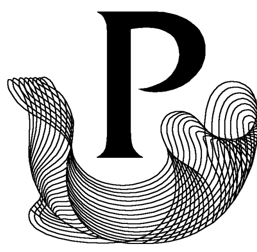


POLLARD BANKNOTE LIMITED

September 30 - 2011

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011

November 9, 2011

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the three and nine months ended September 30, 2011, is prepared as at November 9, 2011, and should be read in conjunction with the accompanying unaudited interim financial statements of Pollard and the notes therein as at September 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 ("IFRS" or "GAAP")) 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 IFRS.

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 cost 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 nine months ended September 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 September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Instant Tickets	89.2%	88.4%	89.0%	88.2%
Charitable Gaming Products	9.9%	10.6%	9.9%	10.8%
Vending Machines	0.9%	1.0%	1.1%	1.0%

Geographic breakdown of revenue

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
United States	48%	61%	54%	58%
Canada	25%	25%	24%	24%
International	27%	14%	22%	18%

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.

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 September 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

During the quarter ended September 30, 2011, the Government of Puerto Rico issued a final ruling determining our operations were no longer legal under current legislation. As a result the operations commenced winding up. Included in the cost of sales are expenses of $0.5 million reflecting the write off of assets associated with the operations and the accrual of related severance.

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 nine months ended September 30, 2011.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Sales	$43.8	$41.7	$127.4	$126.1
Cost of Sales	36.8	34.4	106.6	105.3
Gross Profit	7.0	7.3	20.8	20.8
Gross Profit as a % of sales	*16.0%*	*17.5%*	*16.3%*	*16.5%*
Gross Profit (excluding Puerto Rico closure costs)	7.5	7.3	21.3	20.8
As a % of sales	*17.1%*	*17.5%*	*16.7%*	*16.5%*
Administration Expenses	3.4	3.6	10.1	11.3
Expenses as a % of sales	*7.8%*	*8.6%*	*7.9%*	*9.0%*
Selling Expenses	1.5	1.5	4.5	4.5
Expenses as a % of sales	*3.4%*	*3.6%*	*3.5%*	*3.6%*
Realized foreign exchange loss (gain)	(1.2)	(0.1)	(3.2)	0.8
Loss (gain) as a % of sales	*(2.7%)*	*(0.2%)*	*(2.5%)*	*0.6%*
Net Income (Loss)	(1.2)	1.5	1.5	2.5
Net Income (Loss) as a % of sales	*(2.7%)*	*3.6%*	*1.2%*	*2.0%*
Adjusted EBITDA	5.9	4.5	17.5	14.1
Adjusted EBITDA as a % of sales	*13.5%*	*10.8%*	*13.7%*	*11.2%*
Earnings per share	($0.05)	$0.06	$0.06	$0.11

	September 30, 2011	December 31, 2010
Total Assets	$125.4	$128.2
Total Long-term Liabilities	$72.1	$74.2

Selected financial information adjusted for certain items

(millions of dollars)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Three months ended June 30, 2011
GROSS PROFIT			
Per financial statements	$7.0	$7.3	$7.7
Add back Puerto Rico closing costs	0.5	-	-
	$7.5	$7.3	$7.7
As a % of sales	*17.1%*	*17.5%*	*17.3%*
INCOME FROM OPERATIONS			
Per financial statements	$2.2	$2.3	$4.2
Deduct gain on sale of property, plant and equipment	-	-	(1.5)
Add back Puerto Rico closing costs	0.5	-	-
	$2.7	$2.3	$2.7
INCOME (LOSS) BEFORE INCOME TAXES			
Per financial statements	($0.3)	$1.5	$2.7
Deduct gain on sale of property, plant and equipment	-	-	(1.5)
Add back Puerto Rico closing costs	0.5	-	-
Add back unrealized loss (gain) on revaluation of U.S. dollar denominated debt	1.0	(0.7)	-
	$1.2	$0.8	$1.2

RECONCILIATION OF NET INCOME (LOSS) TO ADJUSTED EBITDA

(millions of dollars)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Net Income (Loss)	($1.2)	$1.5	$1.5	$2.5
Adjustments:				
Interest	1.1	1.3	3.5	4.1
Unrealized foreign exchange loss (gain)	2.5	(0.5)	3.8	(1.4)
Mark-to-market gain on foreign currency contracts and interest rate swaps	-	(0.3)	-	(2.1)
Amortization of de-designated hedges	-	0.3	-	1.2
Conversion costs	-	-	-	0.7
Warranty reserve	-	0.2	-	0.9
Puerto Rico closure costs	0.5		0.5	
Income taxes	0.9	(0.1)	1.8	1.8
Amortization	2.1	2.1	6.4	6.4
Adjusted EBITDA	$5.9	$4.5	$17.5	$14.1
Gain on sale of property, plant and equipment	-	-	1.5	2.0
Adjusted EBITDA excluding gain on sale of property, plant and equipment	$5.9	$4.5	$16.0	$12.1

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 SEPTEMBER 30, 2011

Sales

During the three months ended September 30, 2011, Pollard achieved sales of $43.8 million, compared to $41.7 million in the three months ended September 30, 2010. Factors impacting the $2.1 million sales increase were:

Strengthening of the Canadian dollar

During the three months ended September 30, 2011, Pollard generated approximately 60% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the third quarter of 2011 the actual U.S. dollar value was converted to Canadian dollars at $0.98, compared to a rate of $1.05 during the third quarter of 2010. This 6.7% decrease in the U.S. dollar value resulted in an approximate decrease of $1.9 million in revenue relative to the third quarter of 2010. Also during the third quarter of 2011, the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.2 million in revenue relative to the third quarter of 2010.

Other

Instant ticket volumes for the third quarter of 2011 were higher than the third quarter of 2010 by 16.1% which, partially offset by a reduction in our ancillary instant ticket products and services revenue, increased sales by $3.3 million. Sales volumes were higher due to both increased sales to existing customers and sales to new customers, predominately international. In addition, an increase in average selling price compared to 2010 increased sales by $0.3 million. Charitable Gaming average selling prices increased compared to 2010 by $0.3 million which was partially offset by a related volume decrease of $0.1 million.

Cost of sales and gross profit

Cost of sales was $36.8 million in the third quarter of 2011 compared to $34.4 million in the third quarter of 2010. Lower exchange rates on U.S. dollar transactions in the third quarter of 2011 decreased cost of sales approximately $1.3 million. Cost of sales were higher in the quarter relative to 2010 as a result of the increased instant ticket volumes and non-recurring costs related to the closure of our lottery management operations in Puerto Rico of $0.5 million, partially offset by costs savings generated by our Change Initiative process as well as the decrease in the warranty cost of $0.2 million.

Gross profit was $7.0 million (16.0% of sales) in the third quarter of 2011 compared to $7.3 million (17.5% of sales) in the third quarter of 2010. Gross profit in the third quarter of 2011 excluding the Puerto Rico closing costs was $7.5 million (17.1% of sales). This increase is due mainly to higher sales volumes, partially offset by the impact of foreign exchange.

Administration expenses

Administration expenses were $3.4 million in the third quarter of 2011 which is lower than $3.6 million in the third quarter of 2010 due to costs savings generated by our Change Initiative process.

Selling expenses

Selling expenses were $1.5 million in the third quarter of 2011 which was similar to $1.5 million in the third 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 $1.1 million in the third quarter of 2011 from $1.3 million in the third quarter of 2010 due primarily to the elimination of higher interest rates relating to certain interest rate swaps which expired on August 31, 2010 and August 31, 2011, partially offset by higher interest rates associated with the credit facility in 2011.

Foreign exchange loss

The foreign exchange loss was $1.3 million in the third quarter of 2011 compared to a gain of $0.6 million in the third quarter of 2010. Within the 2011 foreign exchange loss are unrealized losses of $2.5 million relating to the 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 the weakening of the value of the Canadian dollar versus the U.S. dollar toward the end of the third quarter). Within the foreign exchange loss is a realized gain of $1.2 million, consisting of a $1.1 million realized gain relating to payments made on U.S. dollar denominated debt and by $0.1 million in realized gains on the increased value of U.S. dollar denominated receivables.

Within the 2010 foreign exchange loss of $0.6 million are unrealized gains of $0.5 million, relating to a $0.7 million unrealized foreign exchange gain on U.S. dollar denominated debt (caused by the strengthening of the Canadian dollar between the balance sheets dates of June 30, 2010 and September 30, 2010) partially offset by unrealized net losses of $0.2 million on U.S. dollar denominated receivables and payables, and $0.1 million in realized gains on the increased value of U.S. dollar denominated receivables.

Adjusted EBITDA

Adjusted EBITDA was $5.9 million in the third quarter of 2011 compared to $4.5 million in the third quarter of 2010. The primary reasons for the increase in Adjusted EBITDA were higher gross profit, higher realized foreign exchange gains (relating to the repayment of U.S. dollar dominated debt) and a reduction in administration expenses.

Income taxes

Income tax expense was $0.9 million in the third quarter of 2011, an effective rate of 300.0%, 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 recovery was ($0.1) million in the third quarter of 2010, an effective rate of (7.1%), as a result of the allocation of partnership income and distributions to the Limited Partners prior to the Conversion, non-taxable items and 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.

Amortization

Amortization includes amortization of property and equipment, deferred financing costs and intangible assets and totaled $2.1 million during the third quarter of 2011 which was consistent with $2.1 million during the third quarter of 2010.

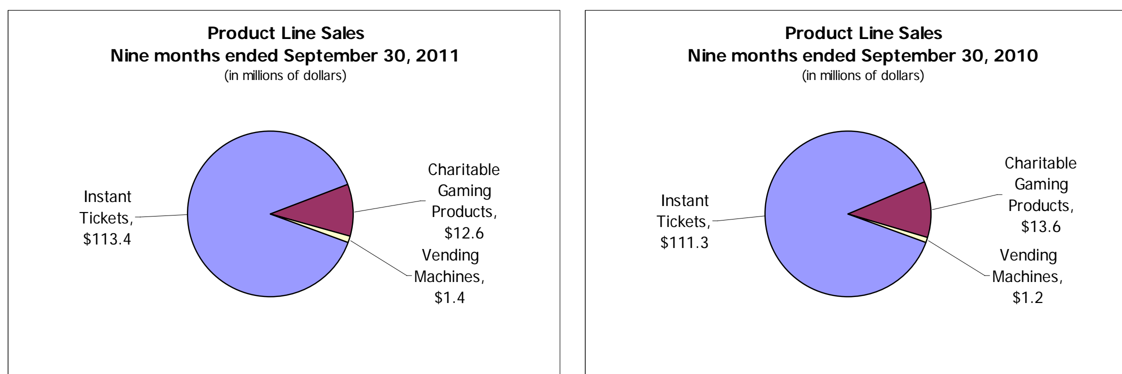
Net Income (Loss)

Net Loss was $1.2 million in the third quarter of 2011 compared to Net Income of $1.5 million in the third quarter of 2010. The primary reasons for the decrease were the $0.5 million non-recurring costs related to the closure of our lottery management operations in Puerto Rico included in cost of sales, a decrease in foreign exchange gain of $1.9 million, a reduction in the non-cash mark-to-market gain on interest rate swap contracts of $0.3 million and an increase in income taxes of $1.0 million, partially offset by an increase in gross profit of $0.2 million, a decrease in administration expenses of $0.2 million, a decrease in interest expense of $0.2 million, the elimination of amortization of de-designated hedges of $0.3 million and an increase in other income of $0.1 million.

Earnings per share decreased to ($0.05) per share in the third quarter of 2011 from $0.06 in the third quarter of 2010.

ANALYSIS OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

Sales



During the nine months ended September 30, 2011, Pollard achieved sales of $127.4 million, compared to $126.1 million in the nine months ended September 30, 2010. Factors impacting the $1.3 million sales increase were:

Strengthening of the Canadian dollar

During the nine months ended September 30, 2011, Pollard generated approximately 67% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the first nine months of 2011 the actual U.S. dollar value was converted to Canadian dollars at $0.98, compared to a rate of $1.05 during the first nine months of 2010. This 6.7% decrease in the U.S. dollar value resulted in an approximate decrease of $5.5 million in revenue relative to the first nine months of 2010. In addition, during the nine months ended September 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 nine months of 2010.

Other

Instant ticket volumes for the first nine months of 2011 were higher by 10.9% than the first nine months of 2010 which, partially offset by a reduction in our ancillary instant ticket products and services revenue, increased sales by $7.4 million. Sales volumes were higher due to both increased sales to existing customers and sales to new customers. A decrease in the average selling price of instant tickets decreased sales by $0.6 million compared to the first nine months of 2010. An increase in the average selling price of Charitable Gaming Products increased sales by $0.4 million compared to the first nine months of 2010, while volumes were slightly lower than the first nine months of 2010 reducing revenues by $0.6 million. An increase in machine volumes increased sales by $0.3 when compared to 2010.

Cost of sales and gross profit

Cost of sales was $106.6 million in the nine months ended September 30, 2011, compared to $105.3 million in the first nine months of 2010. Lower exchange rates on U.S. dollar transactions in 2011 decreased cost of sales approximately $3.2 million. Cost of sales were higher as a result of the increased instant ticket volumes and non-recurring costs related to the closure of our lottery management operations in Puerto Rico of $0.5 million, partially offset by costs savings generated by our Change Initiative process as well as the decrease in the warranty cost of $0.9 million.

Gross profit was consistent with $20.8 million (16.3% of sales) in the first nine months of 2011 from $20.8 million (16.5% of sales) in the nine months ended September 30, 2010. Gross profit in the first nine months of 2011 excluding the Puerto Rico closure costs was $21.3 million (16.7% of sales). This increase is due mainly to the increased sales volume and decrease of the 2010 warranty cost, partially offset by the impact of the stronger Canadian dollar.

Administration expenses

Administration expenses were $10.1 million in the first nine months of 2011 which is lower than $11.3 million in the first nine 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 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 $4.5 million in the first nine months of 2011 which is similar to $4.5 million in the first nine 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 $3.5 million in the first nine months of 2011 from $4.1 million in the first nine months of 2010 due primarily to the elimination of higher interest rates relating to certain interest rate swaps which expired on August 31, 2010 and August 31, 2011, partially offset by higher interest rates associated with the credit facility in 2011.

Foreign exchange gain/loss

The net foreign exchange loss was $0.6 million in the first nine months of 2011 compared to a gain of $0.6 million in the third quarter of 2010. Within the 2011 net foreign exchange loss are unrealized losses of $3.8 million, relating to a $4.0 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 the weakening of the value of the Canadian dollar versus the U.S. dollar toward the end of the third quarter), partially offset by $0.2 million unrealized gain on U.S. dollar denominated payables. Within the foreign exchange loss is a realized gain of $3.2 million consisting of a $3.4 million realized gain relating to payments made on U.S. dollar denominated debt, partially offset by $0.2 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 $0.6 million foreign exchange gain are unrealized gains of $1.4 million, consisting of a $1.2 million unrealized foreign exchange gain on U.S. dollar denominated debt and $0.2 million on unrealized gains on U.S. dollar denominated receivables and payables. Partially offsetting the unrealized gains was $0.8 million in realized foreign exchange losses, comprised of $0.4 million in realized losses relating to forward hedge contracts and $0.4 million in realized losses on the write-down of U.S. dollar denominated receivables.

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

During the first nine 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 nine 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 $17.5 million in the first nine months of 2011 compared to $14.1 million in the first nine months of 2010. The primary reasons for the increase in Adjusted EBITDA were higher gross profit, higher realized foreign exchange gains (relating to the repayment of U.S. dollar dominated debt) and a reduction in administration expenses.

Adjusted EBITDA excluding the gains on sale of property, plant and equipment was $16.0 million in the nine months ended September 30, 2011, as compared to $12.1 million in 2010.

Income taxes

Income tax expense was $1.8 million in the first nine months of 2011, an effective rate of 54.5%, primarily as a result of non-taxable items, 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 nine months of 2010, an effective rate of 41.9%, primarily due to the allocation of partnership losses and distributions to the Limited Partners prior to the Conversion and non-taxable items.

Amortization

Amortization includes amortization of property and equipment, deferred financing costs and intangible assets and totaled $6.4 million during the first nine months of 2011 which was consistent with $6.4 million during the first nine months of 2010.

Net Income

Net Income was $1.5 million in the first nine months of 2011 compared to $2.5 million in the first nine months of 2010. The primary reasons for the decrease were the $0.5 million non-recurring costs related to the closure of our lottery management operations in Puerto Rico included in cost of sales, a reduction in the gain on sale of property, plant and equipment of $0.5 million, a decrease in foreign exchange gain of $1.2 million, an increase in amortization of deferred financing costs of $0.2 million and a reduction in the non-cash mark-to-market gains on interest rate swap contracts and foreign currency contracts of $2.1 million, partially offset by an increase in gross profit of $0.5 million, a decrease in administration expenses of $1.2 million, a decrease in interest expense of $0.6 million and the elimination of amortization of de-designated hedges of $1.2 million.

Earnings per share decreased to $0.06 per share in the nine months ending September 30, 2011, from $0.11 in the nine months ending September 30, 2010.

Liquidity and Capital Resources

Cash provided by operating activities

For the nine months ended September 30, 2011, cash flow provided by operating activities was $6.9 million compared to cash flow used by operating activities of ($1.4) million for the comparable period in Fiscal 2010. Changes in the non-cash component of working capital decreased cash flow from operations of ($3.3) million for the nine months ended September 30, 2011 (due primarily to increases in accounts receivable and inventories), compared to a decrease of ($5.0) million for the nine months ended September 30, 2010 (due primarily to an decrease in provisions, accounts payable and accrued liabilities and an increase in accounts receivable, partially offset by a decrease in inventories).

Cash provided by investing activities

In the nine months ended September 30, 2011, cash provided by investing activities was $0.8 million compared to $1.6 million provided in the nine months ended September 30, 2010. Proceeds from the sale of property, plant and equipment in the nine months ended September 30, 2011, provided $3.5 million in cash as compared to $2.9 million in the comparable period of 2010. Capital expenditures of ($2.6) million were incurred in the nine months ended September 30, 2011, compared to ($1.4) million for the nine months ended September 30, 2010.

Cash provided by financing activities

Cash used by financing activities was ($8.7) million in the nine months ended September 30, 2011, compared to cash provided by financing activities $0.3 million in the nine months ended September 30, 2010. The increase in cash used by financing activities was primarily due to the repayment of long-term debt.

As at September 30, 2011, Pollard had unused committed debt facility of $17.7 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) Q3 2011	(1) Q2 2011	(1) Q1 2011	(1) Q4 2010	(1) Q3 2010	(1) Q2 2010	(1) Q1 2010	(2) Q4 2009
Sales	$43.8	$44.4	$39.2	$37.4	$41.7	$43.1	$41.2	$46.9
Adjusted EBITDA	5.9	7.7	3.9	4.1	4.6	5.8	3.7	5.8
Net Income (Loss)	(1.2)	1.8	0.9	(0.7)	1.5	(0.7)	1.7	0.1

(1) Amounts are based on International Financial Reporting Standards

(2) Amounts are based on previous Canadian GAAP

Sales in Q3 and Q2 2011 were higher do to an increase in instant ticket volumes, 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 profit, 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.

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

Productive Capacity

Management has defined productive capacity as the level of operations necessary to maintain a minimum Adjusted EBITDA of $20.0 million 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 $4.0 million during the nine months ended September 30, 2011 due to the significant increases in volume and sales orders during 2011, partially offset by increase in net increase in accounts payable and accrued liabilities, and provisions of $0.9 million.

	September 30, 2011	December 31, 2010
Working Capital	$23.7	$21.7
Total Assets	$125.4	$128.2
Total Long-term Liabilities	$72.1	$74.2

Credit Facility

Pollard's credit facility, which was renewed effective October 30, 2011, consists of one committed bank loan facility. The committed bank loan facility provides loans of up to $70.0 million for its Canadian operations and up to US$21.4 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 September 30, 2011, the outstanding letters of credit were $2.1 million and the remaining balance available for drawdown was $17.7 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 September 30, 2011 and November 9, 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 30, 2012. 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 30, 2013.

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 September 30, 2011, the credit facility will be reduced by approximately $2.3 million as of November 29, 2011.

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 September 30, 2011 and November 9, 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 nine months ended September 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

The overall instant ticket market continues to show consistent growth at the retail level in the 5-7% range compared to last year. A significant number of lotteries in North America and internationally are experiencing strong growth in instant tickets. Despite current economic uncertainty, the underlying instant ticket industry is showing very good resilience and we expect this strength to continue for the foreseeable future.

In addition to looking at new adjuncts to the instant ticket product lines such as second chance drawings and VIP internet player tracking, lotteries are refocusing on a back to basics approach to expanding their instant ticket sales including maximizing retailer training, optimizing retail shelf space and increased retailer penetration. By assisting lotteries in these endeavors we can expand our relationships, and growing retail sales of instant tickets provide us the opportunity to increase our own sales. We expect these factors to assist us in maintaining our volumes at the current higher levels than achieved in 2010.

We have no existing large lottery contracts set to expire in 2011 or the beginning 2012 and we will continue to pursue new opportunities. Although the overall market is expected to grow, we also expect the industry to continue to be very competitive.

Specialty product sales such as licensed merchandise games tend to be higher in the third quarter of the year in preparation for the holiday season. We anticipate our mix of specialty work and its impact on average selling prices to be more consistent with historic norms in the next two to three quarters as compared to the third quarter of 2011.

Our charitable games business remains very stable. Although there is very little growth at the retail level, profitable growth opportunities do exist within certain specific segments. We anticipate this product line will continue to represent similar levels of our overall sales and profitability.

After many quarters of strengthening relative to the U.S. dollar, the Canadian dollar weakened towards the end of the third quarter. Despite generating unrealized losses on our U.S. denominated long-term debt, a weaker Canadian dollar results in stronger operating results including higher net income and free cash flow due to our net exposure to cash inflows based in U.S. dollars.

We are currently starting the second year of our formal improvement process know as the Change Initiative Plan. A significant amount of our operating and financial improvements achieved during the past year have stemmed from the initiatives and action plans instigated under this process to improve all aspects of our organization. Increased sales and production volumes, improved cost structures and increased innovations are the primary objectives of the process and we will continue to focus our energies and resources within this framework to drive our organization in the quarters to come.

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

Pollard Banknote believes that its credit 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 nine months ended September 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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