**News Release**

# POLLARD BANKNOTE ANNOUNCES ANNUAL AND 4TH QUARTER FINANCIAL RESULTS

**WINNIPEG, Manitoba, March 9, 2011 /CNW/** — **Pollard Banknote Limited** (TSX: PBL) ("Pollard") today released its financial results for the three months and year ended December 31, 2010.

| **HIGHLIGHTS** | 4th Quarter ended December 31, 2010 | 4th Quarter ended December 31, 2009 |
|---|---|---|
| **Sales** | $ 37.3 million | $ 46.9 million |
| **Gross Profit** | $ 8.0 million | $ 9.8 million |
| **Selling and Administration** | $ 5.3 million | $ 4.9 million |
| **Realized F/X Loss** | $ 0.3 million | $ 1.0 million |
| **Adjusted EBITDA** | $ 4.1 million | $ 5.8 million |

| | Year ended December 31, 2010 | Year ended December 31, 2009 |
|---|---|---|
| **Sales** | $ 163.4 million | $ 191.8 million |
| **Gross Profit** | $ 31.4 million | $ 38.8 million |
| **Selling and Administration** | $ 20.3 million | $ 21.3 million |
| **Realized F/X Loss** | $ 1.1 million | $ 4.5 million |
| **Adjusted EBITDA** | $ 18.0 million | $ 21.3 million |

“2010 was a year of change for Pollard and the fourth quarter reflected that,” said John Pollard, Co-Chief Executive Officer. “Our operating results have been negatively impacted by the strong Canadian dollar and a change in our sales mix to lower priced products. We continue to see significant competitive pressures in the marketplace also resulting in downward pressure on our selling prices.”

“To combat these forces we are focused on a two-pronged strategy in 2011: reducing our cost structure and increasing our instant ticket volumes. We have started a number of change initiatives to achieve these objectives. These initiatives include more efficient processes to streamline our prior to press procedures, increased automation in all of our finishing plants, standardization of our game development area and continuing enhancements to our press efficiencies.”

“The restructuring of our Puerto Rico lottery operations and the head count reduction in the fourth quarter are further examples of our improvement initiatives.”

“At the same time as we are working to improve our costs, we are also taking important steps to significantly increase our sales volumes in the instant ticket product line. We currently have the customer contracts in place to generate increased volumes over 2010. There are also a number of requests for proposal coming out in 2011 where we will be competing aggressively to expand our customer base and in fact have recently been successful adding a number of new contracts to our portfolio including contracts for lotteries in Poland, Cambodia, Costa Rica and Norway. We are already seeing increased volumes in our production scheduling.”

## POLLARD BANKNOTE LIMITED

On May 14, 2010, Pollard Banknote Income Fund (the "Fund") and Pollard Holdings Limited Partnership ("Pollard LP") completed a conversion (the "Conversion") to a publically traded corporation, Pollard Banknote Limited ("Pollard"). 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, 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 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.

Pollard is one of the leading providers of products and services to lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant tickets based in Canada and the second largest producer of instant tickets in the world.

## Results of Operations – Year ended December 31, 2010

**SELECTED FINANCIAL INFORMATION**

| (millions of dollars) | Year ended December 31, 2010 | Year ended December 31, 2009 |
|---|---|---|
| Sales | $163.4 | $191.8 |
| Cost of Sales | 132.0 | 153.0 |
| Gross Profit | 31.4 | 38.8 |
| Expenses (Income): | | |
| Selling and administration | 20.3 | 21.3 |
| Interest | 5.2 | 4.4 |
| Foreign exchange (gain) loss | (0.1) | 0.9 |
| Amortization of intangibles | 2.0 | 1.9 |
| Mark-to-market gain on foreign currency contracts and interest rate swaps | (2.1) | (10.4) |
| Amortization of de-designated hedges | 1.2 | 0.6 |
| Warranty reserve | 0.9 | - |
| Restructuring expense | 1.2 | - |
| Conversion costs | 0.7 | - |
| Facility closing | - | 4.7 |
| Gain on sale of property | (1.8) | (1.7) |
| Other | (0.2) | (0.5) |
| Income before undernoted | 4.1 | 17.6 |
| Employee profit sharing | 0.6 | 0.9 |
| Income before income taxes | 3.5 | 16.7 |
| Income taxes: | | |
| Current | 1.2 | 2.0 |
| Future (reduction) | 0.6 | (0.3) |
| | 1.8 | 1.7 |
| Net Income | $1.7 | $15.0 |
| Adjustments: | (unaudited) | (unaudited) |
| Interest | 5.2 | 4.4 |
| Unrealized foreign exchange gain | (1.2) | (3.6) |
| Mark-to-market gain on foreign currency contracts and interest rate swaps | (2.1) | (10.4) |
| Amortization of de-designated hedges | 1.2 | 0.6 |
| Conversion costs | 0.7 | - |
| Restructuring expense | 1.2 | - |
| Warranty reserve | 0.9 | - |
| Facility closing | - | 4.7 |
| Income taxes | 1.8 | 1.7 |
| Amortization | 8.6 | 8.9 |
| Adjusted EBITDA | $18.0 | $21.3 |

| | **December 31, 2010** | December 31, 2009 |
|---|---|---|
| Total Assets | **$136.0** | $154.3 |
| Total Long Term Liabilities | **$74.6** | $76.5 |

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

## Results of Operations – Year ended December 31, 2010

### Sales

During the year ended December 31, 2010 ("Fiscal 2010"), Pollard achieved sales of $163.4 million, compared to $191.8 million in the year ended December 31, 2009 ("Fiscal 2009"). Factors impacting the $28.4 million sales decrease were:

*Strengthening of the Canadian dollar*

During Fiscal 2010, Pollard generated approximately 72% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During Fiscal 2010 the actual U.S. dollar value was converted to Canadian dollars at $1.05, compared to a rate of $1.16 during Fiscal 2009. This decrease in the U.S. dollar value resulted in an approximate decrease of $12.8 million in revenue relative to Fiscal 2009. Also during Fiscal 2010, the strengthening of the Canadian dollar against the Euro resulted in an approximate decrease of $1.4 million in revenue relative to Fiscal 2009.

*Other*

Instant ticket sales volumes for Fiscal 2010 were lower than Fiscal 2009 by 4% which decreased sales by $7.1 million, in part due to the reduction in capacity with the closure of the Kamloops facility. In addition, a decrease in average selling price compared to 2009 reduced sales by $5.7 million as a result of an increased mix of lower priced tickets. Charitable Gaming volume decreased slightly during the year reducing sales by $1.5 million when compared to Fiscal 2009. An increase in vending machine volumes increased sales $0.1 million when compared to Fiscal 2009.

### Cost of sales and gross margin

Cost of sales was $132.0 million in Fiscal 2010 compared to $153.0 million in Fiscal 2009. Lower exchange rates on U.S. dollar transactions in Fiscal 2010 decreased cost of sales approximately $7.0 million. In addition, cost of sales was lower due to lower production volumes, lower costs associated with the mix of production and the impact of cost savings associated with the closure of the Kamloops facility.

Gross profit earned in Fiscal 2010 was $31.4 million (19.2% of sales) as compared to $38.8 million (20.2% of sales) earned in Fiscal 2009. This decrease was primarily due to the impact of the stronger Canadian dollar decreasing revenue by a greater amount than the decrease in cost of sales. In addition, gross profit was lower due to the net impact of lower volumes and selling prices, largely offset by the cost savings associated with the closure of the Kamloops facility.

**Selling and administration expenses**

Selling and administration expenses were $20.3 million in Fiscal 2010 which is lower than $21.3 million in Fiscal 2009 due to the impact of certain cost containment strategies. As a percentage of sales, total selling and administration expenses were 12.4% of sales in Fiscal 2010 compared to 11.1% in Fiscal 2009 reflecting the impact of the fixed cost nature of these expenses on lower sales.

**Foreign exchange gain (loss)**

Foreign exchange gain was $0.1 million in Fiscal 2010 compared to a loss of $0.9 million in Fiscal 2009. 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 sheets 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.

Within the Fiscal 2009 foreign exchange loss of $0.9 million was unrealized gains of $3.6 million relating to the foreign exchange gain on U.S. dollar denominated debt (caused by the strengthening of the Canadian dollar) offset by realized losses of $4.5 million. The realized losses were comprised of $3.6 million of realized losses relating to forward hedge contracts (caused by fixed exchange rates in the hedges being lower than actual rates) and $1.7 million in realized losses on the value of U.S. dollar denominated receivables, partially offset by realized gains on accounts payable of $0.8 million.

**Gain on sale of property, plant and equipment**

During Fiscal 2010, Pollard disposed of a building and land in Kamloops, British Columbia to an affiliate of Pollard Equities Limited for total proceeds of $2.9 million resulting in a gain of $1.8 million. The selling price was based on the current fair market value as determined through an independent appraisal.

During Fiscal 2009, Pollard disposed of a surplus building and land in Winnipeg, Manitoba to an affiliate of Pollard Equities Limited for total proceeds of $3.4 million resulting in a gain of $1.7 million. The selling price was based on the current fair market value as determined through an independent appraisal.

### Adjusted EBITDA

Adjusted EBITDA was $18.0 million in Fiscal 2010 compared to $21.3 million in Fiscal 2009. The primary reason for the decrease in Adjusted EBITDA was lower gross margin of $7.4 million (due primarily to the impact of the strengthening Canadian dollar), partially offset by lower realized foreign exchange losses of $3.4 million and lower selling and administration costs of $1.0 million.

### Interest rate swaps

A non-cash mark-to-market gain of $1.3 million was recorded during Fiscal 2010, on interest rate swap contracts no longer designated as hedges, as compared to $0.6 million in Fiscal 2009. In addition, amortization of $1.2 million of the previously recorded mark-to-market losses on these interest rate swaps, recorded as accumulated other comprehensive loss, was expensed in Fiscal 2010 as compared to $0.6 million in Fiscal 2009.

### Mark-to-market gain on foreign currency contracts

A non-cash gain of $0.8 million was recorded in Fiscal 2010, compared to a non-cash gain of $9.8 million recognized in Fiscal 2009. On March 12, 2010, Pollard sold its remaining foreign currency contracts.

### Amortization

Amortization includes amortization of property and equipment and intangible assets and totaled $8.6 million during Fiscal 2010 which is similar to the $8.9 million amortized during Fiscal 2009.

### Interest

Interest expense increased to $5.2 million in Fiscal 2010 from $4.4 million in Fiscal 2009 due primarily to higher interest rates associated with the new syndicated credit facility.

### Conversion costs

Conversion expenses of $0.7 million, primarily legal and accounting fees, were expensed in Fiscal 2010 relating to conversion of Pollard to a publically traded corporation.

## Warranty reserve

A warranty reserve adjustment of $0.9 million was expensed in Fiscal 2010. The warranty reserve relates to product produced in Fiscal 2009 for a specific customer as the originally delivered product no longer met the contractual quality requirements. There is no continuing obligation relating to these products.

## Restructuring expense

A restructuring expense of $1.2 million was incurred in Fiscal 2010. The expense includes approximately $0.9 million of costs relating to the elimination of approximately 30 salaried positions. In addition, due to changes in the local rules regulating scratch off lottery tickets, our Puerto Rico Lottery operation was restructured to comply with the new rules. Costs incurred of $0.3 million include the write off of existing inventory and the overhead costs incurred during the transition to the new product line.

## Income taxes

Income tax expense was $1.8 million in Fiscal 2010, an effective rate of 51.6%, due to the allocation of partnership losses and distributions to the Limited Partners prior to the Conversion.

Income tax expense was $1.7 million in Fiscal 2009, an effective rate of 10.3%, as the Canadian operations of Pollard were not taxable in 2009.

## Net Income

Net Income decreased to $1.7 million in Fiscal 2010 from $15.0 million in Fiscal 2009. The primary reasons for the decline were the decrease in gross profit of $7.4 million (due primarily to the impact of the strengthening Canadian dollar), the reduction in the non-cash mark-to-market gain on foreign exchange currency contracts and interest rate swaps of $8.3 million, an increase in interest expense of $0.8 million, an increase in amortization of de-designated hedges of $0.6 million, conversion costs of $0.7 million, warranty reserve of $0.9 million and restructuring expense of $1.2 million. These were partially offset by a reduction in foreign exchange loss of $1.0 million, a decrease in selling and administration costs of $1.0 million and a reduction in facility closing expense of $4.7 million.

Earnings per share decreased to $0.07 per share in Fiscal 2010 from $0.64 in Fiscal 2009.

# Results of Operations – Three months ended December 31, 2010

**SELECTED FINANCIAL INFORMATION**

| (millions of dollars) | Three months ended December 31, 2010 | Three months ended December 31, 2009 |
|---|---|---|
| | (unaudited) | (unaudited) |
| Sales | $37.3 | $46.9 |
| Cost of Sales | 29.3 | 37.1 |
| Gross Profit | 8.0 | 9.8 |
| Expenses (Income): | | |
| Selling and administration | 5.3 | 4.9 |
| Interest | 1.1 | 1.3 |
| Foreign exchange loss | 0.4 | 0.4 |
| Amortization of intangibles | 0.5 | 0.5 |
| Mark-to-market gain on foreign currency contracts and interest rate swaps | - | (1.9) |
| Amortization of de-designated hedges | - | 0.6 |
| Restructuring expense | 1.2 | - |
| Facility closing | - | 4.7 |
| Other | (0.1) | 0.1 |
| Loss before undernoted | (0.4) | (0.8) |
| Employee profit sharing | 0.1 | (0.2) |
| Loss before income taxes | (0.5) | (0.6) |
| Income taxes: | | |
| Current | 0.5 | 0.4 |
| Future (reduction) | (0.4) | (1.1) |
| | 0.1 | (0.7) |
| Net Income (loss) | $(0.6) | $0.1 |
| Adjustments: | | |
| Interest | 1.1 | 1.3 |
| Unrealized foreign exchange (gain) loss | 0.1 | (0.6) |
| Mark-to-market gain on foreign currency contracts and interest rate swaps | - | (1.9) |
| Amortization of de-designated hedges | - | 0.6 |
| Restructuring expense | 1.2 | - |
| Facility closing | - | 4.7 |
| Income taxes (recovery) | 0.1 | (0.7) |
| Amortization | 2.2 | 2.3 |
| Adjusted EBITDA | $4.1 | $5.8 |

During the three months ended December 31, 2010, Pollard achieved sales of $37.3 million, compared to $46.9 million in the three months ended December 31, 2009. Factors impacting the $9.6 million sales decrease were:

- During the three months ended December 31, 2010, Pollard generated approximately 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 2010 the actual U.S. dollar value was converted to Canadian dollars at $1.03, compared to a rate of $1.08 during the fourth quarter 2009. This decrease in the U.S. dollar value resulted in an approximate decrease of $2.2 million in revenue relative to the fourth quarter 2009. In addition, during the three months ended December 31, 2010, the strengthening of the Canadian dollar against the Euro resulted in an approximate decrease of $0.2 million in revenue relative to the three months ended December 31, 2009.

- Instant ticket sales volumes for the three months ended December 31, 2010, were lower by 13%, decreasing sales by $6.5 million. Instant ticket production volumes were consistent with the fourth quarter of 2009; however, the timing of sales relating to a portion of the Fiscal 2010 fourth quarter production will not be recognized until Fiscal 2011 due to the timing of shipments to certain customers and a build up of product for a new contract. A decrease in the average selling price of instant tickets reduced sales by $1.0 million compared to the fourth quarter of 2009 as a result of a greater mix of lower priced work. Charitable gaming products volumes were higher than the three months ended December 31, 2009 increasing revenues by $0.1 million; in addition the average price was higher when compared to the fourth quarter of 2009, increasing sales by a further $0.1 million. An increase in vending machine volumes increased sales $0.1 million when compared to the three months ending December 31, 2009.

Cost of sales was $29.3 million in the three months ended December 31, 2010, compared to $37.1 million in the three months ended December 31, 2009. Lower exchange rates on U.S. dollar transactions in fourth quarter 2010 decreased cost of sales approximately $0.5 million. In addition, cost of sales were lower due to lower volumes, lower costs associated with the mix of production and the impact of cost savings associated with the closure of the Kamloops facility.

Gross profit was $8.0 million (21.4% of sales) in the three months ended December 31, 2010, as compared to $9.8 million (20.9% of sales) in the three months ended December 31, 2009, primarily due to the impact of the strengthening Canadian dollar and the lower instant ticket sales volumes. In addition, gross profit was lower due to the net impact of lower volumes and selling prices, largely offset by the cost savings associated with the closure of the Kamloops facility.

Selling and administration expenses were $5.3 million in the three months ended December 31, 2010, which is higher than $4.9 million in the fourth quarter 2009, as a result of increased travel, personnel and professional costs.

Foreign exchange loss was $0.4 million in the three months ended December 31, 2010, similar to a loss of $0.4 million in 2009. 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.

Within the 2009 foreign exchange loss of $0.4 million was unrealized gains of $0.6 million relating to the foreign exchange gain on U.S. dollar denominated debt (caused by the strengthening of the Canadian dollar). The unrealized gain was offset by $1.0 million of realized losses. The realized losses were comprised of $0.9 million of realized losses relating to forward hedge contracts (caused by fixed exchange rates in the hedges being lower than actual rates) and $0.3 million in realized losses on U.S. dollar denominated receivables, which were partially offset by $0.2 million in realized gains on U.S. dollar dominated payables.

Adjusted EBITDA was $4.1 million in the three months ended December 31, 2010, compared to $5.8 million in the three months ended December 31, 2009. The primary reasons for the decrease in Adjusted EBITDA were lower gross margin of $1.8 million (due primarily to the impact of the strengthening of the Canadian dollar) and increased selling and administration costs of $0.4 million. Partially offsetting these items was a decrease in the realized foreign exchange loss of $0.7 million.

Amortization includes amortization of property and equipment and intangible assets and totaled $2.2 million during the three months ended December 31, 2010, which is similar to the $2.3 million during the three months ended December 31, 2009.

Interest expense decreased to $1.1 million in the fourth quarter 2010 from $1.3 million in the fourth quarter 2009 due primarily to the elimination of higher interest rates related to certain interest rate swaps which expired on August 31, 2010, partially offset by higher interest rates associated with the new syndicated credit facility.

A restructuring expense of $1.2 million was incurred in the three months ended December 31, 2010. The expense includes approximately $0.9 million of costs relating to the elimination of approximately 30 salaried positions. In addition, due to changes in the local rules regulating scratch off lottery tickets, our Puerto Rico Lottery operation was restructured to comply with the new rules. Costs incurred of $0.3 million include the write off of existing inventory and the overhead costs incurred during the transition to the new product line.

Income tax expense was $0.1 million in the fourth quarter 2010, an effective rate of (20%), due to withholding taxes and non-deductible expenses.

Income tax recovery was ($0.7) million in the fourth quarter 2009, an effective rate of 116%, as the Canadian operations of Pollard were not taxable in 2009.

Net Income (Loss) was ($0.6) million in the three months ended December 31, 2010, compared to $0.1 million in the three months ended December 31, 2009. The primary reasons for the decline were lower gross margin of $1.8 million (due primarily to the impact of the strengthening of the Canadian dollar) and a reduction of the non-cash mark-to-market gain on foreign exchange currency contracts of $1.3 million, as well as increased selling and administration expenses of $0.4 million, increased income tax expense of $0.8 million and the $1.2 million restructuring expense. Partially offsetting these amounts was the decrease in the expenses related to facility closing in 2009 of $4.7 million.

The three months ended December 31, 2010 incurred a loss per share of ($0.03) compared to earnings per share of nil in the three months ended December 31, 2009.

## Use of Non-GAAP Financial Measures

Reference to “Adjusted EBITDA” is to earnings before interest, income taxes, amortization, unrealized foreign exchange gains and losses, mark-to-market gains and losses on foreign currency contracts and interest rate swaps, and certain non-recurring items including conversion expenses, warranty reserve accruals and restructuring costs. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to Net Income, Adjusted EBITDA is a useful supplementary measure.

Adjusted EBITDA is a measure not recognized under 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.

## Outlook

The instant lottery ticket retail market generated slightly higher sales in 2010 relative to 2009 and signs of higher growth rates are emerging in early 2011. Despite the very difficult general retail environment in North America experienced in the last two years, instant lottery tickets have proven to be a very resilient generator of revenue. Low single digit growth rates are expected in 2011. Government jurisdictions are under significant pressure to generate more lottery revenues, which presents opportunities to provide additional product and services.

Lotteries outside North America are expected to generate similar growth rates as seen in North America, in the low single digit range in 2011.

Despite the improved outlook for retail sales of instant lottery tickets, strong competitive pressures coupled with economic challenges faced by many of our lottery clients have resulted in significant downward pressure on pricing throughout the industry. We believe these factors will continue to exist throughout 2011.

To combat these negative pressures, we have developed a formal change initiative process aimed at two specific objectives: increasing instant ticket sales and production volumes while, at the same time, significantly reducing our cost structures.

During 2011 we are targeting a significant increase in volumes over 2010. We currently have the customer contracts in place to achieve this and through more aggressive and effective marketing we believe our targeted volume growth is attainable.

The New Jersey Lottery contract has been extended until June 30, 2011 and the Lottery has indicated they will be issuing a request for proposal to award a new long-term contract. The New York Lottery contract (where we hold a secondary supplier contract) expires July 2011, and a new request for proposal has been issued by the New York Lottery. We have no other material customer contracts that come due in 2011 (when extensions are considered). There are a number of contracts currently held by our competitors which come up for re-bid in 2011 and we will bid aggressively on these new contract opportunities. We have recently been successful adding a number of new contracts to our portfolio including contracts for lotteries in Poland, Cambodia, Costa Rica and Norway.

A number of manufacturing and process improvement initiatives have been started in the fall of 2010 and will continue in 2011 to reduce our cost structure. In the fourth quarter we reduced our head count by approximately 30 positions. In addition, other initiatives underway include: plans to reduce spoilage levels, more efficient processes to streamline our prior to press procedures, increased automation in all of our finishing plants, standardization of our game development area and continuing enhancements to our press efficiencies and improved procurement procedures to achieve reductions in variable costs such as inks and paper.

Cost savings from our fourth quarter restructuring will start to accumulate in the first quarter of 2011 and, coupled with the closure of our Kamloops facility earlier in 2010, will help establish a lower fixed cost base for our instant ticket product line.

Increasing volumes will have a significant impact on reducing our per unit costs as the fixed component of our costs is amortized over a larger base.

Specific cost containment strategies have also been put in place to reduce our overhead expenses in all areas of Pollard.

Sales and order volumes will vary on a quarter-to-quarter basis due to the timing of client orders, which vary based on marketing plans, new product offerings, inventory management and other factors. Volumes in the first quarter of the year are generally slightly lower than the rest of the year.

The importance of other service is growing as lotteries look to maximize their revenue and our Lottery Management Services are an important tool for our clients. After structural changes required in our Puerto Rico operation were implemented in the fourth quarter, the operations are now selling product at the retail level. We have recently added the distribution of the pull-tab product line for the Arizona Lottery to our contract portfolio. Licensed games and merchandise sales were higher in 2010, however competitive pressures resulted in lower gross margins. We are targeting higher sales in 2011.

The overall charitable gaming market remains stable and this is expected to continue during 2011. Improved product mix management generated stronger gross margins during the past year and we expect this to continue in 2011. We have recently initiated sales into a new jurisdiction which will provide an opportunity to expand the charitable game product line.

Our net operating cash flows have a large exposure to the U.S. dollar and some additional exposure to Euros. Significant swings in the Canadian dollar relative to the U.S. dollar will result in 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. The Canadian dollar continued strengthening relative to the U.S. dollar throughout 2010 and in early 2011, which had a significant negative impact on our operating results.

We currently do not have any foreign currency hedge contracts in place and will continue to monitor our foreign currency exposure as part of our risk management process.

We anticipate our capital expenditures will remain at similar levels to 2010 during the upcoming year as no major capital projects are currently planned.

Throughout 2011 we expect an improved cash flow to strengthen our balance sheet through a focus on reductions in debt.

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.

### *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.*

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