POLLARD BANKNOTE LIMITED

• ANNUAL REPORT 2011 •

CONTENTS

LETTER TO SHAREHOLDERS

Our financial results for Fiscal 2011 were improved compared to the prior year. While we are pleased with this, we are not satisfied with our performance and believe there are significant opportunities to see much better results.

The lottery industry returned to very strong growth levels during 2011. This market growth coupled with success in increasing our market share generated significant increases in our sales and production volumes, both of which attained record levels. We are very optimistic that these volume levels will continue in 2012.

We continued to work on, and see positive results from the initiatives developed under our Change Initiative process, the multi-year undertaking through which we are making the necessary operational, marketing and financial changes to meet our key objectives, generate improved profitability and strengthen our balance sheet.

One of the cornerstones of our future is our critical investment in innovation and a number of important steps have been made in 2011 towards that goal. The effective use of social media and the internet to expand and engage lottery players is the focal point of our Social Instants product and we anticipate generating our first sales of this product in 2012. We are also very excited about our recent joint venture established in China to provide instant ticket validation and other system services to the fast growing Chinese lottery market.

These improved 2011 results were generated despite the continued strength of the Canadian dollar and ongoing competitive pressures within the lottery sector. We are proud of our ability to improve our results in the face of these challenges and are confident that the improvements seen this past year will continue in the future.

Sales

Our sales totaled $172 million in fiscal 2011. These strong results were driven by significantly higher sales of our main product line, instant win lottery tickets where we achieved record volumes, increasing by 14% over 2010. This higher revenue was achieved despite the Canadian dollar strength relative to the U.S. dollar and the Euro, which reduced revenue compared to 2010 by approximately $5.5 million.

In 2011 all of our customer contracts that had extensions available were extended by our customers in accordance with the contract terms. Working with our existing customers to help grow their instant ticket product lines has benefitted our customers with higher net revenue for their good causes and also played a key role in generating higher revenue for Pollard in 2011. In addition, in some instances where lotteries have contracts with multiple instant ticket suppliers, we were able to increase our share with them relative to prior years, further increasing our sales volumes.

Another key factor in our increased 2011 volumes was the addition of a number of important new customers obtained towards the end of 2010 and early 2011 including, for example, lotteries in Cambodia, Cyprus, Norway and Sweden.

Our average selling prices in 2011 were similar to last year's results, which halts a trend of decreasing prices seen in prior years. Effective use of specialized and higher value products allowed us to mitigate the pricing pressures existing in the industry. While we are hopeful of maintaining similar overall prices going forward, our industry continues to be extremely price competitive.

During 2011 we also generated important revenue through the use of our proprietary products including our Lottery Management Services and Licensed Games product offerings. We have acquired some exciting new licensed properties during 2011 that should enable us to increase our sales in this area during 2012 and 2013.

Our charitable gaming sales (pull-tab tickets, bingo paper and vending machines) remained consistent with prior years despite that overall market facing significant headwinds. To help offset limited growth in the traditional charitable gaming environments of bingo halls, legions and taverns, we increased our sales of pull-tab tickets to lotteries which look to this product line to help expand their gaming options.

Operations

Our manufacturing operations had two major areas of focus during 2011: increasing capacity to produce higher volumes and improving our cost structure. We were quite successful in our efforts to produce the higher volumes we obtained during the year, however we still have considerable opportunity to achieve our goals on reducing our cost structure.

Relating to capacity, our manufacturing operations achieved record production volumes during 2011. Our manufacturing operations in Winnipeg increased their output substantially, including our in-line press operation. Our two facilities in the U.S. (Ypsilanti, Michigan (instant ticket production) and Council Bluffs, Iowa (charitable gaming production)) also produced very strong volumes in support of our sales and marketing initiatives. Our operating facilities in Barrhead, Alberta and Sault Ste. Marie, Ontario performed very efficiently during this past year, where their efforts are focused on finishing our instant tickets and certain specialty products.

During 2011 our cost structure did benefit from the overhead reduction strategies put in place in 2010 relating to the Kamloops B.C. plant closure and other head count reductions. However, our efforts to improve our direct costs of production were not as successful as we had hoped. Areas such as direct material and direct labour costs did not show the improvement as we had expected and as a result our margins and bottom line, while still improved compared to 2010, were not satisfactory.

One of our main tools for attaining our operational goals is the Change Initiative process, discussed in our letter last year. This is a structured process and project planning tool which focuses on the key objectives and the steps necessary to obtain them. We have refocused these process improvement plans related to these key cost areas and are hopeful we will see much better outcomes during 2012.

The Canadian dollar remained strong relative to the U.S. dollar in 2011. With approximately 75% of our revenue denominated in U.S. dollars, our financial results are exposed to movements in this relationship. The nature of our operations does provide some significant natural hedges, with two large manufacturing facilities based in the U.S. and a large portion of our Canadian input costs being denominated in U.S. dollars. Our natural cost hedges do not fully offset our U.S. revenue, however, so we still have a net exposure to U.S. dollar cash inflow. During 2011 the negative impact to our pre-tax profits due to the strengthening Canadian dollar compared to 2010 was approximately $4.1 million.

Outlook for 2012

The lottery industry today is very robust. Significant growth returned to our industry during 2011 and 2012 appears poised to continue this trend. The instant ticket sector in particular is very strong with high single digit growth in retail sales generating opportunities for our organization. Additional development in related services such as leveraging the internet, lottery management opportunities and geographic expansion opportunity such as Asia provides us with a platform for exciting growth.

We continue to focus on improving our manufacturing capabilities both in terms of capacity and efficiencies. Our ongoing Change Initiative process centers our resources on continual cost improvements, while at the same time allowing us to make the required investment in innovation and new opportunities.

2011 successfully built on many of the foundations we established in prior years, however we believe we have considerable opportunity to move forward and improve on the gains achieved last year. Our focus will continue to be on maintaining and increasing our market share, developing new and innovative solutions for our customers and improving our cost structure.

We traditionally end our annual shareholder letter thanking our stakeholders and we do so to underline what is most important to our organization. The hard work and dedication of our employees, the patience and encouragement of our shareholders, the confidence and loyalty of our customers and the strength and resourcefulness of our suppliers are the key attributes that drive us in our pursuit of success. We thank all of you for your support in 2011 and we look forward to continued success in 2012.

Douglas Pollard
Co-Chief Executive Officer

John Pollard
Co-Chief Executive Officer

DIRECTORS OF POLLARD BANKNOTE LIMITED

Lawrence Pollard
Chair Emeritus

Lawrence Pollard joined Pollard Banknote in 1947 and served as president of the company from 1960 until 1997. Mr. Pollard has served on the Board of Directors of a number of public and private companies. Currently Mr. Pollard serves on the Board of Directors of Gendis Inc., a public company, and several non-profit organizations. He has served as President of the Winnipeg Chamber of Commerce and was named Manitoba's Entrepreneur of the Year in 1991.

Gordon Pollard
Executive Chair

Gordon Pollard joined Pollard Banknote in 1989 as Vice President, Marketing. He became Co-Chief Executive Officer in 1997 and on May 1, 2011, was appointed Executive Chair of the Board of Directors. Prior to 1989, he practiced law with a major Manitoba firm specializing in corporate and securities law. Mr. Pollard has an LL.B. from the University of Manitoba and a B.A. from the University of Winnipeg.

Del Crewson

Del Crewson is a former senior partner and Vice-Chair of Deloitte and Touche LLP. He is a member of the Institute of Chartered Accountants of Manitoba and has been elected a "Fellow" of the Institute. Mr. Crewson serves on the Board of Directors of The Wawanesa Mutual Insurance Company, the Board of Trustees of Artis Real Estate Investment Trust, and is a member and on the advisory Board of the Manitoba Chapter of the Institute of Corporate Directors. He is also the Chair of the Audit and Evaluation Committee for the Department of Finance, Government of Canada and Chair of the Audit Committee for the Canadian Grain Commission. He is the past President of the Institute of Chartered Accountants of Manitoba and is a former Canadian Institute of Chartered Accountants Board and Executive Committee member.

Jerry Gray

Jerry Gray is Dean Emeritus of the I. H. Asper School of Business at the University of Manitoba where he also held the CA Manitoba Endowed Chair in Business Leadership. Dr. Gray is a Director and Chairman of the Board of Gendis, Inc. He has consulted with many major corporations in the United States and Canada in the areas of motivation, organizational design, manpower planning, managing change, management development, incentive system design, customer service and strategic planning.

Garry Leach

Garry Leach is the CEO of Belcher Island Smelting & Refining Corp. (an investment corporation). From 1988 to 2004, Mr. Leach was President and CEO of Gerdau MRM Steel (Manitoba Rolling Mills) and its predecessors. Mr. Leach serves on the Board of Directors of GLM Industries. Mr. Leach has previously served on the Board of Directors for Gerdau Ameristeel (TSX, NYSE), Manitoba Hydro, the Canadian Steel Producers Association, (Ottawa), the Steel Manufacturers Association, (Washington), as well as the Business Council of Manitoba. Mr. Leach also served as Regent for the University of Winnipeg.

Douglas Pollard

Douglas Pollard is Co-Chief Executive Officer of Pollard Banknote. He joined Pollard Banknote in 1997 as Vice President, Lottery Management Services and on May 1, 2011, he was appointed Co-Chief Executive Officer. From 1997 to 1999 he was a Director and the General Manager of Imprimerie Spéciale de Banque, a subsidiary of Pollard Banknote based in Paris, France. Prior to 1997 Mr. Pollard was a Senior Consultant with PriceWaterhouseCoopers. Mr. Pollard has an M.B.A. from The Richard Ivey School of Business at the University of Western Ontario and a B.A. from the University of Manitoba.

John Pollard

John Pollard is Co-Chief Executive Officer of Pollard Banknote. He joined the company in 1986 as Vice President, Finance and became Co-Chief Executive Officer in 1997. Prior to 1986, he was an associate with the accounting firm Deloitte & Touche LLP. Mr. Pollard has a B. Comm. from the University of Manitoba, and is a former member of the Institute of Chartered Accountants of Manitoba. Mr. Pollard is also a Director of Winpak Ltd.

POLLARD BANKNOTE LIMITED

December 31 - 2011

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

FOR THE YEAR ENDED DECEMBER 31, 2011

March 7, 2012

This management's discussion and analysis ("MD&A") of Pollard Banknote Limited ("Pollard") for the year ended December 31, 2011, is prepared as at March 7, 2012, and should be read in conjunction with the accompanying financial statements of Pollard and the notes therein as at December 31, 2011. These are Pollard's first annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. Results are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP" or "IFRS").

On May 14, 2010, Pollard Banknote Income Fund (the "Fund") and Pollard Holdings Limited Partnership ("Pollard LP") completed the conversion (the "Conversion") to a publically traded corporation. As there was no substantive change in ultimate ownership after the Conversion it was accounted for under the continuity of interests method. 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, depreciation and 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 facility closing reserve, conversion expenses, warranty reserve accruals, settlement loss on pension curtailment 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 Canadian GAAP and does not have a standardized meaning prescribed by Canadian 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 Canadian 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 consolidated results of Pollard for the year ended December 31, 2011. All figures are in millions except for per share amounts.

These consolidated 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 paid or 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 the 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, Social Instants™ 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

	Year ended December 31, 2011	Year ended December 31, 2010
Instant Tickets	89%	88%
Charitable Gaming Products	10%	11%
Vending Machines	1%	1%

Geographic breakdown of revenue

	Year ended December 31, 2011	Year ended December 31, 2010
United States	53%	47%
Canada	26%	24%
International	21%	29%

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.

After the Conversion there was no substantive change in the ultimate ownership of Pollard. As a result, the Conversion has been accounted for under the continuity of interests method. One consolidated financial statement incorporating the results of both the Fund and Pollard LP has been prepared. Comparative figures have been restated reflecting the combined results of both entities. As the Canadian operations of Pollard are now taxable under the *Income Tax Act* (Canada), the difference between the tax values and the net book value of the Canadian assets and liabilities have been recorded as future tax assets and liabilities in the comparative figures.

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

Kamloops Facility

On February 28, 2010, Pollard permanently closed its Kamloops production facility with all related production being transferred to its other facilities. A facility closing accrual of $4.7 million was expensed in the fourth quarter of 2009, representing the estimated closing costs including employee severance. As of December 31, 2011, Pollard had expended the entire facility closing reserve.

A settlement loss on pension curtailment of $0.7 million relating to the former Kamloops employees' pensions was recognized in 2011 due to a decrease in the discount rate utilized to determine the pension obligation between the time the closure was announced and the time the final pension obligations were determined.

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 third quarter of Fiscal 2011, the Government of Puerto Rico determined our operations were no longer allowed under current legislation. As a result the operations commenced winding up. Included in other are expenses of $0.5 million reflecting the write off of assets associated with the operations and the 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 Canada and the United States. 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 year ended December 31, 2011.

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share information)

	(1) Year ended December 31, 2011	(1) Year ended December 31, 2010	(2) Year ended December 31, 2009	(2) Year ended December 31, 2008
Sales	**$172.0**	$163.4	$191.8	$178.0
Cost of Sales	**141.9**	134.2	153.0	141.1
Gross Profit	**30.1**	29.2	38.8	36.9
Gross Profit as a % of sales	***17.5%***	*17.9%*	*20.2%*	*20.7%*
Administration Expenses (1)	**13.8**	14.4	-	-
Expenses as a % of sales	***8.0%***	*8.8%*	-	-
Selling Expenses (1)	**6.3**	6.0	-	-
Expenses as a % of sales	***3.7%***	*3.7%*	-	-
Selling and Administration Expenses (2)	-	-	21.3	20.4
Expenses as a % of sales	-	-	*11.1%*	*11.5%*
Net Income (Loss)	**3.1**	1.8	15.0	(3.4)
Net Income (Loss) as a % of sales	***1.8%***	*1.1%*	*7.8%*	*(1.9%)*
Adjusted EBITDA	**22.6**	18.2	21.3	28.2
Adjusted EBITDA as a % of sales	***13.1%***	*11.1%*	*11.1%*	*15.8%*
Earnings per share	**$0.13**	$0.08	$0.64	$(0.14)

	(1) December 31, 2011	(1) December 31, 2010	(2) December 31, 2009	(2) December 31, 2008
Total Assets	**$121.6**	$126.3	$154.3	$165.7
Total Long-Term Liabilities	**$77.2**	$74.8	$78.1	$73.2

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

RECONCILIATION OF NET INCOME (LOSS) TO ADJUSTED EBITDA

(millions of dollars)

	(1)	(1)	(2)	(2)
	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008
Net Income (Loss)	**$3.1**	$1.8	$15.0	$ (3.4)
Adjustments:				
Interest	**4.4**	5.2	4.4	3.8
Unrealized foreign exchange (gain) loss	**3.8**	(1.2)	(3.6)	4.2
Mark-to-market (gain) loss on foreign currency contracts and interest rate swaps	**-**	(2.1)	(10.4)	17.0
Amortization of de-designated hedges	**-**	1.2	0.6	-
Conversion costs	**-**	0.7	-	-
Warranty reserve	**-**	0.9	-	-
Settlement loss on pension curtailment	**0.7**	-	-	-
Restructuring expense	**0.5**	1.2	-	-
Facility closing	**-**	-	4.7	-
Income taxes (recovery)	**1.7**	1.9	1.7	(1.8)
Depreciation and amortization	**8.4**	8.6	8.9	8.4
Adjusted EBITDA	**$22.6**	$18.2	$21.3	$28.2

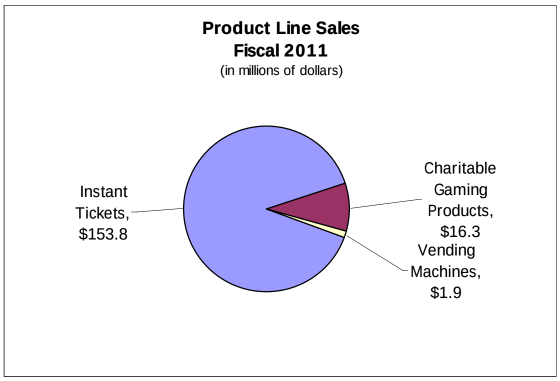
(1) Amounts are based on International Financial Reporting Standards
(2) Amounts are based on previous Canadian GAAP

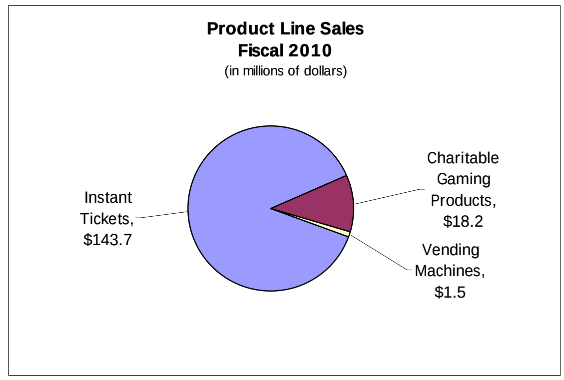
REVIEW OF OPERATIONS

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

ANALYSIS OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2011

Sales

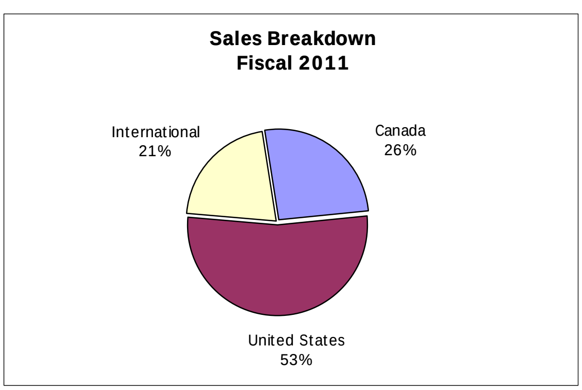


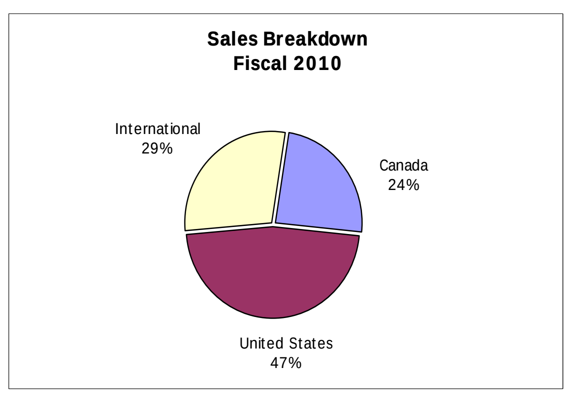


During the year ended December 31, 2011 ("Fiscal 2011" or "2011"), Pollard achieved sales of $172.0 million, compared to $163.4 million in the year ended December 31, 2010 ("Fiscal 2010" or "2010"). Factors impacting the $8.6 million sales increase were:

Changes in foreign exchange rates

During Fiscal 2011, Pollard generated approximately 65% (2010 – 72%) of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During Fiscal 2011 the actual U.S. dollar value was converted to Canadian dollars at $0.995 compared to a rate of $1.044 during Fiscal 2010. This 4.7% decrease in the U.S. dollar value resulted in an approximate decrease of $5.5 million in revenue relative to Fiscal 2010.





Other

Instant ticket volumes for Fiscal 2011 were higher than Fiscal 2010 by 14.3% which increased sales by $16.8 million. Sales volumes were higher due to both increased sales to existing customers and sales to new, predominately international, customers. A slight decrease in average selling price compared to 2010 reduced sales by $2.1 million. Charitable Gaming average selling prices remained consistent compared to 2010 and a volume decrease reduced sales by $1.1 million. An increase in the volume of machine sales increased sales $0.5 million when compared to 2010.

Cost of sales and gross profit

Cost of sales was $141.9 million in Fiscal 2011 compared to $134.2 million in Fiscal 2010. Lower exchange rates on U.S. dollar transactions in Fiscal 2011 decreased cost of sales approximately $3.0 million. Cost of sales was higher in the year relative to 2010 as a result of the increased instant ticket volumes, partially offset by costs savings generated by our Change Initiative process.

Gross profit was $30.1 million (17.5% of sales) in Fiscal 2011 compared to $29.2 million (17.9% of sales) in Fiscal 2010. This increase is due mainly to higher sales volumes, partially offset by the impact of foreign exchange.

Administration expenses

Administration expenses were $13.8 million in Fiscal 2011 which is lower than $14.4 million in Fiscal 2010 due to costs savings generated by our Change Initiative process.

Selling expenses

Selling expenses were $6.3 million in Fiscal 2011 which was higher than $6.0 million in Fiscal 2010 due to increased travel costs and salary expense over Fiscal 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 $4.4 million in Fiscal 2011 from $5.2 million in Fiscal 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.

Foreign exchange gain/loss

The net foreign exchange loss was $0.6 million in Fiscal 2011 compared to a gain of $0.1 million in Fiscal 2010. Within the 2011 foreign exchange loss are unrealized losses of $3.8 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 at December 31, 2011, as compared to December 31, 2010). Partially offsetting this is a realized gain of $3.2 million, consisting of a $3.7 million realized gain relating to payments made on U.S. dollar denominated debt, offset by realized losses of $0.5 million on the decreased value of U.S. dollar denominated receivables and the conversion of U.S. dollars and Euros into Canadian dollars.

The overall net impact to our 2011 income before taxes of the strengthening of the Canadian dollar is a reduction of $4.1 million, consisting of a $2.5 million reduction in gross profit and a reduction in foreign exchange gain, including a mark-to-market gain on foreign exchange contracts, of $1.6 million.

Within the 2010 foreign exchange gain are unrealized gains of $1.2 million, relating to a $1.1 million unrealized foreign exchange gain on U.S. dollar denominated debt (caused by the strengthening of the Canadian dollar between the balance sheet dates of December 31, 2009 and December 31, 2010) and unrealized net gains of $0.1 million on U.S. dollar denominated receivables and payables. Partially offsetting the unrealized gains are realized losses of $1.1 million, which is comprised of realized losses on the decreased value of U.S. dollar denominated receivables and the conversion of U.S. dollars and Euros into Canadian dollars.

Other (income) expense

Other income was $0.4 million in Fiscal 2011 compared to an expense of $0.6 million in Fiscal 2010. Within the 2011 other income is a $1.5 million gain on sale of property, plant and equipment, partially offset by restructuring expenses of $0.5 million and $0.7 million related to the settlement loss on pension curtailment.

Within the 2010 other expense is a $0.9 million warranty reserve, $0.7 million in conversion costs and a $1.2 million restructuring expense, partially offset by a $2.0 million gain on sale of property, plant and equipment.

Adjusted EBITDA

Adjusted EBITDA was $22.6 million in Fiscal 2011 compared to $18.2 million in Fiscal 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, partially offset by a decrease in the gain on sales of property, plant and equipment.

Adjusted EBITDA excluding the gain on sales of property plant and equipment was $21.1 million in Fiscal 2011 compared to $16.2 million in Fiscal 2010.

Income taxes

Income tax expense was $1.7 million in Fiscal 2011, an effective rate of 35.4%, as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Income tax expense was $1.9 million in Fiscal 2010, an effective rate of 51.4%, 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.

Depreciation and amortization

Depreciation and amortization, including depreciation of property and equipment and the amortization of deferred financing costs and intangible assets, totaled $8.4 million during Fiscal 2011 which decreased from $8.6 million during Fiscal 2010 due to certain intangible assets becoming fully amortized in Fiscal 2011.

Net Income

Net Income was $3.1 million in Fiscal 2011 compared to Net Income of $1.8 million in Fiscal 2010. The primary reasons for the increase were an increase in gross profit, a decrease in administration expenses, a decrease in interest expense, and a reduction in other expense, partially offset by an increase in foreign exchange loss, a reduction in the non-cash mark-to-market gain on interest rate swap contracts and an increase in income taxes.

Earnings per share increased to $0.13 per share in Fiscal 2011 from $0.08 in Fiscal 2010.

Liquidity and Capital Resources

Cash provided by operating activities

For the year ended December 31, 2011, cash flow provided by operating activities was $11.5 million compared to cash flow used by operating activities of $6.4 million for the comparable period in Fiscal 2010. Higher earnings and decreases in interest expense and unrealized foreign exchange loss in Fiscal 2011, as compared to Fiscal 2010, contributed to the increase in cash flow provided by operating activities. Changes in the non-cash component of working capital decreased cash flow from operations of ($1.8) million for Fiscal 2011 (due primarily to increases in accounts receivable and decreases in accounts payable and accrued liabilities and provisions, partially offset by a decrease in inventories), compared to an increase of $0.9 million for Fiscal 2010 (due primarily to a decrease in accounts receivable, inventories and an increase in accounts payable and accrued liabilities, partially offset by a decrease in provisions and an increase in prepaids).

Cash provided by investing activities

In the year ended December 31, 2011, cash provided by investing activities was $0.3 million compared to $0.6 million provided in the year ended December 31, 2010. Proceeds from the sale of property, plant and equipment in Fiscal 2011 provided $3.5 million in cash as compared to $3.0 million in Fiscal 2010. Capital expenditures of ($2.9) million were incurred in Fiscal 2011, compared to ($2.5) million for Fiscal 2010.

Cash used by financing activities

Cash used by financing activities was ($12.1) million in the year ended December 31, 2011, compared to cash used by financing activities ($5.1) million in the year ended December 31, 2010. The increase in cash used by financing activities was primarily due to the repayment of long-term debt, partially offset by a decrease in dividends paid.

As at December 31, 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.

ANALYSIS OF RESULTS FOR THE PERIOD OCTOBER 1, 2011 TO DECEMBER 31, 2011
FOURTH QUARTER OF 2011

SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Three months ended December 31, 2011	Three months ended December 31, 2010
	(unaudited)	(unaudited)
Sales	$44.6	$37.3
Cost of Sales	35.8	29.8
Gross Profit	8.8	7.5
Administration	3.7	3.7
Selling	1.7	1.5
Other expense	0.8	1.2
Income from operations	2.6	1.1
Finance costs	1.1	1.6
Income (loss) before income taxes	1.5	(0.5)
Income taxes:		
Current (recovery)	(0.1)	0.5
Future (reduction)	(0.1)	(0.3)
	(0.2)	0.2
Net Income (Loss)	$1.7	($0.7)
Adjustments:		
Interest	1.0	1.1
Unrealized foreign exchange loss	-	0.1
Restructuring expense	-	1.2
Settlement loss on pension curtailment	0.7	-
Income taxes (recovery)	(0.2)	0.2
Depreciation and amortization	2.0	2.2
Adjusted EBITDA	$5.2	$4.1

Sales

During the three months ended December 31, 2011, Pollard achieved sales of $44.6 million, compared to $37.3 million in the three months ended December 31, 2010. Factors impacting the $7.3 million sales increase were:

Changes in foreign exchange rates

During the three months ended December 31, 2011, Pollard generated approximately 62% (2010 – 75%) of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the fourth quarter of 2011 the actual U.S. dollar value was converted to Canadian dollars at $1.03, similar to the rate of $1.03 during the fourth quarter of 2010. The value of the Canadian dollar relative to the Euro also remained consistent between the two quarters; therefore there was no foreign exchange impact on sales in the fourth quarter of 2011 as compared to the similar quarter of 2010.

Other

Instant ticket volumes for the fourth quarter of 2011 were higher than the fourth quarter of 2010 by 25.4% which increased sales by $9.4 million. Sales volumes were higher due to both increased sales to existing customers and sales to new, predominately international, customers. This increase was partially offset by a slight decrease in average selling price compared to 2010, decreasing sales by $1.3 million. Charitable Gaming average selling prices decreased sales compared to 2010 by $0.4 million and a volume decrease further reduced sales by $0.5 million. Machine volumes increased sales by $0.1 million in the fourth quarter of 2011 compared to 2010.

Cost of sales and gross profit

Cost of sales was $35.8 million in the fourth quarter of 2011 compared to $29.8 million in the fourth quarter of 2010. Cost of sales was higher in the quarter relative to 2010 as a result of the increased instant ticket volume, partially offset by costs savings generated by our Change Initiative process.

Gross profit was $8.8 million (19.7% of sales) in the fourth quarter of 2011 compared to $7.5 million (20.1% of sales) in the fourth quarter of 2010. This increase in gross profit is due mainly to higher sales volumes of instant tickets.

Administration expenses

Administration expenses were $3.7 million in the fourth quarter of 2011 which is consistent with $3.7 million in the fourth quarter of 2010.

Selling expenses

Selling expenses were $1.7 million in the fourth quarter of 2011 which increased from $1.5 million in the fourth quarter of 2010. The increase was predominately a result of increased salary expenses over Fiscal 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 $1.0 million in the fourth quarter of 2011 from $1.1 million in the fourth 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.

Foreign exchange gain/loss

The foreign exchange gain/loss was nil in the fourth quarter of 2011 compared to a loss of $0.4 million in the fourth quarter of 2010. The 2010 foreign exchange loss is comprised of $0.3 million in realized losses on the write-down of U.S. dollar denominated receivables and $0.1 million in unrealized losses on adjustment of the Canadian equivalent of U.S. dollar cash balances.

Adjusted EBITDA

Adjusted EBITDA was $5.2 million in the fourth quarter of 2011 compared to $4.1 million in the fourth quarter of 2010. The primary reasons for the increase in Adjusted EBITDA were higher gross profit and a reduction in realized foreign exchange loss, partially offset by an increase in selling expenses.

Income taxes

Income tax recovery was ($0.2) million in the fourth quarter of 2011, an effective rate of (13.3%), as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Income tax expense was $0.2 million in the fourth quarter of 2010, an effective rate of (14.2%), 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.

Depreciation and amortization

Depreciation and amortization, including depreciation of property and equipment and the amortization of deferred financing costs and intangible assets, totaled $2.0 million during the fourth quarter of 2011 which decreased from $2.2 million during the fourth quarter of 2010 due to certain intangible assets becoming fully amortized in Fiscal 2011.

Net Income (Loss)

Net Income was $1.7 million in the fourth quarter of 2011 compared to Net Loss of ($0.7) million in the fourth quarter of 2010. The primary reasons for the increase were an increase in gross profit, a decrease in foreign exchange loss, a decrease in income taxes and a decrease in other expense (decrease in restructuring costs of $1.2 million, partially offset by the pension settlement costs incurred in Fiscal 2011 of $0.7 million). These increases to Net Income were partially offset by an increase in selling costs.

Earnings per share increased to $0.07 per share in the fourth quarter of 2011 from a loss of ($0.03) in the fourth quarter of 2010.

Quarterly Information
(unaudited)
(millions of dollars)

	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Sales	$44.6	$43.8	$44.4	$39.2	$37.3	$41.7	$43.2	$41.2
Adjusted EBITDA	5.2	5.9	7.6	3.9	4.1	4.6	5.8	3.7
Net Income (Loss)	1.7	(1.2)	1.7	0.9	(0.7)	1.5	(0.7)	1.7

Sales in the final three quarters of 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 strong Canadian dollar relative to the U.S. dollar and lower volumes and average selling prices.

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 non-cash working capital increased during 2011 due to higher accounts receivable of approximately $0.9 million, due to higher sales volumes, and a reduction in accounts payable and accrued liabilities and provisions of $1.5 million.

	December 31, 2011	December 31, 2010
Working Capital	$23.2	$21.7
Total Assets	$121.6	$126.3
Total Long-Term Liabilities	$77.2	$74.8

Credit Facility

Pollard's credit facility, which was renewed effective October 30, 2011, consists of one committed term bank loan facility. The committed term bank loan facility provides loans of up to $70.0 million for its Canadian operations and up to US$19.2 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 December 31, 2011, the outstanding letters of guarantee were $2.2 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. As at December 31, 2011 and March 7, 2012, Pollard is in compliance with all covenants.

Under the credit facility, Pollard has agreed not to pay dividends in excess of the current quarterly amount of $0.03 per share if the debt to Adjusted EBITDA ratio is above a certain level. As at December 31, 2011, Pollard's Adjusted EBITDA ratio is below the target level and as a result there are currently no restrictions on the amount of dividends.

Under the credit facility 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 interest and cash income taxes paid. The reduction in the available facility is not required when the debt to Adjusted EBITDA ratio reaches certain target levels. As at December 31, 2011, the target level was reached and no formal reduction of the credit facility is currently required.

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 29, 2012 ("Facility Expiry Date"). If the credit facility is not renewed, the loans are repayable one year after the Facility Expiry Date. As such, the credit facility has effectively a two year term expiring October 29, 2013.

Previously, a Pollard subsidiary had entered into an interest rate swap contract to fix the interest rates on $14.8 million of the long-term debt from August 31, 2010 to August 31, 2011. The interest rate swap allowed the subsidiary to receive interest at floating rates and pay interest at a fixed rate. As at December 31, 2011, Pollard had no outstanding interest rate swap contracts.

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 December 31, 2011 and March 7, 2012, outstanding share data was as follows:

Common shares	23,543,158

Contractual Obligations

Pollard's subsidiaries rent premises and equipment under long-term operating leases. The following is a schedule by year of commitments and contractual obligations outstanding:

(millions of dollars)	Total	<1 Year	1-3 Years	4-5 Years	Thereafter
Long-term debt	$69.0	-	$69.0	-	-
Other long-term liabilities	$0.2	-	$0.2	-	-
Pension liability	$4.7	-	-	-	$4.7
Interest on long-term debt	$5.6	$3.1	$2.5	-	-
Investment in Chinese venture	$0.4	$0.4	-	-	-
Operating leases	$24.8	$3.0	$5.6	$5.5	$10.7
Total	$104.7	$6.5	$77.3	$5.5	$15.4

Pension Obligations

Pollard sponsors four non-contributory defined benefit pension plans, of which three are final pay plans and one is a flat benefit plan. As of December 31, 2011, the aggregate fair value of the assets of Pollard's defined benefit pension plans was $20.2 million and the accrued benefit plan obligations were $25.0 million. Pollard's total annual funding contribution for all pension plans in 2012 is expected to be approximately $3.4 million, compared to $3.4 million in 2011, so long as long-term expectations of fund performance for the defined benefit plans are met.

Initially, in its adoption of IFRS for Fiscal 2011, Pollard chose the corridor method for accounting for actuarial gains and losses. As allowed in the initial year of adoption of IFRS, Pollard has amended its accounting policy and chosen to expense actuarial gains and losses directly to other comprehensive income, net of tax. The revised policy has been reflected in the financial statement and the comparatives have been adjusted accordingly (resulting in a $4.1 million loss being recorded in other comprehensive income in Fiscal 2011).

Off-Balance Sheet Arrangements

Other than the operating leases described previously, Pollard has no other off-balance sheet arrangements.

Related Party Transactions

During the year, Pollard Equities Limited paid Pollard $0.07 million (2010 – $0.07 million) for accounting and administration fees.

During the year ended December 31, 2011, Pollard paid property rent of $2.8 million (2010 - $2.7 million) and $0.2 million (2009 – $0.1 million) in plane charter costs to affiliates of Equities.

Also during the year 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. Pollard subsequently leased the property back for a five year term (with an option to renew for an additional five year term) for an annual rent of $0.3 million. During Fiscal 2010, Pollard sold the building and land formally used in the Kamloops operation 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.

Pollard has leased a building in Council Bluffs, Iowa from an affiliate of Equities for a ten year term, ending December 31, 2018, with annual lease payments of US$0.3 million.

A manufacturing facility in Winnipeg, Manitoba is leased from an affiliate of Equities for a 12 year 6 month period, ending March 31, 2021, at an annual base rate of approximately $2.4 million.

At December 31, 2011, Pollard owes Equities and its affiliates $1.2 million (2010 - $1.2 million) for rent and other expenses.

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with Canadian GAAP 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.

Impairment of goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired of Pollard's U.S. subsidiaries and the excess purchase price over the underlying carrying amount of the portion of the net assets sold as at August 5, 2005, as part of the 26.7% of Pollard sold in conjunction with the IPO, and is not amortized. Goodwill is subject to an annual impairment review. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units ("CGUs") to which goodwill is allocated. Estimating a value in use requires Pollard to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

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.

Income taxes

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

Future Changes in Accounting Policies

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9 *Financial Instruments* ("IFRS 9 (2009)") and in October 2010, the IASB published amendments to IFRS 9 ("IFRS 9 (2010)"). In December 2011, the IASB issued an amendment to IFRS 9 to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. IFRS 9 (2009) uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classifications options in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

In October 2010, the IASB amended IFRS 7 *Financial Instruments: Disclosures*. The amendment requires increased disclosure for the transfer of financial assets, to assist users of financial statements evaluate risk exposures relating to such transfers and the effects of those risks on the entity's financial position. These amendments to IFRS 7 are effective for fiscal years beginning on or after July 1, 2011. Pollard does not expect the amendments to have a material impact on its consolidated financial statements.

In December 2010, the IASB amended IAS 12 *Deferred Tax: Recovery of Underlying Assets*. Under the amendments, when measuring deferred tax assets and liabilities related to the depreciable components of investment properties measured at fair value, there is a rebuttable presumption that the expected manner of recovery will be entirely by sale. These amendments to IAS 12 are effective for fiscal years beginning on or after January 1, 2012. Pollard does not expect the amendments to have a material impact on its consolidated financial statements.

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

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

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

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

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

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

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

In June 2011, the IASB published an amended version of IAS 19 *Employee Benefits*. The amendments require actuarial gains and losses to be recognized immediately in other comprehensive income, as well, past service cost must be recognized immediately in profit or loss. This amendment also requires that the expected return on plan assets recognized in profit or loss be calculated based on the rate used to discount the defined benefit obligation. Additional disclosures are also required. IAS 19 is required for fiscal years beginning on or after January 1, 2013. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

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

In December 2011, the IASB published amendments to IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Offsetting Financial Assets and Liabilities*. These amendments are to be applied retrospectively. The amendments to IAS 32 provide clarification on the application of rules to offset financial assets and liabilities. These amendments are effective for fiscal years beginning on or after January 1, 2014. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset. These amendments are effective for fiscal years beginning on or after January 1, 2013. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

Industry Risks and Uncertainties

Pollard is exposed to a variety of business and industry risks. A summary of the major risks faced by Pollard is noted below.

Dependence on Key Products

Instant lottery tickets and related services accounted for approximately 89% of Pollard's Fiscal 2011 revenues. Pollard's financial results and condition are substantially dependent on the continued success and growth in sales of this product and the profitability of such sales. Competitive efforts by other manufacturers of similar or substitute products, shifts in consumer preferences or the introduction and acceptance of alternative product offerings could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Economic Uncertainty

Considerable economic uncertainty and concern over possible recessions and economic downturns have dominated the news in the past few years. Instant lottery tickets account for approximately 89% of revenue and Pollard's financial results and condition are substantially dependent on the continued success and growth in sales of this product and the profitability of such sales. Historically the lottery industry, and particularly the instant ticket product lines, has not shown any significant negative impact during downturns in the economic cycles. At the present time Pollard foresees minimal impact on its operations or product demand due to the current uncertainty and volatility in the economic landscape. However, lotteries, similar to many government agencies, are increasingly under pressure to reduce costs and expenditures. As such, Pollard has witnessed downward pressure on its selling prices. Continued pressure on lotteries to reduce their costs may further negatively impact Pollard's selling prices. Significant shifts in consumer preferences or the introduction and acceptance of alternative product offerings could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations.

Inability to Sustain Sales or EBITDA Margins

Pollard's income depends upon its ability to generate sales to customers and to sustain its EBITDA margins. These margins are dependent upon Pollard's ability to continue to profitably sell lottery tickets and gaming products and to continue to provide products and services that make it the supplier of choice to its customers. If Pollard's costs of sales or operating costs increase, or other manufacturers of gaming products could compete more favourably with it, Pollard may not be able to sustain its level of sales or EBITDA margins.

Dependence on Major Customers

Pollard's 10 largest customers accounted for approximately 56% of its revenue during Fiscal 2011. Pollard's largest customer accounted for 12% of Pollard's revenues during Fiscal 2011. The nature of the worldwide lottery industry limits the absolute number of lottery operations. As is customary in the industry, Pollard does have long-term contracts with most of its customers. However, most allow the customer to cancel the contract at will and none guarantee volumes or order levels. A significant reduction of purchases by any of Pollard's largest customers could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations including the amount of cash available for dividends to shareholders.

Exchange Rate Fluctuation

A significant portion of Pollard's revenues and expenses, principally related to its U.S. operations and to the purchase of raw materials, are denominated in U.S. dollars. Furthermore, although certain raw materials may be purchased in Canadian dollars, they may have inputs that are denominated in foreign currencies. Any changes in the exchange rate between the Canadian dollar and these foreign currencies could have a material effect on the results of Pollard.

For the purposes of financial reporting, any change in the value of the Canadian dollar against the U.S. dollar during a given financial reporting period would result in a foreign exchange loss or gain on the translation of any U.S. dollar monetary assets and liabilities. Further, Pollard's reported earnings could fluctuate materially as a result of revenues and expenses denominated in U.S. dollars under Canadian GAAP. There can be no assurance that changes in the currency exchange rate will not have a material adverse effect on Pollard or on its ability to maintain a consistent level of dividends in Canadian dollars.

Additional Capital Requirements

Pollard believes that its future operating income will be sufficient to fund operations and planned capital expenditures. However, Pollard may be required to raise additional capital in the future if it decides to make additional acquisitions or significant additional capital expenditures.

The availability of future borrowings and access to capital markets for longer-term future financing depends on prevailing conditions and the acceptability of financing terms offered. There can be no assurances that future borrowings or equity financing will be available or available on acceptable terms.

Competition

The instant ticket and charitable gaming business is highly competitive, and Pollard faces competition from a number of domestic and foreign instant ticket manufacturers and other competitors. Pollard currently has two instant ticket competitors in North America: Scientific Games Corporation and Gtech Printing Corporation. Charitable gaming competitors include a number of manufacturers such as Arrow International, Inc., International Gamco, Inc. and Universal Manufacturing, Inc. Internationally, there are a number of lottery instant ticket vendors which compete with Pollard including Scientific Games, Gtech, and the Eagle Press Group of Companies.

Some of Pollard's competitors have longer operating histories, greater name recognition, larger customer bases and greater financial, technical and marketing resources than Pollard. These resources may allow them to respond more quickly than Pollard can to new or emerging technologies and to changes in customer requirements. It may also allow them to devote greater resources than Pollard can to the development, promotion and sale of their products. Pollard's competitors may also engage in more extensive research and development, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies. The market for Pollard's products is highly competitive at both the lottery and charitable gaming levels. Pollard expects competition to continue to be intense because of capacity in its markets. Pollard also faces competition from emerging and existing lottery and charitable gaming products, such as internet gaming products and video lottery terminals. Competition from these and other gaming products may weaken demand for Pollard’s products.

Licensing and Regulatory Requirements

Pollard is subject to regulation in most jurisdictions in which its products are sold or used by persons or entities licensed to conduct gaming activities. The gaming regulatory requirements vary from jurisdiction to jurisdiction and licensing, other approval or finding of suitability processes with respect to Pollard, its personnel and its products, can be lengthy and expensive. Many jurisdictions have comprehensive licensing, reporting and operating requirements with respect to the sale and manufacture of bingo and bingo related products, including bingo paper and pull-tab tickets. These licensing requirements have a direct impact on the conduct of the day-to-day operations of Pollard. Generally, gaming regulatory authorities may deny applications for licenses, other approvals or findings of suitability for any cause they may deem reasonable. There can be no assurance that Pollard, its products or its personnel will receive or be able to maintain any necessary gaming licenses, other approvals or findings of suitability. The loss of a license in a particular jurisdiction will prohibit Pollard from selling products in that jurisdiction and may prohibit Pollard from selling its products in other jurisdictions. The loss of one or more licenses held by Pollard could have an adverse effect on the business.

Certain jurisdictions require extensive personal and financial disclosure and background checks from persons and entities beneficially owning a specific percentage (typically five percent or more) of a vendor’s securities. The failure of beneficial owners of Pollard’s securities to submit to background checks and provide such disclosure could result in the imposition of penalties upon these beneficial owners and could jeopardize the award of a lottery contract to Pollard or provide grounds for termination of an existing lottery contract.

Income and Other Taxes

Pollard's incorporated subsidiaries are subject to Canadian federal and provincial, and U.S. federal, state and withholding taxes. As taxing regimes change their tax basis and rates or initiate reviews of prior tax returns, Pollard could be exposed to increased costs of taxation, which would reduce the amount of funds available for operations.

Intellectual Property

Pollard's commercial success depends, in part, on its ability to secure and protect intellectual property rights that are important to its business, including patent, trademark, copyright and trade secret rights, to operate without infringing third party intellectual property rights and to avoid having third parties circumvent the intellectual property rights that Pollard owns or licenses. In particular, the patents and trademarks Pollard owns or licenses may not be valid or enforceable. In addition, Pollard cannot be certain that its proprietary technology affords a competitive advantage, does not infringe third party rights, or will not need to be altered in response to competing technologies. Pollard also cannot be certain that technologies developed in the future will be the subject of valid and enforceable intellectual property rights.

In addition, litigation may be necessary to determine the scope, enforceability and validity of third party intellectual property rights or to establish Pollard's intellectual property rights. Regardless of merit, any such litigation could be time consuming and expensive, divert management's time and attention, subject Pollard to significant liabilities, require Pollard to enter into costly royalty or licensing agreements, or require Pollard to modify or stop using intellectual property that it owns or licenses.

Interest Rates

Pollard has certain floating rate loans and may be negatively impacted by increases in interest rates, the effects of which would be to reduce net income and the amount of cash available for operations and on its ability to maintain a consistent level of dividends in Canadian dollars.

Future Acquisition and Integration Risks

To grow by acquisition, Pollard must identify and acquire suitable acquisition candidates at attractive prices and successfully integrate any acquired businesses with its existing operations. If the expected synergies from acquisitions do not materialize or Pollard fails to successfully integrate any new businesses into its existing business, Pollard's financial performance could be significantly impacted. To the extent that businesses acquired by Pollard or their prior owners failed to comply with or otherwise violated applicable laws, Pollard, as a successor owner, may be financially responsible for these violations.

In connection with future acquisitions by Pollard, there may be liabilities that Pollard failed or was unable to discover in its due diligence prior to the consummation of the acquisition. The discovery of any material liabilities could have a material adverse effect on Pollard's business, financial condition, liquidity and results of operations or future prospects.

Financial Instruments

Pollard is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates, liquidity risk and credit risk. Pollard uses financial instruments, from time to time, to manage these risks.

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls to monitor risks and adherence to limits. The Audit Committee oversees how management monitors compliance with Pollard's risk management policies and procedures. The Audit Committee is assisted in its oversight role by Internal Audit, who undertakes regular reviews of risk management controls and utilizes the annual risk assessment process as the basis for the annual audit plan.

Risk Exposure

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to international customers where sales are denominated in U.S. dollars. In addition, a significant portion of its cost inputs are denominated in U.S. dollars. Pollard also generates a small amount of revenue in currencies other than Canadian and U.S. dollars, primarily in Euros.

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time.

Interest rate risk

Pollard is exposed to interest rate risk relating to its fixed and floating rate instruments. Fluctuation in interest rates will have an effect on the valuation and repayment of these instruments.

Credit risk

Credit risk in the risk of financial loss if a customer or counterpart to a financial instrument fails to meet its financial obligations.

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due.

Risk Management

Currency risk

Pollard utilizes a number of tools to manage its foreign currency risk including sourcing its manufacturing facilities in the U.S. and sourcing other cost of sales in U.S. dollars.

Two manufacturing facilities are located in the U.S. and a significant amount of cost inputs for all production facilities are denominated in U.S. dollars, offsetting a large portion of the U.S. dollar revenue in a natural hedge.

Pollard also has the ability to utilize various financial instruments to hedge U.S. dollar exposure including the use of foreign currency forward contracts. As at December 31, 2011, Pollard has no contracts outstanding.

A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and U.S. dollar would decrease/increase the income before income taxes by $0.2 million for the year ended December 31, 2011 (2010 – $0.2 million).

As at December 31, 2011, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately $6.2 million. A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in net income of approximately $0.03 million.

Interest rate risk

Pollard may utilize interest rate swaps to mitigate these risks by hedging a portion of long-term debt. Pollard Holdings, Inc., a subsidiary, previously entered into one interest rate swap agreement effectively converting variable rate debt obligations in the amount of US$14.8 million with underlying current floating rates of 0.56 percent plus applicable credit margin to a fixed rate of 2.95 percent plus applicable credit margin from August 31, 2010 to August 31, 2011. As at December 31, 2011, Pollard has no contracts outstanding.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of $0.3 million for the year ended December 31, 2011.

Credit risk

Credit risk on Pollard's accounts receivable is minimized since they are mainly from governments and their agencies and are collected in a relatively short period of time. Credit risk on Pollard's net investment in leases is minimized since they are dispersed among a large, diversified group of customers. Credit risk on foreign currency and interest rate swap contracts is minimized since the counterparties are restricted to Schedule 1 Canadian financial institutions.

The carrying amount of accounts receivable is reduced through the use of an allowance account and any adjustment to the allowance account is recognized in the statement of income within selling and administration expense. When a receivable balance is considered uncollectible, it is written off against the allowance account.

Liquidity risk

Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. Pollard maintains a committed credit facility including up to $70.0 million for its Canadian operations and up to US$19.2 million for its U.S. subsidiaries. At December 31, 2011, the unused balance available for drawdown was $17.7 million.

The 2012 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Outlook

The market for instant tickets generated robust growth during 2011. Retail sales of instant tickets increased approximately 6-8% compared to 2010, with many jurisdictions seeing higher growth. Lotteries continue to grow their instant ticket product lines through increasing price points, increasing their proportion of revenues allocated to prizes, more sophisticated advertising and expanded distribution. Governments are continuing to face significant financial pressures and are focusing on areas where increased revenue, including via lottery operations, can address these concerns. Pollard has worked very closely with our lottery clients to increase their revenue growth and we believe this will continue through 2012.

While our market is still very competitive, we saw during 2011 that our average selling price for instant tickets stabilized relative to the average pricing in 2010. We anticipate that pricing will continue to be an important factor in our industry and our focus will be on both reducing our costs to remain competitive and developing innovative new features and products to maintain our future average selling prices consistent with those obtained in 2011.

The New Jersey Lottery continues to extend our contract, with the most recent contract being extended to June 30, 2012, and we anticipate a request for proposal being issued sometime during 2012 to award a long term contract. We have no other material customer contracts that come due in 2012 (when extensions are considered). There are a number of contracts currently held by our competitors which come up for re-bid in 2012 and we will bid aggressively on these new opportunities.

In addition to the traditional instant tickets, lotteries are more and more looking at expanding alternative sources of revenue. Recent clarifications of the regulatory environment in the U.S. relating to lottery sales over the internet has opened up possibilities for lotteries in the U.S. to sell lottery products through this new channel. While it is too early to determine the ultimate impact, Pollard is aggressively pursuing a number of product offerings to expand our business while at the same time supporting our lottery customers to expand their lottery sales. Chief among these is our Social Instants™ product line, allowing lotteries to maximize the use of social media to increase instant ticket sales and generate greater penetration in the younger demographic segment. We are actively pursuing a number of opportunities for this product in North America and internationally. During 2012 we are hopeful of seeing some significant positive results.

We are aggressively pursuing increased sales of our specialty product lines including our licensed games portfolio. An example of future opportunities available to us include our license for *Star Trek*™ which will allow us to link instant tickets and merchandise prizes in conjunction with the next *Star Trek*™ movie release anticipated for early 2013. Unique cross selling opportunities such as this are expected to continue to contribute positively to our growth.

During 2012 we will begin to generate financial returns from our recently formed joint venture in China. The joint venture provides distribution and validation systems to provincial lottery operations in China and currently has one province under contract, with expectations to aggressively expand to other Chinese provincial lotteries as the operation rolls out. The Chinese instant ticket lottery market has witnessed dramatic growth over the last few years and we are very excited about this opportunity during 2012.

Consistent with prior years our first quarter volumes will be slightly lower than the levels expected during the rest of the year. Order patterns for lotteries tend to be concentrated more in the pre-Christmas holiday period and, as a result, orders tend to be slightly lower in the first quarter.

Our charitable gaming product line is an important contributor to Pollard Banknote and we expect this to continue during 2012. The outlook for the market remains relatively stable, with opportunities existing to expand pull-tabs and pull-tab vending machines into the lottery market during the year. Continued success in cost management should allow the margins experienced in 2011 to continue.

2012 will see a continuation of our Change Initiatives focused on improvements to our cost structure and manufacturing process. Areas of expected attention include further streamlining of our prior to press procedures, increased technological investment in press and finishing operations, expanded press capacity and leveraging fixed overhead.

The nature of our operations results in ongoing exposure to foreign exchange risk as a substantial amount of our revenue continues to be generated in U.S. dollars. In addition we do have some exposure to the Euro due to a number of European lotteries in our client roster. Significant swings in the Canadian dollar relative to the U.S. dollar will still result in significant volatility in our reported net income due to write downs in U.S. dollar denominated assets and liabilities such as accounts receivable, accounts payable and long-term debt denominated in U.S. dollars. We expect these exposures to continue and have a number of risk management policies and tools available to help mitigate these risks; key among these is sourcing a significant amount of our cost inputs in U.S. dollars.

We anticipate our levels of capital expenditures to be slightly higher than the amounts expended during the last two years as we add incremental capacity in order to support our increased volumes sold in 2011.

We continue to be focused on improving the strength of our balance sheet through utilizing our free cash flow to pay down our debt, allowing increased flexibility for future investment in business opportunities and expansion capital expenditures.

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

Disclosure Controls and Procedures

Under Multilateral Instrument 52-109, “Certification of Disclosure in Issuers’ Annual and Interim Filings,” issuers are required to document the conclusions of the Chief Executive Officer and Chief Financial Officer (the “Certifying Officers”) regarding the design and effectiveness of the disclosure controls and procedures. Pollard’s management, with the participation of the Certifying Officers of Pollard, has concluded that the disclosure controls and procedures as defined in Multilateral Instrument 52-109 are designed appropriately and are effective at providing 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 and effectiveness of the internal controls over financial reporting. Pollard's management, with the participation of the Certifying Officers of Pollard, has concluded that the internal controls over financial reporting as defined in Multilateral Instrument 52-109 are designed appropriately and are effective at providing reasonable assurance of achieving the financial reporting objectives.

No changes were made in Pollard's internal control over financial reporting during the year ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, Pollard's internal control over financial reporting.

Additional Information

Shares of Pollard Banknote Limited are traded on the Toronto Stock Exchange under the symbol PBL.

Additional information relating to Pollard, including the Audited Consolidated Financial Statements and the Annual Information Form for the year ended December 31, 2011, is available on SEDAR at www.sedar.com.

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

Consolidated Financial Statements of

POLLARD BANKNOTE LIMITED

Years ended December 31, 2011 and 2010

POLLARD BANKNOTE LIMITED

Management's Report

The accompanying consolidated financial statements and all the information contained in the annual report of Pollard Banknote Limited ("Pollard") are the responsibility of management and have been approved by the Board of Directors of Pollard. Financial and operating data elsewhere in the annual report is consistent with the information contained in the financial statements. The financial statements and all other information have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements include some amounts and assumptions based on management's best estimates which have been derived with careful judgment.

In fulfilling its responsibilities, management of Pollard has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparing the financial statements. The Board of Directors of Pollard carries out its responsibility for the financial statements through the Audit Committee. The Audit Committee reviews Pollard's annual consolidated financial statements and recommends their approval by the Board of Directors. The auditors have full access to the Audit Committee with and without management present.

The consolidated financial statements have been audited by KPMG LLP Chartered Accountants, whose opinion is contained in this annual report.

"John Pollard"	*"Robert Rose"*
JOHN POLLARD Co-Chief Executive Officer	ROBERT ROSE Chief Financial Officer

March 7, 2012

KPMG LLP
Chartered Accountants
Suite 2000 – One Lombard Place
Winnipeg MB R3B 0X3
Canada

Telephone (204) 957-1770
Fax (204) 957-0808
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pollard Banknote Limited

We have audited the accompanying consolidated financial statements of Pollard Banknote Limited, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pollard Banknote Limited as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards**.**

Signed **"KPMG LLP"**

Chartered Accountants

Winnipeg, Canada

March 7, 2012

Pollard Banknote Limited
Consolidated Statements of Financial Position
(*In thousands of Canadian dollars*)

	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash	$ 5,059	$ 5,405	$ 3,706
Accounts receivable	15,452	14,528	16,361
Loan to Pollard Equities Limited (note 5)	-	2,157	12,572
Inventories (note 6)	17,361	17,889	20,259
Prepaid expenses and deposits	2,020	2,250	2,467
Net investment in leases due within one year	56	114	262
Total current assets	39,948	42,343	55,627
Non-current assets:			
Property, plant and equipment (note 7)	29,219	33,877	38,129
Pension asset (note 8)	-	-	301
Net investment in leases (note 9)	6	40	194
Goodwill (note 10)	35,902	35,802	36,052
Intangible assets (note 11)	12,294	13,743	15,590
Deferred income taxes (note 12)	4,253	543	688
Total non-current assets	81,674	84,005	90,954
Total assets	$ 121,622	$ 126,348	$ 146,581

		December 31, 2011		December 31, 2010		January 1, 2010

Liabilities and Shareholders' Equity

Current liabilities:						
Accounts payable and accrued liabilities	$	15,654	$	16,208	$	14,770
Provisions (note 13)		21		1,006		4,746
Dividends payable		706		706		298
Distributions payable to Pollard Equities Limited (note 5)		-		2,157		13,392
Income taxes payable		338		608		1,276
Total current liabilities		16,719		20,685		34,482
Non-current liabilities:						
Long-term debt (note 14)		69,077		73,955		75,651
Other long-term liabilities		210		217		206
Pension liability (note 8)		4,742		102		-
Foreign currency contracts		-		-		834
Interest rate swap contracts		-		374		1,423
Deferred income taxes (note 12)		3,213		136		-
Total non-current liabilities		77,242		74,784		78,114
Shareholders' equity:						
Share capital (note 15)		73,209		73,209		73,209
Reserves		(326)		(919)		(1,220)
Deficit		(45,222)		(41,411)		(38,004)
Total shareholders' equity		27,661		30,879		33,985
Commitments and contingencies (note 16)						
Total liabilities and shareholders' equity	$	121,622	$	126,348	$	146,581

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"D.C. Crewson" Director

"John Pollard" Director

Pollard Banknote Limited
Consolidated Statements of Income
(*In thousands of Canadian dollars, except for share amounts*)

Years ended December 31

	2011	2010
Sales	$ 172,040	$ 163,448
Cost of sales	141,953	134,225
Gross profit	30,087	29,223
Administration	13,805	14,372
Selling	6,250	6,043
Other (income) expense (note 17)	(390)	573
Income from operations	10,422	8,235
Finance costs (note 18)	6,367	7,814
Finance income (note 18)	(766)	(3,277)
Income before income taxes	4,821	3,698
Income taxes (note 12):		
Current	831	1,178
Deferred	843	753
	1,674	1,931
Net income	$ 3,147	$ 1,767
Basic and diluted net income per share	$ 0.13	$ 0.08
Weighted average number of shares outstanding	23,543,158	23,543,158

See accompanying notes to consolidated financial statements.

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

Years ended December 31

	2011	2010
Net income	$ 3,147	$ 1,767
Other comprehensive income (loss):		
Foreign currency translation differences – foreign operations	335	(661)
Unrealized gain (loss) on derivatives designated as cash flow hedges, net of income tax (reduction) of $116 and ($64)	258	(113)
Amortization of de-designated hedges, net of income tax of nil and $158	-	1,075
Defined benefit plans actuarial losses, net of income tax reduction of ($1,535) and ($578)	(4,133)	(1,466)
Other comprehensive loss – net of income tax	(3,540)	(1,165)
Comprehensive income (loss)	$ (393)	$ 602

See accompanying notes to consolidated financial statements.

Pollard Banknote Limited
Consolidated Statements of Changes in Equity
(*In thousands of Canadian dollars*)

Years ended December 31, 2011

		Attributable to equity holders of Pollard Banknote Limited				
		Share capital	**Translation reserve**	**Hedging reserve**	**Deficit**	**Total equity**
Balance at January 1, 2011	$	73,209	(661)	(258)	(41,411)	30,879
Net income		-	-	-	3,147	3,147
Other comprehensive income (loss)						
Foreign currency translation differences – foreign operations		-	335	-	-	335
Unrealized gain on derivatives designated as cash flow hedges, net of income tax of $116		-	-	258	-	258
Defined benefit plans actuarial loss, net of tax reduction of ($1,535)		-	-	-	(4,133)	(4,133)
Total other comprehensive income (loss)	$	-	335	258	(4,133)	(3,540)
Total comprehensive income (loss)	$	-	335	258	(986)	(393)
Dividends to owners of Pollard Banknote Limited		-	-	-	(2,825)	(2,825)
Balance at December 31, 2011	$	73,209	(326)	-	(45,222)	27,661

Year ended December 31, 2010

		Attributable to equity holders of Pollard Banknote Limited				
		Share capital	**Translation reserve**	**Hedging reserve**	**Deficit**	**Total equity**
Balance at January 1, 2010	$	73,209	-	(1,220)	(38,004)	33,985
Net income		-	-	-	1,767	1,767
Other comprehensive income (loss)						
Foreign currency translation differences – foreign operations		-	(661)	-	-	(661)
Unrealized loss on derivatives designated as cash flow hedges, net of income tax reduction of ($64)		-	-	(113)	-	(113)
Amortization of de-designated hedges, net of income tax of $158		-	-	1,075	-	1,075
Defined benefit plans actuarial loss, net of income tax reduction of ($578)		-	-	-	(1,466)	(1,466)
Total other comprehensive income (loss)	$	-	(661)	962	(1,466)	(1,165)
Total comprehensive income (loss)	$	-	(661)	962	301	602
Dividends to owners of Pollard Banknote Limited		-	-	-	(3,708)	(3,708)
Balance at December 31, 2010	$	73,209	(661)	(258)	(41,411)	30,879

Pollard Banknote Limited
Consolidated Statements of Cash Flows
(*In thousands of Canadian dollars*)

Years ended December 31

	2011	2010
Cash increase (decrease):		
Operating activities:		
Net income	$ 3,147	$ 1,767
Adjustments:		
Income taxes	1,674	1,931
Amortization and depreciation	8,356	8,602
Interest expense	4,434	5,202
Unrealized foreign exchange (gain) loss	3,815	(1,214)
Mark-to-market gain on foreign currency contracts	-	(834)
Mark-to-market gain on interest rate swap contracts	-	(1,246)
Amortization of de-designated hedges	-	1,233
Gain on sale of property, plant and equipment	(1,479)	(2,019)
Interest paid	(4,590)	(4,526)
Income tax paid	(1,100)	(1,795)
Change in pension asset/liability	(1,045)	(1,640)
Change in non-cash operating working capital (note 20)	(1,751)	911
	11,461	6,372
Investing activities:		
Additions to property, plant and equipment	(2,938)	(2,543)
Proceeds from sale of property, plant and equipment	3,483	2,953
Proceeds from net investment in leases	93	293
Additions to intangible assets	(322)	(137)
	316	566
Financing activities:		
Proceeds from (repayment of) long-term debt	(9,039)	13
Change in other long-term liabilities	(13)	(139)
Additions to deferred financing charges	(215)	(831)
Decrease in loan to Pollard Equities Limited	2,157	10,415
Change in dividends payable	-	408
Decrease in distributions payable to Pollard Equities Limited	(2,157)	(11,235)
Dividends paid	(2,825)	(3,708)
	(12,092)	(5,077)
Foreign exchange loss on cash held in foreign currency	(31)	(162)
Change in cash position	(346)	1,699
Cash position, beginning of year	5,405	3,706
Cash position, end of year	$ 5,059	$ 5,405

See accompanying notes to consolidated financial statements.

1. Reporting entity:

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

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

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

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

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

Since there was no change in control as a result of the Conversion, the transaction has been accounted for as if the Conversion had occurred at the beginning of the earliest comparative period presented. These 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 differences between the tax values and the net book value of the Canadian assets and liabilities have been recorded as deferred income tax assets and liabilities in the prior to conversion comparative figures.

These consolidated 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

1. Reporting entity (continued):

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

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

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are Pollard's first annual consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of Pollard is provided in Note 26. This note includes reconciliations of shareholders' equity and comprehensive income for the comparative period and of equity at January 1, 2010, the date of transition ("Date of Transition"), reported under previous Canadian GAAP to those reported for those periods and at the Date of Transition under IFRS.

On March 7, 2012, Pollard's Board of Directors approved these consolidated financial statements.

(b) Basis of preparation:

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

- Derivative financial instruments are measured at fair value;

2. Basis of preparation (continued):

- The pension asset/liability is recognized as the net total of the pension asset/liability plus unrecognized past service cost and the present value of the defined benefit obligation.

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

(c) Use of estimates and judgments:

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

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

Impairment of goodwill:

Pollard determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units ("CGUs") to which goodwill is allocated. Estimating a value in use requires Pollard to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are provided in Note 10.

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. See Note 8 for further information.

2. Basis of preparation (continued):

Income taxes:

Pollard is required to evaluate the recoverability of deferred income tax assets. This requires an estimate of Pollard's ability to utilize the underlying future income tax deductions against future taxable income before they expire. In order to evaluate the recoverability of these deferred income tax assets, Pollard must estimate future taxable income. Further details are provided in Note 12.

3. Significant accounting policies:

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

(a) Principles of consolidation:

These consolidated financial statements include the accounts of Pollard and all its subsidiaries. Subsidiaries are entities which are under Pollard's control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefits from its activities. Pollard holds 100% of the voting rights in, and therefore controls, its subsidiaries.

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

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

(b) Revenue recognition:

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

3. Significant accounting policies (continued):

(c) Leases:

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

(d) Inventories:

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

(e) Goodwill:

Goodwill is comprised of the excess sale price over the underlying carrying amount of the net assets sold as at August 5, 2005, as part of the 26.7% of Pollard LP sold in conjunction with the Initial Public Offering ("IPO") and the excess purchase price over the underlying carrying amount of the net assets acquired of Pollard's U.S. subsidiaries. Goodwill is not amortized but is subject to an annual impairment review to ensure its recoverable value remains greater than, or equal to, book value.

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

(f) Intangible assets:

Deferred development:

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

3. Significant accounting policies (continued):

preparing the asset for its intended use and borrowing costs incurred in respect of qualifying assets. Other development expenditures are expensed as incurred.

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

Other intangible assets:

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

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

Asset	Rate
Customer assets	16 years
Patents	20 years
Computer software	5 years
Deferred development	2 to 7 years

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

(g) Property, plant and equipment:

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

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

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

3. Significant accounting policies (continued):

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

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

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

(h) Financial instruments:

Non-derivative financial assets

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

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

i) Financial assets at fair value through profit or loss

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

3. Significant accounting policies (continued):

ii) Held-to-maturity financial assets

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

iii) Loans and receivables

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

iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign exchange differences, are recognized in other comprehensive income and are presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to net income. Pollard has no financial assets classified as available-for-sale.

Non-derivative financial liabilities

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

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

3. Significant accounting policies (continued):

Share Capital

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

Derivatives and hedge accounting

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

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

i) Cash flow hedges

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

ii) Other non-trading derivatives

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

3. Significant accounting policies (continued):

(i) Translation of foreign currencies:

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

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

In accordance with IFRS 1, Pollard has elected to deem all foreign currency translation differences that arose prior to the Date of Transition to be nil, see Note 26.

(j) Employee future benefits:

Defined contribution plans:

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

Defined benefit plans:

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

3. Significant accounting policies (continued):

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

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

Actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in other comprehensive income.

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

All actuarial gains and losses at the Date of Transition to IFRS, were recognized in deficit, see Note 26.

(k) Income taxes:

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

Deferred income tax is recorded to reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Deferred income tax assets and liabilities are determined based on the enacted or substantively enacted

3. Significant accounting policies (continued):

tax rates, which are expected to be in effect when the underlying items of income and expense are expected to be realized.

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

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

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

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

(l) Provisions:

Provisions are recognized when Pollard has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Restructuring

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

3. Significant accounting policies (continued):

(m) Impairment:

Financial assets

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

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

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

Non-financial assets

The carrying amount of Pollard's non-financial assets, other than inventories and deferred income tax assets, are reviewed at each reporting date to determine whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, Pollard estimates the asset's recoverable amount. For goodwill the recoverable amount is estimated as of December 31 each year. An impairment loss is recognized if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

3. Significant accounting policies (continued):

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

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

(n) Finance costs and finance income:

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

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

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

4. Future accounting standards:

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9 *Financial Instruments* ("IFRS 9 (2009)") and in October 2010, the IASB published amendments to IFRS 9 ("IFRS 9 (2010)"). In December 2011, the IASB issued an amendment to IFRS 9 to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. IFRS 9 (2009) uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classifications options in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

4. Future accounting standards (continued):

In October 2010, the IASB amended IFRS 7 *Financial Instruments: Disclosures*. The amendment requires increased disclosure for the transfer of financial assets, to assist users of financial statements evaluate risk exposures relating to such transfers and the effects of those risks on the entity's financial position. These amendments to IFRS 7 are effective for fiscal years beginning on or after July 1, 2011. Pollard does not expect the amendments to have a material impact on its consolidated financial statements.

In December 2010, the IASB amended IAS 12 *Deferred Tax: Recovery of Underlying Assets*. Under the amendments, when measuring deferred income tax assets and liabilities related to the depreciable components of investment properties measured at fair value, there is a rebuttable presumption that the expected manner of recovery will be entirely by sale. These amendments to IAS 12 are effective for fiscal years beginning on or after January 1, 2012. Pollard does not expect the amendments to have a material impact on its consolidated financial statements.

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

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

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

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

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

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

4. Future accounting standards (continued):

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

In June 2011, the IASB published an amended version of IAS 19 *Employee Benefits*. The amendments require actuarial gains and losses to be recognized immediately in other comprehensive income and past service cost must be recognized immediately in profit or loss. This amendment also requires that the expected return on plan assets recognized in profit or loss be calculated based on the rate used to discount the defined benefit obligation. Additional disclosures are also required. IAS 19 is required for fiscal years beginning on or after January 1, 2013. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

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

In December 2011, the IASB published amendments to IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Offsetting Financial Assets and Liabilities*. These amendments are to be applied retrospectively. The amendments to IAS 32 provide clarification on the application of rules to offset financial assets and liabilities. These amendments are effective for fiscal years beginning on or after January 1, 2014. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset. These amendments are effective for fiscal years beginning on or after January 1, 2013. Pollard is currently assessing the impact of the amendments on its consolidated financial statements.

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

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

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

6. Inventories:

		December 31, 2011		December 31, 2010		January 1, 2010
Raw materials	$	5,275	$	4,799	$	5,593
Work-in-process		689		935		753
Finished goods		11,397		12,155		13,913
	$	17,361	$	17,889	$	20,259

During 2011, Pollard recorded inventory write-downs of $381, representing an increase in the obsolescence reserves, and reversals of previous write-downs of $42 due to changes in foreign exchange rates.

During 2010, Pollard recorded reversals of previous inventory write-downs of $119, representing a decrease in the obsolescence reserves, and reversals of previous write-downs of $56 due to changes in foreign exchange rates.

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

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

7. Property, plant and equipment:

Cost		Land	Buildings	Leasehold improvements	Equipment	Furniture, fixture and computers	Total
Balance at January 1, 2010	$	1,288	15,135	1,472	106,213	4,126	128,234
Additions/reclassifications		-	232	(80)	2,275	116	2,543
Disposals		(208)	(2,698)	(16)	(295)	(297)	(3,514)
Effect of movements in exchange rates		-	-	(27)	(161)	-	(188)
Balance at December 31, 2010	$	1,080	12,669	1,349	108,032	3,945	127,075
Additions/reclassifications		-	(206)	362	2,779	3	2,938
Disposals		(277)	(3,372)	-	(10)	-	(3,659)
Effect of movements in exchange rates		-	-	11	67	-	78
Balance at December 31, 2011	$	803	9,091	1,722	110,868	3,948	126,432

Accumulated depreciation		Land	Buildings	Leasehold improvements	Equipment	Furniture, fixture and computers	Total
Balance at January 1, 2010	$	-	(6,181)	(720)	(80,484)	(2,720)	(90,105)
Depreciation for the year			(467)	(85)	(5,046)	(242)	(5,840)
Disposals/reclassifications			2,063	16	237	264	2,580
Effect of movements in exchange rates			-	26	141	-	167
Balance at December 31, 2010	$	-	(4,585)	(763)	(85,152)	(2,698)	(93,198)
Depreciation for the year			(351)	(98)	(4,909)	(242)	(5,600)
Disposals/reclassifications			1,653	(7)	9	-	1,655
Effect of movements in exchange rates			-	(10)	(60)	-	(70)
Balance at December 31, 2011	$	-	(3,283)	(878)	(90,112)	(2,940)	(97,213)

Carrying amounts		Land	Buildings	Leasehold improvements	Equipment	Furniture, fixture and computers	Total
At January 1, 2010	$	1,288	8,954	752	25,729	1,406	38,129
At December 31, 2010	$	1,080	8,084	586	22,880	1,247	33,877
At December 31, 2011	$	803	5,808	844	20,756	1,008	29,219

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

8. Pension asset (liability):

	December 31, 2011	December 31, 2010	January 1, 2010
Fair value of benefit plan assets	$ 20,214	$ 21,946	$ 18,421
Present value of benefit plan obligations	24,956	22,048	18,120
Net deferred pension plan asset (liability)	$ (4,742)	$ (102)	$ 301

Pollard sponsors non-contributory defined benefit plans providing pension benefits to its employees. Pollard has four pension plans of which three are final pay plans and one is a flat benefit plan. None of the plans have indexation features. The measurement date for all the plans is December 31. The two plans of the U.S. subsidiaries require valuations annually with the last valuations being as of January 1, 2011. One of the Canadian plans of Pollard requires valuation every year with the last valuation as of December 31, 2010. The other Canadian plan of Pollard requires valuation every four years with the last valuation as of January 1, 2008. Pollard's U.S. subsidiaries also maintain two defined contribution plans. The pension expense for these defined contribution plans is the annual funding contribution by the subsidiaries.

Pollard expects to contribute $3.4 million to its defined benefit plans in 2012.

The benefit plan assets are held in trust and are invested as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Equities	58.0%	59.7%	57.5%
Bonds	35.8%	37.3%	39.8%
Cash and cash equivalents	6.2%	3.0%	2.7%
	100.0%	100.0%	100.0%

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

8. Pension asset (liability) (continued):

Information about Pollard's defined benefit plans, in aggregate, is as follows:

		2011		2010
Benefit plan assets:				
Fair value, beginning of year	$	21,946	$	18,421
Actual return on plan assets		(676)		1,631
Employer contributions		3,333		2,935
Benefits paid		(4,426)		(927)
Other		37		(114)
Fair value, end of year	$	20,214	$	21,946
Accrued benefit plan obligations:				
Balance, beginning of year	$	22,048	$	18,120
Current service cost		1,723		1,344
Interest cost		1,311		1,189
Benefits paid		(4,426)		(927)
Actuarial loss		3,567		2,432
Settlement loss on curtailment		726		-
Other		7		(110)
Balance, end of year		24,956		22,048
Net deferred pension liability	$	(4,742)	$	(102)

The total net cost for Pollard's defined benefit and defined contribution pension plans recognized in cost of sales is as follows:

		2011		2010
Net defined benefit plans cost:				
Current service cost	$	1,723	$	1,344
Interest on plan obligations		1,311		1,189
Actual return on plan assets		676		(1,631)
Difference between expected return and actual return on plan assets		(1,966)		417
Net defined benefit plans cost		1,744		1,319
Defined contribution plans cost		150		157
Net pension plans cost	$	1,894	$	1,476

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

8. Pension asset (liability) (continued):

Settlement loss on curtailment

On November 5, 2009, Pollard announced the closing of its Kamloops production facility effective February 28, 2010. A pension settlement loss of $726, included in other (income) expenses relating to the former Kamloops employees' pensions, was recognized in 2011 due to a decrease in the discount rate utilized to determine the pension obligations between the time the closure was announced and the time the final pension obligations were determined.

Actuarial Assumptions

The principal actuarial assumptions used in measuring at the reporting date are as follows:

	2011	2010
Discount rate	5% to 5.5%	6% to 6.5%
Expected long-term rate of return on plan assets	5% to 6.5%	6.5%
Rate of compensation increase	0% to 3%	0% to 3%

The expected long-term rate of return is based on the portfolio as a whole using historical rates without adjustments.

Experience loss (gain)

		2011		2010
Experience loss (gain) arising on plan assets	$	2,101	$	(384)
Experience loss arising on plan liabilities	$	3,567	$	2,428

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

9. Net investment in leases:

The following lists the components of the net investment in leases:

	December 31, 2011	December 31, 2010	January 1, 2010
Total minimum lease payments to be received	$ 65	$ 166	$ 488
Unearned income (interest rate ranging from 9.97% to 10.19%)	(3)	(12)	(32)
	62	154	456
Less net investment in leases due within one year	56	114	262
	$ 6	$ 40	$ 194

The minimum lease payments to be received in the next three fiscal years to expiry are as follows:

2012	$ 56
2013	8
2014	1
	$ 65

10. Goodwill:

Goodwill is comprised of $30,620 (2010 - $30,620, January 1, 2010 - $30,620), representing the excess purchase price over the underlying carrying amount of the net assets sold, as at August 5, 2005, as a result of the 26.7% of Pollard LP sold as part of Pollard Banknote Income Fund's IPO with the remaining $5,282 (2010 - $5,182, January 1, 2010 - $5,432) from Pollard's purchase of its U.S. subsidiaries. Goodwill has been allocated to CGUs for impairment testing in this manner, as described in the table below.

	December 31, 2011	December, 31, 2010	January 1, 2010
Lottery	$ 30,620	$ 30,620	$ 30,620
Charitable games	5,282	5,182	5,432
	$ 35,902	$ 35,802	$ 36,052

During 2011 the value of goodwill increased $100 (2010 – decreased $250) as a result of changes in foreign exchange rates.

10. Goodwill (continued):

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

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

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

Revenue and related gross margin

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

Foreign exchange rates

A significant portion of revenue is denominated in U.S. dollars offset by a portion of U.S. dollar denominated costs. In addition, certain financial assets and liabilities are denominated in U.S. currency. Projected cash flows assume an estimated exchange rate between Canadian dollars to U.S. dollars based on expected exchange rates during the forecast period.

Discount rates

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

Lottery	10.0%
Charitable Gaming	11.0%

Growth rates

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

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

10. Goodwill (continued):

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

11. Intangible assets:

		Customer assets	Patents	Deferred development	Computer software	Total
Cost						
Balance at January 1, 2010	$	18,645	4,713	377	229	23,964
Additions – internally developed		-	32	105	-	137
Balance at December 31, 2010	$	18,645	4,745	482	229	24,101
Additions – internally developed		-	73	249	-	322
Balance at December 31, 2011	$	18,645	4,818	731	229	24,423

Accumulated amortization		Customer assets	Patents	Deferred development	Computer software	Total
Balance at January 1, 2010	$	5,139	3,040	-	195	8,374
Amortization for the year		1,167	728	55	34	1,984
Balance at December 31, 2010	$	6,306	3,768	55	229	10,358
Amortization for the year		1,165	491	114	-	1,770
Balance at December 31, 2011	$	7,471	4,259	169	229	12,128

Carrying amounts		Customer assets	Patents	Deferred development	Computer software	Total
At January 1, 2010	$	13,506	1,673	377	34	15,590
At December 31, 2010	$	12,339	977	427	-	13,743
At December 31, 2011	$	11,174	559	562	-	12,295

Customer assets, $3,874 of patents and computer software were recognized as a result of the excess purchase price over the underlying carrying amount of the intangible assets acquired as at August 5, 2005, as part of the 26.7% of Pollard LP sold in conjunction with the IPO. As at December 31, 2011, computer software and patents recognized at IPO were fully amortized. Customer assets will continue to be amortized until Fiscal 2021. Deferred development and the remainder of patents, $944 (2010 - $871, January 1, 2010 - $839), are internally developed.

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

11. Intangible assets (continued):

Amortization of intangible assets in 2011 of $1,770 (2010 – $1,984), was included in cost of sales.

12. Income taxes:

Income tax expense

		2011		2010
Current tax expense	$	831	$	1,178
Deferred income tax expense		843		753
Total income tax expense	$	1,674	$	1,931

Income tax recognized in other comprehensive income

		Amount before tax	Tax (expense) benefit	2011 Amount Net of tax	Amount before tax	Tax (expense) benefit	2010 Amount Net of tax
Unrealized gain (loss) on derivatives designated as cash flow hedges	$	374	(116)	258	(177)	64	(113)
Defined benefit plans actuarial loss		(5,668)	1,535	(4,133)	(2,044)	578	(1,466)
Amortization of de-designated hedges		-	-	-	1,233	(158)	1,075
	$	(5,294)	1,419	(3,875)	(988)	484	(504)

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

12. Income taxes (continued):

Reconciliation of effective tax rate

	2011		2011	2010		2010
Net income for the year		$	3,147		$	1,767
Total income tax expense			1,674			1,931
Income before income taxes		$	4,821		$	3,698
Income tax using Pollard's domestic tax rate	28.3%		1,364	29.7%		1,098
Taxable loss allocated to limited partners/unitholders and therefore not subject to income tax	-		-	16.1%		595
Withholding taxes and other non-deductable amounts	2.1%		102	14.8%		548
Effect of non-taxable items related to foreign exchange	4.3%		208	(8.4%)		(310)
	34.7%	$	1,674	52.2%	$	1,931

Deferred income tax assets and liabilities

Recognized deferred income tax assets and liabilities

Deferred income tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Property, plant and equipment	$ 65	2,281	$ (1,570)	(153)	$ (1,505)	2,128
Intangible assets	1,461	1,556	(4,438)	(4,730)	(2,977)	(3,174)
Derivatives	-	135	-	-	-	135
Inventories	157	89	-	-	157	89
Employee benefits	2,391	847	(921)	(607)	1,470	240
Provisions	-	87	-	-	-	87
Unrealized foreign exchange (gains) and losses	1,552	1,708	(637)	(782)	915	926
Unused tax losses	2,914	-	-	-	2,914	-
Other	111	97	(45)	(121)	66	(24)
Tax assets (liabilities)	$ 8,651	6,800	$ (7,611)	(6,393)	$ 1,040	407

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

12. Income taxes (continued):

Movement in temporary differences during the year

	Balance January 1, 2010	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2010	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2011
Property, plant and equipment	$ 1,474	654	-	2,128	(3,633)	-	(1,505)
Intangible assets	(3,587)	413	-	(3,174)	197	-	(2,977)
Derivatives	487	(258)	(94)	135	(19)	(116)	-
Inventories	164	(75)	-	89	68	-	157
Employee benefits	61	(399)	578	240	(305)	1,535	1,470
Provisions	1,471	(1,384)	-	87	(87)	-	-
Unrealized foreign exchange (gains) and losses	592	334	-	926	(11)	-	915
Unused tax losses	-	-	-	-	2,914	-	2,914
Other	26	(50)	-	(24)	90	-	66
Tax assets (liabilities)	$ 688	(765)	484	407	(786)	1,419	1,040

Recognized in the consolidated statements of financial position as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred income tax - asset	$ 4,253	$ 543	$ 688
Deferred income tax - liability	(3,213)	(136)	-
	$ 1,040	$ 407	$ 688

Recognized in the consolidated statements of income as follows:

	2011	2010
Deferred income tax expense	$ (843)	$ (753)
Finance income	57	(12)
	$ (786)	$ (765)

Amounts included in finance income relate to unrealized foreign exchange.

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

13. Provisions:

		Restructuring reserve
Balance at January 1, 2010	$	4,746
Provision made during the year		886
Provision utilized during the year		(4,626)
Balance at December 31, 2010	$	1,006

		Restructuring reserve
Balance at January 1, 2011	$	1,006
Provision made during the year		506
Provision utilized during the year		(1,491)
Balance at December 31, 2011	$	21

Restructuring reserve

During the third quarter of 2011, the Government of Puerto Rico determined our operations were no longer allowed under current legislation. As a result the operations commenced winding up. Included in other (income) expense are expenses of $486, comprised of $384 related to the write-off of assets associated with the operations and $104 for the related severance costs.

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

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

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

14. Long-term debt:

	December 31, 2011	December 31, 2010	January 1, 2010
Credit facility, interest of 3.8% to 5.0% payable monthly, maturing 2013	$ 69,769	$ 75,000	$ 76,185
Deferred financing charges, net of amortization	(692)	(1,045)	(534)
	$ 69,077	$ 73,955	$ 75,651

Included in the total credit facility balance is a U.S. dollar loan balance of US$14,480 (2010 – US$23,000, January 1, 2010 - US$20,100).

Effective October 30, 2011, Pollard's subsidiaries Pollard Holdings Limited Partnership and Pollard Holdings, Inc. renewed their credit facility. The credit facility provides loans of up to $70,000 for its Canadian operations and up to US$19,208 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 December 31, 2011, the outstanding letters of guarantee drawn under the credit facility were $2,163 (2010 - $4,661, January 1, 2010 – $5,183).

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including working capital ratios, debt to income before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at December 31, 2011, Pollard is in compliance with all financial covenants.

Under the terms of the credit facility the amount of the facility will be reduced on a quarterly basis by an amount calculated as 50% of the prior quarter's Excess Cash Flow. Excess Cash Flow is defined as Adjusted EBITDA less scheduled principal indebtedness payments (if any), interest and cash income taxes paid. The reduction in the available facility is not required when the debt to Adjusted EBITDA ratio reaches certain target levels. As at December 31, 2011, the Adjusted EBITDA ratio target had been achieved and as a result no reduction of the credit facility is currently required. As of December 31, 2011, Pollard has unused credit facility available of $17,659 (2010 - $15,339, January 1, 2010 - $14,882).

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 effective October 30, 2011, the credit facility is committed for a one year period, renewable October 29, 2012 ("Facility Expiry Date"). If the credit facility is not renewed, the loans are repayable one year after the Facility Expiry Date. As such, the credit facility has effectively a two year term expiring October 29, 2013. Similarly, under

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

14. Long-term debt (continued):

the terms of the credit facility in effect at December 31, 2010 and January 1, 2010, the credit facility was committed for a one year period. If the credit facility was not renewed, the loans were repayable one year and two years, respectively, after the initial one year commitment.

Pollard Holdings, Inc. previously entered into an interest rate swap agreement effectively converting variable rate debt obligations in the amount of US$14,778 with underlying current floating rates of 0.50 percent plus applicable credit margin to a fixed rate of 2.95 percent plus applicable credit margin from August 31, 2010 to August 31, 2011. As at December 31, 2011, Pollard has no outstanding interest rate swap contracts.

15. Share capital:

	December 31, 2011	December 31, 2010	January 1, 2010
Authorized:			
Unlimited common shares			
Unlimited preferred shares			
Issued:			
23,543,158 common shares	$ 73,209	$ 73,209	$ 73,209
	$ 73,209	$ 73,209	$ 73,209

On May 14, 2010, Pollard undertook its Conversion from an Income Trust to a corporation. As a result, as at January 1, 2010, Pollard's capital was in the form of Trust Units. See Note 1 for further description.

Ownership restrictions:

The holders of the common shares are entitled to one vote in respect to each common share held, subject to the Board of Directors ability to take constraint actions when a person, or group of persons acting in concert acquires, agrees to acquire, holds, beneficially owns or controls, either directly or indirectly, a number of shares equal to or in excess of 5% of the common shares (on a non-diluted basis) issued and outstanding ("Ownership Threshold"). The Board of Directors, in its sole discretion, can take the following constraint actions:

- place a stop transfer on all or any of the common shares believed to be in excess of the Ownership Threshold;
- suspend all voting and/or dividend rights on all or any of common share held believed to be in excess of the Ownership Threshold;

15. Share capital (continued):

- apply to a court seeking an injunction to prevent a person from acquiring, holding, owning, controlling and/or directing, directly or indirectly, common shares in excess of the Ownership Threshold; and/or
- make application to the relevant securities commission to effect a cease trading order or such similar restriction, until the person no longer controls common shares equal to or in excess of the Ownership Threshold.

In addition, if a Gaming Regulatory Authority has determined that ownership by a holder of common shares is inconsistent with its declared policies, the Board of Directors is entitled to take constraint action against such shareholder. Any person who controls common shares equal to or in excess of the Ownership Threshold, may be required to file an application, be investigated and have suitability as a shareholder determined by a Gaming Regulatory Authority, if such Gaming Regulatory Authority has reason to believe such ownership would otherwise be inconsistent with its declared policies. The shareholder must pay all the costs of the investigation incurred by any such Gaming Regulatory Authority.

Capital management:

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

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

Pollard monitors capital on the basis of funded debt to Adjusted EBITDA, working capital ratio and debt service coverage. Pollard has externally imposed capital requirements as determined through its bank credit facility. As at December 31, 2011, Pollard is in compliance with all financial covenants.

Dividends:

Dividends are paid on the Common shares within 15 days of the end of each quarter and are fully discretionary, as determined by the Board of Directors of Pollard, subject to restrictions imposed under its credit facility. Under the credit facility, Pollard has agreed not to pay dividends in excess of the current quarterly amount of $0.03 per share if the debt to Adjusted EBITDA ratio is above a certain level. As at December 31, 2011, Pollard's Adjusted EBITDA ratio is below the target level and as a result there are currently no restrictions on the amount of dividends.

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

15. Share capital (continued):

On March 7, 2012, a dividend of $0.03 per share was declared, payable on April 15, 2012, to the shareholders of record on March 31, 2012.

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

16. Commitments and contingencies:

Certain Pollard subsidiaries rent premises and equipment under long-term operating leases. The following is a schedule by fiscal year of rental payment commitments under operating leases outstanding:

2012	$	2,969
2013		2,827
2014		2,784
2015		2,757
2016		2,756
Thereafter		10,707

Pollard has entered into an agreement with Palm Commerce Information and Technology (China) Co., Ltd. for the establishment of Shenzhen Palm Commerce & Pollard Banknote Technology Co., Ltd.. The intent of this entity is to provide distribution and validation systems to provincial lottery operations in China. As per the agreement, Pollard completed its capital investment of US$400, representing 40% of the registered capital of the corporation, in January 2012.

Pollard's subsidiaries are contingently liable for outstanding letters of guarantee in the amount of $2,163 at December 31, 2011 (2010 - $4,661, January 1, 2010 - $5,183). These letters of guarantee are part of Pollard's credit facility and are secured as disclosed in Note 14.

During 2011 Pollard entered into a sale leaseback with an affiliate of Equities for land and building in Winnipeg, Manitoba. The property was sold for $3,473 and leased back for five years (with an option to renew for an additional five year term) at an annual lease rate of approximately $313. The sale value was determined through independent appraisal. See Note 21 for further description.

During 2008 Pollard entered into a sale leaseback with an affiliate of Equities for land and building in Council Bluffs, Iowa. The property was sold for CDN$4,081 and leased back for ten years at an annual lease rate of approximately US$260. The sale value was determined through independent appraisal. Also in 2008 Pollard entered into a lease with an affiliate of Equities for a manufacturing facility in Winnipeg, Manitoba. The lease was for a 12 year 6 month period, ending March 31, 2021, at an annual base rate of approximately $2,424.

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

16. Commitments and contingencies (continued):

Pollard is involved in litigation and claims associated with operations, the aggregate amounts of which are not determinable. While it is not possible to estimate the outcome of the proceedings, management is of the opinion that any resulting settlements would not materially affect the financial position of Pollard. Should a loss occur on resolution of these claims, such loss would be accounted for as a charge to income in the period in which the settlement occurs.

Pollard has agreed to indemnify Pollard's current and former directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain usual limitations. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

17. Other (income) expense

		2011		2010
Gain on sale of property, plant and equipment	$	(1,479)	$	(2,019)
Warranty reserve		-		877
Conversion costs		-		673
Restructuring expense		486		1,169
Settlement loss on pension curtailment		726		-
Other income		(123)		(127)
	$	(390)	$	573

18. Finance costs and finance income:

Finance costs:		2011		2010
Foreign exchange loss	$	1,366	$	1,059
Interest		4,434		5,202
Amortization of deferred financing costs		567		320
Amortization of de-designated hedges		-		1,233
	$	6,367	$	7,814

Finance income:		2011		2010
Foreign exchange gain	$	(766)	$	(1,197)
Mark-to-market gain on foreign exchange contracts		-		(834)
Mark-to-market gain on interest rate swap contracts		-		(1,246)
	$	(766)	$	(3,277)

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

19. Personnel expenses:

		2011		2010
Wages and salaries	$	55,707	$	52,580
Benefits and government payroll remittances		8,120		8,193
Profit share		776		593
Expenses related to defined contribution plans		150		157
Expenses related to defined benefit plans		2,470		1,319
	$	67,223	$	62,842

20. Supplementary cash flow information:

		2011		2010
Change in non-cash operating working capital:				
Accounts receivable	$	(689)	$	1,735
Inventories		675		2,124
Prepaid expenses and deposits		(18)		(532)
Accounts payable and accrued liabilities		(734)		1,835
Provisions		(985)		(4,251)
	$	(1,751)	$	911

21. Related party transactions:

During the year ended December 31, 2011, Pollard paid property rent of $2,844 (2010 - $2,693) and $211 (2010 - $95) in plane charter costs to affiliates of Equities. During the year, Equities paid Pollard $72 (2010 - $72) for accounting and administration fees.

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors and the Executive Committee are considered key management personnel.

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

21. Related party transactions (continued):

Key management personnel compensation comprised:

		2011		2010
Wages, salaries and benefits	$	2,502	$	2,717
Profit share		6		1
Expenses related to defined benefit plans		214		225
	$	2,722	$	2,943

At December 31, 2011, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent and other expenses of $1,209 (2010 - $1,221, January 1, 2010 - $793).

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

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

Significant subsidiaries:	Country of establishment	Percent Ownership Interest		
		December 31, 2011	December 31, 2010	January 1, 2010
Pollard Holdings Limited Partnership	Canada	100	100	100
Pollard Banknote Limited Partnership	Canada	100	100	100
Pollard Holdings, Inc.	U.S.	100	100	100
Pollard (U.S.) Ltd.	U.S.	100	100	100
Pollard Games, Inc.	U.S.	100	100	100

22. Sales to major customers:

For the year ended December 31, 2011, sales to one customer amounted to approximately 12 percent of consolidated sales (2010 - 11 percent).

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

23. Segmented information:

Pollard's operations consist of one reporting segment principally in the manufacturing and sale of lottery and charitable gaming products. Geographic distribution of sales, property, plant and equipment and goodwill are as follows:

	2011	2010
Sales:		
Canada	$ 44,692	$ 39,027
U.S.	90,920	76,381
Other	36,428	48,040
	$ 172,040	$ 163,448

	December 31, 2011	December 31, 2010	January 1, 2010
Property, plant and equipment and goodwill:			
Canada	$ 49,144	$ 53,199	$ 56,930
U.S.	15,977	16,480	17,251
	$ 65,121	$ 69,679	$ 74,181

24. Financial instruments:

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

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

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

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

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

24. Financial instruments (continued):

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

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

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

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

Level 3 - valuation techniques with significant unobservable market inputs

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

As at December 31, 2011, the cash recorded at fair value is classified as level one.

25. Financial risk management:

Pollard has exposure to the following risks from its use of financial instruments:

Credit risk
Liquidity risk
Currency risk
Interest rate risk

Pollard's risk management polices are established to identify and analyze the risks, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Audit Committee oversees how management monitors compliance with Pollard's risk management policies and procedures. The Audit Committee is assisted in its oversight role by Internal Audit, who undertakes regular reviews of risk management controls and utilizes the annual risk assessment process as the basis for the annual internal audit plan.

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

25. Financial risk management (continued):

Credit risk

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

	December 31, 2011	December 31, 2010	January 1, 2010
Current	$ 11,112	$ 12,388	$ 12,693
Past due for 1 to 60 days	3,818	1,648	3,019
Past due for more than 60 days	671	594	825
Less: Allowance for doubtful accounts	(149)	(102)	(176)
	$ 15,452	$ 14,528	$ 16,361

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In addition, Pollard maintains a committed credit facility including up to $70,000 for its Canadian operations and up to US$19,208 for its U.S. subsidiaries. At December 31, 2011, the unused balance available for drawdown was $17,659 (2010 - $15,339, January 1, 2010 - $14,882).

The 2012 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and the unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to international customers where sales are denominated in U.S. dollars. In addition, a significant portion of its cost inputs are denominated in U.S. dollars. Pollard also generates a small amount of revenue in currencies other than the Canadian and U.S. dollar, primarily in Euros.

A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and U.S. dollar would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $150 for year ended December 31, 2011 (2010 - $180).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. As at December 31, 2011, the amount

25. Financial risk management (continued):

of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately $6,182 (2010 - $14,026, January 1, 2010 - $13,128).

A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in net income of approximately $31 for the year ended December 31, 2011 (2010 - $70).

Interest rate risk

Pollard is exposed to interest rate risk relating to its fixed and floating rate instruments. Fluctuation in interest rates will have an effect on the valuation and repayment of these instruments.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately $349 for the year ended December 31, 2011 (2010 - $326).

26. Explanation of transition to IFRS:

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

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

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

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

26. Explanation of transition to IFRS (continued):

Reconciliation of shareholders' equity:

	Note		Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
			January 1, 2010			December 31, 2010		
Assets								
Current assets:								
Cash		$	3,706		3,706	5,405		5,405
Accounts receivable			16,361		16,361	14,528		14,528
Loan to Pollard Equities Limited			12,572		12,572	2,157		2,157
Inventories			20,259		20,259	17,889		17,889
Prepaid expenses and deposits	a		4,113	(1,646)	2,467	5,537	(3,287)	2,250
Net investment in leases due within one year			262		262	114		114
Deferred income taxes	f		2,529	(2,529)	-	730	(730)	-
Total current assets			59,802	(4,175)	55,627	46,360	(4,017)	42,343
Non-current assets:								
Property, plant and equipment	b		39,085	(956)	38,129	34,672	(795)	33,877
Pension asset	a		-	301	301	-		-
Net investment in leases			194		194	40		40
Goodwill			36,052		36,052	35,802		35,802
Intangible assets			15,590		15,590	13,743		13,743
Deferred income taxes	f		3,605	(2,917)	688	5,345	(4,802)	543
Total non-current assets			94,526	(3,572)	90,954	89,602	(5,597)	84,005
Total assets		$	154,328	(7,747)	146,581	135,962	(9,614)	126,348

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

26. Explanation of transition to IFRS (continued):

Reconciliation of shareholders' equity (continued):

	Note	Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
		January 1, 2010			December 31, 2010		
Liabilities and Shareholders' Equity							
Current liabilities:							
Accounts payable and accrued liabilities	c	$ 19,516	(4,746)	14,770	17,214	(1,006)	16,208
Provisions	c	-	4,746	4,746	-	1,006	1,006
Dividends payable		298		298	706		706
Distributions payable to Pollard Equities Limited		13,392		13,392	2,157		2,157
Income taxes payable	d	655	621	1,276	139	469	608
Total current liabilities		33,861	621	34,482	20,216	469	20,685
Non-current liabilities:							
Long-term debt		75,651		75,651	73,955		73,955
Other long-term liabilities	d	827	(621)	206	686	(469)	217
Pension liability	a	-		-	-	102	102
Foreign currency contracts		834		834	-		-
Interest rate swap contracts		1,423		1,423	374		374
Deferred income taxes	f	5,336	(5,336)	-	6,030	(5,894)	136
Total non-current liabilities		84,071	(5,957)	78,114	81,045	(6,261)	74,784
Shareholders' equity:							
Share capital		73,209		73,209	73,209		73,209
Reserves	e	(3,408)	2,188	(1,220)	(3,107)	2,188	(919)
Deficit	g	(33,405)	(4,599)	(38,004)	(35,401)	(6,010)	(41,411)
Total shareholders' equity		36,396	(2,411)	33,985	34,701	(3,822)	30,879
Total liabilities and shareholders' equity		$ 154,328	(7,747)	146,581	135,962	(9,614)	126,348

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

26. Explanation of transition to IFRS (continued):

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

	Note		Previous GAAP	Reclassifications	Effect of transition to IFRS	IFRS
Sales		$	163,448			163,448
Cost of sales	b		132,034	2,167	24	134,225
			31,414	(2,167)	(24)	29,223
Selling and administration			20,325	(20,325)		-
Administration			-	14,372		14,372
Selling			-	6,043		6,043
Interest			5,202	(5,202)		-
Foreign exchange gain			(138)	138		-
Amortization of intangibles			1,984	(1,984)		-
Mark-to-market gain on foreign currency contracts			(834)	834		-
Mark-to-market gain on interest rate swap contracts			(1,246)	1,246		-
Amortization of de-designated hedges			1,233	(1,233)		-
Gain on sale of property, plant and equipment	b		(1,834)	2,019	(185)	-
Conversion costs			673	(673)		-
Warranty reserve			877	(877)		-
Restructuring expense			1,169	(1,169)		-
Other			(127)	700		573
Employee profit sharing			593	(593)		-
Income from operations			3,537	4,537	161	8,235
Finance cost			-	7,814		7,814
Finance income			-	(3,277)		(3,277)
Income before income taxes			3,537		161	3,698
Income taxes:						
Current			1,178			1,178
Deferred	f		647		106	753
			1,825		106	1,931
Net income		$	1,712		55	1,767
Other comprehensive income (loss):						
Foreign currency translation differences – foreign operations			(661)			(661)
Unrealized loss on derivatives designated as cash flow hedges, net of income tax reduction of ($64)			(113)			(113)
Amortization of de-designated hedges, net of income tax of $158			1,075			1,075
Deferred benefit plans actuarial loss, net of tax reduction of ($578)	a		-		(1,466)	(1,466)
Other comprehensive income (loss) – net of income tax		$	301		(1,466)	(1,165)
Total comprehensive income		$	2,013		(1,411)	602

26. Explanation of transition to IFRS (continued):

Previous GAAP

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

Statement of cash flows

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

Notes to reconciliations:

Reclassifications

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

(a) Under adoption of IFRS 1 Pollard has chosen to recognize the cumulative unrecognized actuarial gains and losses and other pension differences in deficit at the Date of Transition. Pollard has classified the remaining pension asset (liability) as non-current and reduced the prepaid balances accordingly. In the previously issued interim condensed consolidated financial statements for the year ended December 31, 2011, Pollard had initially adopted the corridor method of accounting for actuarial gains and losses. Pollard has amended its accounting policy to expense actuarial gains and losses directly to other comprehensive income, net of tax, and, as a result, updated its reconciliation of the consolidated statement of financial position as at December 31, 2010 accordingly.

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

26. Explanation of transition to IFRS (continued):

The impact arising from the change is summarized as follows:

		Year ended December 31, 2010
Consolidated statements of comprehensive income		
Defined benefit plans actuarial loss		(1,466)
Adjustment to other comprehensive income		(1,466)
	January 1, 2010	**December 31, 2010**
Consolidated statements of financial position		
Prepaids	(1,646)	(3,287)
Pension asset	301	-
Pension liability	-	(102)
Related tax effect	348	926
Adjustment to deficit	(997)	(2,463)

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

The impact arising from the change is summarized as follows:

		Year ended December 31, 2010
Consolidated statements of comprehensive income		
Cost of sales		24
Gain on sale of property, plant and equipment		(185)
Adjustment to income before income tax		(161)
	January 1, 2010	**December 31, 2010**
Consolidated statements of financial position		
Property, plant and equipment	(956)	(795)
Related tax effect	295	244
Adjustment to deficit	(661)	(551)

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

26. Explanation of transition to IFRS (continued):

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

The impact arising from the change is summarized as follows:

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

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

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

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

The impact arising from the change is summarized as follows:

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

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

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

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

26. Explanation of transition to IFRS (continued):

	Note	January 1, 2010	December 31, 2010
Consolidated statements of financial position			
Employee benefits	a	348	926
Property, plant and equipment	b	295	244
Impact of IAS 12 on PP&E	f	(753)	(808)
Net change to deferred income tax assets and liabilities		(110)	362

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

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

	January 1, 2010	December 31, 2010
Consolidated statements of financial position		
Change in current deferred income tax asset	(2,529)	(730)
Change in long-term deferred income tax asset	(2,917)	(4,802)
Change in long-term deferred income tax liability	5,336	5,894
Net change to deferred income tax assets and liabilities	(110)	362

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

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

	Note	January 1, 2010	December 31, 2010
Consolidated statements of financial position			
Employee benefits	a	(997)	(2,463)
Property, plant and equipment	b	(661)	(551)
Translation reserve	e	(2,188)	(2,188)
Deferred income taxes	f	(753)	(808)
Increase in deficit		(4,599)	(6,010)

Investor Relations

Robert Rose
1499 Buffalo Place
t: 204-474-2323
e: winnipeg@pollardbanknote.com

Stock Exchange Listing

The Toronto Stock Exchange - PBL

Independent Auditors

KPMG LLP,
Winnipeg, Manitoba

Transfer Agent

Computershare Trust Company of Canada,
Toronto, Ontario

Bankers

The Toronto-Dominion Bank,
Winnipeg, Manitoba

HSBC Bank,
Edmonton, Alberta

Head Office

1499 Buffalo Place,
Winnipeg, Manitoba, R3T 1L7
t: 204-474-2323
f: 204-453-1375

Manufacturing Facilities

Winnipeg, Manitoba, Canada
1499 Buffalo Place, R3T 1L7
140 Otter Street, R3T 0M8

Barrhead, Alberta, Canada
6203 46th Street, T7N 1A1

Sault Ste. Marie, Ontario, Canada
300-45 White Oak Drive East, P6B 4J7

Ypsilanti, Michigan, USA
775 James L. Hart Parkway, 48197

Council Bluffs, Iowa, USA
504 34th Avenue, 51501

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1499 Buffalo Place
Winnipeg, Manitoba R3T1L7
(204) 474 - 2323

www.pollardbanknote.com