POLLARD BANKNOTE

INCOME FUND

ANNUAL REPORT

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LETTER TO UNITHOLDERS

2008 was an exciting year for Pollard Banknote as we laid the foundation for significant growth in the upcoming years. Our production, sales and distributable cash increased significantly from last year and, although still falling slightly short from our targets, we continue to be optimistic about the future of our organization and the markets we serve.

Many organizations suffered significant setbacks during the latter half of the year due to unprecedented economic upheaval, dramatically altered consumer confidence and staggering volatility in the financial markets. Despite these challenges, demand for our product was very strong and the instant ticket lottery product line continues to grow.

Limitations on our capacity during the year restricted our potential to achieve greater sales. During 2008 we focused significant resources on establishing our new press line which will provide increased capacity, increased flexibility and ultimately decreased costs. Preliminary production began on this press at the end of 2008 and 2009 will see the results of this investment begin to be realized.

We are very positive about the future of the lottery market and Pollard's expanding role serving lottery customers throughout the world.

Sales

During the year ended December 31, 2008, our sales exceeded $177 million. Instant ticket volume compared to 2007 was approximately 11.6% higher. Volumes were higher across many existing customers as well as increasing due to new customers.

Year over year the Canadian dollar was slightly stronger versus the U.S. dollar, which slightly offset the volume growth compared to 2007. However, the dramatic weakening of the Canadian dollar relative to the U.S. dollar towards the end of 2008, assuming it continues, will be very positive in the longer term due to our net exposure to U.S. dollar denominated cash inflows.

A number of important customer contracts were renewed during the past year including those with the lotteries of Kansas, Michigan and British Columbia. In addition, all of our customers with contract extension options exercised these options to extend including the lotteries of Indiana, Iowa, France, Taiwan, Minnesota, Massachusetts, Oregon, Wisconsin and Western Canada Lottery Corporation. The National Lotteries of Denmark and Singapore were new customer contracts which started during the year.

Operations

Overall production volumes exceeded those of 2007 by a substantial margin. A number of manufacturing initiatives were in development throughout the year to improve our efficiency and provide greater flexibility in managing our production. Chief among these was the installation and development of our new "all-in-line" press. This was a major undertaking and the completion of the installation and testing phase has positioned us very positively to benefit by this increased capacity and improved cost structure in 2009 and beyond.

In conjunction with the development of our new press, a new leased facility was occupied in the latter part of 2008. This facility provides a state of the art environment for the new press and will ultimately allow us to consolidate all of our Winnipeg operations into one building.

Our Sault Ste. Marie, Ontario facility completed its first year of operation and continues to meet or exceed all of our expectations.

We increased the flexibility and strength of our capital structure through expanded debt facilities and the sale of two of our operating properties. We currently retain ownership of five of our operating facilities, providing for additional flexibility for the future.

While we have locked in a substantial portion of our net U.S. dollar cash inflow to fixed exchange rates until September 2010, incremental growth in U.S. sales will benefit immediately from the weaker Canadian dollar. Once the final hedges are complete in Q3 2010, an ongoing weaker Canadian dollar would result in much higher net cash inflows than realized in 2008.

Distributable Cash

During the year ended December 31, 2008, we generated $21.5 million in distributable cash or $0.9129 per unit. This result fell short of our target of $0.9504 established for the year. Pollard Holdings Limited Partnership declared and made cash distributions of $22.4 million during the year – a payout ratio of 104%. Since going public on August 5, 2005, our cumulative payout ratio is also 104%, with total distributions paid to unitholders of more than $76 million.

Outlook for 2009

Demand for our products remains strong and we believe this will provide a very positive environment for growing our sales. The lottery industry continues to show healthy growth in 2009, particularly in the instant ticket product line.

Variations in demand from quarter to quarter will exist due in part to the nature of the industry and in the first quarter of 2009 we expect to see lower volumes than anticipated for the rest of the year.

Our new press line will be coming fully to capacity during 2009 and this will be the corner stone of our expansion and profit plans for this year and the future.

The legislation supporting the Tax Fairness Plan was passed in 2007 and draft legislation allowing for tax efficient conversions to corporate status was introduced in 2008. Pollard Banknote Income Fund will be subject to taxation beginning January 1, 2011. We are monitoring developments of the draft legislation and when further detailed regulations are confirmed as it relates to a tax efficient process to revert to a corporate structure we will finalize and communicate our strategy.

The Honourable Gary Filmon, Trustee of the Fund and Director of the General Partner of the operating business since we became public, resigned from the organization at the end of 2008 due to time constraints. We would like to take this opportunity to thank Gary for his counsel and support over these past 3 ½ years.

We welcome our newest Trustee and Director, Garry Leach, who was appointed on March 3rd 2009. We look forward to benefitting from his extensive business and manufacturing experience.

At a time when many organizations are shrinking or struggling we are very pleased to be in a position to be expanding to take advantage of the opportunities currently presented to us. We are very focused on building the appropriate platform to allow for significant growth in the upcoming years.

Key participants in helping us reach these goals include our employees: over 1,300 dedicated individuals who provide the energy and creativity that fuels our development; our customers: over 45 lotteries and hundreds of charitable gaming distributors whose passion for our products drive us to new achievements; our suppliers: dozens of key entities that meet our stringent requirements to produce the best products and services; and our unitholders: many hundreds of individuals and institutions who invest their financial resources and their support to help us achieve our objectives. To these many individuals and organizations, we thank you.

Gordon Pollard
CO-CHIEF EXECUTIVE OFFICER

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Lawrence Pollard

CHAIRMAN, DIRECTOR

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

Del Crewson

TRUSTEE AND DIRECTOR

Del Crewson is a former senior partner and Vice-Chair of Deloitte & Touche LLP. He is a member of the Institute of Chartered Accountants of Manitoba and has been elected a "Fellow" of the Institute. Mr. Crewson serves on the Board of Directors of The Wawanesa Mutual Insurance Company, the Board of Trustees of Artis REIT, and is a member of and on the Advisory Board of the Manitoba Chapter of the Institute of Corporate Directors. He is the past President of the Institute of Chartered Accountants of Manitoba and is a former Canadian Institute of Chartered Accountants Board and Executive Committee member.

Garry Leach

TRUSTEE AND DIRECTOR

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

Jerry Gray

TRUSTEE AND DIRECTOR

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

Douglas Pollard

DIRECTOR

Douglas Pollard is Vice President, Lottery Management Services of Pollard Banknote. In 1997 he joined Pollard Banknote and from 1997 to 1999 he was a director and the General Manager of Imprimerie Spéciale de Banque, a subsidiary of Pollard Banknote based in Paris, France. Prior to 1997 Mr. Pollard was a Senior Consultant with PricewaterhouseCoopers. Mr. Pollard has an M.B.A. from The Richard Ivey School of Business at the University of Western Ontario and a B.A. from the University of Manitoba.

Gordon Pollard

DIRECTOR

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

John Pollard

DIRECTOR

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

This management's discussion and analysis ("MD&A") of Pollard Banknote Income Fund (the "Fund") and Pollard Holdings Limited Partnership ("Pollard LP," "Pollard Banknote") for the year ended December 31, 2008, is prepared as at March 4, 2009, and should be read in conjunction with the accompanying financial statements of the Fund and Pollard LP and the notes therein as at December 31, 2008. Results are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Forward-Looking Statements

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

Use of Non-GAAP Financial Measures

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

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

On July 6, 2007, the Canadian Securities Administrators issued a replacement of National Policy 41-201, "Income Trusts and Other Direct Offerings", which includes disclosure guidance for income trusts. In addition, the Canadian Institute of Chartered Accountants ("CICA") issued an interpretive release on Management's Discussion and Analysis Guidance on Preparation and Disclosure entitled "Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities". The CICA's interpretive release outlines two defined terms: Standardized Distributable Cash and Adjusted Distribution Base. Standardized Distributable Cash calculates Distributable Cash as cash provided by operating activities (including the impact of the change in non-cash working capital) less total capital expenditures. When entity-specific adjustments are made that are outside the definition of Standardized Distributable Cash, then the adjusted amount is reported as the Adjusted Distribution Base.

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

Basis of Presentation

The results of operations in the following discussions encompass the consolidated results of the Fund and Pollard LP for the year ended December 31, 2008. All figures are in millions except for unit amounts.

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

Pollard Banknote Income Fund

Formation of the Fund

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

Results of Operations

The Fund had a loss of $3.8 million from its investment in Pollard LP for the year ended December 31, 2008, compared to net income of $4.7 million in the year ended December 31, 2007. The Fund's net income (loss) is limited to its proportionate share of net income (loss) of Pollard LP, less the amortization of the excess of the purchase price of its investment in Pollard LP over the underlying assets acquired and less the administrative expenses incurred by the Fund plus the impact of future income tax reductions. The Fund recorded amortization related to the purchase price adjustment of $1.8 million (2007 - $1.8 million) and administrative expenses of $0.2 million (2007 - $0.2 million). The Fund is entirely dependent on distributions from Pollard LP to make its own distributions. During the year ended December 31, 2008, the Fund received a total of $6.2 million in distributions from Pollard LP compared to $6.2 million in the year ended December 31, 2007.

The Fund incurred a loss for the year ended December 31, 2008, primarily as a result of a non-cash mark-to-market write-down in the foreign currency forward contracts by Pollard LP due to the weakening of the Canadian dollar relative to the U.S. dollar in the last half of the year.

As at December 31, 2008, the Fund had total assets of $47.0 million. Its largest single asset is its investment in Pollard LP. The Fund had no long-term financial liabilities as at December 31, 2008.

Tax Fairness Plan

The legislation relating to the Tax Fairness Plan was passed into law during the second quarter of 2007. On July 14, 2008, the Federal Government announced draft regulations to allow income funds to convert to a corporation without generating a taxable event for Unitholders. The Fund will continue to monitor developments in the legislative framework relating to tax efficient means to revert to corporate status. Once the legislation is passed into law the Fund will develop specific strategic responses at that time. The introduction of additional taxation under this legislation is not expected to apply to the Pollard Banknote Income Fund until 2011.

Distributions

During 2008 the Fund declared the following distributions:

DATE DECLARED	MONTH	DATE OF RECORD	PAYMENT DATE	AMOUNT PER UNIT
January 9	January	January 31	February 15	$0.0792
February 8	February	February 29	March 17	$0.0792
March 5	March	March 31	April 15	$0.0792
April 9	April	April 30	May 15	$0.0792
May 7	May	May 30	June 16	$0.0792
June 11	June	June 30	July 15	$0.0792
July 9	July	July 31	August 15	$0.0792
August 6	August	August 29	September 15	$0.0792
September 10	September	September 30	October 15	$0.0792
October 8	October	October 31	November 17	$0.0792
November 5	November	November 28	December 15	$0.0792
December 10	December	December 31	January 15, 2009	$0.0792
Total				$0.9504

Tax Treatment of Distributions

The tax treatment of the 2008 distributions has been determined as follows:

TOTAL DISTRIBUTION FOR 2008 PER UNIT		$0.9504	
T3 BOX	DESCRIPTION		AMOUNT
49	Actual Amounts of Eligible Dividends	16.3%	$0.1547
24	Foreign Business Income	0.5%	$0.0046
25	Foreign Non-Business Income	4.7%	$0.0447
26	Other Taxable Income	50.0%	$0.4756
42	Return of Capital	28.5%	$0.2708
			$0.9504

Income Taxes

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

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

Units

As at December 31, 2007, December 31, 2008, and March 4, 2009, the Fund had 6,285,700 Units issued and outstanding. In addition, the Fund had issued and outstanding 17,257,458 Special Voting Units owned entirely by Pollard Equities Limited ("Equities") (formerly Pollard Amalco Inc.). These Special Voting Units are used solely for providing voting rights to the holders of the Class B and Class C LP Units of Pollard LP and are not transferable separately from the Class B LP and Class C LP Units. Special Voting Units do not entitle the holder to any rights with respect to the Fund's property, distributions or income. Equities also owns 47,700 Units purchased during the year on the open market under a normal course purchase bid announced on May 7, 2008.

On August 5, 2005, the Fund, the Trust, Pollard Banknote Limited (the "General Partner"), Pollard LP and Equities entered into an exchange agreement (the "Exchange Agreement"). The Exchange Agreement stipulates that Equities has the right to require the Fund to indirectly exchange Class B LP Units and Class C LP Units held by Equities for Units of the Fund, on the basis of one Fund Unit for each Class B LP Unit or Class C LP Unit exchanged. This exchange ratio is subject to anti-dilution adjustments explained further in the Exchange Agreement. The exchange of LP Units under this agreement would not dilute the Fund's income per Unit measure as any decrease in the income per Unit caused by the increase in the number of Fund's Units outstanding would be fully offset by an increase in the Fund's proportionate share of Pollard LP's income.

Net Income (Loss) per Unit

Net loss per Unit for the year ended December 31, 2008, was $0.61 per unit (basic and diluted). Adjusted Distributable Cash per unit for the year ended December 31, 2008, based on the underlying business of Pollard LP, was $0.91 per unit (see "Adjusted Distributable Cash Reconciliation").

Net income for the year ended December 31, 2007, was $0.75 per unit. Adjusted Distributable Cash for the year ended December 31, 2007, based on the underlying business of Pollard LP was $0.77 per unit.

Financial Instruments

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

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles ("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 the Fund 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 that requires significant management judgment and estimation. For a discussion of all of the Fund's accounting policies, including the items outlined below, refer to note 2 of the consolidated financial statements of the Fund.

INVESTMENT

The valuation of the Fund's investment in Pollard LP is regularly reviewed by management to ensure that any decline in fair value that is considered other than temporary is reflected in the related carrying value of the investment. In making that assessment, several factors are considered including the amount by which the carrying value exceeds market value, the duration of the market value decline and Pollard LP's expected future cash flows and earnings. The annual impairment test was performed and it was determined that there was no impairment to the carrying value of the investment.

INCOME TAXES

Income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Future income tax assets and liabilities are determined based on the enacted or substantively enacted tax rates, which are expected to be realized. Valuation allowances are established when necessary to reduce the future tax assets to the amounts to be realized.

Changes in Accounting Policies

CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS – PRESENTATION AND DISCLOSURE

Effective with the commencement of its 2008 fiscal year, the Fund has adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments – Presentation*. These new standards are effective for fiscal years beginning on or after October 1, 2007.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Section 3862 and 3863 replaced Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Future Changes in Accounting Policies

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, the Accounting Standards Board of Canada ("AcSB") announced that accounting standards in Canada are to converge with the International Financial Reporting Standards ("IFRS"). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Fund is currently assessing the impact of these new standards on its consolidated financial statements.

The Fund has adopted the following new accounting standard on January 1, 2009:

GOODWILL AND INTANGIBLES

In February, 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets*, as well as Section 3450, *Research and Development Costs*.

Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and meet the standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets. Section 3064 also provides further information on the recognition of internally generated intangible assets (including research and development costs).

As for subsequent measurement and disclosure of intangible assets and goodwill, Section 3064 carries forward the requirements of the old Section 3062.

The new section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Fund does not expect this new section to have a material impact on its consolidated financial statements.

Related Party Transactions

On August 5, 2005, the Fund, the Trust and the General Partner entered into a Support Agreement. Under the terms of the Support Agreement, the General Partner will provide certain management, administrative and support services to the Fund and Trust and will be reimbursed for all direct and indirect costs and expenses it incurs in the provision of services pursuant to the Support Agreement. During the year ended December 31, 2008, these reimbursed costs totaled $0.2 million (2007 - $0.2 million).

Equities purchased 47,700 Units during the year on the open market under a normal course purchase bid announced on May 7, 2008.

Commitments and Contingencies

The Declaration of Trust of the Fund provides that the trustees will act honestly and in good faith with a view to the best interests of the Fund and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust of the Fund and the constating documents of each of the Fund's subsidiaries provide for the indemnification of its respective trustees, directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain usual limitations. The Declaration of Trust of the Fund also provides for the indemnification of its trustees from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties as trustees, subject to certain usual limitations. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in this balance sheet with respect to these indemnifications.

Industry Risks and Uncertainties

DEPENDENCE ON TRUST AND POLLARD LP

The Fund is an unincorporated, open-ended limited purpose trust, which is entirely dependent on the operations and assets of Pollard LP through its ownership of Trust. Cash distributions to Unitholders will be dependent on the ability of Trust to pay distributions in respect of the Trust Units and interest on the Trust Notes and in turn the ability of Pollard LP to pay distributions on its Class A Limited Partnership Units. Although the Fund intends to distribute the interest and other income earned by the Fund less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by Pollard LP and paid to the Fund. The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, fluctuations in working capital, capital expenditures and compliance with restrictive covenants under Pollard LP's Credit Facility.

TAXATION

For a discussion of tax related risks and uncertainties see "Tax Fairness Plan".

Pollard Holdings Limited Partnership

Overview

Pollard Holdings Limited Partnership ("Pollard LP") is one of the leading providers of products and services to lottery and charitable gaming industries throughout the world. Management believes Pollard LP is the largest provider of instant-win scratch tickets ("instant tickets") based in Canada and the second largest producer of instant tickets in the world.

Pollard LP produces and provides a comprehensive line of instant tickets and lottery services including licensed products, distribution, retail telephone selling ("tel-sell"), marketing and instant ticket vending machines. In addition, Pollard LP's charitable gaming product line includes pull-tab (or break-open) tickets, bingo paper, pull-tab vending machines and ancillary products such as pull-tab counting machines. Pollard LP also markets products to the commercial gaming and security sector including such items as promotional scratch and win, transit tickets and parking passes.

Pollard LP's lottery products are sold extensively throughout Canada, the United States and the rest of the world, wherever applicable laws and regulations authorize their use. Pollard LP serves over 45 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States and Canada where permitted by gaming regulatory authorities. Pollard LP serves a highly diversified customer base in the charitable gaming market of over 250 independent distributors with the majority of revenue generated from repeat business.

PRODUCT LINE BREAKDOWN OF REVENUE

	YEAR ENDED DECEMBER 31, 2008	YEAR ENDED DECEMBER 31, 2007
Instant Tickets	88%	85%
Charitable Gaming Products	10%	13%
Vending Machines	2%	2%

GEOGRAPHIC BREAKDOWN OF REVENUE

	YEAR ENDED DECEMBER 31, 2008	YEAR ENDED DECEMBER 31, 2007
United States	52%	55%
Canada	25%	24%
International	23%	21%

Pollard LP's key objectives are to generate stable cash distributions to Unitholders and to grow Adjusted Distributable Cash and cash distributions over time. Pollard LP's strategy to accomplish this is based on two core elements:

Organic Growth – Through expanding product offerings, assisting its customers to grow their retail lottery gaming sales, obtaining new customers and by increasing its gross margin by cost reductions and increased efficiencies, Pollard LP will maintain and increase distributable cash available for Unitholders.

Acquisitions – Selective acquisitions will be used to increase distributable cash. Acquisitions will augment the existing lottery and charitable gaming markets currently served and allow increased market share penetration. Any acquisitions will be accretive to existing Unitholders. Acquisition targets could include non-gaming opportunities, such as manufacturers of security printing, if all of Pollard LP's acquisition criteria are met or exceeded.

Formation of the Limited Partnership

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

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

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

Adjusted Distributable Cash of Pollard LP

Pollard LP generated Adjusted Distributable Cash totaling $21.5 million during the year ended December 31, 2008, after considering the expenses of the Fund. The payout ratio for the year ended December 31, 2008, was 104.1%.

Based on a target of $22.4 million per year, Adjusted Distributable Cash fell short of the target by $0.9 million for the year ended December 31, 2008.

On a per unit basis, Adjusted Distributable Cash for the year ended December 31, 2008, totaled $0.9129, approximately $0.0375 under the target of $0.9504 per unit.

Pollard LP generated Adjusted Distributable Cash totaling $18.2 million during the year ended December 31, 2007, after considering the expenses of the Fund. The payout ratio for the year ended December 31, 2007, was 123.3%.

Based on a target of $22.4 million per year, Adjusted Distributable Cash fell short of the target by $4.2 million for the year ended December 31, 2007.

On a per unit basis, Adjusted Distributable Cash for the year ended to December 31, 2007, totaled $0.7709, approximately $0.1795 under the target of $0.9504 per unit.

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

Adjusted Distributable Cash is defined by management as EBITDA, less maintenance capital expenditures, cash taxes, interest expense and LTIP expense.

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

The following financial information should be read in conjunction with the accompanying financial statements of the Fund and Pollard LP and the notes therein as at and for the year ended December 31, 2008.

Reconciliation of Net Income to Adjusted Distributable Cash

(MILLIONS OF DOLLARS)	REFERENCE	YEAR ENDED DECEMBER 31, 2008	YEAR ENDED DECEMBER 31, 2007
Net Income		$(6.9)	$23.4
Adjustments:			
Interest		3.8	2.7
Unrealized foreign exchange (gain) loss		4.3	(2.2)
Mark-to-market (gain) loss on foreign currency contracts		17.0	(6.3)
Income taxes (recovery)		3.7	(0.4)
Amortization		6.2	6.4
EBITDA		28.1	23.6
Less:			
Cash taxes		(1.8)	(1.6)
Interest		(3.8)	(2.7)
Maintenance capital expenditures	1	(0.8)	(0.9)
Cash Available for Distribution (before Fund expenses)		21.7	18.4
Expenses of the Fund	2	(0.2)	(0.2)
Adjusted Distributable Cash	3	$21.5	$18.2

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

2 Represents expenses borne by the Fund.

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

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

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

Adjusted Distributable Cash reconciled to cash provided from operations of Pollard LP is as follows:

Adjusted Distributable Cash Reconciliation

(MILLIONS OF DOLLARS EXCEPT FOR UNIT AMOUNTS)	REFERENCE	YEAR ENDED DECEMBER 31, 2008	YEAR ENDED DECEMBER 31, 2007
Net cash provided by operations		$17.6	$20.3
Total capital expenditures		(19.5)	(6.0)
Standardized Distributable Cash		(1.9)	14.3
Net change in non-cash working capital		2.7	(1.0)
Gain on sale of property, plant and equipment		2.2	-
Growth capital expenditures	1	18.7	5.1
Adjusted Distributable Cash (before Fund expenses)		21.7	18.4
Expenses of the Fund	2	(0.2)	(0.2)
Adjusted Distributable Cash		21.5	18.2
Percentage of Adjusted Distributable Cash available to Fund Unitholders	3	26.7%	26.7%
Adjusted Distributable Cash available to Fund Unitholders	4	$5.7	$4.9
Distributions declared and payable to Fund Unitholders		$6.0	$6.0
Adjusted Distributable Cash per LP Unit		$0.9129	$0.7709
Distributions declared per LP Unit		$0.9504	$0.9504
Number of Fund Units outstanding		6,285,700	6,285,700
Capital Expenditures:			
Maintenance expenditures	5	$0.8	$0.9
Growth expenditures	1	18.7	5.1
Total		$19.5	$6.0

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

[2] Represents expenses borne by the Fund.

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

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

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

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

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

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

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

During the year Pollard LP sold a building and land in Winnipeg, Manitoba, to an unrelated party and a piece of undeveloped land in Winnipeg, Manitoba, to an affiliate of Equities. The total gain on sale of these disposals was $2.2 million.

Excluding the gain on sale the Adjusted Distributable Cash payout ratio for the year would have been 115.4%.

The distribution policy of Pollard LP is to distribute its available cash as determined by the trustees. The current annual target for per unit distributions of the Fund is $0.9504. Distributions were paid to the limited partners of record on the last day of the month in respect of which the distributions are to be paid.

Selected Financial Information

(MILLIONS OF DOLLARS)

	YEAR ENDED DECEMBER 31, 2008	YEAR ENDED DECEMBER 31, 2007	YEAR ENDED DECEMBER 31, 2006	FOURTEEN MONTHS ENDED DECEMBER 31, 2005
				(UNAUDITED) (NOTE 1, 3)
Sales	$178.0	$164.5	$176.7	$207.3
Cost of Sales	141.1	130.5	136.5	160.1
Gross Profit	36.9	34.0	40.2	47.2
Gross Profit as a % of sales	*20.7%*	*20.7%*	*22.8%*	*22.8%*
Selling and Administration Expenses	20.2	19.1	19.3	22.5
Expenses as a % of sales	*11.3%*	*11.6%*	*10.9%*	*10.9%*
Adjusted EBITDA (note 2)	28.1	23.6	29.9	33.0
Adjusted EBITDA as a % of sales	*15.8%*	*14.3%*	*16.9%*	*15.9%*

	DECEMBER 31, 2008	DECEMBER 31, 2007	DECEMBER 31, 2006	DECEMBER 31, 2005
Total Assets	$112.2	$104.3	$104.6	$99.5
Total Long Term Liabilities	$59.6	$46.9	$49.6	$49.9

Reconciliation of Net Income (Loss) to Adjusted EBITDA

(MILLIONS OF DOLLARS)

	YEAR ENDED DECEMBER 31, 2008	YEAR ENDED DECEMBER 31, 2007	YEAR ENDED DECEMBER 31, 2006	FOURTEEN MONTHS ENDED DECEMBER 31, 2005
				(UNAUDITED) (NOTE 1, 3)
Net income (loss)	$(6.9)	$23.4	$15.0	$19.2
Add back:				
Unrealized foreign exchange (gain) loss	4.3	(2.2)	(0.3)	(0.3)
Mark-to-market loss (gain) on foreign currency contracts	17.0	(6.3)	4.0	(4.1)
Amortization	6.2	6.4	6.9	9.2
Interest	3.8	2.7	2.6	1.8
Income taxes (recovery)	3.7	(0.4)	1.5	4.9
Long-Term Incentive Plan (LTIP) expense	-	-	0.2	0.1
EBITDA	28.1	23.6	29.9	30.8
Adjustments to EBITDA:				
Non-controlling interest in income of subsidiary	-	-	-	0.3
Non-recurring management bonus	-	-	-	1.9
Adjusted EBITDA (note 2)	$28.1	$23.6	$29.9	$33.0

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

NOTES:

(1) As a result of the year end change from October 31 to December 31 and the transfer of the Equities business on August 5, 2005, the period ending December 31, 2005, reflects fourteen months operations. The financial information for the fourteen month period ended December 31, 2005, combines the operations of the predecessor company, Pollard Banknote Limited, and Pollard LP, and may not necessarily be indicative of the results that would have been attained if Pollard LP and Equities had operated as a separate legal entity or through a limited partnership.

(2) Adjusted EBITDA includes adjustments in the comparative prior period numbers to reflect the operating structure currently in existence and primarily involves adding back the discretionary management bonuses. Therefore Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Management believes the Adjusted EBITDA is a useful complementary measure of cash available for distribution.

(3) The information prior to August 5, 2005, represents the financial information of the business carried on by the predecessor company and is for comparative purposes only. The pro forma financial results for the fourteen months ended December 31, 2005, includes results of the predecessor company, Pollard Equities Limited for the period November 1, 2004 to August 4, 2005, and the results of Pollard Holdings Limited Partnership for the period August 5, 2005 to December 31, 2005.

Management's Discussion and Analysis
of Financial Condition and Results of Operations

Review of Operations

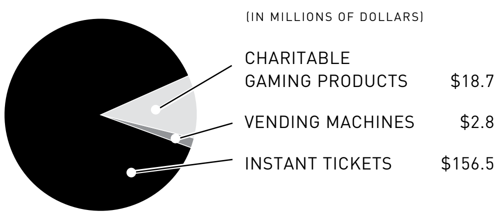
Financial and operating information has been derived from, and should be read in conjunction with, the consolidated financial statements of Pollard LP and the selected financial information disclosed in this MD&A.

Analysis of Results for the Year Ended December 31, 2008

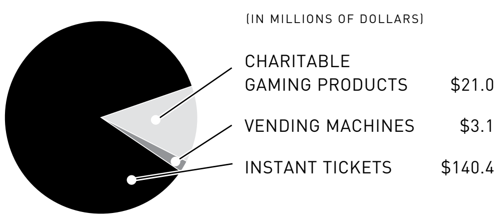
SALES

During the year ended December 31, 2008, ("Fiscal 2008"), Pollard LP achieved sales of $178.0 million, compared to $164.5 million in the year ended December 31, 2007, ("Fiscal 2007"). Factors impacting the $13.5 million sales increase were:

PRODUCT LINE SALES FISCAL 2008



PRODUCT LINE SALES FISCAL 2007



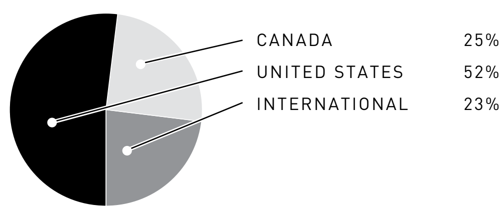
STRENGTHENING OF THE CANADIAN DOLLAR

During Fiscal 2008, Pollard LP generated approximately 68% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During Fiscal 2008 the average U.S. dollar value versus the Canadian dollar was $1.069, compared to the average exchange rate of $1.080 during Fiscal 2007. This 1.1% weakening in the U.S. dollar value resulted in an approximate decline of $1.4 million in revenue relative to Fiscal 2007.

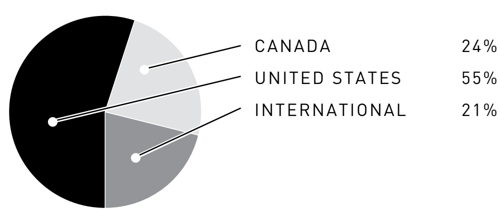
INCREASE IN SALES VOLUME

The volume of sales generated during Fiscal 2008 was higher compared to Fiscal 2007. Overall instant tickets and related services volumes for Fiscal 2008 were higher by approximately 11.6% which, combined with a small increase in average selling price, resulted in $17.1 million higher sales when compared with Fiscal 2007. Increased instant ticket sales in a number of key primary contracts were the main reason for the large growth in volumes. New contracts including the National Lotteries of Denmark and Singapore also added to the volume growth. A volume decline in the charitable gaming product lines reduced sales by $2.2 million.

SALES BREAKDOWN FISCAL 2008



SALES BREAKDOWN FISCAL 2007



COST OF SALES AND GROSS MARGIN

Cost of sales was $141.1 million in Fiscal 2008 compared to $130.5 million in Fiscal 2007 reflecting the increase in sales volumes.

Gross profit increased from $34.0 million in Fiscal 2007 to $36.9 million in Fiscal 2008. The gross profit margin percentage remained consistent with Fiscal 2007 at 20.7%. The increase in gross profit reflects higher sales and production volumes experienced in the last three quarters of Fiscal 2008. The gross margin percentage remained consistent with 2007 despite the increased volumes in Fiscal 2008 due to production difficulties encountered in the first quarter of the year impacting production efficiencies, coupled with the higher overhead costs associated with the start up of the new press in the fourth quarter of Fiscal 2008.

SELLING AND ADMINISTRATION EXPENSES

Selling and administration expenses were $20.2 million in Fiscal 2008 compared to $19.1 million in Fiscal 2007.

As a percentage of sales, 2008 selling and administration expenses were 11.3% compared to 11.6% in 2007 due to higher sales combined with relatively fixed expenses.

FOREIGN EXCHANGE GAIN (LOSS)

In Fiscal 2008 a foreign exchange loss was incurred of $0.3 million, compared to a gain of $5.0 million in Fiscal 2007. Within the foreign exchange loss are unrealized losses of $4.3 million relating to the foreign exchange loss on U.S. dollar denominated debt and $4.0 million in realized gains relating to forward hedge contracts and increased value in U.S. dollar denominated accounts receivable.

In Fiscal 2007 the foreign exchange gain consisted of an unrealized gain of $2.2 million relating to the foreign exchange gain on U.S. dollar denominated debt and $2.8 million in realized gains relating primarily to forward hedge contracts.

GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT

During the year Pollard LP sold one of its properties to an unrelated third party for approximately $3.2 million, resulting in a gain of approximately $1.7 million. The operations previously housed in this location were amalgamated into a newly leased facility in Winnipeg.

Pollard LP also sold two properties to an affiliate of Equities. The land and building housing the operations in Council Bluffs, Iowa was sold for US$3.3 million, the same price Pollard LP had previously purchased the property for in March 2008 from an unrelated third party.

An undeveloped piece of land in Winnipeg was sold for $0.7 million, generating a $0.5 million gain. Both sales values were determined through independent sources.

EBITDA

EBITDA was $28.1 million in Fiscal 2008, compared to $23.6 million in Fiscal 2007. The $4.5 million increase in EBITDA was due primarily to the increase in gross profit and the gains on the sale of property, plant and equipment, offset partially by an increase in selling and administration expense. The EBITDA margin was 15.8% in Fiscal 2008, compared to 14.3% in Fiscal 2007.

AMORTIZATION

Amortization includes amortization of property and equipment, other assets, primarily patents, and deferred financing costs, and totalled $6.2 million during Fiscal 2008, compared to $6.4 million during Fiscal 2007. Amortization was lower by $0.2 million in Fiscal 2008, due to certain equipment becoming fully depreciated in 2008.

INTEREST

Interest expense increased from $2.7 million in Fiscal 2007 to $3.8 million in Fiscal 2008, primarily due to the increased amount of bank indebtedness and long-term debt outstanding during Fiscal 2008.

MARK-TO-MARKET LOSS ON FOREIGN CURRENCY CONTRACTS

A non-cash loss of $17.0 million was incurred in Fiscal 2008, reflecting a decrease in the value of the foreign currency contracts used to hedge our net U.S. dollar exposure, compared to a non-cash gain of $6.3 million recognized in Fiscal 2007. The significant weakening of the Canadian dollar relative to the U.S. dollar during the second half of 2008 generated a non-cash loss due to the fixed exchange rates contained in the hedged forward contracts. During Fiscal 2007 the Canadian dollar strengthened, resulting in a non-cash mark-to-market gain.

EMPLOYEE PROFIT SHARING

Employee profit sharing costs decreased by $0.3 million from $1.7 million in Fiscal 2007, to $1.4 million in Fiscal 2008. The change was due to a decrease in the income subject to employee profit sharing in Fiscal 2008.

INCOME TAXES

Income tax expense increased to $3.7 million in Fiscal 2008 compared to a recovery of $0.4 million in Fiscal 2007. The income tax expense is higher due to differences relating to the foreign exchange impact of Canadian dollar denominated debt in the U.S. subsidiaries.

NET INCOME (LOSS)

Net loss for Fiscal 2008 was $6.9 million compared to net income of $23.4 million in Fiscal 2007. The main reasons for the decline in net income were: a large non-cash mark-to-market loss on foreign currency contracts of $17.0 million compared to a non-cash mark-to-market gain of $6.3 in Fiscal 2007; higher income tax expense of $3.7 million versus a recovery of $0.4 million in Fiscal 2007; and losses on foreign exchange (primarily U.S. dollar denominated debt) of $0.3 million compared to a gain of $5.0 million in Fiscal 2007.

ADJUSTED DISTRIBUTABLE CASH AND ADJUSTED DISTRIBUTABLE CASH PER UNIT

Pollard LP generated $21.5 million in Adjusted Distributable Cash, or $0.9129 per unit for Fiscal 2008.

Analysis of Results
for the Period October 1, 2008 to December 31, 2008

FOURTH QUARTER OF 2008

Selected Financial Information

(MILLIONS OF DOLLARS)

	THREE MONTHS ENDED DECEMBER 31, 2008	THREE MONTHS ENDED DECEMBER 31, 2007
	(UNAUDITED)	(UNAUDITED)
Sales	$50.2	$39.7
Cost of Sales	39.8	34.2
Gross Profit	10.4	5.5
Expenses:		
Selling and administration	5.5	4.8
Interest	1.1	0.7
Foreign exchange (gain) loss	2.2	(1.6)
Mark-to-market loss on foreign currency contracts	10.0	1.4
Other	(1.1)	(0.1)
Income (loss) before under noted	(7.3)	0.3
Employee profit sharing plan	0.2	0.2
Income (loss) before income taxes and extraordinary gain	(7.5)	0.1
Income taxes:		
Current	0.5	0.3
Future (recovery)	1.3	(0.2)
	1.8	0.1
Extraordinary gain	-	0.6
Net income (loss)	$(9.3)	$0.6
Adjustments:		
Interest	$1.1	$0.7
Unrealized foreign exchange loss (gain)	3.0	(0.7)
Mark-to-market loss on foreign currency contracts	10.0	1.4
Income taxes	1.8	0.1
Amortization	1.4	1.6
EBITDA	8.1	3.7
Less:		
Cash taxes	(0.5)	(0.3)
Interest	(1.1)	(0.7)
Maintenance capital expenditures	(0.2)	(0.2)
Cash Available for Distribution (before Fund expenses)	6.3	2.5
Expenses of the Fund	(0.1)	(0.1)
Adjusted Distributable Cash	$6.2	$2.4

SALES

During the three months ended December 31, 2008, Pollard LP achieved sales of $50.2 million, compared to $39.7 million in the three months ended December 31, 2007. Two main factors impacted sales resulting in the $10.5 million sales increase:

WEAKENING OF THE CANADIAN DOLLAR

During the three months ended December 31, 2008, Pollard LP generated approximately 71% of its revenue in U.S. dollars. The average U.S. dollar value during the three months ended December 31, 2008 versus the Canadian dollar was $1.208, compared to $0.988 during the three months ended December 31, 2007. This 22.3% strengthening in U.S. dollar value resulted in an approximate increase of $6.6 million in revenue relative to the three months ended December 31, 2007.

INCREASE IN SALES VOLUME

Overall instant tickets and related services volumes for the three months ended December 31, 2008 were higher by approximately 12.4% which, combined with a small increase in average selling price, resulted in $4.6 million higher sales when compared with the three months ended December 31, 2007. Increased instant ticket orders from existing customers resulted in higher volumes. A reduction in the volume of charitable gaming products reduced sales by $0.7 million.

COST OF SALES AND GROSS MARGIN

Cost of sales was $39.8 million in the three months ended December 31, 2008, compared to $34.2 million in the three months ended December 31, 2007.

Gross profit increased from $5.5 million to $10.4 million in the three months ended December 31, 2008. The gross profit margin percentage increased to 20.7% from 13.9% in the three months ended December 31, 2007.

The increased gross profit and gross margin percentage in the three months ended December 31, 2008, compared to the three months ended December 31, 2007, is due to significantly higher levels of production as well as the fourth quarter of 2007 having incurred a number of significant production difficulties that were resolved during 2008.

Gross margin levels would have been higher if not for the planned increased overhead costs incurred relating to the start up of the new in-line press during the fourth quarter of 2008.

SELLING AND ADMINISTRATION EXPENSES

Selling and administration expenses were $5.5 million in the three months ended December 31, 2008, compared to $4.8 million in the three months ended December 31, 2007. The increase in expenses is due to higher salary costs related to greater selling and marketing resources and the impact of the weaker Canadian dollar on U.S. dollar denominated expenditures. As a percentage of sales the fourth quarter of 2008 was lower than the fourth quarter of 2007, 11.0% versus 12.1%.

FOREIGN EXCHANGE GAIN (LOSS)

Foreign exchange loss was $2.2 million in the three months ended December 31, 2008, compared to a gain of $1.6 million in the three months ended December 31, 2007. Within the foreign exchange loss are unrealized losses of $3.0 million relating to the foreign exchange loss on U.S. dollar denominated debt, $0.5 million in realized losses due to our forward contracts locking in fixed exchange rates and $1.3 million in realized gains due to the increased value in U.S. dollar denominated accounts receivable.

EBITDA

EBITDA was $8.1 million in the three months ended December 31, 2008, compared to $3.7 million in the three months ended December 31, 2007. EBITDA margins were 16.1% in the three months ended December 31, 2008, compared to 9.3% achieved in the three months ended December 31, 2007. The increase in EBITDA margin was primarily due to a much higher gross margin percentage.

AMORTIZATION

Amortization includes amortization of property and equipment, other assets, primarily patents, and deferred financing costs which totaled $1.4 million during the three months ended December 31, 2008, which is lower than $1.6 million for the three months ended December 31, 2007, due to certain equipment becoming fully depreciated.

INTEREST

Interest expense increased from $0.7 million in the three months ended December 31, 2007, to $1.1 million in the three months ended December 31, 2008, primarily due to the increased amount of bank indebtedness and long-term debt outstanding during the three months ended December 31, 2008.

MARK-TO-MARKET LOSS ON FOREIGN CURRENCY CONTRACTS

A non-cash mark-to-market loss of $10.0 million was recorded in the three months ended December 31, 2008, compared to a non-cash mark-to market loss of $1.4 million recognized in the comparable period of 2007. The significant weakening of the Canadian dollar in relation to the U.S. dollar during the fourth quarter of 2008 resulted in a large non-cash write-down in forward foreign currency contracts that Pollard LP had in place. These contracts expire over the next 21 months.

EMPLOYEE PROFIT SHARING

Employee profit sharing costs remained consistent at $0.2 million in the three months ended December 31, 2008 and the three months ended December 31, 2007. Mark-to-market gains and losses on foreign currency contracts are excluded from the calculation of employee profit sharing.

INCOME TAXES

The income tax expense increased to $1.8 million in the three months ended December 31, 2008, compared to $0.1 million during the three months ended December 31, 2007. The increase in the income tax expense was due to differences relating to the foreign exchange impact of Canadian dollar denominated debt in the U.S. subsidiaries.

NET INCOME (LOSS)

In the three months ended December 31, 2008, $9.3 million was recorded as a net loss in comparison to net income of $0.6 million in the three months ended December 31, 2007. This change is primarily due to an increase in the mark-to-market loss on foreign currency contracts in the three months ended December 31, 2008, of $10.0 million compared to a loss of $1.4 million; foreign exchange loss of $2.2 million compared to a foreign exchange gain of $1.6 million in 2007; and higher income tax expense of $1.8 million. These additional expenses were partially offset by higher gross profit in 2008, of $10.4 million compared to $5.5 million in 2007.

ADJUSTED DISTRIBUTABLE CASH AND ADJUSTED DISTRIBUTABLE CASH PER UNIT

Pollard LP generated $6.2 million in Adjusted Distributable Cash, or $0.263 per unit for the three months ending December 31, 2008.

Quarterly information

(UNAUDITED)
(MILLIONS OF DOLLARS)

	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Sales	$50.2	$44.1	$44.6	$39.1	$39.7	$42.1	$40.6	$42.1
EBITDA	8.1	8.0	7.4	4.8	3.7	7.6	5.9	6.4
Net Income (Loss)	(9.3)	0.3	4.5	(2.4)	0.6	9.4	10.0	3.4

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

Sales in Q4 2007 and Q1 2008 were low due to the strengthening of the Canadian dollar relative to the U.S. dollar and lower sales volumes. Production difficulties incurred in the fourth quarter of 2007 and the first quarter of 2008 resulted in the lower level of EBITDA.

Q1 and Q3 2008 net income were lower and Q4 2008 a loss was incurred, primarily due to the mark-to-market loss on our foreign currency contracts.

Sales in Q2, Q3 and Q4 2008 were higher due to an increase in production and sales volumes. In addition, Q4 sales were also higher due to the weakening of the Canadian Dollar in relation to the U.S. Dollar.

Liquidity and Capital Resources

CASH PROVIDED BY OPERATING ACTIVITIES

For Fiscal 2008, cash flow provided by operating activities was $17.6 million, compared to cash flow provided by operations of $20.3 million for Fiscal 2007. Fiscal 2008 recorded a net loss of $6.9 million compared to net income of $23.4 million in Fiscal 2007. The loss in Fiscal 2008 was due to a non-cash mark-to-market loss on the write-down of foreign currency forward contracts of $17.0 million versus a non-cash mark-to-market gain on foreign currency forward contracts of $6.3 million in Fiscal 2007. In addition, Fiscal 2008 incurred a $4.3 million non-cash unrealized loss on foreign exchange compared to a non-cash unrealized gain on foreign exchange of $2.2 million in Fiscal 2007. After adjusting for the non-cash impact of foreign currency fluctuations, Fiscal 2008 operations generated similar amounts of cash to Fiscal 2007.

Changes in the non-cash component of working capital provided a decrease in cash flow from operations of $2.8 million for Fiscal 2008, compared to an increase in cash flow during Fiscal 2007, of $1.0 million. The net use of cash in Fiscal 2008 was primarily the result of a net increase in inventory levels due to increasing production levels and increased accounts receivable due to higher sales. The net increase in cash in Fiscal 2007 is primarily the result of lower levels of inventory due to lower production volumes in the fourth quarter.

CASH USED IN INVESTING ACTIVITIES

In Fiscal 2008, cash used in investing activities was $10.5 million (net) including $0.8 million in maintenance capital expenditures and $18.7 million in growth capital expenditures. Cash provided by investing activities included $7.9 million in proceeds from sale of property, plant and equipment, $0.9 million in receipts on the net investment in leases, and $0.2 million decrease in other assets. Maintenance capital expenditures are made to maintain existing levels of production and service and are funded from operating cash flow. Growth capital expenditures are made to expand Pollard LP's business or generate cost savings and are excluded from the calculation of distributable cash. Growth capital expenditures are incurred only when it is expected that they would ultimately result in increased distributable cash.

In Fiscal 2008 the level of growth capital expenditures increased relative to 2007 due to expenditures related to the start up of the new production facility in Sault Ste. Marie of approximately $1.2, expenditures related to the start up of the new press line in Winnipeg for approximately $13.5 million and the purchase of the previously leased land and building in Council Bluffs, Iowa for approximately US$3.3 million.

The Council Bluffs property was in turn sold to an affiliate of Equities for the same purchase price of US$3.3 million. An undeveloped piece of land in Winnipeg was also sold to an affiliate of Equities for $0.7 million, generating a $0.5 million gain. Both sales values were determined through independent sources.

During the year Pollard LP also sold a building and land in Winnipeg, Manitoba, to an unrelated party for total proceeds of $3.2 million generating a $1.7 million gain.

During Fiscal 2007, growth capital expenditures included the completion of our automated finishing and packaging line and a new pouching line.

CASH USED IN FINANCING ACTIVITIES

Cash used in financing activities was $13.5 million in Fiscal 2008, representing the distributions paid to Unitholders of $22.6 million offset by an increase in long-term debt of $9.0 million used to finance the purchase of the new press.

During Fiscal 2007, cash used in financing activities was $23.2 million representing the distributions paid of $22.6 million and a decrease in the loan to Pollard Equities Limited due to a change in the timing of the Class C Distributions from quarterly to monthly.

As at December 31, 2008, Pollard LP had available net operating lines of credit of approximately $15.4 million, which is available to be used to meet future working capital requirements, contractual obligations, capital expenditures and distributions.

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

For Fiscal 2008 the distributions declared per Class A, Class B and Class C LP Units were $0.9504. Total distributions declared were $22.6 million. Distributions totaling $1.9 million were accrued as at December 31, 2008, and were paid to the holders of the Class A, Class B and Class C LP Units on January 15, 2009.

Productive Capacity

Management has defined productive capacity as the level of operations necessary to maintain the current distributable cash target of $0.9504 per fully-diluted LP Unit or $22.4 million on an annualized basis. Due to varying factors implicit in the nature of the lottery industry and the instant ticket market, productive capacity can best be measured through a financial output such as distributable cash. A number of factors impact the levels of distributable cash including physical plant capacity, machine capacity, nature of product and service offerings produced and mix of customers. Adjusted Distributable Cash generated since going public, August 5, 2005, is $73.1 million and distributions from that time were $76.2 million. The payout ratio, since August 5, 2005, is 104.3%. Changes to productive capacity since August 5, 2005, have occurred primarily through expenditures on fixed assets and improved processes and other internal improvement measures, largely offset by impacts of changes in foreign exchange relationships, primarily the strengthening of the Canadian dollar relative to the U.S. dollar. There have been no increases in productive capacity due to acquisitions since August 5, 2005.

Pollard LP’s strategy with respect to productive capacity is to expend the required funds and resources to maintain the assets required to generate the targeted distributable cash. In addition, dependent on certain market conditions and limitations on available funds, projects are incurred to increase cash inflow or decrease cash outflow, in order to grow distributable cash. The nature of the lottery industry does not in itself lead to significant obsolescence risk with the operating assets. To grow productive capacity, ongoing investment in new technology, new fixed assets and new intangible assets is required. Pollard LP utilizes a number of individual strategies to maintain and grow productive capacity including a rigorous capital expenditure budget and formal approval process, flexible individual customer management relationships and structured maintenance programs throughout all of the facilities.

An important component to managing and growing productive capacity is the management of certain intangible assets, including customer contracts and relationships, patents, computer software, assembled workforce and goodwill. Certain of these assets are reflected in the Fund's financial statements but not the financial statement of Pollard LP due to the use of continuity of interest method of accounting during the transfer of the business August 5, 2005.

Management focuses on maintaining and growing the value of the customer relationship through winning contract extensions and renewals, pursuing and obtaining new contracts and assisting existing customers growing their instant ticket product lines. Regular commitment to research and development allows continual development of patents, software and additional technological assets that maintain and increase future distributable cash. Detailed cost benefit analysis is performed for any significant investment of funds or resources in order to minimize the associated risks that these assets will not be able to generate the expected level of distributable cash. Where new opportunities are identified, such as a new marketing opportunity or a new machine or process able to reduce input costs, consideration is given to revise plans and take advantage of these prospects.

Certain risks are associated with projects aimed at increasing the productive capacity, including increases in working capital, acquisition or development of intellectual property, development of additional products or services and purchases of fixed assets. If these investments fail to increase distributable cash, then productive capacity will ultimately decrease over time due to the consumption of these investment resources. The impact on productive capacity may also depend upon the completion and start up timing of certain investment projects.

Working Capital

Net non-cash working capital varies throughout the year based on the timing of individual sales transactions. The nature of the lottery industry is few individual customers who generally order large dollar value transactions. As such, the change in timing of a few individual orders can impact significantly the amount required to be invested in inventory or receivables at a particular period end. The high value, low number 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 reduce non-cash working capital.

Instant tickets are produced specifically for individual clients resulting in a limited investment in inventory. Customers are predominately government agencies, which results in regular payments. These factors assist in a reasonably quick turnover in net working capital. There are a limited number of individual customers, and therefore net investment in working capital is managed on an individual customer by customer basis, without the need for company wide benchmarks.

The overall impact of seasonality does not have a material impact on the carrying amounts in working capital. Overall fluctuations of working capital do not have an impact on distributions as fluctuations are financed through the use of the operating line facility, and have been excluded from the calculation of Adjusted Distributable Cash.

	DECEMBER 31, 2008	DECEMBER 31, 2007
Working Capital	$13.0	$17.4
Total Assets	$112.2	$104.3
Total Long Term Liabilities	$59.6	$46.9

Credit Facilities

Pollard LP's credit facilities include a demand operating facility and a committed term bank loan facility. The demand operating facility includes up to $20.0 million for its Canadian operations and up to $9.8 million (US$8.0 million) for its U.S. subsidiaries. The committed term bank loan facility provides loans of up to $41.0 million for its Canadian operations and up to $18.0 million (US$14.8 million) for its U.S. subsidiaries. Borrowings under these credit facilities bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At December 31, 2008, the balance outstanding under the demand operating facilities, other than letters of credit of $1.2 million, was $13.1 million and the committed term bank loan facilities were fully drawn.

At December 31, 2008, Pollard LP had entered into interest rate swaps to fix the interest rate on approximately 75% of the outstanding long-term debt.

Pollard LP's credit facilities are secured by a first security interest in all of the present and after acquired property of Pollard LP and its operating subsidiaries. The term bank loan facility can be prepaid without penalties. Under the terms of the agreement, the term facility is committed for a one-year period, renewable August 31, 2009. If the term facility is not renewed, the term loans are repayable two years after the term loan expiry date. As such, each term facility has effectively a three-year term expiring August 31, 2011, with no principal payments required prior to expiration.

Under the terms and conditions of the credit facility agreement Pollard LP is required to maintain certain financial covenants including working capital ratios, debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA") ratios and certain debt service coverage ratios. As at December 31, 2008, Pollard LP is in compliance with all financial covenants.

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

Outstanding Unit Data

As at March 4, 2009, December 31, 2008, and December 31, 2007, outstanding unit data was as follows:

CLASS A LP UNITS	6,285,700
CLASS B LP UNITS	13,725,984
CLASS C LP UNITS	3,531,474
GENERAL PARTNER UNITS	106,945

Contractual Obligations

Pollard LP and its 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	<1YEAR	1-3 YEARS	4-5 YEARS	THEREAFTER
Long-term debt	$59.0	-	$59.0	-	-
Other long-term liabilities	$0.6	-	$0.6	-	-
Interest on long-term debt[1]	$8.9	$3.7	$5.2	-	-
Operating leases	$20.7	$2.1	$3.7	$3.5	$11.4
Total	$89.2	$5.8	$68.5	$3.5	$11.4

[1] Interest on long-term debt includes interest related to the interest rate swap agreements.

Long-Term Incentive Plan

The officers of Pollard Banknote Limited and key employees of Pollard LP are eligible to participate in the long-term incentive plan of the Fund (the "LTIP"). The purpose of the LTIP is to provide eligible participants with compensation opportunities that will enhance Pollard LP's ability to attract, retain and motivate key personnel and reward officers and key employees for significant performance that results in Pollard LP exceeding its per LP Unit distributable cash targets. Pursuant to the LTIP, Pollard LP will set aside a pool of funds based upon the amount, if any, by which Pollard LP's consolidated distributable cash per fully diluted LP Unit exceeds certain defined distributable cash targets. Pollard LP will provide for either cash payments or the purchase of Fund Units in the market with this pool of funds.

The LTIP is administered by the management of Pollard LP. The Compensation Committee, on the recommendation of the management of Pollard LP, will determine: (i) those individuals who will participate in the LTIP; (ii) the level of participation of each participant; and (iii) the time or times when LTIP awards will be paid to each participant.

The LTIP provides for awards that may be earned based on the amount by which distributable cash per annum per LP Unit exceeds a base threshold per annum equal to the distribution target. The percentage amount of that excess which forms the LTIP incentive pool will be determined in accordance with the table below:

Percentage by which distributable cash per Partnership Unit exceeds the base	Percentage of excess distributable cash
5% or less	10%
over 5% but less than 10%	10% of the first 5% plus 15% of any excess over 5%
over 10%	10% of the first 5% plus 15% of the next 5% plus 20% of any excess over 10%

Annualized distributable cash target is $0.9504 per LP Unit.

The base threshold is subject to adjustment, by the Compensation Committee. For purposes of the LTIP, distributable cash will be calculated in a manner consistent with the definition of EBITDA.

During the years ended December 31, 2008, and December 31, 2007, based on cash available for distribution per LP Unit not exceeding the base threshold, no provision for LTIP awards has been accrued.

Pension Obligations

Pollard LP 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, 2008, the aggregate fair value of the assets of Pollard LP's defined benefit pension plans was $14.6 million, while the accrued benefit plan obligation was $14.7 million, resulting in an aggregate deficit of $0.1 million. Pollard LP's total annual funding contribution for all pension plans in 2008 is expected to be approximately $2.4 million, not materially different from 2008, so long as long-term expectations of fund performance for the defined benefit plans are met.

Off-Balance Sheet Arrangements

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

Related Party Transactions

During the year, Pollard Equities Limited paid to Pollard Banknote LP $0.07 million (2007 – $0.04 million) in accounting and administration fees.

Pollard LP sold two properties to an affiliate of Equities. The land and building housing the operations in Council Bluffs, Iowa was sold for US$3.3 million, the same price Pollard LP had previously purchased the property for in March 2008 from an unrelated third party.

An undeveloped piece of land in Winnipeg was sold for $0.7 million, generating a $0.5 million gain. Both sales values were determined through independent sources.

The Council Bluffs, Iowa property was subsequently leased back to Pollard LP for a ten year term with annual lease payments of US$0.26 million.

During 2008 Pollard LP entered into a lease for a new facility in Winnipeg. The building leased is owned by an affiliate of Pollard Equities Limited. The lease covers approximately 160,000 sq. ft. of developed manufacturing and office space for a period of 12 years and 6 months, beginning October 1, 2008, with an option to renew for a period of 30 months, at an annual lease rate of approximately $1.3 million.

The lease terms in the above noted leases were reviewed by independent counsel to ensure they were consistent with current fair market terms.

Pollard Equities Limited purchased 47,700 Units during the year on the open market under a normal course purchase bid announced on May 7, 2008.

On August 5, 2005, the Fund, the Trust and the General Partner of Pollard LP entered into a Support Agreement. Under the terms of the Support Agreement, the General Partner will provide certain management, administrative and support services to the Fund and Trust and will be reimbursed for all direct and indirect costs and expenses it incurs in the provision of services pursuant to the Support Agreement. During the year ended December 31, 2008, these reimbursed costs amounted to $0.2 million (2007 - $0.2 million).

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 LP 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.

GOODWILL

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired of the U.S. subsidiaries and is not amortized. Goodwill is subject to an annual impairment review to ensure its fair value remains greater than, or equal to, book value.

The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized. Pollard LP performed the impairment tests and the goodwill has been found to not be impaired.

FINANCIAL INSTRUMENTS

Pollard LP may use certain derivative financial instruments to manage risks of fluctuation in interest rates and foreign exchange rates. Pollard LP does not engage in the trading of these derivative financial instruments for profit.

Pollard LP and its subsidiary Pollard Holdings, Inc., may enter into interest rate swap agreements in order to limit exposure to increases in interest rates and fix interest rates on certain portions of long-term debt. Pollard LP applies hedge accounting for the interest rate swap agreements. The effective portion of the gain or loss on the hedging item is recognized in other comprehensive income and any ineffective portion is recognized in net income. Payments and receipts under interest rate swap agreements designated as effective hedges are recognized as adjustments to interest expense on long-term debt in the same period that the underlying hedged transactions are recognized. Pollard LP formally documents the relationship between the hedging instrument and the hedged item, as well as the nature of the specific risk exposure being hedged and the intended term of the hedging relationship. The effectiveness of the hedge is assessed at inception and throughout the term of the hedge. Any hedging transactions that do not qualify for hedge accounting are marked-to-market at each period end with any resulting gains or losses recorded in income.

Pollard LP may enter into foreign currency forward contracts to limit exposure on certain recognized assets or liabilities, firm commitments, or foreign currency risk in an unrecognized firm commitment. The foreign currency contracts are recognized in the balance sheet and measured at fair value, with changes in fair value recognized currently in the statement of income.

INCOME TAXES

Pollard LP is not a taxable entity, and accordingly, no provision for income taxes has been included in the consolidated financial statements since all income, deductions, gains, losses and credits are reportable on the tax return of the partners.

Pollard LP's incorporated subsidiaries are taxable entities and as such, income taxes are recorded to reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Future income tax assets and liabilities are determined based on the enacted or substantively enacted tax rates, which are expected to be in effect when the underlying items of income and expense are expected to be realized. Valuation allowances are established when necessary to reduce the future tax assets to the amounts expected to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

LEASES

In some instances, one of Pollard LP's subsidiaries will lease vending machines to third-party customers. Depending on the specific terms contained in the lease agreements, the lease is either classified as an operating lease or capitalized as a sales-type lease.

Pollard LP's subsidiary's leasing operations consist principally of the leasing of Instant Ticket Vending Machines (ITVM) with state lotteries and Pull-tab Vending Machines (PTVM) with various private establishments. These leases are classified as sales-type leases. The ITVM and PTVM leases have terms ranging from three to five years. The net investment in sales-type leases consists of the present value of the future minimum lease payments. Interest revenue is recognized as a constant percentage return on the net investment.

Changes in Accounting Policies

CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS – PRESENTATION AND DISCLOSURE

Effective the commencement of its 2008 fiscal year, Pollard LP has adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments – Presentation*.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Section 3862 and 3863 replaced Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

INVENTORIES

The CICA issued Section 3031, *Inventories*, which replaced Section 3030, *Inventories*, and is effective for fiscal years beginning on or after January 1, 2008. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Partnership's accounting policy for inventories is consistent with measurement requirements in the new standard and therefore the results of the Partnership will not be impacted, however, additional disclosure is required in relation to inventories carried at net realizable value and the amount of any write-downs of inventories. This new section does not have a material impact on its consolidated financial statements.

Future Changes in Accounting Policies

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, the Accounting Standards Board of Canada ("AcSB") announced that accounting standards in Canada are to converge with the International Financial Reporting Standards ("IFRS"). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Pollard LP is currently assessing the impact of these new standards on its consolidated financial statements.

Pollard LP has adopted the following new accounting standards on January 1, 2009.

GOODWILL AND INTANGIBLES

In February, 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets*, as well as Section 3450, *Research and Development Costs*.

Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and meet the standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets. Section 3064 also provides further information on the recognition of internally generated intangible assets (including research and development costs).

As for subsequent measurement and disclosure of intangible assets and goodwill, Section 3064 carries forward the requirements of the old Section 3062.

The new section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Pollard LP does not expect this new section to have a material impact on its consolidated financial statements.

Industry Risks and Uncertainties

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

DEPENDENCE ON KEY PRODUCTS

Instant lottery tickets and related services accounted for approximately 88% of Pollard LP's Fiscal 2008 revenues. Pollard LP'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 LP's business, financial condition, liquidity and results of operations, and the amount of cash available for distribution to Unitholders.

ECONOMIC UNCERTAINTY

Considerable economic uncertainty and concern over possible recessions and economic downturns have dominated the news in the past few months. Instant lottery tickets and related services account for approximately 88% of revenue and Pollard LP'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 LP foresees minimal impact on its operations or product demand due to the current uncertainty and volatility in the economic landscape. Significant shifts in consumer preferences or the introduction and acceptance of alternative product offerings could have a material adverse effect on Pollard LP's business, financial condition, liquidity and results of operations, and ultimately the amount of cash available for distribution to Unitholders of the Fund.

INABILITY TO SUSTAIN SALES OR EBITDA MARGINS

Pollard LP's income depends upon its ability to generate sales to customers and to sustain its EBITDA margins. These margins are dependent upon Pollard Banknote'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 LP's costs of goods or operating costs increase, or other manufacturers of gaming products could compete more favourably with it, Pollard LP may not be able to sustain its level of sales or EBITDA margins. In this case, amounts of cash available for distribution to Unitholders could be reduced.

DEPENDENCE ON MAJOR CUSTOMERS

Pollard LP's 10 largest customers accounted for approximately 62% of its revenue during Fiscal 2008. Pollard LP's largest customer accounted for 10% of Pollard LP's revenues during Fiscal 2008. The nature of the worldwide lottery industry limits the absolute number of lottery operations. As is customary in the industry, Pollard LP 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 LP's largest customers could have a material adverse effect on Pollard LP's business, financial condition, liquidity and results of operations including the amount of cash available for distributions to Unitholders.

EXCHANGE RATE FLUCTUATION

A significant portion of Pollard LP's revenues and expenses principally related to its U.S. operations, sales 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 Banknote. The Fund's distributions to Unitholders are denominated in Canadian dollars.

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 LP'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 the Fund or on its ability to maintain a consistent level of distributions in Canadian dollars.

The weakening Canadian dollar relative to the U.S. dollar does result in a non-cash mark-to-market loss on our hedge portfolio. Accounting rules require recognition each quarter of the mark-to-market value of our foreign currency forward contracts. This loss is non-cash, and, assuming the exchange rate stays unchanged, will be realized over the next 21 months, when it will be offset by a corresponding increase in our gross margin due to the weaker Canadian dollar. Gains on U.S. dollar denominated monetary assets and losses on U.S. dollar liabilities will also be recognized due to the weakening Canadian dollar which may impact the resulting cash flow in the future.

ADDITIONAL CAPITAL REQUIREMENTS

Pollard LP believes that its future operating income will be sufficient to fund operations and planned capital expenditures, including completion of the new press line. However, the Fund or Pollard LP may be required to raise additional capital in the future if it decides to make additional acquisitions.

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 LP faces competition from a number of domestic and foreign instant ticket manufacturers and other competitors. Pollard LP currently has two instant ticket competitors in North America: Scientific Games International, Inc. 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 LP including Scientific Games International, Gtech, and the Eagle Press Group of Companies.

Some of Pollard LP's competitors have longer operating histories, greater name recognition, larger customer bases and greater financial, technical and marketing resources than Pollard LP. These resources may allow them to respond more quickly than Pollard LP can to new or emerging technologies and to changes in customer requirements. It may also allow them to devote greater resources than Pollard LP can to the development, promotion and sale of their products. Pollard LP'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 LP's products is highly competitive at both the lottery and charitable gaming levels. Pollard LP expects competition to continue to be intense because of capacity in its markets. Pollard LP 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 LP's products.

LICENSING AND REGULATORY REQUIREMENTS

Pollard LP 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 LP, 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 LP. 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 LP, 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 LP from selling products in that jurisdiction and may prohibit Pollard LP from selling its products in other jurisdictions. The loss of one or more licenses held by Pollard LP 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 LP'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 LP or provide grounds for termination of an existing lottery contract.

INCOME AND OTHER TAXES

Pollard LP is subject to capital taxes and its incorporated subsidiaries are subject to Canadian federal 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 LP could be exposed to increased costs of taxation, which would reduce the amount of funds available to distribute to Unitholders.

INTELLECTUAL PROPERTY

Pollard LP'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 LP owns or licenses. In particular, the patents and trade marks Pollard LP owns or licenses may not be valid or enforceable. In addition, Pollard LP 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 LP 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 LP's intellectual property rights. Regardless of merit, any such litigation could be time consuming and expensive, divert management's time and attention, subject Pollard LP to significant liabilities, require Pollard LP to enter into costly royalty or licensing agreements, or require Pollard LP to modify or stop using intellectual property that it owns or licenses.

INTEREST RATES

Pollard LP has certain floating rate loans and may be negatively impacted by increases in interest rates, the effects of which would be to reduce the amount of cash available for distributions to the Unitholders.

Pollard LP has in place hedging arrangements to mitigate a portion of interest rate fluctuation risk, but there can be no assurance that changes in interest rates will not have a material adverse effect on Pollard LP or on its ability to maintain a consistent level of distributions in Canadian dollars.

FUTURE ACQUISITION AND INTEGRATION RISKS

To grow by acquisition, Pollard LP 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 LP fails to successfully integrate any new businesses into its existing business, Pollard LP's financial performance could be significantly impacted. To the extent that businesses acquired by Pollard LP or their prior owners failed to comply with or otherwise violated applicable laws, Pollard LP, as a successor owner, may be financially responsible for these violations.

In connection with future acquisitions by Pollard LP, there may be liabilities that Pollard LP 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 LP's business, financial condition, liquidity and results of operations or future prospects.

Financial Instruments

Pollard LP 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 LP uses financial instruments, from time to time, to manage these risks.

Pollard LP'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 LP'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 LP 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 LP 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 LP 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. Interest rate swap agreements are used to mitigate this risk.

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 LP will not be able to meet its financial obligations as they fall due.

RISK MANAGEMENT

CURRENCY RISK

Pollard LP 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 goods sold 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 LP also utilizes foreign currency forward contracts to hedge the net U.S. dollar exposure.

In order to manage Pollard LP's exposure to exchange rate fluctuations on U.S. dollar denominated cash flow, Pollard LP has entered into foreign currency contracts to exchange US$3.0 million each month for approximately $3.1 million Canadian for 21 months from January 2009 to September 2010. The foreign currency contracts are recognized in the balance sheets and measured at fair value, which at December 31, 2008, represented a liability of $10.6 million while at December 31, 2007, the fair value of these contracts was an asset of $6.4 million.

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 $0.3 million for the year ended December 31, 2008, due to the change in the value of the mark-to-market value of the foreign currency contracts.

As at December 31, 2008, the amount of financial liabilities denominated in U.S. exceeds the amount of financial assets denominated in U.S. dollars by approximately $7.4 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 $0.04 million.

INTEREST RATE RISK

Pollard LP utilizes interest rate swaps to mitigate these risks by hedging a portion of long-term debt. Interest rates relating to the bank indebtedness are not hedged. As at December 31, 2008, approximately 75% of the long-term debt was hedged through the use of interest rate swaps, allowing Pollard LP and one of its subsidiaries to receive interest at floating rates and pay interest at a fixed rate.

Pollard LP entered into two interest rate swap agreements effectively converting variable rate debt obligations in the amount of $27 million with underlying current floating rates of 3.36 percent plus applicable credit margin to a fixed rate of 4.44 percent plus applicable credit margin from August 2, 2008 to August 31, 2009, and to a fixed rate of 4.99 percent plus applicable credit margin from August 31, 2009 to August 31, 2010.

Pollard Holdings, Inc., a subsidiary, entered into three interest rate swap agreements effectively converting variable rate debt obligations in the amount of $18.0 million (US$14.8 million) with underlying current floating rates of 3.11 percent plus applicable credit margin to a fixed rate of 5.20 percent plus applicable credit margin from August 5, 2008 to August 31, 2009, to a fixed rate of 4.72 percent plus applicable credit margin from August 31, 2009 to August 31, 2010, and to a fixed rate of 2.95 percent plus applicable credit margin from August 31, 2010 to August 31, 2011.

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, 2008.

CREDIT RISK

Credit risk on Pollard LP'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 LP's net investment in leases is minimized since they are with governments and their agencies or 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 receivables 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 LP'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 LP maintains demand operating facilities including up to $20 million for its Canadian operations and up to $9.8 million (US$8.0 million) for its U.S. subsidiaries. At December 31, 2008, the unused balance available for drawdown was $15.4 million.

The 2009 requirements for capital expenditures, working capital and distributions are expected to be financed from cash flow provided by operating activities and unused credit facilities. Pollard LP enters into contractual obligations in the normal course of business operations.

Outlook

The 2009 outlook for the lottery industry, and in particular the instant ticket product line, continues to be very strong. Retail sales of instant tickets in North America grew approximately 4% in 2008 and are expected to maintain this pace in 2009, not withstanding the current general economic uncertainty. Indeed, the negative impact on government revenue from the lower economic activity places increased demand on governments to generate more revenue. Lottery operations represent some of the few opportunities for governments to provide increased revenue. Historically lottery sales have been very resilient in the face of economic downturns and we expect that to continue.

Certain jurisdictions outside North America have grown their instant tickets sales significantly higher than growth rates seen in North America over the last few years and these trends are also expected to continue in 2009. Resources have been invested to target these specific areas of growth for Pollard including targeting international markets in Asia and South America.

Several of our largest existing customers have awarded new contracts to us as part of formal proposal processes including the lotteries of Michigan, Kansas and British Columbia. The New Jersey contract has been extended until April 2009 and Pollard has responded to the lottery's request for proposal to award a new long term contract. There are no other material contracts that come due in 2009 (assuming available extensions are granted), however, there are a number of contracts coming due this year where Pollard is not the main supplier. We will bid aggressively on all new contract opportunities in order to expand our market share and profitably utilize our expanding capacity.

The Canadian dollar weakened dramatically relative to the U.S. dollar during the last half of 2008. Pollard has a net exposure to U.S. dollar inflows so a weaker Canadian dollar results in increased cashflow. Historically we have hedged our net exposure to U.S. dollar inflows through the use of monthly forward foreign currency contracts.

Significant volatility in these foreign exchange rates has generated significant volatility in our reported net income due to the accounting rules requiring foreign currency forward contracts be marked to market value. We are no longer adding to our hedges as they expire each month. The full benefit of the weaker Canadian dollar will not be realized until the expiry of those hedges in September 2010.

Despite the underlying strength in the instant ticket market, sales and order volumes will continue to vary on a quarter-to-quarter basis due to the timing of client orders, which vary based on marketing plans, new product offerings, inventory management and other factors. In this regard, volumes in the first quarter of 2009 are expected to be slightly lower than the balance of the year due to the timing of certain orders from existing clients, ongoing start up of the new press and some scheduled annual maintenance shut downs of certain existing press capacity.

We have added a number of exciting new properties to our licensed properties portfolio which will allow us to grow this product line. Ticket sales, in conjunction with merchandise packages, internet promotions, second chance drawings and complete fulfillment services offer unique value propositions to lotteries worldwide. Licensed properties like It's a Wonderful Life™ and Dubble Bubble® have found increasing success in lotteries' product mix, indicating the importance of investing in key properties.

Lottery Management Services generated record results in 2008 and while still a small portion of our overall business, it will continue to be a focus of increasing resources to capitalize on the variety of lottery outsourcing opportunities.

Capital expenditures will be significantly lower in 2009 as the major expansion relating to the new all-in-line press was substantively completed in 2008. The new capacity provided by this new press will come fully on stream in this year, providing additional volume and improved cost structure.

Our balance sheet and capital structure will benefit from the significantly reduced capital expenditures. In addition, the sale of two of our properties in the last four months of 2008 will result in lower interest expense and greater financial flexibility during 2009. Pollard LP still retains ownership of five properties within its operations providing for additional options regarding raising capital.

Legislation relating to the Tax Fairness Plan continues to evolve. When the current draft legislation relating to tax efficient means to revert to corporate status is finalized, Pollard Banknote will develop specific strategic plans at that time. The introduction of taxation under the Tax Fairness Plan is not expected to apply to the Pollard Banknote Income Fund until 2011.

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

Disclosure Controls and Procedures

Under Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") regarding the design and effectiveness of the disclosure controls and procedures. The Fund's management, with the participation of the Certifying Officers of the Fund, has concluded that the 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 Control 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. The Fund's management, with the participation of the Certifying Officers of the Fund, 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 the Fund's or Pollard LP's internal control over financial reporting during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, Pollard LP's internal control over financial reporting.

Additional Information

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

Additional information relating to the Fund and Pollard LP, including the audited consolidated financial statements and the Annual Information Form for the year ended December 31, 2008, is available on SEDAR at www.sedar.com.

MANAGEMENT'S REPORT

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

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

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

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Robert Rose
CHIEF FINANCIAL OFFICER

March 4, 2009

AUDITORS' REPORT

To the Trustees of Pollard Banknote Income Fund

We have audited the consolidated balance sheets of Pollard Banknote Income Fund (the Fund) as at December 31, 2008 and 2007 and the consolidated statements of income (loss), comprehensive income (loss), unitholders' equity and cash flows for the two years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the two years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
CHARTERED ACCOUNTANTS

Winnipeg, Canada
February 25, 2009

POLLARD BANKNOTE INCOME FUND

Consolidated Statements of Income (Loss)

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Equity income (loss) before extraordinary gain from investment in Pollard Holdings Limited Partnership (note 7)	$ (3,685)	$ 4,267
Administrative expenses	(166)	(168)
Earnings before income taxes and extraordinary gain	(3,851)	4,099
Future income tax reduction (note 8)	–	418
Equity in extraordinary gain from investment in Pollard Holdings Limited Partnership (note 7)	–	166
Net income (loss)	$ (3,851)	$ 4,683
Basic and diluted earnings per unit	$ (0.61)	$ 0.75
Weighted average number of Fund Units outstanding	6,285,700	6,285,700

POLLARD BANKNOTE INCOME FUND

Consolidated Statements of Comprehensive Income (Loss)

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Net income (loss)	$ (3,851)	$ 4,683
Other comprehensive income (loss):		
Fund's proportionate share of other comprehensive income (loss) from investment in Pollard Holdings Limited Partnership (note 9)	214	(760)
Comprehensive income (loss)	$ (3,637)	$ 3,923

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(IN THOUSANDS OF DOLLARS)
DECEMBER 31, 2008 AND 2007

	2008	2007
Assets		
Distributions receivable	$ 498	$ 498
Prepaid expenses	19	22
Investment in Pollard Holdings Limited Partnership (note 4)	46,054	55,658
Future income taxes (note 8)	418	418
	$ 46,989	$ 56,596
Liabilities		
Accounts payable	$ 28	$ 24
Distributions payable to unitholders (note 5)	498	498
Unitholders' Equity		
Unitholders' equity (note 6)	47,103	56,928
Accumulated other comprehensive loss (note 9)	(640)	(854)
	46,463	56,074
Commitments and contingencies (note 10)		
	$ 46,989	$ 56,596

See accompanying notes to consolidated financial statements.

On behalf of the Board of Trustees:

D.C. Crewson
TRUSTEE

Jerry Gray
TRUSTEE

POLLARD BANKNOTE INCOME FUND

Consolidated Statements of Unitholders' Equity

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Unitholders' equity, beginning of year	$ 56,928	$ 58,219
Net income (loss)	(3,851)	4,683
Distributions declared (note 5)	(5,974)	(5,974)
Unitholders' equity, end of year	$ 47,103	$ 56,928

See accompanying notes to consolidated financial statements.

POLLARD BANKNOTE INCOME FUND

Consolidated Statements of Cash Flows

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ (3,851)	$ 4,683
Items not involving cash:		
Equity loss (income) from investment in Pollard Holdings Limited Partnership	3,685	(4,433)
Future income tax reduction	–	(418)
Change in non-cash operating working capital	7	(3)
Distributions received on Class A LP Units of Pollard Holdings Limited Partnership	6,133	6,145
	5,974	5,974
Financing activities:		
Distributions paid to Unitholders	(5,974)	(5,974)
Change in cash, being cash, beginning and end of year	$ –	$ –

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)
YEARS ENDED DECEMBER 31, 2008 AND 2007

1. DESCRIPTION OF THE FUND:

Pollard Banknote Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust dated June 29, 2005. It is intended that the Fund will qualify as a "mutual fund trust" for the purposes of the *Income Tax Act* (Canada) and was established to acquire and hold indirectly an investment in Pollard Holdings Limited Partnership ("Pollard LP"). Pollard LP's principal business activities include the manufacture and sale of lottery and gaming products.

The Fund is entirely dependent on distributions from Pollard LP to make its own distributions.

The consolidated financial statements should be read in conjunction with the consolidated financial statements of Pollard LP for the year ended December 31, 2008.

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Principles of consolidation:

These consolidated financial statements include the accounts of Pollard Banknote Income Fund and its wholly-owned subsidiary, Pollard Banknote Trust (the "Trust").

All inter-company transactions have been eliminated.

(b) Investment:

The investment in Class A Limited Partnership Units of Pollard LP is accounted for using the equity method of accounting whereby the investment was initially recorded at cost and the carrying value is adjusted by the Fund's pro-rata share of post acquisition income of Pollard LP computed using the consolidation method. Distributions received or receivable from Pollard LP reduce the carrying value of the investment. The Fund's investment in Pollard LP is reviewed for impairment if conditions arise that indicates that the investment may be impaired. If there is impairment in the value of the investment that is other than a temporary decline the investment would be written down to fair value.

(c) Distributions:

Distributions from the Fund's investment in Pollard LP are recorded when declared. Distributions payable by the Fund to its unitholders are recorded when declared.

(d) Income taxes:

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

Income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Future income tax assets and liabilities are determined based on the enacted or substantively enacted tax rates, which are expected to be realized. Valuation allowances are established when necessary to reduce the future tax assets to the amounts to be realized.

(e) Earnings per unit:

Basic earnings per unit is computed by dividing net income (loss) by the weighted average number of units outstanding during the reporting period. Diluted earnings per unit is calculated based on the weighted average number of units outstanding during the period, plus the effect of dilutive unit equivalents such as options. At December 31, 2008 and 2007, there were no dilutive unit equivalents outstanding.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(f) Financial instruments:

Recognition and Measurement:

Financial instruments are initially recorded at fair value and classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Measurement of these instruments depends on the classification. Financial instruments held-for-trading are measured at fair value with gains and losses recognized in net income. Financial instruments held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost. Changes in fair value are recognized in net income only if realized, or impairment of value of an asset occurs. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income until such time as the asset or liability is removed from the balance sheet.

The Fund's distributions receivable is classified as loans and receivables. Accounts payable and distributions payable to unitholders are classified as other financial liabilities.

Distributions receivable, accounts payable and distributions payable to unitholders are reflected in the financial statements at carrying value, which approximates fair value due to the short-term maturity of these financial instruments.

Comprehensive Income (Loss):

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss) and is now disclosed in the consolidated statements of comprehensive income (loss). Comprehensive income (loss) is the change in net assets resulting from transactions or events from sources other than the Unitholders. Other comprehensive income (loss) includes the Fund's proportionate share in Pollard LP's other comprehensive income (loss), in accordance with generally accepted accounting principles.

Accumulated other comprehensive income (loss), is included in unitholder's equity on the consolidated balance sheets, which represents cumulative changes in other comprehensive income (loss).

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the year. Actual results could differ from those estimates.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(h) Future changes in accounting policies:

International Financial Reporting Standards:

In January, 2006, the Accounting Standards Board of Canada ("AcSB") announced that accounting standards in Canada are to converge with the International Financial Reporting Standards ("IFRS"). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Fund is currently assessing the impact of these new standards on its consolidated financial statements.

The Fund has adopted the following new accounting standards on January 1, 2009:

Goodwill and Intangibles:

In February, 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets*, as well as Section 3450, *Research and Development Costs*. This new standard is effective for fiscal years beginning on or after October 1, 2008.

Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and meet the standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets. Section 3064 also provides further information on the recognition of internally generated intangible assets (including research and development costs).

As for subsequent measurement and disclosure of intangible assets and goodwill, Section 3064 carries forward the requirements of the old Section 3062. The Fund does not expect this new section to have a material impact on its consolidated financial statements.

3. ACCOUNTING POLICY CHANGES:

Effective January 1, 2008, the Fund has adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments - Disclosures*, and Section 3863, *Financial Instruments - Presentation*. These new standards were effective for fiscal years beginning on or after October 1, 2007. The additional disclosures required as a result of adoption of these new accounting standards are included in notes 6 and 12.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Section 3862 and 3863 replace Section 3861, *Financial Instruments - Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

4. INVESTMENT IN POLLARD HOLDINGS LIMITED PARTNERSHIP:

On August 5, 2005, Trust subscribed for 6,005,538 Class A Limited Partnership ("LP") Units of Pollard LP (a 25.5 percent ownership interest). On August 29, 2005, Trust purchased a further 280,162 Class A LP Units of Pollard LP (a further 1.2 percent ownership interest).

The resulting 26.7 percent interest in Pollard LP entitles Trust to 26.7 percent of the cash distributions of Pollard LP provided that those distributions are at least equal to $0.0792 per Class A LP Unit, per month. In the event of a shortfall, Trust is entitled to a percentage of cash distributions based on the ratio of its Class A LP Units to total Class A, Class B and Class C LP Units outstanding.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

4. INVESTMENT IN POLLARD HOLDINGS LIMITED PARTNERSHIP (CONTINUED):

As of December 31, 2008 and 2007, the Fund has an interest of approximately 26.7 percent in the consolidated operations of Pollard LP. The Fund also has an interest of approximately 26.7 percent in the General Partner of Pollard LP which is carried at a nominal amount.

The investment in Pollard LP is summarized as follows:

	2008	2007
Balance, beginning of year	$ 55,658	$ 58,034
Equity interest	(3,685)	4,433
Distributions received and receivable	(6,133)	(6,145)
Proportionate share of Pollard LP transition adjustment of adoption of new accounting standards	–	96
Proportionate share of other comprehensive income (loss)	214	(760)
Balance, end of year	$ 46,054	$ 55,658

The purchase price of the investment in Pollard LP exceeds the underlying carrying amount of the net assets of Pollard LP. The allocation of the excess purchase price to assets as at August 5, 2005, is as follows:

	BOOK VALUE	FAIR VALUE	PURCHASE PRICE EXCESS	FUND'S 26.7% INTEREST IN PURCHASE PRICE EXCESS
Finite life:				
Customer assets	$ –	$ 69,831	$ 69,831	$ 18,645
Patents	321	14,832	14,511	3,874
Computer software	–	857	857	229
Indefinite life:				
Assembled workforce	–	13,993	13,993	3,736
Goodwill	6,250	106,938	100,688	26,884
	$ 6,571	$ 206,451	$ 199,880	$ 53,368

The Fund's accumulated amortization of their interest in the finite life intangible assets noted above is as follows:

	STRAIGHT-LINE AMORTIZATION PERIOD IN YEARS	ACCUMULATED AMORTIZATION DECEMBER 31, 2007	AMORTIZATION FOR THE YEAR ENDED DECEMBER 31, 2008	ACCUMULATED AMORTIZATION DECEMBER 31, 2008
Finite life:				
Customer assets	16	$ 2,809	$ 1,165	$ 3,974
Patents	6	1,441	646	2,087
Computer software	5	98	46	144
		$ 4,348	$ 1,857	$ 6,205

The Fund's proportionate share of amortization of finite life intangible assets amounts to $1,857 (2007 - $1,815) (note 7).

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

4. INVESTMENT IN POLLARD HOLDINGS LIMITED PARTNERSHIP (CONTINUED):

The amounts allocated to assembled workforce and goodwill relate to intangible assets which have an indefinite life and therefore are not amortized, but are subject to an annual impairment test.

The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, intangible assets with indefinite lives of the reporting unit are considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of intangible assets with indefinite lives of the reporting unit are compared with their carrying amount to measure the amount of the impairment loss, if any. The implied fair value of intangible assets with indefinite lives is determined in the same manner as the value of these intangible assets is determined, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit's intangible assets with indefinite lives exceeds the implied fair value of these intangible assets, an impairment loss is recognized.

The Fund performed an impairment test and concluded that there was no impairment.

5. DISTRIBUTIONS PAYABLE TO UNITHOLDERS:

The Fund makes distributions of its available cash to Unitholders to the extent it is determined prudent by the Trustees. The amount of cash to be distributed monthly per Unit to the Unitholders is equal to a pro-rata share of all amounts received by the Fund for and in respect of the distribution period less Fund expenses.

Monthly distributions are paid to Unitholders of record on the last business day of each month and are paid within 15 days following each month end and are fully discretionary, as determined by the Board of Trustees. The Fund may make additional distributions in excess of the monthly distributions during the year, as the Trustees may determine.

The following outlines the distributions declared during the year ended December 31, 2008:

January 9, 2008	$	498
February 8, 2008		498
March 5, 2008		498
April 9, 2008		497
May 7, 2008		498
June 11, 2008		498
July 9, 2008		498
August 6, 2008		498
September 10, 2008		498
October 8, 2008		497
November 5, 2008		498
December 10, 2008		498
	$	5,974

The Fund declared a distribution payable for the month ended December 2008 of $0.0792 per Unit. The distribution of $498 (2007 - $498) is payable January 15, 2009, to unitholders of record on December 31, 2008.

6. UNITHOLDERS' EQUITY:

The Fund is authorized to issue an unlimited number of units ("Fund Units") for the consideration of, and on the terms and conditions determined by, the trustees. Each Fund Unit is transferable and represents an equal undivided beneficial interest in the Fund and any distributions from the Fund. All Fund Units are of the same Class and have equal rights and privileges.

The Fund is authorized to issue an unlimited number of Special Voting Units that will be used solely for providing voting rights to persons holding Class B and Class C LP Units of Pollard LP that are exchangeable for Fund Units and that, by their terms, have voting rights in the Fund. Special Voting Units will be issued in conjunction with, and will not be transferable separately from, the Class B and Class C LP Units to which they relate. Conversely, the Special Voting Units will automatically be transferred upon a transfer of the associated Class B and Class C LP Units.

At December 31, 2008 and 2007, there were 6,285,700 Fund Units outstanding. At December 31, 2008 and 2007, there were 17,257,458 Special Voting Units owned by Pollard Equities Limited (formerly Pollard Amalco Inc.) outstanding. As of December 31, 2008, Pollard Equities Limited owned 47,700 Fund Units purchased on the open market under a normal course purchase bid announced May 7, 2008.

UNIT RIGHTS:

Fund Units are redeemable at any time on demand by the unitholder. The redemption price per Fund Unit is equal to the lesser of 90 percent of the market price of the Fund Units on the principal stock exchange on which the Fund Units are listed during the 10 consecutive trading day period ending on the trading day immediately before the date of surrender of the Fund Unit for redemption (the "Redemption Date") and 100 percent of the closing market price of the Fund Units on the principal market in which the Fund Units are quoted for trading on the Redemption Date. Redemption is subject to a maximum of $50 in cash redemptions by the Fund in any one month. Any further redemption beyond this amount would be satisfied by the delivery of notes of Pollard Banknote Trust. The cash limitation may be waived at the discretion of the trustees of the Fund.

On August 5, 2005, the Fund, Trust, Pollard Banknote Limited (the "General Partner"), Pollard LP and Pollard Equities Limited entered into an Exchange Agreement. The Exchange Agreement stipulates that Pollard Equities Limited has the right to require Trust to indirectly exchange Class B and C LP Units of Pollard LP and Special Voting Units of the Fund held by Pollard Equities Limited for Units of the Fund, on the basis of one Fund Unit for each Class B or C LP Unit exchanged. The exchange of Units under this Agreement would not dilute the Fund's income per Unit measure as any decrease in the income per Unit caused by the increase in the number of Units outstanding would be fully offset by an increase in the Fund's proportionate share of Pollard LP's income.

CAPITAL MANAGEMENT:

The Fund's objectives in managing capital are to deploy capital to provide appropriate return to Unitholders and to maintain a capital structure that provides flexibility to take advantage of growth and development opportunities, maintenance of existing assets and enhance Unitholders' value. The capital structure of the Fund consists solely of Unitholders' equity. In order to maintain or adjust its capital structure, the Fund may purchase units for cancellation or issue additional units.

Neither the Fund or its subsidiary is subject to externally imposed capital requirements.

There were no changes in the Fund's approach to managing capital during the period.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

7. EQUITY INCOME (LOSS) FROM INVESTMENT IN POLLARD HOLDINGS LIMITED PARTNERSHIP:

The equity income (loss) from the Fund's investment in Class A LP Units of Pollard LP is calculated as follows:

		2008		2007
Consolidated net income (loss) before extraordinary gain of Pollard LP for the year	$	(6,851)	$	22,781
Fund's interest		26.7%		26.7%
Fund's proportionate share of Pollard LP consolidated net income (loss) before extraordinary gain		(1,828)		6,082
Amortization of intangible assets		(1,857)		(1,815)
Equity income (loss) before extraordinary gain		(3,685)		4,267
Fund's proportionate share of Pollard LP extraordinary gain		–		166
Equity income (loss) from Pollard LP	$	(3,685)	$	4,433

8. INCOME TAXES:

On October 31, 2006, the Minister of Finance (Canada) announced proposed changes (referred to as the "Tax Fairness Plan") to the taxation of income trusts for Canadian federal income tax purposes. The Tax Fairness Plan proposed to create the concept of "specified investment flow-through" entities, or "SIFT's".

Under the proposals certain distributions that are attributable to the SIFT's non-portfolio earnings will not be deductible in computing the SIFT's income and will be subject to tax at a projected rate of 28 percent. Legislation that includes the Tax Fairness Plan has been enacted. Currently the Fund would fit the definition of a SIFT and would be subject to certain income taxes beginning in 2011.

The Fund is required to recognize future income tax assets and liabilities with respect to temporary differences between the carrying amount and tax basis of its assets and liabilities that are expected to reverse in or after 2011. The Fund expects that its distributions will not be subject to tax prior to 2011 and, accordingly, has not provided for future income taxes on the temporary differences expected to reverse prior to then.

Significant components of the Fund's future tax assets and liabilities as of December 31, 2008, are as follows:

Future income tax assets:		
Tax value of investment in Pollard LP in excess of net book value	$	1,584
Valuation allowance		(1,166)
Total future income tax assets	$	418

The Fund has reduced the asset by a valuation allowance for the amount of the temporary difference between the carrying amount and tax basis of the investment in Pollard LP that it does not expect to reverse in the foreseeable future.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

9. ACCUMULATED OTHER COMPREHENSIVE LOSS:

	2008	2007
Fund's proportionate share of Pollard LP accumulated other comprehensive loss:		
Balance, beginning of year	$ (854)	$ (190)
Fund's proportionate share of Pollard LP transition adjustment on adoption of new accounting standards	–	96
Fund's proportionate share in Pollard LP other comprehensive income (loss)	214	(760)
Total accumulated other comprehensive loss	$ (640)	$ (854)

10. COMMITMENTS AND CONTINGENCIES:

The Declaration of Trust of the Fund provides that the trustees will act honestly and in good faith with a view to the best interests of the Fund and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust of the Fund and the constating documents of each of the Fund's subsidiaries provide for the indemnification of its respective trustees, directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain usual limitations. The Declaration of Trust of the Fund also provides for the indemnification of its trustees from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties as trustees, subject to certain usual limitations. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

11. RELATED PARTY TRANSACTIONS:

On August 5, 2005, the Fund, the Trust and the General Partner of Pollard LP entered into a Support Agreement. Under the terms of the Support Agreement, the General Partner will provide certain management, administrative and support services to the Fund and Trust and will be reimbursed for all direct and indirect costs and expenses it incurs in the provision of services pursuant to the Support Agreement. During the year ended December 31, 2008, these reimbursed costs amounted to $166 (2007 - $168).

12. FINANCIAL RISK MANAGEMENT:

The Fund has exposure to the both liquidity and credit risk from its investment in Pollard LP.

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. Credit risk is the risk that the distributions receivable will not be collected. The payment of distributions to the Unitholders of the Fund is entirely reliant on the payment of distributions from Pollard LP.

13. EQUITY INTEREST IN EXTRAORDINARY GAIN:

On December 24, 2007, Pollard LP purchased 100 percent of the outstanding shares of Nacako Sdn Bhd ("Nacako"), a Malaysian company, for a nominal amount. Nacako provides certain administrative and support services to lotteries in Malaysia and south-east Asia. The net financial assets exceeded the purchase price, resulting in an extraordinary gain of $621. The Fund's proportionate share of this extraordinary gain is $166.

MANAGEMENT'S REPORT

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

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

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

John Pollard	**Robert Rose**
CO-CHIEF EXECUTIVE OFFICER	CHIEF FINANCIAL OFFICER

March 4, 2009

AUDITORS' REPORT

To the Partners of Pollard Holdings Limited Partnership

We have audited the consolidated balance sheets of Pollard Holdings Limited Partnership as at December 31, 2008 and 2007 and the consolidated statements of income (loss), comprehensive income (loss), partners' capital (deficit) and cash flows for the two years then ended. These consolidated financial statements are the responsibility of the partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the partnership as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the two years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
CHARTERED ACCOUNTANTS

Winnipeg, Canada
February 25, 2009

POLLARD HOLDINGS LIMITED PARTNERSHIP

Consolidated Statements of Income (Loss)

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Sales	$ 177,989	$ 164,474
Cost of sales	141,064	130,535
	36,925	33,939
Expenses:		
Selling and administration	20,244	19,051
Interest (note 16)	3,768	2,719
Foreign exchange loss (gain)	262	(4,962)
Mark-to-market loss (gain) on foreign currency contracts (note 23)	17,013	(6,315)
Gain on sale of property, plant and equipment	(2,184)	(28)
Other income	(433)	(571)
	38,670	9,894
Income (loss) before the undernoted	(1,745)	24,045
Employee profit sharing	1,408	1,701
Income (loss) before income taxes and extraordinary gain	(3,153)	22,344
Income taxes (note 12):		
Current	1,806	1,597
Future (reduction)	1,892	(2,034)
	3,698	(437)
Extraordinary gain (note 25)	–	621
Net income (loss)	$ (6,851)	$ 23,402

POLLARD HOLDINGS LIMITED PARTNERSHIP

Consolidated Statements of Comprehensive Income (Loss)

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Net income (loss)	$ (6,851)	$ 23,402
Other comprehensive income (loss):		
Unrealized gain (loss) on translation of self-sustaining foreign operations	3,092	(2,240)
Unrealized loss on derivatives designated as cash flow hedges, net of income tax reduction of $343 and $220	(2,290)	(604)
Other comprehensive income (loss), net of income tax	802	(2,844)
Comprehensive income (loss)	$ (6,049)	$ 20,558

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(IN THOUSANDS OF DOLLARS)
DECEMBER 31, 2008 AND 2007

	2008	2007
Assets		
Current assets:		
Accounts receivable	$ 20,117	$ 17,703
Loan to Pollard Equities Limited (note 4)	16,401	16,961
Inventories (note 5)	20,687	15,789
Prepaid expenses and deposits	2,449	2,874
Net investment in leases due within one year	1,110	1,359
	60,764	54,686
Property, plant and equipment (note 6)	43,680	35,017
Net investment in leases (note 7)	678	904
Goodwill (note 8)	6,279	5,132
Other assets (note 9)	527	706
Future income taxes (note 12)	249	1,519
Foreign currency contracts (note 23)	–	6,372
	$ 112,177	$ 104,336

	2008	2007

Liabilities and Partners' Capital (Deficit)

	2008	2007
Current liabilities:		
Bank indebtedness (note 11)	$ 13,132	$ 5,308
Accounts payable and accrued liabilities	15,508	11,826
Distributions payable to partners (note 10)	499	499
Distributions payable to Pollard Equities Limited (note 4)	17,768	18,328
Income taxes payable	907	1,308
	47,814	37,269
Long-term debt (note 11)	58,995	46,537
Other long-term liabilities	596	441
Foreign currency contracts (note 23)	10,641	–
Interest rate swap contracts (note 23)	3,005	372
Partners' capital (deficit):		
Partners' capital (deficit) (note 13)	(6,478)	22,915
Accumulated other comprehensive loss (note 14)	(2,396)	(3,198)
	(8,874)	19,717
Commitments and contingencies (note 15)		
	$ 112,177	$ 104,336

See accompanying notes to consolidated financial statements.

On behalf of Pollard Holdings Limited Partnership by its general partner,
Pollard Banknote Limited:

D.C. Crewson
DIRECTOR

John Pollard
DIRECTOR

Consolidated Statements of Partners' Capital (Deficit)

(IN THOUSANDS OF DOLLARS)

	GENERAL PARTNER UNITS	CLASS A LP UNITS	CLASS B LP UNITS	CLASS C LP UNITS	TOTAL
Partners' capital (deficit), December 31, 2006	$ (18)	$ 47,779	$ (20,971)	$ (4,720)	$ 22,070
Net income for the year ended December 31, 2007	12	6,245	13,636	3,509	23,402
Distributions declared	(12)	(6,145)	(13,044)	(3,356)	(22,557)
Partners' capital (deficit), December 31, 2007	(18)	47,879	(20,379)	(4,567)	22,915
Net loss for the year ended December 31, 2008	(3)	(1,829)	(3,992)	(1,027)	(6,851)
Distributions declared (note 13)	(12)	(6,130)	(13,044)	(3,356)	(22,542)
Partners' capital (deficit), December 31, 2008	$ (33)	$ 39,920	$ (37,415)	$ (8,950)	$ (6,478)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Bank indebtedness decrease (increase):		
Operating activities:		
Net income (loss)	$ (6,851)	$ 23,402
Items not involving cash:		
Amortization	6,192	6,438
Gain on sale of property, plant and equipment	(2,184)	(28)
Unrealized foreign exchange loss (gain)	4,347	(2,232)
Future income taxes (reduction)	1,892	(2,034)
Mark-to-market loss (gain) on foreign currency contracts	17,013	(6,315)
Change in non-cash operating working capital (note 17)	(2,796)	1,007
	17,613	20,238
Investing activities:		
Additions to property, plant and equipment	(19,499)	(6,022)
Change in net investment in leases	876	1,781
Proceeds from sale of property, plant and equipment	7,930	28
Change in other assets	157	(81)
	(10,536)	(4,294)
Financing activities:		
Increase in long-term debt	9,000	–
Increase in financing charges	(58)	(40)
Change in other long-term liabilities	145	(25)
Change in loan to Pollard Equities Limited (note 4)	560	(560)
Change in distributions payable to Pollard Equities Limited (note 4)	(560)	–
Distributions	(22,542)	(22,557)
	(13,455)	(23,182)
Foreign exchange gain (loss) on bank indebtedness held in foreign currency	(1,446)	151
Increase in bank indebtedness	(7,824)	(7,087)
Cash (bank indebtedness), beginning of year	(5,308)	1,779
Bank indebtedness, end of year	$ (13,132)	$ (5,308)
Supplementary cash flow information:		
Interest paid	$ 3,842	$ 2,699
Income taxes paid	2,506	1,641

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)
YEARS ENDED DECEMBER 31, 2008 AND 2007

1. DESCRIPTION OF LIMITED PARTNERSHIP:

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

These financial statements include only the assets, liabilities, revenues and expenses, including income taxes of Pollard LP and do not include the assets, liabilities, revenues and expenses, including income taxes, of the partners.

The General Partner of Pollard LP is Pollard Banknote Limited ("PBL"), which holds an economic interest of 0.05 percent in Pollard LP. The Pollard Banknote Income Fund ("Fund") indirectly owns, through the Pollard Banknote Trust ("Trust"), approximately 26.7 percent of PBL and the remaining approximately 73.3 percent is owned by Equities.

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Principles of consolidation:

These consolidated financial statements include the accounts of Pollard LP and the following 100 percent owned subsidiaries:

- Pollard (U.S.) Ltd.
- Pollard Banknote Limited Partnership
- Pollard Holdings, Inc.
- Pollard Investments Limited
- Pollard (Canada), Inc.
- PBL of Puerto Rico, Inc.
- Pollard Games, Inc.
- Nacako Sdn Bhd

All inter-company transactions have been eliminated.

(b) Bank indebtedness:

Bank indebtedness includes balances owing under the demand operating facility net of cash on deposit.

(c) Revenue recognition:

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

(d) Leases:

One of Pollard LP's subsidiaries has leasing operations which consist principally of the leasing of Instant Ticket Vending Machines ("ITVM") with state lotteries and Pull Tab Vending Machines ("PTVM") with various private establishments. These leases are classified as sales-type leases. The ITVM and PTVM leases have terms of three to five years. The net investment in sales-type leases consists of the present value of the future minimum lease payments. Interest revenue is recognized as a constant percentage return on the net investment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(e) Inventories:

Raw materials are valued at the lower of cost and replacement cost. Work-in-process and finished goods are valued at the lower of cost and net realizable value.

(f) Goodwill:

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired of the U.S. subsidiaries and is not amortized. Goodwill is subject to an annual impairment review to ensure its fair value remains greater than, or equal to, book value.

The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized. Pollard LP performs the impairment tests on an annual basis. The annual impairment test was performed and it was determined that there was no impairment to the carrying value.

(g) Intangibles:

Intangible assets with a finite life are comprised of patents and are amortized over their useful lives, generally not exceeding 15 years, on a straight-line basis.

(h) Property, plant and equipment:

Property, plant and equipment are stated at cost less investment tax credits. Amortization is provided on a straight-line basis over the estimated useful asset lives as follows:

ASSET	RATE
Buildings	30 years
Leasehold improvements	Term of lease
Equipment	3 to 11 years
Furniture, fixtures and computers	3 to 9 years

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No assets have been deemed to be impaired at December 31, 2008 and 2007.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(i) Financial instruments:

Recognition and measurement:

Financial instruments are initially recorded at fair value and classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Measurement of these instruments depends on the initial classification. Financial instruments held-for-trading are measured at fair value with gains and losses recognized in net income. Financial instruments held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Changes in fair value are recognized in net income only if realized, or impairment of value of an asset occurs. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income until such time as the asset or liability is derecognized or impaired at which time the amounts would be recorded in net income.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, other than those classified as held-for-trading, are accounted for as part of the respective asset or liability carrying value.

Pollard LP has classified its foreign exchange and interest rate swap contracts as held-for-trading; accounts receivable, loan to Pollard Equities Limited as loans and receivables; and bank indebtedness, accounts payable and accrued liabilities, distributions payable to partners and long-term debt as other liabilities. Pollard LP has neither available-for-sale or held-to-maturity instruments.

Comprehensive income (loss):

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss) and is now disclosed in the consolidated statements of comprehensive income (loss). Comprehensive income (loss) is the change in net assets resulting from transactions or events from sources other than the Limited Partners. Other comprehensive income (loss) includes unrealized foreign exchange gains or losses on translation of the financial statements of subsidiaries that are self-sustaining foreign operations and gains or losses on the effective portion of derivatives designated as cash flow hedges, net of income taxes, in accordance with generally accepted accounting principles.

Accumulated other comprehensive income (loss) is included in partners' capital (deficit) on the consolidated balance sheet, which represents cumulative changes in other comprehensive income (loss).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Derivatives:

Pollard LP may use certain derivative financial instruments to manage risks of fluctuation in interest rates and foreign exchange rates. Pollard LP does not engage in the trading of these derivative financial instruments for profit.

Pollard LP and its subsidiary, Pollard Holdings Inc., may enter into interest rate swap agreements in order to limit exposure to increases in interest rates and fix interest rates on certain portions of long-term debt. Pollard LP applies hedge accounting for the interest rate swap agreements. The interest rate swap agreements are recognized in the balance sheets and measured at fair value with the effective portion of the gain or loss on the hedging item recognized in other comprehensive income and any ineffective portion recognized in net income. Payments and receipts under interest rate swap agreements designated as effective hedges are recognized as adjustments to interest expense on long-term debt in the same period that the underlying hedged transactions are recognized. Pollard LP formally documents the relationship between the hedging instrument and the hedged item, as well as the nature of the specific risk exposure being hedged and the intended term of the hedging relationship. The effectiveness of the hedge is assessed at inception and throughout the term of the hedge. Any hedging transactions that do not qualify for hedge accounting are marked-to-market at each period end with any resulting gains or losses recorded in income.

Pollard LP may enter into foreign currency forward contracts to limit exposure on certain recognized assets or liabilities, firm commitments or foreign currency risk in an unrecognized firm commitment. The foreign currency contracts are recognized in the balance sheet and measured at fair value, with changes in fair value recognized currently in the statement of income.

(j) Translation of foreign currencies:

Pollard LP and its Canadian subsidiaries translate any amounts denominated in foreign currencies to Canadian dollars as follows: monetary assets and liabilities at effective rates prevailing at the end of the reporting period; non-monetary assets, non-monetary liabilities, revenue and expenses at effective rates prevailing at the time of the transaction. Gains or losses from translations are recognized in income in the period they occur.

Pollard (U.S.) Ltd., PBL of Puerto Rico, Inc. and Nacako Sdn Bhd are considered to be fully integrated operations and as a result their accounts have been translated into Canadian dollars in accordance with the temporal method as follows: monetary assets and liabilities at effective rates prevailing at the end of the reporting period; non-monetary assets and liabilities at effective rates prevailing at the time of the transaction; amortization expense at the rate in effect at the time the related assets are acquired; revenues and expenses at average rates prevailing during the reporting period. Gains or losses from translation are recognized in income in the period they occur.

Pollard Games, Inc. is considered to be a self-sustaining operation and as a result its accounts have been translated into Canadian dollars in accordance with the current rate method as follows: assets and liabilities at the exchange rate in effect at the balance sheet date and revenue and expenses are translated at the average rate for the reporting period. Translation adjustments arising from exchange rate fluctuations are shown as accumulated other comprehensive loss in partners' capital until realized, at which time they are recognized into income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(k) Employee future benefits:

Pollard LP maintains four non-contributory defined benefit pension plans in Canada and the United States, three being final pay plans and one being a flat benefit plan. None of the plans have indexation features. A market rate is used to measure benefit obligations. The expected return on pension plan assets is calculated on the fair value of the assets as of the year-end date.

The costs of Pollard LP's defined benefit plans are recognized over the period in which employees render service to Pollard LP in return for the benefits. These costs are actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

Current service costs and interest costs on the benefit obligation are charged to income as they accrue. Past service costs, plan amendments, changes in assumptions, the net transitional asset amount and the cumulative unrecognized net actuarial gains and losses in excess of 10 percent of the greater of the benefit obligation or the fair value of plan assets are amortized to income on a straight-line basis over the expected average remaining service life of active plan members. The expected average remaining service life of the active employees covered by the defined benefit plans ranges from 14 to 18 years. Pollard LP's funding policy is consistent with statutory regulations.

Pollard LP's U.S. subsidiaries maintain two defined contribution plans in the United States. The pension expense for these plans is the annual funding contribution by the subsidiaries.

(l) Income taxes:

Pollard LP is not a taxable entity, and accordingly, no provision for income taxes has been included in the consolidated financial statements for Pollard LP and Pollard Banknote Limited Partnership since all income, deductions, gains, losses and credits are reportable on the tax return of the partners.

Pollard LP's incorporated subsidiaries are taxable entities and as such, income taxes are recorded to reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Future income tax assets and liabilities are determined based on the enacted or substantively enacted tax rates, which are expected to be in effect when the underlying items of income and expense are expected to be realized. Valuation allowances are established when necessary to reduce the future tax assets to the amounts expected to be realized. No valuation allowances have been deemed necessary at December 31, 2008 and 2007. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Income tax expense includes withholding taxes.

(m) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the year. Actual results could differ from those estimates.

(n) Comparative figures:

Certain prior year amounts have been reclassified to conform to the current year's presentation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(o) Future changes in accounting policies:

International Financial Reporting Standards:

In January 2006, the Accounting Standards Board of Canada ("AcSB") announced that accounting standards in Canada are to converge with the International Financial Reporting Standards ("IFRS"). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Pollard LP is currently assessing the impact of these new standards on its consolidated financial statements.

Pollard LP has adopted the following new accounting standards on January 1, 2009:

Goodwill and Intangibles:

In February, 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets*, as well as Section 3450, *Research and Development Costs*.

Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and meet the standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets. Section 3064 also provides further information on the recognition of internally generated intangible assets (including research and development costs).

As for subsequent measurement and disclosure of intangible assets and goodwill, Section 3064 carries forward the requirements of the old Section 3062.

The new section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Pollard LP does not expect this new section to have a material impact on its consolidated financial statements.

3. ACCOUNTING POLICY CHANGES:

Effective January 1, 2008, Pollard LP adopted four new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) - Handbook Section 1535, *Capital Disclosures*, Section 3031, *Inventories*, Section 3862, *Financial Instruments - Disclosures* and Section 3863, *Financial Instruments - Presentation*. The additional disclosures required as a result of adoption of these new accounting standards are included in notes 5, 13 and 23.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Section 3031 replaces Section 3030, *Inventories*, and provides more extensive guidance on measurement and expands disclosure requirements to increase transparency. Pollard LP's existing accounting policy for inventories was consistent with the new measurement requirements. Additional disclosures are required regarding write downs and reversals of previous write downs.

Section 3862 and 3863 replace Section 3861, *Financial Instruments - Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new sections have no impact on the classification and valuation of Pollard LP's financial instruments.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

4. LOAN TO POLLARD EQUITIES LIMITED AND DISTRIBUTIONS PAYABLE TO POLLARD EQUITIES LIMITED:

Pollard Equities Limited has exercised its right to receive its entitlement to monthly cash distributions from Pollard LP by way of loan. The loan to Pollard Equities Limited of $16,401 (2007 - $16,961) and the distributions payable of $17,768 (2007 - $18,328) were settled subsequent to the end of the fiscal year. 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 addition, included in the distributions payable to Pollard Equities Limited is an amount of $1,367 (2007 - $1,367) relating to distributions declared December 10, 2008, for unitholders of record at December 31, 2008, payable on January 15, 2009.

5. INVENTORIES:

	2008	2007
Raw materials	$ 6,081	$ 4,708
Work-in-process	1,846	795
Finished goods	12,760	10,286
	$ 20,687	$ 15,789

During 2008, Pollard LP recorded inventory write-downs of $72 representing an increase in the obsolescence reserves, and reversals of previously written-down amounts of $19 due to changes in foreign exchange rates.

6. PROPERTY, PLANT AND EQUIPMENT:

DECEMBER 31, 2008	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Land	$ 1,788	$ –	$ 1,788
Buildings	16,892	5,307	11,585
Leasehold improvements	1,385	706	679
Equipment	103,884	75,642	28,242
Furniture, fixtures and computers	3,935	2,549	1,386
	$ 127,884	$ 84,204	$ 43,680

DECEMBER 31, 2007	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Land	$ 2,069	$ –	$ 2,069
Buildings	18,426	4,900	13,526
Leasehold improvements	568	515	53
Equipment	88,687	70,141	18,546
Furniture, fixtures and computers	3,177	2,354	823
	$ 112,927	$ 77,910	$ 35,017

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

7. NET INVESTMENT IN LEASES:

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

	2008	2007
Total minimum lease payments to be received	$ 1,919	$ 2,415
Unearned income		
(interest rate ranging from 4.43% to 11.35%)	(131)	(152)
	1,788	2,263
Less net investment in leases due within one year	1,110	1,359
	$ 678	$ 904

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

2009	$ 1,110
2010	506
2011	229
2012	74
	$ 1,919

8. GOODWILL:

The change in the carrying amount of goodwill is as follows:

	2008	2007
Balance, beginning of year	$ 5,132	$ 5,980
Changes in foreign exchange rates	1,147	(848)
Balance, end of year	$ 6,279	$ 5,132

9. OTHER ASSETS:

	2008	2007
Patents, net of amortization	$ 527	$ 519
Other	–	187
	$ 527	$ 706

10. DISTRIBUTIONS PAYABLE TO PARTNERS:

Pollard LP declared a distribution payable for the month ended December 31, 2008, of $0.0792 per Class A, Class B and Class C LP Units. Distributions of $0.0792 are payable on the Class A LP Units and distributions of $1 are payable on the General Partner Units on January 15, 2009, to unitholders of record on December 31, 2008. The distribution of $1,367 (2007 - $1,367) relating to the Class B and Class C LP Units is payable January 15, 2009, to unitholders of record on December 31, 2008, and is included in distributions payable to Pollard Equities Limited.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

11. LONG-TERM DEBT:

	2008	2007
Term bank loan, interest of 4.65% to 6.44% payable monthly, maturing 2011	$ 41,000	$ 32,000
Term bank loan US$14,778, interest of 7.20% payable monthly, maturing 2011	18,030	14,631
Deferred financing charges, net of amortization	(35)	(94)
	$ 58,995	$ 46,537

Pollard LP's credit facilities include a demand operating facility and a committed term bank loan facility. The demand operating facility includes up to $20,000 for its Canadian operations and up to $9,760 (US$8,000) for its U.S. subsidiaries. The committed term bank loan facility provides loans of up to $41,000 (2007 - $32,000) for its Canadian operations and up to $18,030 (US$14,778) for its U.S. subsidiaries. Borrowings under these credit facilities bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At December 31, 2008, the net balances outstanding under the demand operating facilities, other than letters of credit of $1,221 (2007 - $2,923), were $13,132 (2007 - $5,308) and the committed term bank loan facilities were fully drawn.

Under the terms and conditions of the credit facility agreement Pollard LP is required to maintain certain financial covenants including working capital ratios, debt to income before interest, taxes, depreciation and amortization ratios and certain debt service coverage ratios. As at December 31, 2008, Pollard LP is in compliance with all financial covenants.

Pollard LP's credit facilities are secured by a first security interest in all of the present and after acquired property of Pollard LP and its operating subsidiaries. The term bank loan facility can be prepaid without penalties. Under the terms of the agreement, the term facility is committed for a one year period, renewable August 31, 2009. If the term facility is not renewed, the term loans are repayable two years after the term loan expiry date. As such, each term facility has effectively a three year term expiring August 31, 2011, with no principal payments required prior to expiration.

Pollard LP entered into two interest rate swap agreements effectively converting variable rate debt obligations in the amount of $27,000 with underlying current floating rates of 3.36 percent plus applicable credit margin to a fixed rate of 4.44 percent plus applicable credit margin from August 5, 2008 to August 31, 2009, and to a fixed rate of 4.99 percent plus applicable credit margin from August 31, 2009 to August 31, 2010.

Pollard Holdings, Inc. entered into three interest rate swap agreements effectively converting variable rate debt obligations in the amount of $18,030 (US$14,778) with underlying current floating rates of 3.11 percent plus applicable credit margin to a fixed rate of 5.20 percent plus applicable credit margin from August 6, 2008 to August 31, 2009, to a fixed rate of 4.72 percent plus applicable credit margin from August 31, 2009 to August 31, 2010 and to a fixed rate of 2.95 percent plus applicable credit margin from August 31, 2010 to August 31, 2011.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

12. INCOME TAXES:

(a) Components of income tax provision:

The provision for income taxes is comprised of the following:

	2008	2007
Canada:		
Current income taxes	$ 433	$ 455
United States:		
Current income taxes	1,373	1,142
Future income taxes (reduction)	1,892	(2,034)
	3,265	(892)
	$ 3,698	$ (437)

(b) 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:

	2008	2007
Income taxes at Canadian rates:		
Canadian combined federal and provincial income tax rate	32.2%	35.3%
Income taxes (recovery)	$ (1,015)	$ 8,107
Partnership loss (net income) allocated to limited partners and therefore not subject to tax	1,089	(6,920)
Withholding taxes	433	455
Effect of non-taxable items related to foreign exchange	3,191	(2,079)
Provision for income taxes	$ 3,698	$ (437)

(c) Future income tax asset:

Significant components of the net future income tax asset are as follows:

	2008	2007
Future income tax assets:		
Foreign exchange	$ –	$ 1,923
Inventories	209	152
Accrued expenses and other reserves	886	407
Future income tax assets	$ 1,095	$ 2,482
Future income tax liabilities:		
Property, plant and equipment	$ (165)	$ (328)
Leasing transactions	–	(245)
Goodwill	(666)	(390)
Foreign exchange	(15)	–
Future income tax liabilities	$ (846)	$ (963)
Net future income tax asset	$ 249	$ 1,519

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

12. INCOME TAXES (CONTINUED):

(d) At December 31, 2008, the tax basis of the limited partnership's assets and liabilities exceeds the carrying value of those assets and liabilities by $28,796 (2007 - $10,281).

13. PARTNERS' CAPITAL (DEFICIT):

Pollard LP is authorized to issue an unlimited number of Class A, B and C Limited Partnership Units and an unlimited number of General Partner Units.

At December 31, 2008 and 2007, Pollard LP has the following issued and outstanding units:

	CLASS A LP UNITS	CLASS B LP UNITS	CLASS C LP UNITS
Pollard Equities Limited	–	13,725,984	3,531,474
Pollard Banknote Income Fund	6,285,700	–	–
Total number of units, end of year	6,285,700	13,725,984	3,531,474

Pollard Banknote Income Fund owns Class A LP units indirectly through its wholly owned subsidiary Pollard Banknote Trust.

In addition, 106,945 General Partner Units are issued and outstanding with the General Partner, Pollard Banknote Limited at both December 31, 2008 and 2007.

Pollard LP's net income is allocated to the General Partner and to the Limited Partners on the basis of 0.05 percent and 99.95 percent, respectively.

UNIT DISTRIBUTIONS:

Distributions on the LP Units will be made monthly to holders of Class A LP Units, Class B LP Units and Class C LP Units, in each case, in respect of each monthly distribution period, such that the aggregate per unit distributions on the Class A LP Units, the Class B LP Units and the Class C LP Units are the same, after payment to the General Partner in respect of the GP Units.

Distributions are made on the Class A, Class B and Class C LP Units and the General Partner Units within 15 days of the end of each month.

In addition to the cash distributions described above, subject to the terms of the limited partnership agreement, the General Partner may make a cash distribution to holders of LP Units at any other time.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

13. PARTNERS' CAPITAL (DEFICIT) (CONTINUED):

The following outlines the distributions declared during the year ended December 31, 2008:

	GENERAL PARTNER UNITS	CLASS A LP UNITS	CLASS B LP UNITS	CLASS C LP UNITS	TOTAL
January 9, 2008	$ 1	$ 505	$ 1,087	$ 280	$ 1,873
February 8, 2008	1	500	1,087	280	1,868
March 5, 2008	1	507	1,087	279	1,874
April 9, 2008	1	513	1,087	280	1,881
May 7, 2008	1	551	1,087	280	1,919
June 11, 2008	1	509	1,087	279	1,876
July 9, 2008	1	505	1,087	280	1,873
August 6, 2008	1	501	1,087	280	1,869
September 10, 2008	1	501	1,087	279	1,868
October 8, 2008	1	502	1,087	280	1,870
November 5, 2008	1	538	1,087	280	1,906
December 10, 2008	1	498	1,087	279	1,865
	$ 12	$ 6,130	$ 13,044	$ 3,356	$22,542

Of the distributions declared on its Class A LP units during 2008, $166 (2007 - $171) was to fund a portion of the administrative costs of the Trust and the Fund.

UNIT RIGHTS:

On August 5, 2005, the Fund and its wholly-owned Trust, the General Partner, Pollard LP and Equities entered into an Exchange Agreement. The Exchange Agreement stipulates that Equities has the right to require the Trust to indirectly exchange Class B and Class C LP Units held by Equities for Units of the Fund, on the basis of one Fund Unit for each Class B or Class C LP Unit exchanged. The exchange of Units under this Exchange Agreement would not dilute the Fund's income per Unit measure as any decrease in the income per Unit caused by the increase in the number of Units outstanding would be fully offset by an increase in the Fund's proportionate share of Pollard LP's income.

The Class A, B and C LP Units have economic and voting rights that are equivalent in all material respects, except that:

(a) The Class B and Class C LP Units will be exchangeable for Units of the Fund at the option of the holder on a one-for-one basis at anytime unless the exchange would jeopardize the Fund's status as a mutual fund trust under the *Income Tax Act*; and

(b) The Class B LP Units and Class C LP Units will automatically become exchangeable into Units of the Fund upon the satisfaction of certain conditions and in certain circumstances, generally with respect to a takeover bid or business combination of the Fund.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

13. PARTNERS' CAPITAL (DEFICIT) (CONTINUED):

CAPITAL MANAGEMENT:

Pollard LP'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 LP also strives to maintain an optimal capital structure to reduce the overall cost of capital.

In the management of capital, Pollard LP includes bank indebtedness, long-term debt and partner's capital but excludes other comprehensive loss. The Board of Directors regularly monitors the levels of debt and equity and distributions.

Pollard LP monitors capital on the basis of funded debt to EBITDA, working capital ratio and debt service coverage. Pollard LP has externally imposed capital requirements as determined through its bank credit facility. As at December 31, 2008, Pollard LP is in compliance with all financial covenants.

During the year ended December 31, 2008, Pollard LP entered into a new bank facility with its senior lender to increase the amount of its term facility by $9,000 to assist in the financing of the new press equipment.

14. ACCUMULATED OTHER COMPREHENSIVE LOSS:

	2008	2007
Translation of financial statements of self-sustaining foreign operations:		
Balance, beginning of year	$ (2,952)	$ (712)
Unrealized gain (loss) on translation of financial statements of self-sustaining foreign operations	3,092	(2,240)
Balance, end of year	140	(2,952)
Derivatives designated as cash flow hedges:		
Balance, beginning of year	(246)	–
Transition adjustment on adoption of new accounting standards (note 3)	–	358
Unrealized loss on derivatives designated as cash flow hedges, net of income tax reduction of $343 (2007 - $220)	(2,290)	(604)
Balance, end of year	(2,536)	(246)
Total accumulated other comprehensive loss	$ (2,396)	$ (3,198)

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

15. COMMITMENTS AND CONTINGENCIES:

Pollard LP and its subsidiaries rent premises and equipment under long-term operating leases. The following is a schedule by fiscal year of rental payment commitments under operating leases outstanding for the next five years:

2009	$ 2,062
2010	1,936
2011	1,775
2012	1,756
2013	1,746
Thereafter	11,392

Pollard LP is contingently liable for outstanding letters of credit in the amount of $1,221 at December 31, 2008 (2007 - $2,923). These letters of credit are part of Pollard LP's demand operating bank facility and are secured as disclosed in note 11.

During 2008 Pollard LP entered into a lease for a new facility in Winnipeg. The building leased is owned by an affiliate of Pollard Equities Limited. The lease covers approximately 160,000 sq. ft. of developed manufacturing and office space for a period of 12 years and 6 months, beginning October 1, 2008, with an option to renew for a period of 30 months, at an annual lease rate of approximately $1,296.

Pollard LP also entered into a sale leaseback with an affiliate of Equities for land and building in Council Bluffs, Iowa. The property was sold for CDN$4,081 and leased back for ten years at an annual lease rate of approximately US$260.

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

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

16. INTEREST:

	2008	2007
Interest expense incurred on:		
Long-term debt	$ 2,939	$ 2,549
Other	829	170
	$ 3,768	$ 2,719

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

17. SUPPLEMENTARY CASH FLOW INFORMATION:

	2008	2007
Change in non-cash operating working capital:		
Accounts receivable	$ (1,882)	$ (65)
Inventories	(3,527)	812
Prepaid expenses and deposits	540	116
Accounts payable and accrued liabilities	2,757	36
Income taxes payable	(684)	108
	$ (2,796)	$ 1,007

18. PENSION BENEFITS:

Pollard LP sponsors non-contributory defined benefit plans providing pension benefits to its employees. Pollard LP has four pension plans of which three are final pay plans and one is a flat benefit plan. None of the plans have indexation features. The measurement date for all the plans is December 31. The two plans of the U.S. subsidiaries require valuations annually with the last valuations being as of January 1, 2008. One of the Canadian plans of Pollard LP requires valuation every year with the last valuation as of December 31, 2007. The other Canadian plan of Pollard LP requires valuation every four years with the last valuation as of January 1, 2004. Pollard LP's U.S. subsidiaries also maintain two defined contribution plans. The pension expense for these defined contribution plans is the annual funding contribution by the subsidiaries.

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

	2008	2007
Benefit plan assets:		
Fair value, beginning of year	$ 13,833	$ 12,898
Actual return on plan assets	(1,791)	179
Employer contributions	2,712	1,686
Benefits paid	(492)	(686)
Other	396	(244)
Fair value, end of year	$ 14,658	$ 13,833
Accrued benefit plan obligations:		
Balance, beginning of year	$ 18,224	$ 17,757
Current service cost	1,851	1,683
Interest cost	1,045	956
Benefits paid	(492)	(686)
Actuarial gain	(6,490)	(1,265)
Other	573	(221)
Balance, end of year	14,711	18,224
Deficit of plan assets versus plan obligations	(53)	(4,391)
Unamortized net actuarial loss	18	3,823
Net accrued benefit plan liability	$ (35)	$ (568)
Recognized in the consolidated balance sheet as accounts payable and accrued liabilities	$ (35)	$ (568)

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

18. PENSION BENEFITS (CONTINUED):

Included in the accrued benefit plan obligations and the fair value of benefit plan assets at year end are the following amounts in respect of plans with accrued benefit plan obligations in excess of plan assets:

	2008	2007
Accrued benefit plan obligations	$ 4,657	$ 18,224
Fair value of benefit plan assets	4,083	13,833
Deficit	$ 574	$ 4,391

The total net cost for Pollard LP's defined benefit and defined contribution pension plans is as follows:

	2008	2007
Net defined benefit plans cost:		
Current service cost	$ 1,851	$ 1,683
Interest on plan obligations	1,045	956
Actual return on plan assets	1,791	(179)
Difference between expected return and actual return on plan assets	(2,691)	(681)
Amortization of actuarial gains and losses	151	174
Net defined benefit plans cost	2,147	1,953
Defined contribution plans cost	187	192
Net pension plans cost	$ 2,334	$ 2,145

The significant actuarial assumptions adopted in measuring Pollard LP's accrued benefit obligations are as follows:

	2008	2007
Discount rate	6% to 7.5%	5.5% to 6%
Rate of compensation increase	0% to 3.5%	0% to 5%

The significant actuarial assumptions adopted in measuring Pollard LP's pension cost are as follows:

	2008	2007
Discount rate	5.5% to 6%	5.5% to 6%
Expected long-term rate of return on plan assets	6.5%	6.5%
Rate of compensation increase	0% to 3.5%	0% to 5%

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

	2008	2007
Equities	48.7%	51.6%
Bonds	31.3%	30.8%
Cash and cash equivalents	20.0%	17.6%
	100.0%	100.0%

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

19. RELATED PARTY TRANSACTIONS:

During the year, Pollard Equities Limited paid to Pollard LP $72 (2007 - $36) in accounting and administration fees.

During the year Pollard LP disposed of a building and land in Council Bluffs, Iowa, and a piece of undeveloped land in Winnipeg, Manitoba, to an affiliate of Equities for total proceeds of $4,715 and a gain on sale of $508. The sale values were determined through independent sources.

The Council Bluffs, Iowa, property was subsequently leased back to Pollard LP (note 15).

On August 5, 2005, the Fund, the Trust and the General Partner of Pollard LP entered into a Support Agreement. Under the terms of the Support Agreement, the General Partner will provide certain management, administrative and support services to the Fund and Trust and will be reimbursed for all direct and indirect costs and expenses it incurs in the provision of services pursuant to the Support Agreement. During the year ended December 31, 2008, these reimbursed costs amounted to $166 (2007 - $168).

20. SALES TO MAJOR CUSTOMERS:

For the year ended December 31, 2008, sales to one customer amounted to approximately 10 percent of consolidated sales. For the year ended December 31, 2007, sales to one customer amounted to approximately 10 percent of consolidated sales.

21. SEGMENTED INFORMATION:

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

	2008	2007
Sales:		
Canada	$ 44,751	$ 39,652
U.S.	92,125	89,563
Other	41,113	35,259
Total	$ 177,989	$ 164,474
Property, plant and equipment and goodwill:		
Canada	$ 30,159	$ 19,767
U.S.	19,800	20,382
	$ 49,959	$ 40,149

22. FINANCIAL INSTRUMENTS:

The fair value of a financial instrument is the estimated amount that Pollard LP 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 and distributions payable approximate their carrying values given their short-term maturities.

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

The fair value of the long-term debt and bank indebtedness 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 amounts of these liabilities.

The fair value of foreign currency forward contracts is estimated utilizing market forward rates of exchange.

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

23. FINANCIAL RISK MANAGEMENT:

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

Credit risk
Liquidity risk
Currency risk
Interest rate risk

Pollard LP'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 LP'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:

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

Credit risk on Pollard LP'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 LP's net investment in leases is minimized since they are with governments and their agencies or 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 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.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

23. FINANCIAL RISK MANAGEMENT (CONTINUED):

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

	DECEMBER 31, 2008
Current	$ 14,834
Past due for 1 to 60 days	3,780
Past due for more than 60 days	1,901
Less: Allowance for doubtful accounts	(398)
	$ 20,117

LIQUIDITY RISK:

Liquidity risk is the risk that Pollard LP will not be able to meet its financial obligations as they fall due. Pollard LP'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 LP maintains demand operating facilities including up to $20,000 for its Canadian operations and up to $9,760 (US$8,000) for its U.S. subsidiaries. At December 31, 2008, the unused balance available for drawdown was $15,401.

The 2009 requirements for capital expenditures, working capital and distributions are expected to be financed from cash flow provided by operating activities and unused credit facilities. Pollard LP enters into contractual obligations in the normal course of business operations.

CURRENCY RISK:

Pollard LP 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 LP also generates a small amount of revenue in currencies other than the Canadian and U.S. dollar, 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. As at December 31, 2008, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately $7,400. 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 $37.

Pollard LP utilizes a number of strategies to mitigate its exposure to currency risk. 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 LP also utilizes foreign currency forward contracts to hedge the net U.S. dollar exposure.

In order to manage Pollard LP's exposure to exchange rate fluctuations on U.S. dollar denominated cash flow, Pollard LP has entered into foreign currency contracts to exchange US$3,000 each month for approximately $3,129 for 21 consecutive months from January 2009 to September 2010. The foreign currency contracts are recognized in the balance sheets and measured at fair value, which at December 31, 2008, represented a liability of $10,641 (2007 - an asset of $6,372).

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 $292 for the year ended December 31, 2008, due to the change in the value of the mark-to-market value of the foreign currency contracts.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

23. FINANCIAL RISK MANAGEMENT (CONTINUED):

INTEREST RATE RISK:

Pollard LP 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. Pollard LP utilizes interest rate swaps to mitigate these risks by hedging a portion of long-term debt. Interest rates relating to the bank indebtedness are not hedged. As at December 31, 2008, approximately 75 percent of the long-term debt was hedged through the use of interest rate swaps, allowing Pollard LP and one of its subsidiaries to receive interest at floating rates and pay interest at a fixed rate.

Pollard LP entered into two interest rate swap agreements effectively converting variable rate debt obligations in the amount of $27,000 with underlying current floating rates of 3.36 percent plus applicable credit margin to a fixed rate of 4.44 percent plus applicable credit margin from August 2, 2008 to August 31, 2009, and to a fixed rate of 4.99 percent plus applicable credit margin from August 31, 2009 to August 31, 2010.

Pollard Holdings, Inc. entered into three interest rate swap agreements effectively converting variable rate debt obligations in the amount of $18,030 (US$14,778) with underlying current floating rates of 3.11 percent plus applicable credit margin to a fixed rate of 5.20 percent plus applicable credit margin from August 5, 2008 to August 31, 2009, to a fixed rate of 4.72 percent plus applicable credit margin from August 31, 2009 to August 31, 2010 and to a fixed rate of 2.95 percent plus applicable credit margin from August 31, 2010 to August 31, 2011.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of $361 for the year ended December 31, 2008.

24. LONG-TERM INCENTIVE PLAN:

The officers of the General Partner and key employees of Pollard LP are eligible to participate in the LTIP. The purpose of the LTIP is to provide eligible participants with compensation opportunities that will enhance Pollard LP's ability to attract retain and motivate key personnel and reward officers and key employees for significant performance that results in Pollard LP exceeding its target per LP Unit cash available for distribution, as defined. Pursuant to the LTIP, Pollard LP will set aside a pool of funds based upon the amount, by which Pollard LP's cash available for distribution per fully-diluted LP Unit exceeds certain defined cash available for distribution targets, currently $0.9504 per LP Unit on an annualized basis. The percentage amount of that excess which forms the LTIP incentive pool will be determined in accordance with the table below:

Percentage by which cash available for distribution per Partnership Unit exceeds base threshold	Percentage of excess cash available for distribution
5% or less	10%
Over 5% but less than 10%	10% of the first 5% plus 15% of any excess over 5%
Over 10%	10% of the first 5% plus 15% of the next 5% plus 20% of any excess over 10%

For the years ended December 31, 2007 and 2008, based on cash available for distribution per LP Unit not exceeding the base threshold, no provision for LTIP awards has been accrued in these financial statements.

25. EXTRAORDINARY GAIN:

On December 24, 2007, Pollard LP purchased 100 percent of the outstanding shares of Nacako Sdn Bhd ("Nacako"), a Malaysian company, for a nominal amount. Nacako provides certain administrative and support services to lotteries in Malaysia and southeast Asia. The net financial assets exceeded the purchase price, resulting in an extraordinary gain of $621.

The Board of Directors of Pollard Banknote Limited

Lawrence Pollard CHAIR
Del Crewson [1]
Jerry Gray [1, 2]
Garry Leach [1]
John Pollard
Gordon Pollard
Douglas Pollard

[1] Member of the Audit Committee, Compensation Committee and the Governance and Nominating Committee

[2] Lead Director

Trustees of Pollard Banknote Income Fund

Del Crewson [3]
Jerry Gray [3]
Garry Leach [3]

[3] Member of the Audit Committee

Senior Management

Gordon Pollard
CO-CHIEF EXECUTIVE OFFICER

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Shawn Hughes
GENERAL COUNSEL AND VICE PRESIDENT, LEGAL AFFAIRS

Brian McAughey
VICE PRESIDENT, OPERATIONS

Douglas Pollard
VICE PRESIDENT, LOTTERY MANAGEMENT SERVICES

Robert Rose
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