POLLARD BANKNOTE INCOME FUND
POLLARD HOLDINGS LIMITED PARTNERSHIP

March 31 - 2010

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

FOR THE THREE MONTHS ENDED MARCH 31, 2010

May 5, 2010

This management's discussion and analysis ("MD&A") of Pollard Banknote Income Fund (the "Fund") and Pollard Holdings Limited Partnership ("Pollard LP") for the three months ended March 31, 2010, is prepared as at May 5, 2010, and should be read in conjunction with the accompanying unaudited interim financial statements of the Fund and Pollard LP and the notes therein as at March 31, 2010, and the audited financial statements of the Fund and Pollard LP for the year ended December 31, 2009, and the notes therein. Results are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Forward-Looking Statements

Certain statements in this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this document, such statements include such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

Use of Non-GAAP Financial Measures

Reference to "EBITDA" is to earnings before interest, taxes, amortization, unrealized foreign exchange gains and losses, mark-to-market gains and losses on foreign currency contracts and interest rate swaps, facility closing reserve and long-term incentive plan expense. Reference to "Adjusted Distributable Cash" is to cash available for distribution to Unitholders, calculated as cash flow from operations, before changes in non-cash working capital, less maintenance capital expenditures. Management views Adjusted Distributable Cash as an operating performance measure, as it is a measure generally used by Canadian income funds as an indicator of financial performance. Adjusted Distributable Cash is important as it summarizes the funds available for distribution to Unitholders. As the Fund and Pollard LP will distribute substantially all of its cash on an ongoing basis, and since EBITDA and Adjusted Distributable Cash are metrics used by many investors to compare issuers on the basis of the ability to generate cash from operations, management believes that, in addition to Net Income, EBITDA and Adjusted Distributable Cash are useful supplementary measures.

EBITDA, Adjusted Distributable Cash, Maintenance Capital Expenditures and Growth Capital Expenditures are not measures recognized under Canadian GAAP and do not have standardized meanings prescribed by Canadian GAAP. Therefore, these measures may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA should not be construed as an alternative to Net Income or Loss determined in accordance with Canadian GAAP as indicators of the Fund's and Pollard LP's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

On July 6, 2007 the Canadian Securities Administrators issued a replacement of National Policy 41-201 "Income Trusts and Other Direct Offerings" which includes disclosure guidance for income trusts. In addition, the Canadian Institute of Chartered Accountants ("CICA") issued an interpretive release on Management's Discussion and Analysis Guidance on Preparation and Disclosure entitled "Standardized

Distributable Cash in Income Trusts and Other Flow-Through Entities". The CICA's interpretive release outlines two defined terms: Standardized Distributable Cash and Adjusted Distribution Base. Standardized Distributable Cash calculates Distributable Cash as cash provided by operating activities (including the impact of the change in non-cash working capital) less total capital expenditures. When entity-specific adjustments are made that are outside the definition of Standardized Distributable Cash, then the adjusted amount is reported as the Adjusted Distribution Base.

Management's definition of Adjusted Distributable Cash is consistent with the CICA definition of Adjusted Distribution Base. We have provided the information outlined by the CSA and CICA based on management's interpretations regarding the suggested disclosure. For a reconciliation of Adjusted Distributable Cash to Standardized Distributable Cash see "Adjusted Distributable Cash".

Basis of Presentation

The results of operations in the following discussions encompass the unaudited interim consolidated results of the Fund and Pollard LP for the three months ended March 31, 2010. All figures are in millions except for unit amounts.

The Fund does not consolidate the results of the operations of Pollard LP. As a result, the unaudited financial statements with accompanying notes therein have been presented for both the Fund and Pollard LP. In addition, the following management's discussion and analysis presents a discussion of the financial condition and results of operations for both the Fund and Pollard LP.

POLLARD BANKNOTE INCOME FUND

Formation of the Fund

Pollard Banknote Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust dated June 29, 2005. The Fund qualifies as a "mutual fund trust" for the purposes of the *Income Tax Act* (Canada) and was established to acquire and hold indirectly an investment in Pollard Holdings Limited Partnership ("Pollard LP").

Results of Operations

The Fund earned $0.2 million in Net Income from its investment in Pollard LP for the three months ended March 31, 2010, compared to a Loss of $1.1 million in the three months ended March 31, 2009. The Fund's Net Income (Loss) is limited to its proportionate share of Net Income (Loss) of Pollard LP, less the amortization of the excess of the purchase price of its investment in Pollard LP over the underlying assets acquired and less the administrative expenses incurred by the Fund plus the impact of future income tax reductions. The Fund recorded amortization related to the purchase price adjustment of $0.5 million and administrative expenses of $0.07 million for the three months ended March 31, 2010, compared to amortization of $0.5 million and administrative expenses of $0.07 million for three months ended March 31, 2009.

The Fund is entirely dependent on distributions from Pollard LP to make its own distributions. During the three months ended March 31, 2010, the Fund received a total of $0.7 million in distributions from Pollard LP compared to $1.5 million in the three months ended March 31, 2009.

As at March 31, 2010, the Fund had total assets of $44.7 million. Its largest single asset is its investment in Pollard LP. The Fund had no long-term financial liabilities as at March 31, 2010.

Conversion to a Corporation

On January 28, 2010, the Trustees of the Fund, in conjunction with the Board of Directors of Pollard Banknote 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.

The conversion will utilize legislative tax-free conversion options and is expected to become effective May 14, 2010, following appropriate final court approval and Unitholders' vote at the annual and special meeting to be held May 6, 2010. Under the plan, Unitholders in the Fund will hold shares in the new public corporation on a one for one basis compared to their unit holdings at the conversion date.

It is expected that the new corporation will pay a dividend that will be in line with typical dividend payout ratios for publicly traded corporations. Accordingly the plan approved in principle by the Trustees sets out a quarterly dividend after conversion of $0.03 per share. The initial dividend will be for the two month period ending June 30, 2010 and will therefore be $0.02 per share. Subsequent quarters will reflect the full quarterly dividend of $0.03 per share. Effective with the February distribution, payable on March 15, 2010, the monthly distribution to Unitholders was adjusted to the equivalent rate of $0.01 per unit.

After conversion there will be no substantive change in the ultimate ownership of Pollard. As a result, the conversion will be accounted for under the continuity of interests method. One consolidated financial statement incorporating the results of both the Fund and Pollard LP will be prepared. Comparative figures will be restated reflecting the combined results of both entities.

Distributions

During 2010 the Fund declared the following distributions:

Month	Date Declared	Date of Record	Payment Date	Amount per Unit
January	January 7	January 29	February 16	$0.0475
February	January 28	February 26	March 15	$0.0100
March	March 3	March 31	April 15	$0.0100
TOTAL				$0.0675

Tax Treatment of Distributions

The tax treatment of the 2010 distributions will not be determined until completion of the 2010 fiscal year. For reference, the tax treatment of the 2009 distributions was 47.7% fully taxable distribution, 13.2% eligible dividends, 7.1% capital gain and 32.0% return of capital.

Income Taxes

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is currently only taxable on any amount not allocated to Unitholders. The Fund intends to continue to meet the requirements under the *Income Tax Act* (Canada) and there is no indication that the Fund will fail to meet those requirements.

As the Tax Fairness Plan legislation is now enacted, the Fund is required to recognize future income tax assets and liabilities with respect to temporary differences between the carrying amount and tax basis of its assets and liabilities that are expected to reverse in or after 2011. The Fund does not expect the temporary difference between the carrying amount and tax base of the investment in Pollard LP to reverse in the foreseeable future and accordingly has reduced the asset by a valuation allowance for the full amount.

Units

As at March 31, 2010, and May 5, 2010, the Fund had 6,285,700 Units issued and outstanding. In addition, the Fund had issued and outstanding 17,257,458 Special Voting Units owned entirely by Pollard Equities Limited. These Special Voting Units are used solely for providing voting rights to the holders of the Class B and Class C LP Units of Pollard LP and are not transferable separately from the Class B LP and Class C LP Units. Special Voting Units do not entitle the holder to any rights with respect to the Fund's property, distributions or income. Equities also owns 47,700 Fund Units purchased during 2008 on the open market under a normal course purchase bid announced on May 7, 2008.

Net Income (Loss) per Unit

Net Income for the three months ended March 31, 2010, was $0.03 per unit (basic and diluted). Adjusted Distributable Cash per unit for the three months ended March 31, 2010, based on the underlying business of Pollard LP was $0.08 per unit (see “Reconciliation of Net Income to Adjusted Distributable Cash”).

Net Loss for the three months ended March 31, 2009, was $0.18 per unit. Adjusted Distributable Cash per unit for the three months ended March 31, 2009, based on the underlying business of Pollard LP was $0.09 per unit.

Financial Instruments

Distributions receivable, distributions payable to Unitholders and accounts payable are reflected in the financial statements at carrying values, which approximate fair value because of the short-term maturity of these financial instruments.

Critical Accounting Policies and Estimates

The critical accounting policies and estimates are substantially unchanged from those identified in the MD&A for the year ended December 31, 2009 except for the accounting policy changes outlined in the unaudited interim financial statements.

Related Party Transactions

The Fund has not entered into any significant transactions with related parties during the three months ended March 31, 2010, which are not disclosed in the unaudited interim financial statements.

Industry Risks and Uncertainties

The factors affecting the Fund remain substantially unchanged from those identified in the MD&A for the year ended December 31, 2009.

Distributions

On January 28, 2010, the Fund announced a reduction in the monthly distributions to $0.01 per unit (from $0.0475) beginning with the February distribution (payable March 15, 2010). This reduction is as a result of a reduction in the distributions declared from the underlying business in Pollard LP and aligns the distribution to be consistent with the anticipated dividend rate of the public corporation after conversion.

POLLARD HOLDINGS LIMITED PARTNERSHIP

Overview

Pollard Holdings Limited Partnership ("Pollard LP") is one of the leading providers of products and services to lottery and charitable gaming industries throughout the world. Management believes Pollard LP 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 LP produces and provides a comprehensive line of instant tickets and lottery services including: licensed products, distribution, retail telephone selling ("tel-sell"), marketing and instant ticket vending machines. In addition, Pollard LP'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 LP 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 LP'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 LP serves over 45 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 LP serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

Product line breakdown of revenue

	Three months ended March 31, 2010	Three months ended March 31, 2009
Instant Tickets	88.0%	86.2%
Charitable Gaming Products	11.0%	12.5%
Vending Machines	1.0%	1.3%

Geographic breakdown of revenue

	Three months ended March 31, 2010	Three months ended March 31, 2009
United States	53%	62%
Canada	28%	19%
International	19%	19%

Formation of the Limited Partnership

Pollard LP is a limited partnership established under the laws of the Province of Manitoba on June 29, 2005, by a partnership agreement as amended August 5, 2005. Pollard LP was established to acquire the business of the manufacture and sale of lottery and gaming products (the "business") from Pollard Banknote Limited renamed Pollard Amalco Inc., and to operate such business thereafter. On July 14, 2008, Pollard Amalco Inc. was renamed Pollard Equities Limited ("Equities," "the predecessor company").

The Fund's economic interest in Pollard LP approximates 26.7% and Equities' economic interest in Pollard LP approximates 73.3%.

The General Partner of Pollard LP is Pollard Banknote Limited, which holds an economic interest of 0.05%.

Adjusted Distributable Cash of Pollard LP

Pollard LP generated Adjusted Distributable Cash totaling $1.9 million during the three months ended March 31, 2010, after considering the expenses of the Fund. The payout ratio for the three months ended March 31, 2010, was 85.5%.

Based on the distributions declared, before Fund expenses, of $1.6 million for the quarter ending March 31, 2010, Adjusted Distributable Cash exceeded the target by $0.3 million.

On a per unit basis, Adjusted Distributable Cash for the three months ended March 31, 2010, totaled $0.0789 approximately $0.0114 greater than the distributions declared of $0.0675 per unit.

Pollard LP generated Adjusted Distributable Cash totaling $2.2 million during the three months ended March 31, 2009, after considering the expenses of the Fund. The payout ratio for the three months ended March 31, 2009, was 255.5%.

Based on the distributions declared, before Fund expenses, of $5.6 million per quarter, Adjusted Distributable Cash fell short of the target by $3.4 million in the three months ended March 31, 2009.

On a per unit basis, Adjusted Distributable Cash for the three months ended March 31, 2009, totaled $0.093, approximately $0.1446 under the target of $0.2376 per unit.

Management uses Adjusted Distributable Cash to measure operating performance and therefore believes that Adjusted Distributable Cash calculated from EBITDA is an appropriate measure to help readers evaluate the performance of the Fund and Pollard LP.

Adjusted Distributable Cash is defined by management as EBITDA less maintenance capital expenditures, cash taxes, interest expense and long-term incentive plan ("LTIP") expense.

Adjusted Distributable Cash and EBITDA are not recognized measures under Canadian GAAP and do not have standardized meaning prescribed by Canadian GAAP. Adjusted Distributable Cash, EBITDA and related measures may not be viewed as alternatives to net earnings or other measures of performance calculated in accordance with Canadian GAAP (see "Use of Non-GAAP Financial Measures").

Conversion to a Corporation

On January 28, 2010, the Board of Directors of Pollard Banknote Limited, General Partners of Pollard LP, in conjunction with the Trustees of the Fund, approved in principle a plan to convert Pollard Banknote Income Fund into a publicly traded corporation. See “Conversion to a Corporation” under Pollard Banknote Income Fund.

Kamloops Facility

On February 28, 2010, Pollard LP 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. It is anticipated that the rationalization of facilities will result in significant reduced net annual operating costs, beginning in March 2010, of approximately $4 million on an annual basis.

The following financial information should be read in conjunction with the accompanying financial statements of the Fund and Pollard LP and the notes therein as at and for the three months ended March 31, 2010.

RECONCILIATION OF NET INCOME (LOSS) TO ADJUSTED DISTRIBUTABLE CASH

(millions of dollars)

	Reference	Three months ended March 31, 2010	Three months ended March 31, 2009
Net Income (loss)		$2.7	($2.3)
Adjustments:			
Interest		1.3	1.0
Unrealized foreign exchange (gain) loss		(1.3)	1.0
Mark-to-market (gain) loss on foreign currency contracts and interest rate swaps		(1.3)	1.8
Amortization of de-designated hedges		0.5	-
Income taxes		0.1	0.8
Amortization		1.7	1.7
EBITDA		3.7	4.0
Less:			
Cash taxes		(0.3)	(0.5)
Interest		(1.3)	(1.0)
Maintenance capital expenditures	*1*	(0.1)	(0.2)
Cash Available for Distribution (before Fund expenses)		2.0	2.3
Expenses of the Fund	*2*	0.1	0.1
Adjusted Distributable Cash	*3*	$1.9	$2.2

1 Maintenance capital expenditures refer to capital expenditures, net of proceeds on disposals of assets replaced, which are necessary to sustain current cash flow. Growth capital expenditures refer to capital expenditures that are expected to increase cash flow.

2 Represents expenses borne by the Fund.

3 Cash available for distribution will fluctuate on a monthly and quarterly basis due to seasonal cash flows, timing of maintenance capital expenditures, income taxes paid and interest costs on outstanding debt.

The Canadian Securities Administrators (Revised CSA Staff Notice 52-306) recommends Adjusted Distributable Cash be reconciled to cash provided by operations from the statement of cash flows.

Adjusted Distributable Cash is also defined by management as Standardized Distributable Cash plus the change in non-cash working capital and growth capital expenditures.

ADJUSTED DISTRIBUTABLE CASH RECONCILIATION

(millions of dollars except for unit amounts)

	Reference	Three months ended March 31, 2010	Three months ended March 31, 2009
Net cash provided by operations		(0.4)	$3.7
Total capital expenditures		(0.2)	(1.1)
Standardized Distributable Cash		(0.6)	2.6
Net change in non-cash working capital		2.5	(1.2)
Growth capital expenditures	*1*	0.1	0.9
Adjusted Distributable Cash (before Fund expenses)		2.0	2.3
Expenses of the Fund	*2*	(0.1)	(0.1)
Adjusted Distributable Cash		1.9	2.2
Percentage of Adjusted Distributable Cash available to Fund Unitholders	*3*	26.7%	26.7%
Adjusted Distributable Cash available to Fund Unitholders	*4*	$0.5	$0.6
Distributions declared and payable to Fund Unitholders		$0.4	$1.5
Adjusted Distributable Cash per LP Unit		$0.0789	$0.0930
Distributions declared per LP Unit		$0.0675	$0.2376
Number of Fund Units outstanding		6,285,700	6,285,700
Capital Expenditures:			
Maintenance expenditures	*5*	$0.1	$0.2
Growth expenditures	*1*	0.1	0.9
Total		$0.2	$1.1

1 Growth capital expenditures refer to capital expenditures that are expected to increase cash flow.

2 Represents expenses borne by the Fund.

3 Percentage is equal to the economic interest the Fund has in Pollard LP.

4 Cash available for distribution will fluctuate on a monthly and quarterly basis due to seasonal cash flows, timing of maintenance capital expenditures, income taxes paid and interest costs on outstanding debt.

5 Maintenance capital expenditures refer to capital expenditures, net of proceeds on disposals of assets replaced, which are necessary to sustain current cash flow.

On July 6, 2007 the Canadian Securities Administrators issued a replacement of National Policy 41-201 "Income Trusts and Other Direct Offerings" which includes disclosure guidance for income trusts. In addition, the Canadian Institute of Chartered Accountants issued an interpretive release on Management's Discussion and Analysis Guidance on Preparation and Disclosure entitled "Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities". The CICA calculation of Standardized Distributable Cash is based on cash flows from operating activities, including the effects of changes in non-cash working capital, less total capital expenditures. The CICA also defines Adjusted

Distribution Base, calculated as the Standardized Distributable Cash less items adjusted by management to better reflect the distributable cash generated by the entity during a particular period.

Management believes that the Standardized Distributable Cash calculation distorts the quarter-to-quarter distributable cash and payout ratios, as non-cash working capital fluctuates dramatically as a result of the high value, low volume transaction nature of the business and rapid changes in the timing of receipts and payments. In addition, management believes capital expenditures related to growth opportunities should not be included as a deduction from Distributable Cash as they are financed through the debt facility.

Various working capital items, including but not limited to the timing of receivables collected, investment in inventory and payment of payables and accruals made, can have a significant impact on the determination of distributable cash if included in the calculations, particularly for an interim period. The nature of the lottery business with few customers generating fairly large individual orders can result in significant short-term variability in changes to non-cash working capital. Accordingly, Pollard LP excludes the impact of changes in non-cash working capital items to remove the resultant variability of including such amounts in the determination of distributable cash. These short-term variations in working capital are financed through existing cash reserves or through Pollard LP's revolving credit facility.

Management believes Adjusted Distribution Base (referred to as Adjusted Distributable Cash) is a more appropriate measure of distributable cash available for distributions, as it removes the volatility of the working capital variations and reflects the use of debt financing for certain capital expenditures. The calculation of Adjusted Distributable Cash is consistent with the historic calculation of Distributable Cash for Pollard LP and the Fund.

After conversion to a corporation, Standardized and Adjusted Distributable Cash will no longer be critical metrics to Pollard LP as the organization will no longer be distributing all its free cash flow. EBITDA and Net Income will continue to be important metrics.

The distribution policy of Pollard LP is to distribute its available cash as determined by the Trustees. The monthly distributions during the First Quarter were $0.0475 per unit in January and $0.01 per unit in February and March. Distributions were made on the Class A, Class B and Class C LP Units within 15 days of the end of each month. Distributions will be paid to the limited partners of record on the last day of the month in respect of which the distributions are to be paid.

On January 28, 2010, Pollard LP changed its LP unit distribution policy. Distributions of $0.01 per unit were declared for the month of February (payable on March 15, 2010), to be consistent with the anticipated quarterly dividend of $0.03 per share after conversion to a corporation.

SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Sales	$41.2	$47.0
Cost of Sales	33.6	38.9
Gross Profit	7.6	8.1
Gross Profit as a % of sales	*18.4%*	*17.2%*
Selling and Administration Expenses	4.8	5.6
Expenses as a % of sales	*11.7%*	*11.9%*
Realized foreign exchange loss	0.6	0.5
Loss as a % of sales	*1.5%*	*1.1%*
EBITDA	3.7	4.0
EBITDA as a % of sales	*9.0%*	*8.5%*

	March 31, 2010	December 31, 2009
Total Assets	$95.9	$105.0
Total Long Term Liabilities	$77.7	$76.5

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

REVIEW OF OPERATIONS

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

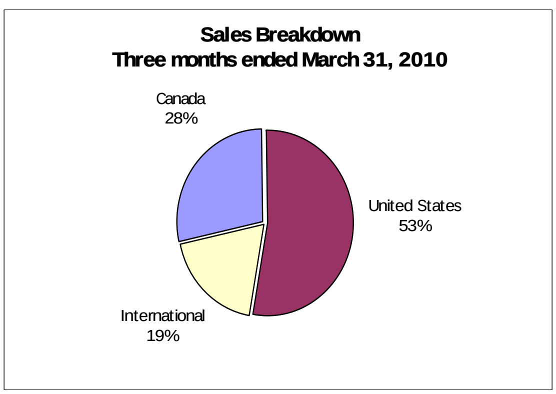
ANALYSIS OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2010

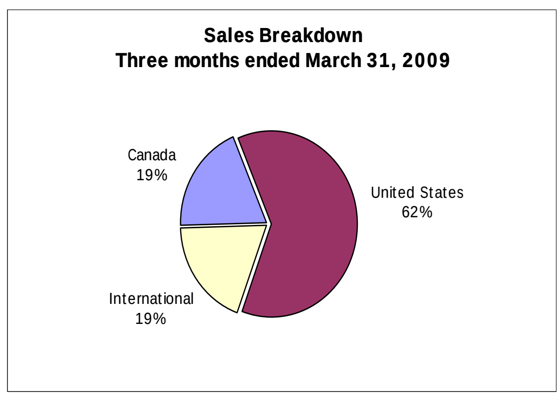
Sales

During the three months ended March 31, 2010, Pollard LP achieved sales of $41.2 million, compared to $47.0 million in the three months ended March 31, 2009. Factors impacting the $5.8 million sales decrease were:

Strengthening of the Canadian dollar

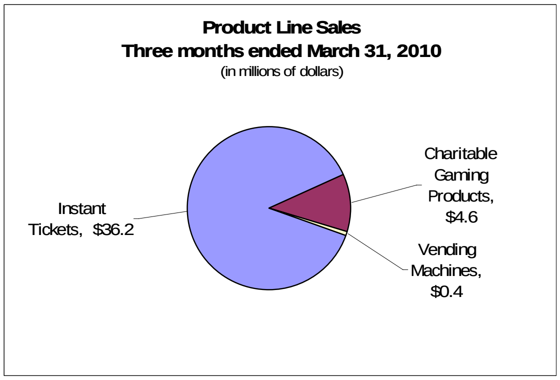
During the three months ended March 31, 2010, Pollard LP generated approximately 66% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the first quarter of 2010 the average U.S. dollar value versus the Canadian dollar was $1.06, compared to $1.25 during the first quarter of 2009. This 14.6% decrease in the U.S. dollar value resulted in an approximate decrease of $4.7 million in revenue relative to the first quarter of 2009.

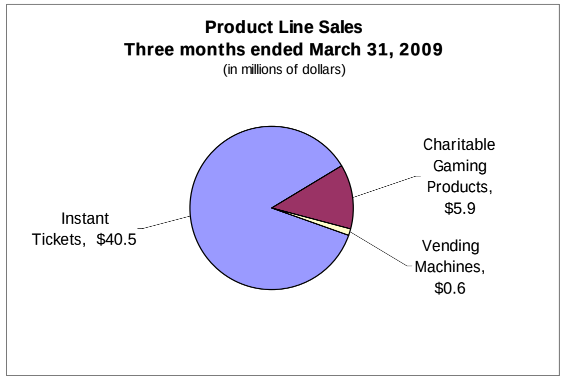




Other

The volume of instant ticket and related services sales generated during the first quarter of 2010 was slightly greater than the volume in the comparable three months of 2009, resulting in $0.6 million higher sales. A decrease in the average selling price of instant tickets reduced sales by $1.7 million when compared to the first quarter of 2009. The lower average selling price was due to changes in the mix of products sold.





Cost of sales and gross profit

Cost of sales was $33.6 million in the first quarter of 2010 compared to $38.9 million in the first quarter of 2009 due primarily to the lower exchange rate on U.S. dollar transactions in the first quarter of 2010 and higher costs in 2009 related to significant reproduction costs of two significant orders and certain manufacturing inefficiencies.

Gross profit decreased from $8.1 million (17.2% of sales) in the first quarter of 2009 to $7.6 million (18.4% of sales) in the first quarter of 2010. The decrease in gross profit primarily reflects the greater impact on sales of the strengthening of the Canadian dollar compared to the impact on cost of sales.

Selling and administration expenses

Selling and administration expenses were $4.8 million in the first quarter of 2010 compared to $5.6 million in the first quarter of 2009. The primary reasons for the decline were reduced professional fees and travel costs.

Foreign exchange gain (loss)

In the first quarter of 2010 a foreign exchange gain of $0.6 million was recorded, compared to a loss of $1.6 million in the first quarter of 2009. Within the foreign exchange gain are unrealized gains of $1.2 million relating to the foreign exchange gain on U.S. dollar denominated debt (caused by the strengthening of the Canadian dollar), partially offset by realized losses on accounts receivables of $0.2 million and $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).

In the first quarter of 2009 a foreign exchange loss was incurred of $1.6 million. Within the foreign exchange loss are unrealized losses of $1.1 million relating to the foreign exchange loss on U.S. dollar denominated debt (caused by the weakening of the Canadian dollar) and $0.5 million in realized losses relating to forward hedge contracts (caused by a weaker Canadian dollar relative to fixed exchange rates in the hedges).

EBITDA

EBITDA was $3.7 million in the first quarter of 2010 compared to $4.0 million in the first quarter of 2009. EBITDA margins were 9.0% in the first quarter of 2010 compared to 8.5% in the first quarter of 2009. The primary reasons for the decline in EBITDA were lower gross profit, lower other income, higher realized foreign exchange loss and higher profit share expense, partially offset by decreased selling and administration costs.

Amortization

Amortization includes amortization of property and equipment and intangible assets, primarily patents, and totaled $1.6 million during the first quarter of 2010 which is similar to $1.7 million during the first quarter of 2009.

Interest

Interest expense increased from $1.0 million in the first quarter of 2009 to $1.3 million in the first quarter of 2010 due primarily to higher interest rates associated with the new syndicated credit facility completed on October 30, 2009.

Mark-to-market (gain) loss on foreign currency contracts

A non-cash mark-to-market gain of $0.8 million was recorded in the three months ended March 31, 2010, compared to a non-cash mark-to-market loss of $1.9 million recognized in the comparable period of 2009. On March 12, 2010, Pollard LP sold its remaining foreign currency contracts totaling US$18.0 million, resulting in the reversal of the previously recognized mark-to-market loss.

Income taxes

Income tax expense was $0.1 million in the first quarter of 2010 compared to $0.8 million in the first quarter of 2009. The income tax expense is lower due to differences relating to the foreign exchange impact of Canadian dollar denominated debt in the U.S. subsidiaries.

Net Income (loss)

Net Income was $2.7 million in the first quarter of 2010 compared to a Net Loss of $2.3 million in the first quarter of 2009. Decreased gross profit and higher interest expense were offset by decreased selling and administration expenses, lower income taxes, increased gains on foreign exchange compared to foreign exchange losses in 2009 and large mark-to-market gains on foreign exchange contracts compared to mark-to-market losses in 2009.

Adjusted Distributable Cash and Adjusted Distributable Cash per unit

Pollard LP generated $1.9 million in Adjusted Distributable Cash, or $0.08 per unit, for the first quarter of 2010. Adjusted Distributable Cash varies on a year-to-year basis due to changes in the product mix and short term variations in the order quantities from customers.

Quarterly Information
(unaudited)
(millions of dollars)

	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Sales	$41.2	$46.9	$48.4	$49.5	$47.0	$50.2	$44.1	$44.6
EBITDA	3.7	5.7	6.3	5.0	4.0	8.1	8.0	7.4
Net Income (Loss)	2.7	(0.4)	9.3	11.3	(2.4)	(9.3)	0.3	4.5

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

Sales in Q1 2010 were lower due to the strengthening of the Canadian dollar relative to the U.S. dollar and a decrease in the average selling price.

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

Net Loss in Q4 2009 was primarily due to the impact of the Kamloops facility closure accrual

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

Net Loss in Q1 2009 was incurred primarily due to lower levels of gross profit.

Net Income in Q3 2008 was lower and a Net Loss in Q4 2008 was incurred, primarily due to the non-cash mark-to-market loss on our foreign currency contracts.

Liquidity and Capital Resources

Cash provided by operating activities

For the three months ended March 31, 2010, cash flow used by operating activities was ($0.4) million, compared to cash flow provided by operations of $3.7 million for the comparable period in 2009.

Changes in the non-cash component of working capital provided a decrease in cash flow from operations of ($2.4) million for the three months ended March 31, 2010, compared to an increase in cash flow of $1.2 million during the comparable period in 2009. The increase in non-cash working capital was primarily the result of increased accounts receivables, due to increased sales near the end of the quarter, only partially offset by increased accounts payable and accrued liabilities.

Cash used in investing activities

In the three months ended March 31, 2010, cash used in investing activities was ($0.1) million (net) including $0.1 million in maintenance capital expenditures and $0.1 million in growth capital expenditures. Cash provided by investing activities also included $0.1 million in receipts on the net investment in leases. Maintenance capital expenditures are made to maintain existing levels of production and service and are funded from operating cash flow. Growth capital expenditures are made to expand Pollard LP's business or generate cost savings and are excluded from the calculation of Adjusted Distributable Cash. Growth capital expenditures are incurred only when it is expected that they would ultimately result in increased Adjusted Distributable Cash.

Cash used by financing activities

Cash used by financing activities was ($0.1) million in the three months ended March 31, 2010, representing distributions paid to Unitholders of ($1.6), an increase in long-term debt of $2.4 and a decrease in distribution payable of ($0.9).

During the three months ended March 31, 2009, cash used by financing activities was $5.6 million, representing the distributions paid to Unitholders.

As at March 31, 2010, Pollard LP had available credit of approximately $12.2 million, which is available to be used for future working capital requirements, contractual obligations, capital expenditures and distributions.

During the quarter Pollard LP's distributions accrued on a monthly basis to holders of record of Class A, Class B and C LP Units on the last business day of the month.

For the first quarter of 2010 the distributions declared per Class A, Class B and Class C Unit were $0.0675. Total distributions declared were $1.6 million. Distributions totaling $0.2 million were accrued as at March 31, 2010 and were paid to holders of the Class A, B and C Units on April 15, 2010.

Productive Capacity

Management has defined productive capacity as the level of operations necessary to maintain the current distributable cash target of $0.0475 per fully-diluted LP Unit or $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 distributable cash. A number of factors impact the levels of distributable cash including physical plant capacity, machine capacity, nature of product and service offerings produced and mix of customers. Adjusted Distributable Cash generated since going public, August 5, 2005, is $88.8 million and Distributions from that time were $94.2 million. The payout ratio, since August 5, 2005, is 106.1%. 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 closure of the Kamloops facility in February 2010. There have been no increases in productive capacity due to acquisitions since August 5, 2005.

Pollard LP's strategy with respect to productive capacity is to expend the required funds and resources to maintain the assets required to generate the targeted distributable cash. In addition, dependent on certain market conditions and limitations on available funds, projects are incurred to increase cash inflow or decrease cash outflow, in order to grow distributable cash. 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 LP utilizes a number of individual strategies to maintain and grow productive capacity including a capital expenditure budget and 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, assembled workforce and goodwill. Certain of these assets are reflected in the Fund's financial statements but not the financial statement of Pollard LP 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 future distributable cash. 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 distributable cash. 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 distributable cash, 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 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. Overall fluctuations of working capital do not have an impact on distributions as fluctuations are financed through the use of the credit facility, and have been excluded from the calculation of Adjusted Distributable Cash.

	March 31, 2010	December 31, 2009
Working Capital	$26.3	$24.2
Total Assets	$95.9	$105.0
Total Long Term Liabilities	$77.7	$76.5

Credit Facilities

Pollard LP's credit facilities consist 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 $24.9 million (US$25.0 million) for its U.S. subsidiaries. Borrowings under these credit facilities bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At March 31, 2010, the outstanding letters of credit were $3.2 million and the remaining balance available for drawdown was $14.3.

At March 31, 2010, Pollard LP had entered into interest rate swap contracts to fix the interest rate on approximately 54 percent of the outstanding long-term debt.

Under the terms and conditions of the credit facility agreement Pollard LP is required to maintain financial covenants including working capital ratios, debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratios and certain debt service coverage ratios. As at March 31, 2010 and May 5, 2010 Pollard LP is in compliance with all covenants.

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

Outstanding Unit Data

As at May 5, 2010, March 31, 2010, and December 31, 2009, outstanding unit data was as follows:

Class A LP units	6,285,700
Class B LP Units	13,725,984
Class C LP Units	3,531,474
General Partner Units	106,945

Contractual Obligations

There have been no material changes to Pollard LP's contractual obligations since December 31, 2009, that are outside the normal course of business.

Long-Term Incentive Plan

The officers of Pollard Banknote Limited and key employees of Pollard LP are eligible to participate in the long-term incentive plan of the Fund (the "LTIP").

During the three months ended March 31, 2010 and the three months ended March 31, 2009, based on cash available for distribution per LP Unit falling short of the base threshold, no provision for LTIP awards has been accrued.

Off-Balance Sheet Arrangements

There have been no material changes to Pollard LP's off-balance sheet arrangements since December 31, 2009, 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 the year ended December 31, 2009.

Critical Accounting Policies and Estimates

The critical accounting policies and estimates are substantially unchanged from those identified in the MD&A for the year ended December 31, 2009, except for the accounting policy changes outlined in the unaudited interim financial statements.

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 must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

Pollard LP established a four part planning framework in 2008 to ensure an effective and efficient transition regarding the introduction of International Financial Reporting Standards ("IFRS") in 2011. No significant changes to the status or our IFRS project discussed in the December 31, 2009, MD&A dated March 3, 2010, have occurred.

Related Party Transactions

Pollard LP has not entered into any significant transactions with related parties during the three months ended March 31, 2010, which are not disclosed in the unaudited interim financial statements.

Industry Risks and Uncertainties

The risk factors affecting Pollard LP remain substantially unchanged from those identified in the MD&A for the year ended December 31, 2009.

Outlook

The outlook for the instant lottery ticket market is for moderate growth as measured by retail sales. The majority of our revenue is generated under existing long term contracts. The recent announcement of the first time award of a contract with the Kentucky Lottery is a reflection of our competitive strength and we anticipate continuing to compete aggressively on further new contract opportunities.

The impact of the Kamloops facility closure will result in significantly reduced overhead costs and lower per unit production costs due to the efficiencies of operating in fewer, but larger, production facilities. The full impact of this improved cost structure will not be realized until the second quarter, as the consolidation only occurred during the later part of the first quarter.

Our new press is now operating near expected levels. Improved efficiencies will continue to be achieved over the next few quarters as further operating improvements are implemented.

The Canadian dollar continued to strengthen relative to the U.S. dollar during the first quarter of 2010. In March we sold the remainder of our forward foreign exchange contracts and this sale will eliminate any further mark-to-market accounting gains or losses on foreign currency contracts on our income statement. We will continue to manage our currency exposure risk to the U.S. dollar through our natural hedges including sourcing purchase inputs in U.S. currency, utilizing U.S. dollar denominated debt to hedge balance sheet exposure and efficiently using our U.S. based production facilities. However, further strengthening of the Canadian dollar relative to the U.S. dollar would impact negatively on our operating results.

Our charitable games division grew its volume in the first quarter of 2010 and these volumes are expected to be sustained during the remainder of 2010. Licensed products volume was lower in the first quarter and is expected to increase in the second and third quarter.

The conversion of Pollard Banknote Income Fund to a publicly traded corporation is set to be voted on at the May 6, 2010 annual and special meeting. If the plan is approved by Unitholders, the conversion is expected to be effective May 14, 2010. The conversion is as a result of the Federal Government eliminating certain income tax advantages of the income trust structure and will afford Pollard greater ability to invest in future business opportunities.

The conversion is anticipated to result in a tax free transfer for Unitholders who will exchange each of their units on a one-for-one basis for shares in the new corporation, to be called Pollard Banknote Limited. Dividends are expected to be set at 3 cents per share per quarter, with the first quarterly dividend for the two months ended June 30, 2010, of 2 cents per share expected to be paid in July.

The strength of our balance sheet will continue to improve as the impact of the reduced distributions, lower capital expenditures and improved operating results will reduce our outstanding debt balance.

Pollard Banknote believes that its credit facilities and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital and distributions 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 and effectiveness of the disclosure controls and procedures. The Fund’s management, with the participation of the Certifying Officers of the Fund, 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 for the interim period regarding the design and effectiveness of the internal controls over financial reporting. The Fund’s management, with the participation of the Certifying Officers of the Fund, 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 the Fund’s or Pollard LP’s internal control over financial reporting during the three months ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, Pollard LP’s internal control over financial reporting.

Additional Information

Trust Units of Pollard Banknote Income Fund are traded on the Toronto Stock Exchange under the symbol PBL.UN.

Additional information relating to the Fund and Pollard LP, including the Audited Consolidated Financial Statements and the Annual Information Form for the year ended December 31, 2009, is available on SEDAR at www.sedar.com.

Pollard Banknote Income Fund
1499 Buffalo Place
Winnipeg, Manitoba R3T 1L7
(204) 474-2323
www.Pollardbanknote.com