Condensed Consolidated Interim Financial Statements of

POLLARD BANKNOTE LIMITED

(unaudited)

Nine months ended September 30, 2011

These condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent external auditors, KPMG LLP.

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

		September 30, 2011		December 31, 2010
Assets				
Current assets:				
Cash	**$**	**4,549**	$	5,405
Accounts receivable		**16,275**		14,528
Loan to Pollard Equities Limited (note 4)		**-**		2,157
Inventories (note 5)		**20,134**		17,889
Prepaid expenses and deposits		**2,063**		2,250
Net investment in leases due within one year		**73**		114
		43,094		42,343
Property, plant and equipment		**30,196**		33,877
Pension asset		**3,443**		1,942
Net investment in leases		**9**		40
Goodwill (note 6)		**36,027**		35,802
Intangible assets (note 7)		**12,510**		13,743
Deferred income taxes		**105**		497
Total assets	**$**	**125,384**	$	128,244
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	**$**	**17,956**	$	16,208
Provisions (note 8)		**175**		1,006
Dividends payable		**706**		706
Distributions payable to Pollard Equities Limited (note 4)		**-**		2,157
Income taxes payable		**569**		608
		19,406		20,685
Long-term debt (note 9)		**71,905**		73,955
Other long-term liabilities		**216**		217
Interest rate swap contracts		**-**		374
Deferred income taxes		**1,230**		668
Shareholders' equity:				
Share capital (note 11)		**73,209**		73,209
Reserves		**2**		(919)
Deficit		**(40,584)**		(39,945)
		32,627		32,345
Total liabilities and shareholders' equity	**$**	**125,384**	$	128,244

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Income

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

(unaudited)

		Three months ended September 30, 2011		Three months ended September 30, 2010		Nine months ended September 30, 2011		Nine months ended September 30, 2010
Sales	$	43,814	$	41,705	$	127,449	$	126,102
Cost of sales		36,819		34,423		106,617		105,275
Gross profit		6,995		7,282		20,832		20,827
Administration		3,385		3,561		10,107		11,333
Selling		1,467		1,495		4,530		4,495
Other income (note 16)		(92)		(33)		(1,617)		(2,128)
Income from operations		2,235		2,259		7,812		7,127
Finance costs (note 17)		2,505		1,703		5,259		6,137
Finance income (note 17)		-		(892)		(749)		(3,277)
Income (loss) before income taxes		(270)		1,448		3,302		4,267
Current (recovery)		327		(60)		917		717
Deferred		623		44		905		1,053
Income taxes (recovery) (note 10)		950		(16)		1,822		1,770
Net income (loss)	$	(1,220)	$	1,464	$	1,480	$	2,497
Basic and diluted income (loss) per share	$	(0.05)	$	0.06	$	0.06	$	0.11
Weighted average number of shares outstanding		23,543,158		23,543,158		23,543,158		23,543,158

See accompanying notes to condensed consolidated interim financial statements.

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

	Three months ended September 30, 2011	Three months ended September 30, 2010	**Nine months ended September 30, 2011**	Nine months ended September 30, 2010
Net income (loss)	**$ (1,220)**	$ 1,464	**$ 1,480**	$ 2,497
Other comprehensive income (loss):				
Foreign currency translation differences – foreign operations	**1,061**	(408)	**663**	(274)
Unrealized gain (loss) on derivatives designated as cash flow hedges, net of income tax (reduction) of $40 and $116 (2010 - ($18) and ($63))	**142**	(32)	**258**	(111)
Amortization of de-designated hedges, net of income tax of nil (2010 - $40 and $158)	**-**	275	**-**	1,075
Other comprehensive income (loss) – net of income tax	**1,203**	(165)	**921**	690
Comprehensive income (loss)	**$ (17)**	$ 1,299	**$ 2,401**	$ 3,187

See accompanying notes to condensed consolidated interim financial statements.

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

For the nine months ended September 30, 2011

		Attributable to equity holders of Pollard Banknote Limited				
		Share capital	Translation reserve	Hedging reserve	Retained deficit	Total equity
Balance at January 1, 2011	$	73,209	(661)	(258)	(39,945)	32,345
Net income for the period		-	-	-	1,480	1,480
Other comprehensive income						
Foreign currency translation differences – foreign operations		-	663	-	-	663
Unrealized gain on derivatives designated as cash flow hedges, net of income tax of $116		-	-	258	-	258
Total other comprehensive income	$	-	663	258	-	921
Total comprehensive income for the period	$	-	663	258	1,480	2,401
Dividends to owners of Pollard Banknote Limited		-	-	-	(2,119)	(2,119)
Balance at September 30, 2011	$	73,209	2	-	(40,584)	32,627

For the nine months ended September 30, 2010

		Attributable to equity holders of Pollard Banknote Limited				
		Share capital	Translation reserve	Hedging reserve	Retained deficit	Total equity
Balance at January 1, 2010	$	73,209	-	(1,220)	(38,004)	33,985
Net income for the period		-	-	-	2,497	2,497
Other comprehensive income (loss)						
Foreign currency translation differences – foreign operations		-	(274)	-	-	(274)
Unrealized loss on derivatives designated as cash flow hedges, net of income tax reduction of ($63)		-	-	(111)	-	(111)
Amortization of de-designated hedges, net of income tax of $158		-	-	1,075	-	1,075
Total other comprehensive income (loss)	$	-	(274)	964	-	690
Total comprehensive income (loss) for the period	$	-	(274)	964	2,497	3,187
Dividends to owners of Pollard Banknote Limited		-	-	-	(3,002)	(3,002)
Balance at September 30, 2010	$	73,209	(274)	(256)	(38,509)	34,170

See accompanying notes to condensed consolidated interim financial statements.

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

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Cash increase (decrease):		
Operating activities:		
Net income	$ **1,480**	$ 2,497
Adjustments:		
Income taxes	**1,822**	1,770
Amortization and depreciation	**6,377**	6,424
Interest expense	**3,475**	4,077
Unrealized foreign exchange loss (gain)	**3,810**	(1,370)
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)**	(2,008)
Interest paid	**(2,786)**	(3,671)
Income tax paid	**(944)**	(1,704)
Change in pension asset	**(1,531)**	(1,608)
Change in non-cash operating working capital (note 12)	**(3,300)**	(4,961)
	6,924	(1,401)
Investing activities:		
Additions to property, plant and equipment	**(2,581)**	(1,436)
Proceeds from sale of property, plant and equipment	**3,483**	2,881
Proceeds from net investment in leases	**74**	219
Additions to intangible assets	**(202)**	(42)
	774	1,622
Financing activities:		
Proceeds from (repayments of) long-term debt	**(6,518)**	4,019
Change in other long-term liabilities	**(13)**	(25)
Additions to deferred financing charges	**(3)**	(297)
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	**(2,119)**	(3,002)
	(8,653)	283
Foreign exchange gain on cash held in foreign currency	**99**	42
Change in cash position	**(856)**	546
Cash position, beginning of period	**5,405**	3,706
Cash position, end of period	$ **4,549**	$ 4,252

See accompanying notes to condensed consolidated interim 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 condensed consolidated interim financial statements of Pollard as at and for the nine months ended September 30, 2011, comprise Pollard and its subsidiaries. Pollard is primarily involved in the manufacture and sale of lottery and gaming products.

Pollard's consolidated financial statements as at and for the year ended December 31, 2010, which were prepared under previous Canadian Generally Accepted Accounting Principles ("GAAP") are available at www.sedar.com. Pollard's condensed consolidated interim financial statements as at and for the three months ended March 31, 2011, were Pollard's initial financial statements prepared under International Financial Reporting Standards ("IFRS") and include Pollard's accounting policies under IFRS as well as reconciliations of the financial statements from GAAP to IFRS as of January 1, 2010, the date of transition ("Date of Transition") to IFRS, and as at and for the year ended December 31, 2010, are available at www.sedar.com.

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

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

Since there was no change in control as a result of the Conversion, the transaction has been accounted for as if the Conversion had occurred at the beginning of the earliest comparative period presented. These condensed consolidated interim financial statements incorporate the results of both the Fund and Pollard LP with the prior to conversion comparative figures having been restated to reflect the combined results of both entities. The assets and liabilities of the Fund and Pollard LP were combined at their carrying values. As a result of the Conversion, the Canadian operations of Pollard became taxable under the *Income Tax Act* (Canada). Therefore, the differences between the tax values and the net book value of the Canadian assets and liabilities have been recorded as deferred tax assets and liabilities in the prior to conversion comparative figures.

1. Reporting entity (continued):

These condensed consolidated interim financial statements reflect the entities conducting the business of manufacturing and selling lottery and gaming products of the Pollard group as a corporation subsequent to May 14, 2010, and as an income trust and limited partnership prior to the Conversion. All references to "common shares" collectively refer to Pollard's common shares on and subsequent to May 14, 2010, and Fund Units and Class B and C Limited Partnership Units prior to the Conversion. All references to "dividends" refer to dividends paid or payable to holders of Pollard common shares on and subsequent to May 14, 2010 and to distributions payable to Fund Unitholders and Class B and C Limited Partnership Unitholders prior to the Conversion. All references to "shareholders" refer collectively to holders of Pollard common shares on and subsequent to May 14, 2010, and to Fund Unitholders and Class B and C Limited Partnership Unitholders prior to the Conversion.

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

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*. These condensed consolidated interim financial statements do not include all the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of Pollard is provided in Note 20.

On November 9, 2011, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Basis of preparation:

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

- Derivative financial instruments are measured at fair value.
- The pension asset is recognized as the net total of the plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation.

2. Basis of preparation (continued):

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

(c) Use of estimates and judgments:

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

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

Cost of good sold with percent of retail sales contracts

Under certain instant lottery ticket contracts Pollard recognizes revenue for its tickets based on a percentage applied to the applicable lotteries' retail sales. The lotteries have the discretion to remove these games from market prior to selling all available tickets and as such Pollard must estimate the sell-through rate of these games in order to properly match the cost of goods sold to the revenue expected from the game.

Impairment of goodwill

Pollard determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units ("CGUs") to which goodwill is allocated. Estimating a value in use requires Pollard to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are provided in Note 6.

Employee future benefits

Accounting for defined benefit plans requires Pollard to use actuarial assumptions. These assumptions include the discount rate, expected rate of return on plan assets and the rate of compensation increases. These assumptions depend on underlying factors such as economic conditions, government regulations, investment performance, employee demographics and mortality rates. Pollard was required to use judgment in determining the pension expense to assess the recoverability of the pension plan asset.

2. Statement of compliance (continued):

Income taxes

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

3. Future accounting standards:

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9 *Financial Instruments.* IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classifications options in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for fiscal years beginning on or after January 1, 2013. Pollard is currently assessing the impact of the new standard on its consolidated financial statements.

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

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

- IFRS 10 *Consolidated Financial Statements* replaces the guidance on control and consolidation in IAS 27 *Consolidated and Separate Financial Statements* and 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.

3. Future accounting standards (continued):

- 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 now required. IAS 19 is required for fiscal years beginning on or after January 1, 2013. Pollard is currently assessing the impact of the amendment on its consolidated financial statements as the corridor method currently used will no longer be permitted upon adoption of the amended standard.

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

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

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

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

5. Inventories:

		September 30, 2011		December 31, 2010
Raw materials	**$**	**6,315**	$	4,799
Work-in-process		**1,453**		935
Finished goods		**12,366**		12,155
	$	**20,134**	$	17,889

During the third quarter of 2011, Pollard recorded inventory write-downs of $52 as a result of increases in the obsolescence reserves, and reversals of previous write-downs of $154 due to changes in foreign exchange rates. During the nine months ended September 30, 2011, Pollard recorded inventory write-downs of $145 representing an increase in the obsolescence reserves, and reversals of previously written-down amounts of $195 due to changes in foreign exchange rates.

During the third quarter of 2010, Pollard recorded inventory write-downs of $56 as a result of increases in the obsolescence reserves, and write-downs of $24 due to changes in foreign exchange rates. During the nine months ended September 30, 2010, Pollard recorded inventory write-downs of $172, representing an increase in the obsolescence reserves, and a reversal of previous write-downs of $82 due to changes in foreign exchange rates.

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

6. Goodwill:

Goodwill is comprised of $30,620 (2010 - $30,620), representing the excess purchase price over the underlying carrying amount of the net assets sold, as at August 5, 2005, as a result of the 26.7% of Pollard LP sold as part of Pollard Banknote Income Fund's IPO with the remaining $5,407 (December 31, 2010 - $5,182) from Pollard's purchase of its U.S. subsidiaries.

During the third quarter of 2011 the value of goodwill increased $374 (2010 – decreased $150) as a result of changes in foreign exchange rates. During the nine months ended September 30, 2011, the value of goodwill increased $225 (2010 – decreased $100) as a result of changes in foreign exchange rates.

Goodwill has been allocated to CGUs for impairment testing as described in the table below. The carrying amount of goodwill as at September 30, 2011 and December 31, 2010, are as follows:

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

6. Goodwill (continued):

		September 30, 2011		December 31, 2010
Lottery	**$**	**30,620**	$	30,620
Charitable games		**5,407**		5,182
	$	**36,027**	$	35,802

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

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

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

Revenue and related gross margin

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

Foreign exchange rates

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

Discount rates

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

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

6. Goodwill (continued):

Lottery	10.0%
Charitable Gaming	11.0%

Growth rates

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

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

7. Intangible assets:

Intangible assets include patents, deferred development costs and the excess purchase price over the underlying carrying amount of the intangible assets acquired as at August 5, 2005, as part of the 26.7% of Pollard LP sold in conjunction with the IPO.

Amortization of intangible assets for the third quarter of 2011 was $405 (2010 - $504) and for the nine months ended September 30, 2011, was $1,435 (2010 - $1,475).

8. Provisions:

		Restructuring reserve
Balance at January 1, 2011	$	1,006
Provisions made during the period		104
Provisions utilized during the period		(935)
Balance at September 30, 2011	$	175

Restructuring reserve

The addition to provisions relates to a severance accrual for the closure of the Puerto Rico operations (Note 19).

In the fourth quarter of 2010 approximately 30 salaried positions were eliminated. The restructuring expense recorded in that quarter included severance payments and related fringe totaling approximately $886 with approximately $500 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 reserve of $4,746 was incurred primarily representing

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

8. Provisions (continued):

employee severance and related fringe costs. The cash outlays related to the facility closing accrual will be expended, starting March 1, 2010, over a period of approximately two years, consistent with the terms of their salary and benefit continuance based on their individual weeks of severance.

9. Long-term debt:

		September 30, 2011		December 31, 2010
Credit facility, interest of 4.38% to 5.88% payable monthly	**$**	**72,534**	$	75,000
Deferred financing charges, net of amortization		**(629)**		(1,045)
	$	**71,905**	$	73,955

Included in the total credit facility balance is a U.S. dollar loan balance of US$13,480 (December 31, 2010 – US$23,000).

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$21,441 for its U.S. subsidiaries. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At September 30, 2011, the outstanding letters of credit drawn under the credit facility were $2,135 (December 31, 2010 - $4,661).

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including working capital ratios, debt to income before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at September 30, 2011, Pollard is in compliance with all financial covenants.

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard's operating subsidiaries. The credit facility can be prepaid without penalties. Under the terms of the agreement, the credit facility is committed for a one year period, renewable October 30, 2012. If the credit facility is not renewed, the loans are repayable one year after the credit facility expiry date. As such, the credit facility has effectively a two year term expiring October 30, 2013.

Beginning at the end of the first quarter of 2011 the amount of the facility will be reduced on a quarterly basis by an amount calculated as 50% of the prior quarter's Excess Cash Flow. Excess Cash Flow is defined as Adjusted EBITDA less scheduled principal indebtedness payments (if any),

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

9. Long-term debt (continued):

interest and cash income taxes paid. The reduction in the available facility is waived when the debt to Adjusted EBITDA ratio reaches certain target levels. For the quarter ending September 30, 2011, the credit facility will be reduced by approximately $2,307 as of November 29, 2011. As of September 30, 2011, Pollard has unused credit facility available of $17,736 (December 31, 2010 - $15,339).

10. Income taxes:

Reconciliation to statutory rate:

The overall income tax provision differs from the amount that would be obtained by applying the combined statutory income tax rate to income due to the following:

	Three months ended September 30, 2011	Three months ended September 30, 2010
Income taxes at Canadian rates:		
Canadian combined federal and provincial income tax rate	**28.3%**	30.0%
Income taxes (recovery)	**$ (76)**	$ 421
Taxable income allocated to limited partners and therefore not subject to tax	**-**	(529)
Withholding taxes and other non-taxable items	**76**	330
Effect of non-taxable items related to foreign exchange	**950**	(238)
Provision for income taxes	**$ 950**	$ (16)

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Income taxes at Canadian rates:		
Canadian combined federal and provincial income tax rate	**28.3%**	30.0%
Income taxes	**$ 935**	$ 1,267
Taxable loss allocated to limited partners and therefore not subject to tax	**-**	126
Withholding taxes and other non-taxable items	**172**	428
Effect of non-taxable items related to foreign exchange	**715**	(51)
Provision for income taxes	**$ 1,822**	$ 1,770

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

11. Share capital:

	September 30, 2011	December 31, 2010
Authorized:		
Unlimited common shares		
Unlimited preferred shares		
Issued:		
23,543,158 common shares	**$ 73,209**	$ 73,209
	$ 73,209	$ 73,209

Dividends are paid on the common shares within 15 days of the end of each quarter and are fully discretionary, as determined by the Board of Directors of Pollard.

Capital Management:

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

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

Pollard monitors capital on the basis of funded debt to Adjusted EBITDA, working capital ratio and debt service coverage. Pollard has externally imposed capital requirements as determined through its bank credit facility. Under the credit facility, Pollard has agreed not to pay dividends in excess of the current quarterly amount of $0.03 per share until the debt to Adjusted EBITDA ratio is reduced to a certain level. As at September 30, 2011, Pollard is in compliance with all financial covenants.

On November 9, 2011, a dividend of $0.03 per share was declared, payable to the shareholders of record on December 31, 2011.

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

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

12. Supplementary cash flow information:

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Change in non-cash operating working capital:		
Accounts receivable	**$ (1,042)**	$ (2,145)
Inventories	**(1,957)**	2,887
Prepaid expenses and deposits	**(50)**	(445)
Accounts payable and accrued liabilities	**580**	(2,127)
Provisions	**(831)**	(3,131)
	$ (3,300)	$ (4,961)

13. Related party transactions:

During the quarter ended September 30, 2011, Pollard paid property rent of $749 (2010 - $676) to affiliates of Equities and $2,091 (2010 - $2,019) during the nine months ended September 30, 2011. During the quarter, Equities paid Pollard $18 (2010 - $18) for accounting and administration fees and $54 (2010 - $54) during the nine months ended September 30, 2011.

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors and the Executive Committee are considered key management personnel. During the three months ended September 30, 2011, Pollard compensated its key management personnel $678 (2010 - $702) and $2,153 (2010 - $2,241) during the nine months ended September 30, 2011.

At September 30, 2011, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent and other expenses of $1,103 (December 31, 2010 - $1,221).

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

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

14. Financial instruments:

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

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

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

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

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

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

Certain financial instruments recorded at fair value on the statement 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 September 30, 2011, the cash recorded at fair value is classified as level one of the fair value hierarchy.

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

15. Financial risk management:

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

Credit risk
Liquidity risk
Currency risk
Interest rate risk

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

Credit risk

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

		September 30, 2011		December 31, 2010
Current	**$**	**11,962**	$	12,388
Past due for 1 to 60 days		**3,895**		1,648
Past due for more than 60 days		**556**		594
Less: Allowance for doubtful accounts		**(138)**		(102)
	$	**16,275**	$	14,528

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In addition, Pollard maintains a committed credit facility including up to $70,000 for its Canadian operations and up to US$21,441 for its U.S. subsidiaries. At September 30, 2011, the unused balance available for drawdown was $17,736 (December 31, 2010 - $15,339).

The 2011 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and the unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

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

15. Financial risk management (continued):

Currency risk

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

A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and U.S. dollar would decrease/increase the income before income taxes due to changes in operating cashflow by approximately $30 for the three months ending September 30, 2011 (2010 - $45) and approximately $120 for the nine months ended September 30, 2011 (2010 - $135).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. As at September 30, 2011, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately $9,934 (December 31, 2010 - $14,026). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in net income of approximately $50 (December 31, 2010 - $70).

Interest rate risk

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

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately $91 for the three months ended September 30, 2011 (2010 - $80) and approximately $273 for the nine months ended September 30, 2011 (2010 - $240).

16. Other income:

	Three months ended September 30, 2011	Three months ended September 30, 2010	**Nine months ended September 30, 2011**	Nine months ended September 30, 2010
Gain on sale of property, plant and equipment	**$ (10)**	$ -	**$ (1,479)**	$ (2,008)
Other	**(82)**	(33)	**(138)**	(120)
	$ (92)	$ (33)	**$ (1,617)**	$ (2,128)

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

17. Finance costs and finance income:

Finance costs:	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Foreign exchange loss	**$ 1,265**	$ -	**$ 1,366**	$ 626
Interest	**1,100**	1,311	**3,475**	4,077
Amortization of deferred financing costs	**140**	77	**418**	201
Amortization of de-designated hedges	**-**	315	**-**	1,233
	$ 2,505	$ 1,703	**$ 5,259**	$ 6,137

Finance income:	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Foreign exchange gain	**$ -**	$ (580)	**$ (749)**	$ (1,197)
Mark-to-market gain on foreign exchange contracts	**-**	-	**-**	(834)
Mark-to-market gain on interest rate swap contracts	**-**	(312)	**-**	(1,246)
	$ -	$ (892)	**$ (749)**	$ (3,277)

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

18. Personnel expenses:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Wages, salaries and benefits	$ **16,417**	$ 15,337	$ **48,032**	$ 46,015
Profit share	**71**	206	**575**	490
Expenses related to defined contribution pension plans	**25**	39	**108**	119
Expenses related to defined benefit pension plans	**360**	370	**1,048**	1,058
	$ **16,873**	$ 15,952	$ **49,763**	$ 47,682

19. Puerto Rico closure:

During the quarter ended September 30, 2011, the Government of Puerto Rico issued a final ruling determining our operations were no longer legal under current legislation. As a result the operations commenced winding up. Included in the cost of sales are expenses of $486 reflecting the write off of assets associated with the operations and the accrual of related severance.

20. Explanation of transition to IFRS:

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

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

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

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

20. Explanation of transition to IFRS (continued):
Reconciliation of shareholders' equity:

	Note		Previous GAAP	Effect of transition to IFRS	IFRS
				September 30, 2010	
Assets					
Current assets:					
Cash		$	4,252		4,252
Accounts receivable			18,492		18,492
Loan to Pollard Equities Limited			2,157		2,157
Inventories			17,284		17,284
Prepaid expenses and deposits	a		5,413	(3,256)	2,157
Net investment in leases due within one year			137		137
Income taxes recoverable	d		456	(456)	-
Deferred income taxes	f		1,317	(1,317)	-
			49,508	(5,029)	44,479
Property, plant and equipment	b		35,059	(789)	34,270
Pension asset	a		-	1,911	1,911
Net investment in leases			95		95
Goodwill			35,952		35,952
Intangible assets			14,157		14,157
Deferred income taxes	f		4,845	(4,388)	457
		$	139,616	(8,295)	131,321
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable and accrued liabilities	c	$	14,303	(1,616)	12,687
Provisions	c		-	1,616	1,616
Dividends payable			706		706
Distributions payable to Pollard Equities Limited			2,157		2,157
Income taxes payable	d		-	165	165
			17,166	165	17,331
Long-term debt			78,367		78,367
Other long-term liabilities	d		794	(621)	173
Interest rate swap contracts			382		382
Deferred income taxes	f		6,473	(5,575)	898
Shareholders' equity:					
Share capital			73,209		73,209
Reserves	e		(2,718)	2,188	(530)
Deficit	g		(34,057)	(4,452)	(38,509)
			36,434	(2,264)	34,170
		$	139,616	(8,295)	131,321

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

20. Explanation of transition to IFRS (continued):

Reconciliation of comprehensive income for the three months ended September 30, 2010:

	Note		Previous GAAP	Reclassifications	Effect of transition to IFRS	IFRS
Sales		$	41,705			41,705
Cost of sales	b		33,644	773	6	34,423
			8,061	(773)	(6)	7,282
Selling and administration			5,019	(5,019)		-
Administration			-	3,561		3,561
Selling			-	1,495		1,495
Interest			1,311	(1,311)		-
Foreign exchange gain			(580)	580		-
Amortization of intangibles			504	(504)		-
Mark-to-market gain on interest rate swap contracts			(312)	312		-
Amortization of de-designated hedges			315	(315)		-
Warranty reserve			177	(177)		-
Other income			(33)	-		(33)
Employee profit sharing			206	(206)		-
Income from operations			1,454	811	(6)	2,259
Finance cost			-	1,703		1,703
Finance income			-	(892)		(892)
Income before income taxes			1,454	-	(6)	1,448
Income taxes:						
Current (recovery)			(60)			(60)
Deferred (reduction)	f		(11)		55	44
			(71)		(55)	(16)
Net income		$	1,525		(61)	1,464
Other comprehensive income (loss):						
Foreign currency translation differences – foreign operations			(408)			(408)
Unrealized loss on derivatives designated as cash flow hedges, net of income tax (reduction) of ($18)			(32)			(32)
Amortization of de-designated hedges, net of income tax of $40			275			275
Other comprehensive loss – net of income tax		$	(165)			(165)
Comprehensive income		$	1,360		(61)	1,299

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

20. Explanation of transition to IFRS (continued):

Reconciliation of comprehensive income for the nine months ended September 30, 2010:

	Note		Previous GAAP	Reclassifications	Effect of transition to IFRS	IFRS
Sales		$	126,102			126,102
Cost of sales	b		102,698	2,559	18	105,275
			23,404	(2,559)	(18)	20,827
Selling and administration			15,073	(15,073)		-
Administration			-	11,333		11,333
Selling			-	4,495		4,495
Interest			4,077	(4,077)		-
Foreign exchange gain			(571)	571		-
Amortization of intangibles			1,475	(1,475)		-
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		(1,823)	2,008	(185)	-
Conversion costs			673	(673)		-
Warranty reserve			877	(877)		-
Other income			(120)	(2,008)		(2,128)
Employee profit sharing			490	(490)		-
Income from operations			4,100	2,860	167	7,127
Finance cost			-	6,137		6,137
Finance income			-	(3,277)		(3,277)
Income before income taxes			4,100	-	167	4,267
Income taxes:						
Current			717			717
Deferred	f		1,033		20	1,053
			1,750		20	1,770
Net income		$	2,350		147	2,497
Other comprehensive income:						
Foreign currency translation differences – foreign operations			(274)			(274)
Unrealized loss on derivatives designated as cash flow hedges, net of income tax (reduction) of ($63)			(111)			(111)
Amortization of de-designated hedges, net of income tax of $158			1,075			1,075
Other comprehensive income – net of income tax		$	690			690
Comprehensive income		$	3,040		147	3,187

20. 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 retained deficit at the Date of Transition. Pollard has classified the remaining pension asset as non-current and reduced the prepaid balances accordingly.

The impact arising from the change is summarized as follows:

		September 30, 2010
Consolidated statements of financial position		
Prepaids	$	(3,256)
Pension asset		1,911
Related tax effect		348
Adjustment to retained deficit	$	(997)

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

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

20. Explanation of transition to IFRS (continued):

The impact arising from the change is summarized as follows:

		Three months ended September 30, 2010		Nine months ended September 30, 2010
Consolidated statements of income				
Cost of goods sold	$	6	$	18
Gain on sale of property, plant and equipment		-		(185)
Adjustment to income before income tax	$	6	$	(167)

		September 30, 2010
Consolidated statements of financial position		
Property, plant and equipment	$	(789)
Related tax effect		244
Adjustment to retained deficit	$	(545)

(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:

		September 30, 2010
Consolidated statements of financial position		
Accounts payable and accrued liabilities	$	(1,616)
Provisions	$	1,616

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

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

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

20. Explanation of transition to IFRS (continued):

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

The impact arising from the change is summarized as follows:

		September 30, 2010
Consolidated statements of financial position		
Translation reserve	$	2,188
Adjustment to retained deficit	$	(2,188)

(f) Under IAS 12 a company is required to tax effect the difference between historical foreign exchange rates used to convert a company's foreign currency denominated PP&E and the current rate at the date of the financial statements. This resulted in an increase in deferred income tax liability of $722 at September 30, 2010, and an increase to deferred income tax expense of $55 for the three months ended September 30, 2010, and a decrease in deferred income tax expense of $31 for the nine months ended September 30, 2010.

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

	Note		September 30, 2010
Consolidated statements of financial position			
Employee benefits	a	$	348
Property, plant and equipment	b		244
Impact of IAS 12 on PP&E	f		(722)
Net change to deferred income tax assets and liabilities		$	(130)

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

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

20. Explanation of transition to IFRS (continued):

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

		September 30, 2010
Consolidated statements of financial position		
Change in current deferred income tax asset	$	(1,317)
Change in long-term deferred income tax asset		(4,388)
Change in long-term deferred income tax liability		5,575
Net change to deferred income tax assets and liabilities	$	(130)

The effect on the statement of income for the three months ended September 30, 2010, was to increase deferred income taxes by $55 and to increase deferred income taxes by $20 for the nine months ended September 30, 2010.

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

	Note		September 30, 2010
Consolidated statements of financial position			
Employee benefits	a	$	(997)
Property, plant and equipment	b		(545)
Translation reserve	e		(2,188)
Deferred income taxes	f		(722)
Increase in deficit		$	(4,452)