		(724)
Balance at June 30, 2011	$	282

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.

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

9. Long-term debt:

		June 30, 2011		December 31, 2010
Credit facility, interest of 4.31% to 7.08% payable monthly, maturing October 2012	**$**	**74,557**	$	75,000
Deferred financing charges, net of amortization		**(769)**		(1,045)
	$	**73,788**	$	73,955

Included in the total credit facility balance is a U.S. dollar loan balance of US$16,478 (December 31, 2010 – US$23,000).

Effective September 30, 2010, Pollard's subsidiaries Pollard Holdings Limited Partnership and Pollard Holdings, Inc. renewed their credit facility. The credit facility provides loans of up to $70,000 for its Canadian operations and up to US$23,863 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 June 30, 2011, the outstanding letters of credit drawn under the credit facility were $2,068 (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 June 30, 2011, Pollard is in compliance with all financial covenants.

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard's 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 is waived when the debt to Adjusted EBITDA ratio reaches certain target levels. For the quarter ending June 30, 2011, the credit facility will be reduced by approximately $2,386 as of August 29, 2011. As of June 30, 2011, Pollard has unused credit facility available of $16,045.

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

9. Long-term debt (continued):

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.

10. 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:

		Three months ended June 30, 2011		Three months ended June 30, 2010
Income taxes at Canadian rates:				
Canadian combined federal and provincial income tax rate		**28.3%**		30.0%
Income taxes	**$**	**768**	$	167
Taxable loss allocated to limited partners and therefore not subject to tax		**-**		463
Withholding taxes and other non-taxable items		**35**		71
Effect of non-taxable items related to foreign exchange		**99**		557
Provision for income taxes	**$**	**902**	$	1,258

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

10. Income taxes (continued):

		Six months ended June 30, 2011		Six months ended June 30, 2010
Income taxes at Canadian rates:				
Canadian combined federal and provincial income tax rate		**28.3%**		30.0%
Income taxes	**$**	**1,011**	$	846
Taxable loss allocated to limited partners and therefore not subject to tax		**-**		655
Withholding taxes and other non-taxable items		**96**		319
Effect of non-taxable items related to foreign exchange		**(235)**		(34)
Provision for income taxes	**$**	**872**	$	1,786

11. Share capital:

		June 30, 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.

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

11. Share capital (continued):

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 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 June 30, 2011, Pollard is in compliance with all financial covenants.

On January 6, 2010, Pollard declared a dividend of $0.0475 per share 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.

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.

Dividends of $0.03 per share were declared: on March 9, 2011, payable to shareholders of record on March 31, 2011, on May 12, 2011, payable to the shareholders of record on June 30, 2011 and on August 3, 2011, payable to the shareholders of record on September 30, 2011.

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

12. Supplementary cash flow information:

		June 30, 2011		June 30, 2010
Change in non-cash operating working capital:				
Accounts receivable	**$**	**(5,039)**	$	(769)
Inventories		**(1,525)**		2,729
Prepaid expenses and deposits		**(705)**		(389)
Accounts payable and accrued liabilities		**3,706**		(29)
Provisions		**(724)**		(1,888)
	$	**(4,287)**	$	(346)

13. Related party transactions:

During the second quarter of Fiscal 2011, Pollard disposed of a building and land in Winnipeg, Manitoba to an affiliate of Equities for total proceeds of $3,473 resulting in a gain of $1,469. The selling price was based on the current fair market value as determined through an independent appraisal. Pollard subsequently leased the property back for a five year term (with an option to renew for an additional five year term) for annual rent of $313.

During the second quarter of Fiscal 2010, Pollard disposed of a surplus building and land in Kamloops, British Columbia to an affiliate of Equities for total proceeds of $2,900 resulting in a gain of $2,023. The selling price was based on the current fair market value as determined through an independent appraisal.

During the quarter ended June 30, 2011, Pollard paid property rent of $670 (2010 - $674) to affiliates of Equities and $1,342 (2010 - $1,343) during the six months ended June 30, 2011. During the quarter, Equities paid Pollard $18 (2010 - $18) for accounting and administration fees and $36 (2010 - $36) during the six months ended June 30, 2011.

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 June 30, 2011, Pollard compensated its key management personnel $753 (2010 - $755) and $1,506 (2010 - $1,539) during the six months ended June 30, 2011.

At June 30, 2011, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent and other expenses of $639 (December 31, 2010 - $721).

Included in accounts payable and accrued liabilities is an additional 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.

14. 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 net 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 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:

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 June 30, 2011, the cash recorded at fair value is classified as level one and interest rate swap contracts recorded at fair value are classified as level two, of the fair value hierarchy.

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

15. 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.

Credit risk

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

	June 30, 2011	December 31, 2010
Current	**$ 15,161**	$ 12,388
Past due for 1 to 60 days	**4,361**	1,648
Past due for more than 60 days	**297**	594
Less: Allowance for doubtful accounts	**(114)**	(102)
	$ 19,705	$ 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 facility including up to $70,000 for its Canadian operations and up to US$23,863 for its U.S. subsidiaries. At June 30, 2011, the unused balance available for drawdown was $16,045 (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.

15. Financial risk management (continued):

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 second quarter of 2011 (2010 - $45) and approximately $90 for the six months ended June 30, 2011 (2010 - $90).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. As at June 30, 2011, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately $7,404 (December 31, 2010 - $14,026). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in net income of approximately $37 (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 June 30, 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 2 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 $76 for the three months ended June 30, 2011 (2010 - $45) and approximately $152 for the six months ended June 30, 2011 (2010 - $90).

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

16. Other income:

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Gain on sale of property, plant and equipment	**$ (1,469)**	$ (2,005)	**$ (1,469)**	$ (2,008)
Other	**(34)**	(60)	**(56)**	(87)
	$ (1,503)	$ (2,065)	**$ (1,525)**	$ (2,095)

17. Finance costs and finance income:

Finance costs:	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Foreign exchange loss	**$ 101**	$ 626	**$ 101**	$ 626
Interest	**1,219**	1,383	**2,375**	2,766
Amortization of deferred financing costs	**139**	70	**284**	124
Amortization of de-designated hedges	**-**	463	**-**	918
	$ 1,459	$ 2,542	**$ 2,760**	$ 4,434

Finance income:	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Foreign exchange gain	**$ -**	$ -	**$ (749)**	$ (617)
Mark-to-market gain on foreign exchange contracts	**-**	-	**-**	(834)
Mark-to-market gain on interest rate swap contracts	**-**	(475)	**-**	(934)
	$ -	$ (475)	**$ (749)**	$ (2,385)

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

18. Personnel expenses:

		Three months ended June 30, 2011		Three months ended June 30, 2010		**Six months ended June 30, 2011**		Six months ended June 30, 2010
Wages, salaries and benefits	**$**	**17,154**	$	15,803	**$**	**32,682**	$	31,832
Profit share		**391**		66		**504**		284
Expenses related to defined contribution plans		**44**		42		**83**		80
Expenses related to defined benefit plans		**350**		349		**688**		619
	$	**17,939**	$	16,260	**$**	**33,957**	$	32,815

19. Explanation of transition to IFRS:

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

The accounting policies set out in Note 3 of Pollard's condensed consolidated interim financial statements dated March 31, 2011, have been applied in preparing the condensed consolidated interim financial statements for the six months ended June 30, 2011 and the comparative information.

In preparing these condensed consolidated interim financial statements, 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
				June 30, 2010	
Assets					
Current assets:					
Cash		$	5,846		5,846
Accounts receivable			17,604		17,604
Loan to Pollard Equities Limited			2,157		2,157
Inventories			17,590		17,590
Prepaid expenses and deposits	a		5,332	(2,874)	2,458
Net investment in leases due within one year			173		173
Deferred income taxes	f		1,751	(1,751)	-
			50,453	(4,625)	45,828
Property, plant and equipment	b		35,703	(783)	34,920
Pension asset	a		-	1,529	1,529
Net investment in leases			129		129
Goodwill			36,102		36,102
Intangible assets			14,678		14,678
Deferred income taxes	f		3,387	(3,018)	369
		$	140,452	(6,897)	133,555
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable and accrued liabilities	c	$	17,834	(2,858)	17,834
Provisions	c		-	2,858	2,858
Dividends payable			471		471
Distributions payable to Pollard Equities Limited			2,157		2,157
Income taxes payable	d		45	621	666
			20,507	621	21,128
Long-term debt			77,270		77,270
Other long-term liabilities	d		883	(621)	262
Interest rate swap contracts			652		652
Deferred income taxes	f		5,358	(4,694)	664
Shareholders' equity:					
Share capital			73,209		73,209
Reserves	e		(2,553)	2,188	(365)
Deficit	g		(34,874)	(4,391)	(39,265)
			35,782	(2,203)	33,579
		$	140,452	(6,897)	133,555

(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 June 30, 2010:

	Note		Previous GAAP	Reclassifications	Effect of transition to IFRS	IFRS
Sales		$	43,151			43,151
Cost of sales	b		35,452	1,177	6	36,635
			7,699	(1,177)	(6)	6,516
Selling and administration			5,278	(5,278)		
Administration			-	4,399		4,399
Selling			-	1,559		1,559
Interest			1,383	(1,383)		-
Foreign exchange gain			626	(626)		-
Amortization of intangibles			488	(488)		-
Mark-to-market gain on interest rate swap contracts			(475)	475		-
Amortization of de-designated hedges			463	(463)		-
Gain on sale of fixed assets			(1,820)	1,820		-
Conversion costs			673	(673)		-
Warranty reserve			700	(700)		-
Other income	b		(60)	(1,820)	(185)	(2,065)
Employee profit sharing			66	(66)		-
Income from operations			377	2,067	179	2,623
Finance cost			-	2,542		2,542
Finance income			-	(475)		(475)
Income before income taxes			377	-	179	556
Income taxes:						
Current			402			402
Deferred	f		982		(126)	856
			1,384		(126)	1,258
Net loss		$	(1,007)		305	(702)
Other comprehensive income (loss):						
Foreign currency translation differences – foreign operations			596			596
Unrealized loss on derivatives designated as cash flow hedges, net of income tax (reduction) of ($11)			(19)			(19)
Amortization of de-designated hedges, net of income tax of $58			405			405
Other comprehensive income – net of income tax		$	982			982
Comprehensive income (loss)		$	(25)		305	280

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

19. Explanation of transition to IFRS (continued):

Reconciliation of comprehensive income for the six months ended June 30, 2010:

	Note		Previous GAAP	Reclassifications	Effect of transition to IFRS	IFRS
Sales		$	84,397			84,397
Cost of sales	b		69,054	1,786	12	70,852
			15,343	(1,786)	(12)	13,545
Selling and administration			10,054	(10,054)		-
Administration			-	7,772		7,772
Selling			-	3,000		3,000
Interest			2,766	(2,766)		-
Foreign exchange gain			9	(9)		-
Amortization of intangibles			971	(971)		-
Mark-to-market gain on foreign currency contracts			(834)	834		-
Mark-to-market gain on interest rate swap contracts			(934)	934		-
Amortization of de-designated hedges			918	(918)		-
Gain on sale of property, plant and equipment	b		(1,823)	2,008	(185)	-
Conversion costs			673	(673)		-
Warranty reserve			700	(700)		-
Other income			(87)	(2,008)		(2,095)
Employee profit sharing			284	(284)		-
Income from operations			2,646	2,049	173	4,868
Finance cost			-	4,434		4,434
Finance income			-	(2,385)		(2,385)
Income before income taxes			2,646	-	173	2,819
Income taxes:						
Current			777			777
Deferred	f		1,044		(35)	1,009
			1,821		(35)	1,786
Net income		$	825		208	1,033
Other comprehensive income:						
Foreign currency translation differences – foreign operations			134			134
Unrealized loss on derivatives designated as cash flow hedges, net of income tax (reduction) of ($45)			(79)			(79)
Amortization of de-designated hedges, net of income tax of $118			800			800
Other comprehensive income – net of income tax		$	855			855
Comprehensive income		$	1,680		208	1,888

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:

		June 30, 2010
Consolidated statements of financial position		
Prepaids	$	(2,874)
Pension asset		1,529
Related tax effect		348
Adjustment to retained deficit	$	(997)

(b) IAS 16 provides more explicit guidance with regard to property, plant and equipment (“PP&E”) 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 June 30, 2010		Six months ended June 30, 2010
Consolidated statements of income				
Cost of goods sold	$	6	$	12
Gain on sale of property, plant and equipment		(185)		(185)
Adjustment to income before income tax	$	(179)	$	(173)

		June 30, 2010
Consolidated statements of financial position		
Property, plant and equipment	$	(783)
Related tax effect		244
Adjustment to retained deficit	$	(539)

(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:

		June 30, 2010
Consolidated statements of financial position		
Accounts payable and accrued liabilities	$	(2,858)
Provisions	$	2,858

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

		June 30, 2010
Consolidated statements of financial position		
Income taxes payable	$	621
Other long-term liabilities	$	(621)

(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:

		June 30, 2010
Consolidated statements of financial position		
Translation reserve	$	2,188
Adjustment to retained deficit	$	(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 $667 at June 30, 2010 and an decrease to deferred income tax expense of $177 for the three months ended June 30, 2010 and an decrease in deferred income tax expense of $86 for the six months ended June 30, 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		June 30, 2010
Employee benefits	a	$	348
Property, plant and equipment	b		244
Impact of IAS 12 on PP&E	f		(667)
Net change to deferred income tax assets and liabilities		$	(75)

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:

		June 30, 2010
Change in current deferred income tax asset	$	(1,751)
Change in long-term deferred income tax asset		(3,018)
Change in long-term deferred income tax liability		4,694
Net change to deferred income tax assets and liabilities	$	(75)

The effect on the statement of income for the three months ended June 30, 2010, was to decrease deferred income taxes by $126 and to decrease deferred income taxes by $35 for the six months ended June 30, 2010.

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

	Note		June 30, 2010
Employee benefits	a	$	(997)
Property, plant and equipment	b		(539)
Translation reserve	e		(2,188)
Deferred income taxes	f		(667)
Increase in deficit		$	(4,391)