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 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

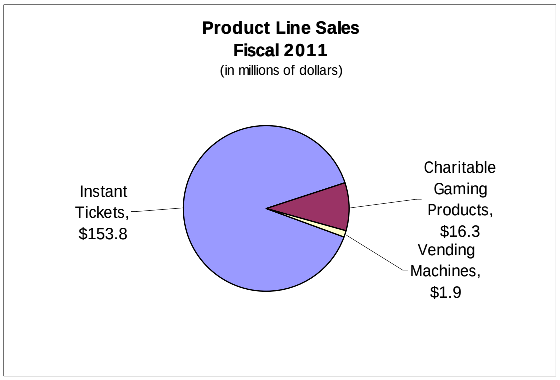
(1) Amounts are based on International Financial Reporting Standards
(2) Amounts are based on previous Canadian GAAP

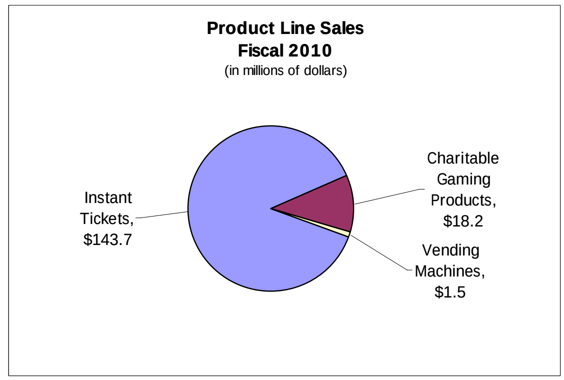
REVIEW OF OPERATIONS

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

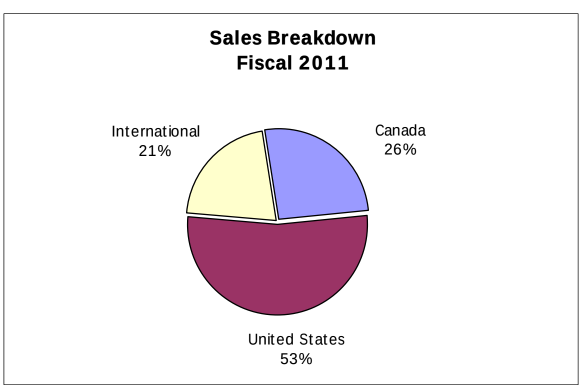


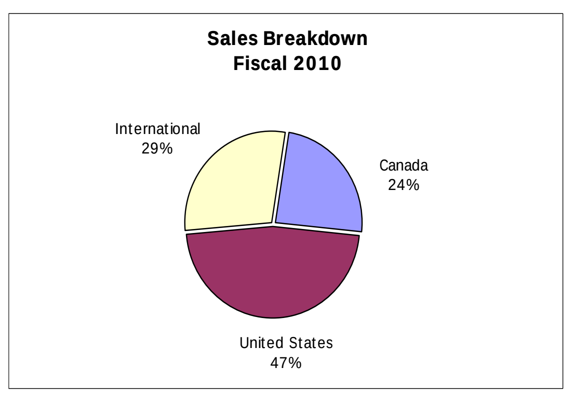


During the year ended December 31, 2011 ("Fiscal 2011" or "2011"), Pollard achieved sales of $172.0 million, compared to $163.4 million in the year ended December 31, 2010 ("Fiscal 2010" or "2010"). Factors impacting the $8.6 million sales increase were:

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.

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