ANNUAL REPORT **2009**

Pollard Banknote
Income Fund

CONTENTS

LETTER TO UNITHOLDERS

2009 was a difficult year on a number of levels. Our new press took significantly longer than planned to achieve efficient productivity levels. Manufacturing and technical problems relating to specific production, including large rework costs, were also incurred in the first half of the year which resulted in considerably higher expenses. In addition, the ongoing stronger Canadian dollar put increasing negative pressure on our profit levels. Despite these difficulties, we believe Pollard has put in place a number of important building blocks to address these challenges and support our further success in the lottery industry.

The future of the lottery industry remains very positive and we believe the initiatives taken in 2009 and early 2010 will allow Pollard to capitalize on the strong industry fundamentals and generate improved financial results.

Sales

Fiscal 2009 generated over $191 million in sales. Our 2009 volumes remained steady compared to 2008, an important benchmark when considering the operational difficulties and transitions undertaken during the year. During the year the Canadian dollar was weaker compared to the U.S. dollar (relative to 2008) and this generated a higher revenue figure in 2009. Working closely with our customers we shared in a number of successes in growing their retail sales or expanding the diversity of the lottery offerings including areas such as selling to new demographics or expanding into non-traditional retail distribution locations.

All of our significant contracts that came due during the year were renewed or extended in accordance with the contract terms. Strategic increases in sales of licensed products and charitable gaming products were achieved in 2009 and will be an area of important focus in 2010.

We currently serve as primary (or main) ticket supplier to a number of lotteries in the United States and the sales growth record of this group of lotteries compared to the overall industry is dramatically higher. The retail sales growth of instant tickets experienced by lotteries over the last two years served by Pollard as primary supplier was 10.2%, versus 2.8% in the lotteries with a primary supplier other than Pollard. We believe working closely with these key customers has demonstrated the unique strengths of Pollard and will be a critical tool in leveraging our expertise into greater revenue opportunities. Continuing development of our specialized proprietary sales products has also generated much interest in the lottery world and we look to capitalize on these initiatives to increase our sales.

Operations

A major factor impacting our operations during 2009 was the continuing ramp-up of the new press. Started in 2008, the implementation of the new press took considerably longer and utilized more resources than anticipated. By the third quarter of 2009 the implementation was largely complete and the press began operating near its expected level. During the first two quarters of the year our manufacturing operations generated significant inefficiencies and higher costs due to the implementation challenges.

In November we announced the planned closure of our Kamloops production facility, which occurred during February 2010. While a difficult decision due to our long presence in the community, the consolidation of facilities will generate significant cost savings and manufacturing efficiencies beginning in the second quarter of 2010. We have successfully absorbed all of the production from Kamloops into our remaining facilities and have met or exceeded all of our cost saving goals to date. We thank our Kamloops employees for their dedication and hard work over the years.

Our operating results were negatively affected by the strengthening value of the Canadian dollar relative to the U.S. dollar. Approximately 70% of our revenue is U.S. dollar based and although we have a significant natural hedge in our cost structure through U.S. dollar denominated expenditures, we have a net exposure to U.S. dollar cash inflow. After the impact of our historical hedge program, the stronger Canadian dollar resulted in a negative impact in 2009 compared to 2008 of approximately $2.5 million.

Strengthening our balance sheet is an important objective of Pollard, and towards that end a new syndicated banking facility was completed during the year, increasing to two our key credit providers and establishing a fully committed three-year facility. In addition, we continued our plan of capital redeployment with the sale of a surplus building and land in the second quarter with the resulting sale proceeds used to reduce our debt.

Conversion to a Corporation

On January 28, 2010, the Trustees approved in principle a plan to convert the Fund into a publicly traded corporation, with conversion expected to occur May 2010. This is an important transition for our organization that will ultimately assist Pollard in attaining a number of financial and operational objectives.

The conversion will utilize legislative tax-free conversion options and is expected to become effective in May 2010, following appropriate approvals and Unitholders' vote at this year's annual general meeting. It is anticipated that ultimately Unitholders in the Fund will hold shares in the new public corporation on a one for one basis compared to their current unitholdings.

After the conversion it is expected the new corporation will pay a dividend that will be in line with typical dividend payout ratios for publicly traded corporations. Accordingly, the plan approved in principle by the Trustees sets out a quarterly dividend after conversion of $0.03 per share. Subsequent to year end the Fund's distributions were reduced to $0.01 per Unit per month in conjunction with the plan to convert to a public corporation.

Outlook for 2010

Despite the difficult overall retail sales environment, sales of instant lottery tickets were slightly higher during 2009 compared to 2008 and we anticipate this trend to continue in 2010.

We expect to maintain or increase our sales volume with all of our major customers during 2010. We will continue to compete strategically for new contracts as they become available during the year.

We have continued to see variation in our sales volumes from quarter to quarter. Traditionally the first quarter sales volumes are slightly lower than the remainder of the year and this will be the case in 2010.

We have realigned our manufacturing capacity and reduced our costs significantly with the completion and ramp-up of the new press installation and the closure of our Kamloops facility. Our overall net available capacity has increased despite the Kamloops closure due to the improved performance of the new press. The manufacturing and technical problems incurred in the first half of 2009 have been resolved due to extensive development work. These key steps, in conjunction with a number of other internal manufacturing initiatives, will allow us to improve our profitability through more efficient and cost effective production.

In summary, although disappointed in our 2009 financial results, we took a number of very important steps forward in 2009. We believe we have laid the foundation for strengthening our balance sheet, established more cost effective manufacturing capacity and began the operational and corporate restructuring necessary to position Pollard for future success.

We want to thank all of our stakeholders for their support during this period of significant change. Our employees, suppliers, customers and Directors and Trustees have all contributed importantly to the progress made during this past year. We would particularly like to thank our Unitholders for their support during our transition from an income trust to a more traditional corporate entity. We are confident that our current investments in our business will generate positive results for the future.

Gordon Pollard
CO-CHIEF EXECUTIVE OFFICER

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Trustees of Pollard Banknote Income Fund
Directors of Pollard Banknote Limited

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 also the Chair of the Audit and Evaluation Committee for the Department of Finance, Government of Canada. 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, 2009, is prepared as at March 3, 2010, 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, 2009. Results are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP" or "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 interest rate swaps, facility closing reserve and long-term incentive plan expense. 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 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 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, 2009. 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. The Fund qualifies 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 earned $3.0 million in Net Income from its investment in Pollard LP for the year ended December 31, 2009, compared to a Loss of $3.8 million in the year ended December 31, 2008. 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 $1.9 million (2008 - $1.9 million) and administrative expenses of $0.2 million (2008 - $0.2 million). The Fund is entirely dependent on distributions from Pollard LP to make its own distributions. During the year ended December 31, 2009, the Fund received a total of $4.7 million in distributions from Pollard LP compared to $6.1 million in the year ended December 31, 2008.

As at December 31, 2009, the Fund had total assets of $45.1 million. Its largest single asset is its investment in Pollard LP. The Fund had no long-term financial liabilities as at December 31, 2009.

Tax Fairness Plan

The legislation relating to the Tax Fairness Plan was passed into law during the second quarter of 2007. The introduction of additional taxation under this legislation is not expected to apply to the Pollard Banknote Income Fund until 2011. 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. These draft regulations were passed into law on March 12, 2009.

Conversion to a Corporation

On January 28, 2010, the Trustees of the Fund, in conjunction with the Board of Directors of Pollard Banknote Limited, General Partner of Pollard LP, approved in principle a plan to convert the Pollard Banknote Income Fund into a publicly traded corporation, with conversion expected to occur May 2010. The conversion is subject to completion of the detailed conversion plan and related agreements and is subject to various customary commercial conditions, including the receipt of various regulatory approvals.

Pollard Banknote has been proactively assessing several options available to provide long term stable growth to the business while minimizing the impact of the trust taxation legislated by the Federal Government in June of 2007. In addition, the ongoing opportunities and competitive pressures in the lottery market underline the need to continue to invest appropriate amounts in capital and technological improvements. Pollard Banknote believes the conversion to a corporation will help accomplish these objectives.

The conversion will utilize legislative tax-free conversion options and is expected to become effective in May 2010, following appropriate approvals and Unitholders' vote at the annual general meeting to be held in May 2010.
It is anticipated that ultimately Unitholders in the Fund will hold shares in the new public corporation on a one for one basis compared to their current unit holdings.

After the conversion it is expected the new corporation will pay a dividend that will be in line with typical dividend payout ratios for publicly traded corporations. Accordingly the plan approved in principle by the Trustees sets out a quarterly dividend after conversion of $0.03 per share. Prior to the conversion, effective with the distribution payable March 15, 2010, its monthly distribution to Unitholders will be adjusted to the equivalent rate of $0.01 per Unit.

It is expected a detailed information circular containing all of the details of the conversion will be mailed to Unitholders in April 2010.

Distribution Policy Prior to Conversion

The monthly cash distribution was reduced to $0.01 per Unit, consistent with the equivalent anticipated dividend rate, beginning with the distribution covering the period from February 1, 2010 to February 28, 2010. Payment of the February distribution will be made on March 15, 2010, to Unitholders of record on February 26, 2010.

The cash distribution covering the period January 1, 2010 to January 31, 2010 was declared on January 9, 2010. Payment of the $0.0475 per Unit will still be made on February 15, 2010, to Unitholders of record on January 29, 2010.

Distributions

During 2009 the Fund declared the following distributions:

MONTH	DATE DECLARED	DATE OF RECORD	PAYMENT DATE	AMOUNT PER UNIT
January	January 7	January 30	February 16	$0.0792
February	February 11	February 27	March 16	$0.0792
March	March 4	March 31	April 15	$0.0792
April	April 8	April 30	May 15	$0.0792
May	May 7	May 29	June 15	$0.0475
June	June 10	June 30	July 15	$0.0475
July	July 8	July 31	August 17	$0.0475
August	August 5	August 31	September 15	$0.0475
September	September 9	September 30	October 15	$0.0475
October	October 7	October 31	November 16	$0.0475
November	November 5	November 30	December 15	$0.0475
December	December 9	December 31	January 15, 2010	$0.0475
Total				$0.6968

Tax Treatment of Distributions

The tax treatment of the 2009 distributions has been determined as follows:

TOTAL DISTRIBUTION FOR 2009 PER UNIT $0.6968

T3 BOX	DESCRIPTION	AMOUNT
49	Actual Amounts of Eligible Dividends	$0.0917
21	Capital Gains	$0.0496
26	Other Taxable Income	$0.3324
42	Return of Capital	$0.2231
		$0.6968

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, 2008, December 31, 2009, and March 3, 2010, 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 2008 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 Income per Unit for the year ended December 31, 2009, was $0.48 per Unit (basic and diluted). Adjusted Distributable Cash per Unit for the year ended December 31, 2009, based on the underlying business of Pollard LP was $0.59 per Unit (see "Adjusted Distributable Cash Reconciliation").

Net Loss for the year ended December 31, 2008, was $0.61 per Unit. Adjusted Distributable Cash for the year ended December 31, 2008, based on the underlying business of Pollard LP was $0.91 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 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

GOODWILL AND INTANGIBLES

Effective January 1, 2009, the Fund has adopted the Canadian Institute of Chartered Accountants (CICA) Handbook 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, *Goodwill and Other Intangible Assets*.

Future Changes in Accounting Policies

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. For a discussion of IFRS see Pollard Holdings Limited Partnership – "Future Changes in Accounting Policies – International Financial Reporting Standards".

In January, 2009, the CICA issued Section 1582, *Business Combinations*, replacing Section 1581, *Business Combinations*. This new section establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. In addition, Section 1601, *Consolidated Financial Statements* was issued and replaced Section 1600, *Consolidated Financial Statements*. This new section establishes standards for the preparation of consolidated financial statements.

The Fund is required to apply Section 1582 prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Section 1582 is the Canadian equivalent to International Financial Reporting Standard IFRS 3, *Business Combinations*. The Fund is also required to apply Section 1601 for fiscal years beginning on or after January 1, 2011. Section 1601 is equivalent to a portion of International Financial Reporting Standard IAS 27, *Consolidated and Separate Financial Statements*.

The Fund does not expect Sections 1582 and 1601 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, 2009, these reimbursed costs totaled $0.2 million (2008 - $0.2 million).

Equities purchased 47,700 Units during 2008 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, 2009	YEAR ENDED DECEMBER 31, 2008
Instant Tickets	88%	88%
Charitable Gaming Products	11%	10%
Vending Machines	1%	2%

GEOGRAPHIC BREAKDOWN OF REVENUE

	YEAR ENDED DECEMBER 31, 2009	YEAR ENDED DECEMBER 31, 2008
United States	56%	52%
Canada	24%	25%
International	20%	23%

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 on 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 $13.8 million during the year ended December 31, 2009, after considering the expenses of the Fund. The payout ratio for the year ended December 31, 2009, was 118.6%.

Based on the distributions declared, before Fund expenses, of $16.4 million per year, Adjusted Distributable Cash fell short of the target by $2.6 million for the year ended December 31, 2009.

On a per Unit basis, Adjusted Distributable Cash for the year ended December 31, 2009, totaled $0.5877 approximately $0.1091 under the distributions declared of $0.6968 per Unit.

Beginning in May the monthly distribution was reduced from $0.0792 per Unit per month to $0.0475.

Subsequent to year end, the February 2010 monthly distribution was reduced from $0.0475 per Unit per month to $0.01 per Unit per month.

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 the distributions declared of $22.4 million per year, Adjusted Distributable Cash fell short of distributions declared by $0.9 million for the year ended December 31, 2008.

On a per Unit basis, Adjusted Distributable Cash for the year ended to December 31, 2008, totaled $0.9129, approximately $0.0375 under the distributions declared 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 and interest 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").

Kamloops Facility

On November 5, 2009, Pollard LP announced that its Kamloops production facility would be permanently closed in February 2010 with all related production being transferred to its other facilities. A one-time facility closing liability of $4.7 million was accrued in the fourth quarter of 2009, representing estimated closing costs including employee severance costs. The rationalization of facilities will result in significantly reduced net annual operating costs after closure of a minimum of approximately $4 million per year.

Conversion to a Corporation

On January 28, 2010, the Board of Directors of Pollard Banknote Limited, General Partners of Pollard LP, in conjunction with the Trustees of the Fund, approved in principle a plan to convert Pollard Banknote Income Fund into a publicly traded corporation, with the conversion expected to occur May 2010. See "Conversion to a Corporation" under Pollard Banknote Income Fund.

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, 2009.

Reconciliation of Net Income to Adjusted Distributable Cash

(MILLIONS OF DOLLARS)	REFERENCE	YEAR ENDED DECEMBER 31, 2009	YEAR ENDED DECEMBER 31, 2008
Net Income (Loss)		$17.8	$(6.9)
Adjustments:			
Interest		4.4	3.8
Unrealized foreign exchange (gain) loss		(3.7)	4.3
Mark-to-market (gain) loss on foreign currency contracts and interest rate swaps		(10.4)	17.0
Amortization of de-designated hedges		0.6	-
Facility closing		4.7	-
Income taxes		1.0	3.7
Amortization		6.6	6.2
EBITDA		21.0	28.1
Less:			
Cash taxes		(2.0)	(1.8)
Interest		(4.4)	(3.8)
Maintenance capital expenditures	1	(0.6)	(0.8)
Cash Available for Distribution (before Fund expenses)		14.0	21.7
Expenses of the Fund	2	0.2	0.2
Adjusted Distributable Cash	3	$13.8	$21.5

[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 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, 2009	YEAR ENDED DECEMBER 31, 2008
Net cash provided by operations		$14.1	$17.6
Total capital expenditures		(3.6)	(19.5)
Standardized Distributable Cash		10.5	(1.9)
Net change in non-cash working capital		(5.9)	2.7
Facility closing		4.7	-
Gain on sale of property, plant and equipment		1.7	2.2
Growth capital expenditures	1	3.0	18.7
Adjusted Distributable Cash (before Fund expenses)		14.0	21.7
Expenses of the Fund	2	(0.2)	(0.2)
Adjusted Distributable Cash		13.8	21.5
Percentage of Adjusted Distributable Cash available to Fund Unitholders	3	26.7%	26.7%
Adjusted Distributable Cash available to Fund Unitholders	4	$3.7	$5.7
Distributions declared and payable to Fund Unitholders		$4.6	$6.0
Adjusted Distributable Cash per LP Unit		$0.5877	$0.9129
Distributions declared per LP Unit		$0.6968	$0.9504
Number of Fund Units outstanding		6,285,700	6,285,700
Capital Expenditures:			
Maintenance expenditures	5	$0.6	$0.8
Growth expenditures	1	3.0	18.7
Total		$3.6	$19.5

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 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.

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

In 2008, 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 ending December 31, 2009 would have been 135.8% (2008 – 115.4%).

The distribution policy of Pollard LP is to distribute its available cash as determined by the trustees. 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, 2009	YEAR ENDED DECEMBER 31, 2008	YEAR ENDED DECEMBER 31, 2007	YEAR ENDED DECEMBER 31, 2006
Sales	$191.8	$178.0	$164.5	$176.7
Cost of Sales	153.0	141.1	130.5	136.5
Gross Profit	38.8	36.9	34.0	40.2
Gross Profit as a % of sales	*20.2%*	*20.7%*	*20.7%*	*22.8%*
Selling and Administration Expenses	21.2	20.2	19.1	19.3
Expenses as a % of sales	*11.1%*	*11.3%*	*11.6%*	*10.9%*
Realized foreign exchange loss (gain)	4.5	(4.1)	(2.7)	(3.4)
Loss (gain) as a % of sales	*2.3%*	*(2.3%)*	*(1.7%)*	*(1.9%)*
EBITDA	21.0	28.1	23.6	29.9
EBITDA as a % of sales	*10.9%*	*15.8%*	*14.3%*	*16.9%*

	DECEMBER 31, 2009	DECEMBER 31, 2008	DECEMBER 31, 2007	DECEMBER 31, 2006
Total Assets	$105.0	$113.0	$104.3	$104.6
Total Long Term Liabilities	$76.5	$60.4	$46.9	$49.6

Reconciliation of Net Income (Loss) to EBITDA

(MILLIONS OF DOLLARS)

	YEAR ENDED DECEMBER 31, 2009	YEAR ENDED DECEMBER 31, 2008	YEAR ENDED DECEMBER 31, 2007	YEAR ENDED DECEMBER 31, 2006
Net Income (Loss)	$17.8	$(6.9)	$23.4	$15.0
Add back (deduct):				
Unrealized foreign exchange (gain) loss	(3.7)	4.3	(2.2)	(0.3)
Mark-to-market (gain) loss on foreign currency contracts and interest rate swaps	(10.4)	17.0	(6.3)	4.0
Amortization of de-designated hedges	0.6	-	-	-
Facility closing	4.7	-	-	-
Amortization	6.6	6.2	6.4	6.9
Interest	4.4	3.8	2.7	2.6
Income taxes (recovery)	1.0	3.7	(0.4)	1.5
Long-Term Incentive Plan (LTIP) expense	-	-	-	0.2
EBITDA	$21.0	$28.1	$23.6	$29.9

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.

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, 2009

SALES

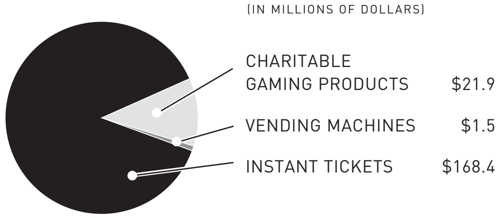
During the year ended December 31, 2009, ("Fiscal 2009") Pollard LP achieved sales of $191.8 million, compared to $178.0 million in the year ended December 31, 2008, ("Fiscal 2008"). Factors impacting the $13.8 million sales increase were:

CHANGE IN THE VALUE OF THE CANADIAN DOLLAR

During Fiscal 2009, Pollard LP generated approximately 70% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During Fiscal 2009 the actual U.S. dollar value was converted to Canadian dollars at $1.16, compared to a rate of $1.07 during Fiscal 2008. This 9% decrease in the U.S. dollar value resulted in an approximate increase of $11.0 million in revenue relative to Fiscal 2008.

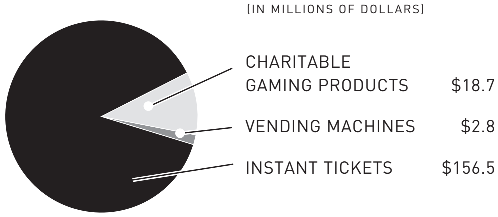
PRODUCT LINE SALES FISCAL 2009

(IN MILLIONS OF DOLLARS)



PRODUCT LINE SALES FISCAL 2008

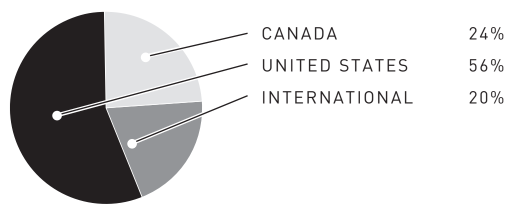
(IN MILLIONS OF DOLLARS)



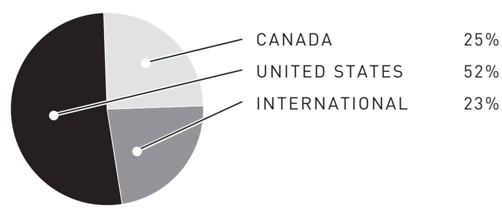
OTHER

The volume of sales generated during Fiscal 2009 was consistent with Fiscal 2008. Average selling price of instant tickets increased slightly, resulting in $1.3 million higher sales when compared with Fiscal 2008. Increased sales of related lottery services generated an additional $1.5 million in sales.

SALES BREAKDOWN FISCAL 2009



SALES BREAKDOWN FISCAL 2008



COST OF SALES AND GROSS MARGIN

Cost of sales was $153.0 million in Fiscal 2009 compared to $141.1 million in Fiscal 2008. The increase in Fiscal 2009 was primarily due to the weaker Canadian dollar impacting on U.S. dollar transactions, increased manufacturing overhead related to the increase in capacity and certain manufacturing inefficiencies in the first half of the year.

Gross profit increased from $36.9 million (20.7% of sales) in Fiscal 2008 to $38.8 million (20.2% of sales) in Fiscal 2009. The gross profit increased from Fiscal 2008 due to the impact of the weaker Canadian dollar increasing revenues greater than cost of sales, which was partially offset by the increased manufacturing overhead costs and manufacturing inefficiencies noted above.

SELLING AND ADMINISTRATION EXPENSES

Selling and administration expenses were $21.2 million in Fiscal 2009 compared to $20.2 million in Fiscal 2008, due to higher resources committed to sales and marketing including higher staff costs and higher travel costs in the first half of Fiscal 2009.

Total selling and administration expenses were 11.1% of sales in Fiscal 2009, slightly lower as a percent of sales than Fiscal 2008.

FOREIGN EXCHANGE LOSS

Foreign exchange transactions generated a loss of $0.8 million in Fiscal 2009 compared to a loss of $0.3 million in Fiscal 2008. Within the foreign exchange loss are unrealized gains of $3.6 million relating to the foreign exchange gain on U.S. dollar denominated debt (caused by the strengthening of the Canadian dollar) and realized gains on accounts payable of $0.8 million offset by $3.5 million in realized losses relating to forward hedge contracts (caused by fixed exchange rates in the hedges being lower than the actual rates) and $1.7 million in realized losses on U.S. dollar denominated accounts receivable.

Over the course of the Fiscal 2009 the Canadian dollar strengthened versus the U.S. dollar. While our cash flow during the year remained effectively hedged, our ongoing investment in U.S. dollar denominated accounts receivable was impacted negatively when the Canadian dollar strengthened. These realized losses are non-recurring, assuming the relationship of the Canadian dollar remains steady relative to the U.S. dollar.

In Fiscal 2008 the foreign exchange loss consisted of an unrealized loss of $4.3 million relating to the foreign exchange gain on U.S. dollar denominated debt and $4.0 million in realized gains relating primarily to forward hedge contracts and increased value in U.S. dollar denominated accounts receivable.

GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT

During the year Pollard LP disposed of a surplus office building and land in Winnipeg, Manitoba, to an affiliate of Equities for proceeds of $3.4 million, resulting in a gain of approximately $1.7 million. The selling price was based on current fair market value as determined through an independent appraisal. During 2008 gains on property sales totaled $2.2 million.

EBITDA

EBITDA was $21.0 million in Fiscal 2009, compared to $28.1 million in Fiscal 2008. The EBITDA margin was 10.9% in Fiscal 2009, compared to 15.8% in Fiscal 2008.

The $7.1 million decrease in EBITDA was primarily due to the change to a realized foreign exchange loss from a gain in 2008, partially offset by a higher gross profit.

AMORTIZATION

Amortization includes amortization of property and equipment, intangible assets, primarily patents and deferred financing costs, and totaled $6.6 million during Fiscal 2009, compared to $6.2 million during Fiscal 2008. Amortization was higher by $0.4 million in Fiscal 2009, due to the amortization related to the addition of the new press line in 2008.

INTEREST

Interest expense increased from $3.8 million in Fiscal 2008 to $4.4 million in Fiscal 2009, primarily due to an increase in bank debt associated with capital expenditures and higher interest rates associated with the new syndicated credit facility completed on October 30, 2009.

MARK-TO-MARKET GAIN (LOSS) ON FOREIGN CURRENCY CONTRACTS

A non-cash gain of $9.8 million was recorded in Fiscal 2009, compared to a non-cash loss of $17.0 million recognized in Fiscal 2008. The strengthening of the Canadian dollar relative to the U.S. dollar during 2009 resulted in a non-cash increase in the value of the forward foreign currency contracts. During 2008 the Canadian dollar weakened significantly during the second half of the year which generated a large non-cash loss. These contracts expire during the first nine months of 2010 with the final contract maturing in September 2010.

EMPLOYEE PROFIT SHARING

Employee profit sharing costs decreased to $0.9 million in Fiscal 2009 from $1.4 million in Fiscal 2008. The change was due to a decrease in the income subject to employee profit sharing in Fiscal 2009. Mark-to-market changes on foreign currency contracts and interest rate swaps are excluded from the calculation of employee profit sharing.

INCOME TAXES

Income tax expense was $1.0 million in Fiscal 2009 compared to $3.7 million in Fiscal 2008. The income tax expense is lower due to differences relating to the foreign exchange impact of Canadian dollar denominated debt in the U.S. subsidiaries.

NET INCOME (LOSS)

Net Income for Fiscal 2009 was $17.8 million compared to a Net Loss of $6.9 million in Fiscal 2008. The main reasons for the increase in Net Income were: a large non-cash mark-to-market gain on foreign currency contracts of $9.8 million compared to a large non-cash mark-to-market loss of $17.0 million in 2008; lower income taxes of $1.0 million compared to $3.7 million in 2008; partially offset by the Kamloops facility closing expense of $4.7 million recorded in 2009.

ADJUSTED DISTRIBUTABLE CASH AND ADJUSTED DISTRIBUTABLE CASH PER UNIT

Pollard LP generated $13.8 million in Adjusted Distributable Cash, or $0.59 per Unit for Fiscal 2009. Adjusted Distributable Cash varies on a year-to-year basis due to changes in the product mix and short term variations in the order quantities from customers.

Analysis of Results
for the Period October 1, 2009 to December 31, 2009

FOURTH QUARTER OF 2009

Selected Financial Information

(MILLIONS OF DOLLARS)

	THREE MONTHS ENDED DECEMBER 31, 2009 (UNAUDITED)	THREE MONTHS ENDED DECEMBER 31, 2008 (UNAUDITED)
Sales	$46.9	$50.2
Cost of Sales	37.7	39.8
Gross Profit	9.2	10.4
Expenses:		
Selling and administration	4.8	5.5
Interest	1.3	1.1
Foreign exchange loss	0.4	2.2
Mark-to-market (gain) loss on foreign currency contracts and interest rate swaps	(1.9)	10.0
Amortization of de-designated hedges	0.6	-
Facility closing	4.7	-
Other	(0.5)	(1.1)
Loss before undernoted	(0.2)	(7.3)
Employee profit sharing plan	(0.2)	0.2
Loss before income taxes	(0.0)	(7.5)
Income taxes:		
Current	0.4	0.5
Future	-	1.3
	0.4	1.8
Net Loss	$(0.4)	$(9.3)
Adjustments:		
Interest	$1.3	$1.1
Unrealized foreign exchange (gain) loss	(0.7)	3.0
Mark-to-market (gain) loss on foreign currency contracts and interest rate swaps	(1.9)	10.0
Amortization of de-designated hedges	0.6	-
Facility closing	4.7	-
Income taxes	0.4	1.8
Amortization	1.7	1.4
EBITDA	5.7	8.1
Less:		
Cash taxes	(0.4)	(0.5)
Interest	(1.3)	(1.1)
Maintenance capital expenditures	(0.1)	(0.2)
Cash Available for Distribution (before Fund expenses)	3.9	6.3
Expenses of the Fund	-	(0.1)
Adjusted Distributable Cash	$3.9	$6.2

SALES

During the three months ended December 31, 2009, Pollard LP achieved sales of $46.9 million, compared to $50.2 million in the three months ended December 31, 2008. The main factors impacting the $3.3 million sales decrease are:

STRENGTHENING OF THE CANADIAN DOLLAR

During the three months ended December 31, 2009, Pollard LP generated approximately 68% of its revenue in U.S. dollars. During the fourth quarter of 2009 the actual U.S. dollar value was converted to Canadian dollars at $1.09, compared to a rate of $1.21 during the fourth quarter of 2008. This 9.9% decrease in the U.S. dollar value resulted in an approximate decrease of $3.3 million in revenue relative to the fourth quarter of 2008.

OTHER

Overall instant ticket volumes for the three months ended December 31, 2009 were lower by approximately 2.5% which, when combined with an increase in related lottery services sales and a small increase in average selling price, resulted in $0.1 million higher sales when compared with the three months ended December 31, 2008. Charitable gaming sales were lower by $0.1 million.

COST OF SALES AND GROSS MARGIN

Cost of sales was $37.7 million in the three months ended December 31, 2009, compared to $39.8 million in the three months ended December 31, 2008.

Gross profit decreased from $10.4 million to $9.2 million in the three months ended December 31, 2009. The gross profit margin percentage decreased to 19.6% from 20.7% in the three months ended December 31, 2008.

Cost of sales were lower primarily due to the stronger Canadian dollar relative to the U.S. dollar. Gross profit and gross profit margin are lower than 2008 due to higher overhead costs and manufacturing infrastructure costs related to the build up of capacity and the impact of fixed costs relative to slightly lower volumes.

SELLING AND ADMINISTRATION EXPENSES

Selling and administration expenses were $4.8 million in the three months ended December 31, 2009, compared to $5.5 million in the three months ended December 31, 2008. The decrease in expenses is due primarily to the impact of the stronger Canadian dollar on U.S. dollar denominated expenditures. In addition, cost containment programs instituted during 2009 helped lower discretionary expenditures. As a percentage of sales the fourth quarter of 2009 was lower than the fourth quarter of 2008, 10.2% versus 11.0%.

FOREIGN EXCHANGE LOSS

Foreign exchange loss was $0.4 million in the three months ended December 31, 2009, compared to a loss of $2.2 million in the three months ended December 31, 2008. Within the foreign exchange loss are unrealized gains of $0.7 million relating to the foreign exchange gain on U.S. dollar denominated debt (caused by the strengthening of the Canadian dollar) and realized gains on accounts payable of $0.2 million, offset by $0.9 million in realized losses relating to forward hedge contracts (caused by fixed exchange rates in the hedges being lower than the actual rates) and $0.4 million in realized losses on U.S. dollar denominated accounts receivable.

EBITDA

EBITDA was $5.7 million in the three months ended December 31, 2009, compared to $8.1 million in the three months ended December 31, 2008. EBITDA margins were 12.1% in the three months ended December 31, 2009, compared to 16.1% achieved in the three months ended December 31, 2008.

The decrease in EBITDA was primarily a result of the change to a realized foreign exchange loss from a gain in 2008, (due to the impact of the exchange rates of the hedge program) and a lower gross profit, partially offset by lower selling and administration expenses.

AMORTIZATION

Amortization includes amortization of property and equipment, intangible assets, primarily patents and deferred financing costs which totaled $1.7 million during the three months ended December 31, 2009, which is higher than $1.4 million for the three months ended December 31, 2008, due to the increased amortization relating to the new press line installed in 2008.

INTEREST

Interest expense increased from $1.1 million in the three months ended December 31, 2008, to $1.3 million in the three months ended December 31, 2009, due to an increase in bank debt associated with capital expenditures and higher interest rates associated with the new syndicated credit facility completed October 30, 2009.

MARK-TO-MARKET (GAIN) LOSS ON FOREIGN CURRENCY CONTRACTS AND INTEREST RATE SWAPS

A non-cash mark-to-market gain of $1.9 million was recorded in the three months ended December 31, 2009, compared to a non-cash mark-to market loss of $10.0 million recognized in the comparable period of 2008.
The strengthening of the Canadian dollar in relation to the U.S. dollar during the fourth quarter of 2009 resulted in a large non-cash increase in value in forward foreign currency contracts. These contracts expire during the first 9 months of 2010 with the final contract maturing in September 2010.

INCOME TAXES

The income tax expense decreased to $0.4 million in the three months ended December 31, 2009, compared to $1.8 million during the three months ended December 31, 2008. The decrease 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 LOSS

In the three months ended December 31, 2009, $0.4 million was recorded as a Net Loss in comparison to a Net Loss of $9.3 million in the three months ended December 31, 2008. This change is primarily due to change in the mark-to-market foreign currency contracts and interest rate swaps from a loss of $10.0 million to a gain of $1.9 million in 2009; foreign exchange loss of $0.4 million compared to a foreign exchange loss of $2.2 million in 2008; and lower income tax expense. In addition, an expense for the Kamloops Facility closure was recorded for $4.7 million in the three months ended December 31, 2009.

ADJUSTED DISTRIBUTABLE CASH AND ADJUSTED DISTRIBUTABLE CASH PER UNIT

Pollard LP generated $3.9 million in Adjusted Distributable Cash, or $0.1653 per Unit for the three months ending December 31, 2009.

Quarterly information

(UNAUDITED)
(MILLIONS OF DOLLARS)

	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Sales	$46.9	$48.4	$49.5	$47.0	$50.2	$44.1	$44.6	$39.1
EBITDA	5.7	6.3	5.0	4.0	8.1	8.0	7.4	4.6
Net Income (Loss)	(0.4)	9.3	11.3	(2.4)	(9.3)	0.3	4.5	(2.4)

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, lottery retail sales and mark-to-market adjustments to the foreign currency contracts.

Sales in 2009 were higher due to the weaker Canadian dollar over the course of the year relative to the U.S. dollar.

Sales in Q2, Q3 and Q4 2008 were higher than Q1 2008 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.

Sales in Q1 2008 were low due to the strengthening of the Canadian dollar relative to the U.S. dollar and lower sales volumes.

Net Loss in Q4 2009 was primarily due to the impact of the Kamloops facility closure accrual.

Net Income in Q2 and Q3 2009 was higher primarily due to higher non-cash mark-to-market gains on foreign currency contracts. Q2 2009 includes a gain on sale of property, plant and equipment.

Net Loss in Q1 2009 was incurred primarily due to lower levels of gross profit.

Net Income in Q3 2008 was lower and a Net Loss in Q1 and Q4 of 2008 were incurred, primarily due to the non-cash mark-to-market loss on our foreign currency contracts.

Liquidity and Capital Resources

CASH PROVIDED BY OPERATING ACTIVITIES

For Fiscal 2009, cash flow provided by operating activities was $14.1 million, compared to cash flow provided by operations of $17.6 million for Fiscal 2008. Fiscal 2009 recorded Net Income of $17.8 million compared to a Net Loss of $6.9 million in Fiscal 2008. The increase in Net Income in Fiscal 2009 was primarily due to a non-cash mark-to-market gain on the foreign currency forward contracts of $9.8 million compared to a non-cash mark-to-market loss on foreign currency forward contracts of $17.0 million in Fiscal 2008. In addition, Fiscal 2009 incurred a $3.6 million non-cash unrealized gain on foreign exchange compared to a non-cash unrealized loss on foreign exchange of $4.3 million in Fiscal 2008.

Changes in the non-cash component of working capital provided an increase in cash flow from operations of $6.0 million for Fiscal 2009, compared to a decrease in cash flow during Fiscal 2008, of $2.8 million. The net increase of cash in Fiscal 2009 was primarily the result of a decrease in accounts receivable due to higher collections and the increase in accounts payable and accrued liabilities relating to the facility closing accrual. The net decrease in cash in Fiscal 2008 was primarily the result of higher inventory levels due to increasing production volumes and increased accounts receivable due to higher sales.

CASH PROVIDED BY INVESTING ACTIVITIES

In Fiscal 2009, cash provided by investing activities was $0.5 million (net) including $0.6 million in maintenance capital expenditures and $3.0 million in growth capital expenditures. Cash provided by investing activities included $3.4 million in proceeds from sale of property, plant and equipment and $1.2 million in receipts on the net investment in leases. 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 2009 the level of growth capital expenditures were significantly lower than 2008. The majority of the $3.0 million in growth capital expenditures related to the completion of the new press line.

During Fiscal 2008, growth capital expenditures included the completion of our new production facility in Sault Ste. Marie of approximately $1.2 million and expenditures related to the start up of the new press line in Winnipeg for $13.5 million.

CASH PROVIDED BY FINANCING ACTIVITIES

Cash provided by financing activities was $2.1 million in Fiscal 2009, primarily representing an increase in long-term debt of $20.6 million offset by the distributions paid to Unitholders of $16.6 million. During Fiscal 2008, cash used in financing activities was $13.5 million representing the distributions paid 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.

As at December 31, 2009, Pollard LP had available credit of approximately $14.9 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.

In Fiscal 2009, the distributions declared per Class A, Class B and Class C LP Units were $0.0792 for the months January through April and $0.0475 for the months May through December. Total distributions declared, before Fund expenses, were $16.4 million. Distributions totaling $1.1 million were accrued as at December 31, 2009, and were paid to the holders of the Class A, Class B and Class C LP Units on January 15, 2010.

Productive Capacity

Management has defined productive capacity as the level of operations necessary to generate distributable cash of $0.57 per fully-diluted LP Unit or $13.4 million on an annualized basis. Due to varying factors implicit in the nature of the lottery industry and the instant ticket market, productive capacity can best be measured through a financial output such as 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 $86.9 million and distributions from that time were $92.6 million. The payout ratio, since August 5, 2005, is 106.5%. 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 and the closure of the Kamloops facility in February 2010. There have been no increases in productive capacity due to acquisitions since August 5, 2005.

Pollard 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 credit facility, and have been excluded from the calculation of Adjusted Distributable Cash.

	DECEMBER 31, 2009	DECEMBER 31, 2008
Working Capital	$24.2	$14.8
Total Assets	$105.0	$113.0
Total Long Term Liabilities	$76.5	$60.4

Credit Facilities

Pollard LP's credit facilities consists of one committed term bank loan facility. The committed term bank loan facility provides loans of up to $70.0 million for its Canadian operations and up to $26.3 million (US$25.0 million) for its U.S. subsidiaries. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At December 31, 2009, the outstanding letters of credit were $5.2 million and the remaining balance available for drawdown was $14.9 million.

At December 31, 2009, Pollard LP had entered into interest rate swaps to fix the interest rate on approximately 56% of the outstanding long-term debt.

Pollard LP's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard LP and its operating subsidiaries. The credit facility can be prepaid without penalties. Under the terms of the agreement, the credit facility is committed for a one-year period, renewable October 31, 2010. If the credit facility is not renewed, the loans are repayable two years after the term loan expiry date. As such, the credit facility has effectively a three-year term expiring October 31, 2012, 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, 2009, 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 3, 2010, December 31, 2009, and December 31, 2008, 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	$76.2	-	$76.2	-	-
Other long-term liabilities	$0.8	-	$0.8	-	-
Interest on long-term debt[1]	$10.7	$4.6	$6.1	-	-
Operating leases	$30.7	$3.2	$8.5	$5.5	$13.5
Total	$118.4	$7.8	$91.6	$5.5	$13.5

[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, 2009, and December 31, 2008, 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, 2009, the aggregate fair value of the assets of Pollard LP's defined benefit pension plans was $18.4 million and the accrued benefit plan obligations were $18.4 million. Pollard LP's total annual funding contribution for all pension plans in 2010 is expected to be approximately $2.5 million, compared to $2.6 million in 2009, 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 Pollard LP $0.07 million (2008 – $0.07 million) for accounting and administration fees.

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

Pollard LP has leased a building in Council Bluffs, Iowa from an affiliate of Equities for a ten year term, ending December 31, 2018, with annual lease payments of US$0.264 million.

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

During the year ended December 31, 2009, Pollard LP paid rent of $2.0 million to affiliates of Equities.

At December 31, 2009, Pollard LP owes Equities and its affiliates $0.3 million for rent and other expenses.

Also included in accounts payable and accrued liabilities, at December 31, 2009, is an amount owing to Equities of $0.5 million. According to the terms of the Investment Agreement dated July 27, 2005, Equities agreed to indemnify Pollard LP for all costs relating to certain outstanding litigation at the time of the IPO, including litigation relating to the closure of Imprimerie Spéciale de Banque (ISB), a French subsidiary of the predecessor company to Pollard LP which ceased operations as of November 15, 1999. The indemnity was subject to an overriding requirement for Pollard LP to absorb the first $0.5 million of any indemnified costs. The litigation relating to ISB was settled in 2009 by Equities for $1.8 million and as such, Pollard LP is required to reimburse $0.5 million to Equities. The $0.5 million liability was originally accrued at the time of the August 5, 2005, IPO as Pollard LP's expected share of the liability related to the ISB litigation.

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, 2009, these reimbursed costs amounted to $0.2 million (2008 - $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 certain interest rate swap agreements that meet the criteria for hedge accounting. 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 Pull-tab Vending Machines (PTVM) with various private establishments. These leases are classified as sales-type leases. The 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

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

GOODWILL AND INTANGIBLES

Effective January 1, 2009, Pollard LP has adopted the Canadian Institute of Chartered Accountants (CICA) Handbook 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 has determined that this new section does not have a material impact on its consolidated financial statements.

FINANCIAL INSTRUMENTS – DISCLOSURES

In June 2009, the CICA issued amendments to Section 3862, *Financial Instruments - Disclosures*, to require enhanced disclosures about the relative reliability of the data, or "inputs," that an entity uses in measuring the fair values of its financial instruments. The new requirements are effective for annual financial statements for fiscal years ending after September 30, 2009.

The amended section requires that financial instruments recorded at fair value on the balance sheet be classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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

LEVEL 3 – valuation techniques with significant unobservable market inputs

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

Future Changes in Accounting Policies

In January, 2009, the CICA issued Section 1582, *Business Combinations*, replacing Section 1581, *Business Combinations*. This new section establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. In addition, Section 1601, *Consolidated Financial Statements* was issued and replaced Section 1600, *Consolidated Financial Statements*. This new section establishes standards for the preparation of consolidated financial statements.

Pollard LP is required to apply Section 1582 prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Section 1582 is the Canadian equivalent to International Financial Reporting Standard IFRS 3, *Business Combinations*. Pollard LP is also required to apply Section 1601 for fiscal years beginning on or after January 1, 2011. Section 1601 is equivalent to a portion of International Financial Reporting Standard IAS 27, *Consolidated and Separate Financial Statements*.

Pollard LP does not expect these new sections to have a material impact on its consolidated financial statements.

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 established a four part planning framework in 2008 to ensure an effective and efficient transition regarding the introduction of IFRS in 2011:

STEP	TIMING
1. Scoping the Effort	(completed 2008)
2. Enabling the Resources	(Q3 2008 - Q4 2010)
3. Executing the Plan	(Q3 2009 - Q1 2011)
4. Monitoring the Process	(2008 - 2011)

Step 1 has been completed. Steps 2, 3 and 4 are currently ongoing. All detailed execution steps continue to be consistent with the times identified in the planning framework.

1. SCOPING THE EFFORT

A project team was identified utilizing both internal resources and where necessary, external resources. Formal timelines were established and appropriate training was received by all team members including participation in a number of externally led in-depth programs, ongoing formal review of updates and regularly scheduled meetings to confirm ongoing status.

2. ENABLING THE RESOURCES

A review was undertaken of current accounting policies in comparison to the standards under IFRS. Differences were identified and documented, with those applicable to Pollard LP specifically reviewed to determine changes required and impact on current financial disclosure, systems and business activities.

3. EXECUTING THE PLAN

Based on the differences identified in step 2, specific analysis was prepared identifying the preliminary recommended accounting policies (where choices are required) and analysis began to calculate the impact on the opening transition balance sheet as at January 1, 2010. This analysis is planned to be completed in Q3 2010. A detailed seminar was held with the Audit Committee to review the preliminary recommendations relating to accounting policy choices and impact on other areas.

4. MONITORING THE PROCESS

Detailed quarterly updates have been prepared and presented to the Board of Directors and the Audit Committee of Pollard LP. Regular meetings are held to review the status of the transition plan and these will continue throughout 2010 and 2011.

The IFRS transition plan covers five main areas of Pollard LP's operations.

A) ACCOUNTING POLICIES

1. FUTURE ACCOUNTING POLICY CHOICES

Significant future accounting policy alternatives under IFRS have been reviewed. Preliminary recommendations, where choices are required, have been identified by management and approved in principle by the Audit Committee. Final approval is expected in the third quarter of 2010. Where differences exist with current Canadian GAAP analysis is being performed to quantify these differences.

2. MANDATORY AND OPTIONAL EXEMPTIONS

The balance sheet at the transition date of January 1, 2010 is projected to be completed and subject to review by the external auditors in the third quarter of 2010. IFRS 1 identifies certain voluntary and mandatory exemptions from adopting IFRS policies at transition date. Management has identified the optional exemptions to be utilized by Pollard LP and these have been approved in principle by the Audit Committee. Final approval is expected in the third quarter of 2010.

3. PRELIMINARY ASSESSMENT

The impact on the opening balance sheet, including Partner's equity, has not yet been determined and will be finalized upon final confirmation of the exemptions available under IFRS 1 and completion of the transitional balance sheet.

The future impact on the statements of operations and cash flow have not been determined, pending completion of the impact of revising amortization based on a detailed component approach for fixed assets. Currently management does not believe the impact will be materially different under IFRS compared to Canadian GAAP on a go forward basis.

B) INTERNAL CONTROLS OVER FINANCIAL REPORTING

Upon finalization of the accounting policy choices on transition and for the future, any necessary changes will be implemented to the internal controls over financial reporting ("ICFR") during the last two quarters of 2010. Appropriate review and testing of any new or changed controls will also occur during this time frame.

Based on our preliminary estimate of the impact of the new accounting standards not being significant, management does not expect impact on the ICFR to be significant and will focus on the key environment controls and management review and involvement to ensure the transition to IFRS is appropriately controlled.

C) DISCLOSURE CONTROLS AND PROCEDURES

Pollard LP will ensure its key stakeholders are informed about the anticipated effects of the IFRS transition including disclosure in our MD & A and we will provide quarterly updates throughout 2010 in our interim MD & A.

D) INFORMATION SYSTEMS

Our general ledger and financial reporting system is currently structured to allow for IFRS implementation without significant changes. The current fixed asset system allows for detailed component analysis to be tracked separately. No other major systems are expected to need significant changes.

E) BUSINESS ACTIVITIES

A review of business related activities was undertaken during the scoping phase to identify issues that need to be addressed due to the transition to IFRS. The new syndicated credit facility completed October 30, 2009, includes an allowance to reflect any potential impact based on IFRS adjustments. Other documents are being reviewed to determine any other required adjustments.

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 2009 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 12 to 18 months. Instant lottery tickets 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 60% of its revenue during Fiscal 2009. Pollard LP's largest customer accounted for 12% of Pollard LP's revenues during Fiscal 2009. 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 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.

ADDITIONAL CAPITAL REQUIREMENTS

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

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

COMPETITION

The instant ticket and charitable gaming business is highly competitive, and Pollard 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 Corporation and Gtech Printing Corporation. Charitable gaming competitors include a number of manufacturers such as Arrow International, Inc., International Gamco, Inc. and Universal Manufacturing, Inc. Internationally, there are a number of lottery instant ticket vendors which compete with Pollard LP including Scientific Games, 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 provincial, and U.S. federal, state and withholding taxes. As taxing regimes change their tax basis and rates or initiate reviews of prior tax returns, Pollard LP could be exposed to increased costs of taxation, which would reduce the amount of funds available to distribute to Unitholders.

Subsequent to year end Pollard LP, in conjunction with the Fund, announced its intention to restructure, with the ultimate intention to converting the Fund into a publicly traded corporation. It is expected the restructuring will utilize various sections in the *Income Tax Act* to effect a tax free transfer for Pollard LP, Fund and the Fund Unitholders. However, after the restructuring, the operations of Pollard LP will be controlled by a corporation subject to Canadian federal and provincial income taxes, resulting in a reduction in the Net Income and 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 trademarks 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.

CONVERSION TO CORPORATION

The Fund announced its intention to convert to a publicly traded corporation. There is no guarantee that the conversion will be completed or that the various regulator approvals will be received.

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 is 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 $3.2 million Canadian for 9 months from January 2010 to September 2010. The foreign currency contracts are recognized in the balance sheets and measured at fair value, which at December 31, 2009, represented a liability of $0.8 million (2008 - $10.6 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 $0.1 million for the year ended December 31, 2009, due to the change in the value of the mark-to-market value of the foreign currency contracts.

As at December 31, 2009, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately $13.1 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 $0.07 million.

INTEREST RATE RISK

Pollard LP utilizes interest rate swaps to mitigate these risks by hedging a portion of long-term debt. As at December 31, 2009, approximately 56% 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 one interest rate swap agreement effectively converting variable rate debt obligations in the amount of $27.0 million with underlying current floating rates of 0.50 percent plus applicable credit margin 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 two interest rate swap agreements effectively converting variable rate debt obligations in the amount of $15.5 million (US$14.8 million) with underlying current floating rates of 0.25 percent plus applicable credit margin 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 $0.2 million for the year ended December 31, 2009.

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 dispersed among a large, diversified group of customers. Credit risk on foreign currency and interest rate swap contracts is minimized since the counterparties are restricted to Schedule 1 Canadian financial institutions.

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

LIQUIDITY RISK

Pollard LP's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. Pollard LP maintains a committed credit facility including up to $70.0 million for its Canadian operations and up to $26.3 million (US$25.0 million) for its U.S. subsidiaries. At December 31, 2009, the unused balance available for drawdown was $14.9 million.

The 2010 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 instant lottery ticket market showed strong resilience throughout 2009, with the overall market (measured by retail sales of instant lottery tickets), growing slightly when compared to 2008. Expectations are this trend will continue through 2010, with the overall market growing slightly in the low single digit range. While this growth is lower than the growth witnessed for many of the years during the last two decades, it shows the strength of this product line when faced with the economic uncertainty experienced throughout the world and particularly in North America over the last 12-18 months. Various jurisdictions are under more pressure than ever to raise funds for government programs and with other sources of revenue such as taxes under significant pressure, lotteries are increasingly charged with generating higher revenues. Lottery sales, and particularly sales of instant win scratch lottery tickets, have continued to show relatively strong results during these difficult times and this is expected to continue throughout 2010.

Other than New Jersey, we have no material customer contracts that come due in 2010 (when extensions are considered). The New Jersey Lottery contract has been extended until up to June 30, 2010 and Pollard has been advised that the Lottery intends on re-issuing a request for proposal to award a new long term contract. We continue to bid aggressively on all new contract opportunities as well as working to increase our market share for individual contracts where we share work with other suppliers.

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. Volumes in the first quarter of 2010 are expected to be slightly lower than the rest of the year due to the timing of certain orders from existing clients and some scheduled annual maintenance shut downs of certain existing press capacity.

We will continue to focus resources on developing our specialized product line offerings. Lottery Management Services continue to grow as we provide a variety of operational and support services to different lotteries throughout our client base. Organic growth will continue from traditional growth in the lottery services we provide and we will aggressively pursue strategic new opportunities to profitably expand our portfolio. Licensed games and merchandise sales increased in 2009 by 50% compared to 2008 and while currently a small part of our lottery offerings, we are focused on growing this operation again in 2010. Additional marketing resources have been committed to expanding our sales in this area.

The overall charitable gaming market remains stable and is expected to continue unchanged during 2010. Our volumes in the charitable gaming sector (pull-tabs and bingo paper) were strong in 2009 and we expect these levels of sales to remain steady throughout 2010. Ongoing cost management initiatives generated positive returns during 2009 and we expect these improvements to positively impact the results in 2010.

The Canadian dollar continued strengthening relative to the U.S. dollar throughout 2009. Our historical strategy of hedging our future net U.S. dollar cash flow has locked in our exchange value for U.S. dollar cash inflow until September 2010 at rates that are lower than the current exchange rate. On average our exchange rates for our U.S. dollar cash flow will be converted at approximately $1.02 Canadian for every $1 U.S. cash flow over the 9 months from January 2010 to September 2010. Depending on the actual exchange rate during this time, the hedging strategy may result in higher realized foreign exchange losses over the next three quarters.

We have discontinued hedging our net U.S. dollar cash flow with the final hedges expiring in September 2010.

During 2009 we completed the installation and ramp-up of our new press line. Towards the later part of the year we saw significant improvements in the productivity and efficiency of the press, which is now operating closer to our expectation. The features of this new press allow for increased capacity and lower per unit costs of production. In addition, the closure of our Kamloops facility will result in significant cost savings. Throughout 2010 these two major initiatives will result in improvements in our cost structure. A number of other costs containment programs introduced during 2009 will continue in 2010, which include a focus on reducing overhead as well as improving manufacturing practices.

The closure of the Kamloops production facility was completed at the end of February, 2010. All production previously done in this facility has been reallocated to our remaining facilities. The facility closing costs of approximately $4.7 million, which were accrued in the fourth quarter of 2009, will be expended beginning in March of 2010 and will continue throughout 2010 and 2011, reflective of the terms of the individual salary and related benefit continuance costs. Significant cost savings through reduced overhead and increased efficiencies will be realized beginning in the second quarter of 2010 and are expected to generate a minimum net annual savings of approximately $4.0 million.

Capital expenditures during 2009 were significantly lower than in 2008 due to the completion of the major expansion relating to the new press line. We anticipate our capital expenditures will continue to remain at similar levels to 2009 during the upcoming year as no major capital projects are currently planned.

Throughout 2010 we expect our improved operating results, savings generated from the closing of our Kamloops facility, modest capital expenditures and lower distributions to strengthen our balance sheet through reductions in debt.

On January 28, 2010, the Board of Directors of Pollard Banknote Limited, General Partner of Pollard LP and the Trustees of the Fund approved in principle a plan to convert the Pollard Banknote Income Fund into a publicly traded corporation, with conversion expected to occur May 2010. The conversion to a corporation is in response to the introduction of legislation relating to the Tax Fairness Plan which will introduce certain income taxation to the Pollard Banknote Income Fund starting January 1, 2011.

The conversion will utilize legislative tax-free conversion options and is expected to become effective in May 2010, following appropriate approvals and Unitholders' vote at the annual general meeting. It is anticipated that ultimately Unitholders in the Fund will hold shares in the new public corporation on a one for one basis compared to their current unit holdings. Subsequent to conversion the Canadian operations of Pollard LP will be subject to Canadian federal and provincial income tax.

After the conversion it is expected the new corporation will pay a dividend that will be in line with typical dividend payout ratios for publicly traded corporations. Accordingly, the plan approved in principle by the Trustees sets out a quarterly dividend after conversion of $0.03 per share. Prior to the conversion, effective with the distribution payable March 15, 2010, its monthly distribution to Unitholders will be adjusted to the equivalent rate of $0.01 per Unit.

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 and proposed dividends at existing business levels.

Disclosure Controls and Procedures

Under Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") regarding the design and effectiveness of the disclosure controls and procedures. 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, 2009, 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, 2009, is available on SEDAR at www.sedar.com.

Pollard Banknote Income Fund
1499 Buffalo Place
Winnipeg, Manitoba R3T 1L7
(204) 474-2323
www.pollardbanknote.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 3, 2010

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, 2009 and 2008 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, 2009 and 2008 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
March 3, 2010

POLLARD BANKNOTE INCOME FUND

Consolidated Statements of Income (Loss)

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Equity income (loss) from investment in Pollard Holdings Limited Partnership (note 7)	$ 2,894	$ (3,685)
Administrative expenses	167	166
Earnings (loss) before income taxes	2,727	(3,851)
Future income tax reduction (note 8)	265	–
Net income (loss)	$ 2,992	$ (3,851)
Basic and diluted earnings (loss) per unit	$ 0.48	$ (0.61)
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, 2009 AND 2008

	2009	2008
Net income (loss)	$ 2,992	$ (3,851)
Other comprehensive income (loss):		
Fund's proportionate share of other comprehensive (loss) income from investment in Pollard Holdings Limited Partnership (note 9)	(270)	214
Comprehensive income (loss)	$ 2,722	$ (3,637)

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(IN THOUSANDS OF DOLLARS)
DECEMBER 31, 2009 AND 2008

		2009		2008
Assets				
Distributions receivable	$	298	$	498
Prepaid expenses		19		19
Investment in Pollard Holdings Limited Partnership (note 4)		44,135		46,054
Future income taxes (note 8)		683		418
	$	45,135	$	46,989
Liabilities				
Accounts payable	$	33	$	28
Distributions payable to Unitholders (note 5)		298		498
Unitholders' Equity				
Unitholders' equity (note 6)		45,714		47,103
Accumulated other comprehensive loss (note 9)		(910)		(640)
		44,804		46,463
Commitments and contingencies (note 10)				
Subsequent event (note 13)				
	$	45,135	$	46,989

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, 2009 AND 2008

	2009	2008
Unitholders' equity, beginning of year	$ 47,103	$ 56,928
Net income (loss)	2,992	(3,851)
Distributions declared (note 5)	(4,381)	(5,974)
Unitholders' equity, end of year	$ 45,714	$ 47,103

See accompanying notes to consolidated financial statements.

POLLARD BANKNOTE INCOME FUND

Consolidated Statements of Cash Flows

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ 2,992	$ (3,851)
Items not involving cash:		
Equity (income) loss from investment in Pollard Holdings Limited Partnership	(2,894)	3,685
Future income tax reduction	(265)	–
Change in non-cash operating working capital	5	7
Distributions received on Class A LP Units of Pollard Holdings Limited Partnership	4,743	6,133
	4,581	5,974
Financing activities:		
Distributions paid to Unitholders	(4,581)	(5,974)
Change in cash, being cash, beginning and end of year	$ –	$ –

See accompanying notes to consolidated financial statements.

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. The Fund qualifies 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, 2009.

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, which 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, 2009 and 2008, 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 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 Unitholders' 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:

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.

In January, 2009, the CICA issued Section 1582, *Business Combinations*, replacing Section 1581, *Business Combinations*. This new section establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. In addition, Section 1601, *Consolidated Financial Statements* was issued and replaced Section 1600, *Consolidated Financial Statements*. This new section establishes standards for the preparation of consolidated financial statements.

The Fund is required to apply Section 1582 prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Section 1582 is the Canadian equivalent to International Financial Reporting Standard IFRS 3, *Business Combinations*. The Fund is also required to apply Section 1601 for fiscal years beginning on or after January 1, 2011. Section 1601 is equivalent to a portion of International Financial Reporting Standard IAS 27, *Consolidated and Separate Financial Statements*.

The Fund does not expect Sections 1582 and 1601 to have a material impact on its consolidated financial statements.

3. ACCOUNTING POLICY CHANGE:

Effective January 1, 2009, the Fund has adopted the Canadian Institute of Chartered Accountants (CICA) Handbook 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 has determined that this new section does not have a material impact on its consolidated financial statements.

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, 2009 and 2008, 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:

	2009	2008
Balance, beginning of year	$ 46,054	$ 55,658
Equity interest	2,894	(3,685)
Distributions received and receivable	(4,543)	(6,133)
Proportionate share of other comprehensive income (loss)	(270)	214
Balance, end of year	$ 44,135	$ 46,054

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, 2008	AMORTIZATION FOR THE YEAR ENDED DECEMBER 31, 2009	ACCUMULATED AMORTIZATION DECEMBER 31, 2009
Finite life:				
Customer assets	16	$ 3,974	$ 1,165	$ 5,139
Patents	6	2,087	646	2,733
Computer software	5	144	51	195
		$ 6,205	$ 1,862	$ 8,067

The Fund's proportionate share of amortization of finite life intangible assets amounts to $1,862 (2008 - $1,857) (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.

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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, 2009:

January 7, 2009	$	498
February 11, 2009		498
March 4, 2009		498
April 8, 2009		497
May 7, 2009		299
June 10, 2009		299
July 8, 2009		299
August 5, 2009		298
September 9, 2009		299
October 7, 2009		299
November 5, 2009		299
December 9, 2009		298
	$	4,381

The Fund declared a distribution payable for the month ended December 2009 of $0.0475 per Unit. The distribution of $298 (2008 - $498) is payable January 15, 2010, to Unitholders of record on December 31, 2009.

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, 2009 and 2008, there were 6,285,700 Fund Units outstanding. At December 31, 2009 and 2008, there were 17,257,458 Special Voting Units owned by Pollard Equities Limited outstanding. As of December 31, 2009, 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.

On May 6, 2009, the Fund announced a change in its distribution. Distributions of $0.0792 per Unit per month were declared for the months of January through April and distributions of $0.0475 per Unit were declared for the months of May through December.

Subsequent to year end the Distributions were reduced to $0.01 per Unit per month beginning with the distribution declared in February 2010.

Neither the Fund nor its subsidiary is subject to externally imposed capital requirements.

(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:

	2009	2008
Consolidated net income (loss) of Pollard LP for the year	$ 17,825	$ (6,851)
Fund's interest	26.7%	26.7%
Fund's proportionate share of Pollard LP consolidated net income (loss)	4,756	(1,828)
Amortization of intangible assets	1,862	1,857
Equity income (loss) from investment in Pollard LP	$ 2,894	$ (3,685)

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, 2009, are as follows:

	2009	2008
Future income tax assets:		
Tax value of investment in Pollard LP in excess of net book value	$ 2,082	$ 1,584
Valuation allowance	(1,399)	(1,166)
Total future income tax assets	$ 683	$ 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:

	2009	2008
Fund's proportionate share of Pollard LP accumulated other comprehensive loss:		
Balance, beginning of year	$ (640)	$ (854)
Fund's proportionate share in Pollard LP other comprehensive income (loss)	(270)	214
Total accumulated other comprehensive loss	$ (910)	$ (640)

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, 2009, these reimbursed costs amounted to $167 (2008 - $166).

12. FINANCIAL RISK MANAGEMENT:

The Fund has exposure to 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. SUBSEQUENT EVENT:

On January 28, 2010, the Fund, in conjunction with Pollard LP, announced its intention to restructure, with the ultimate intention of converting the Fund into a publicly traded corporation utilizing various sections in the *Income Tax Act* (Canada) to effect a tax free transfer for Pollard LP, Fund and the Fund Unitholders. The restructuring is expected to occur effective May 2010.

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
CO-CHIEF EXECUTIVE OFFICER

Robert Rose
CHIEF FINANCIAL OFFICER

March 3, 2010

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, 2009 and 2008 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, 2009 and 2008 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

March 3, 2010

POLLARD HOLDINGS LIMITED PARTNERSHIP

Consolidated Statements of Income (Loss)

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Sales	$ 191,848	$ 177,989
Cost of sales	153,055	141,064
	38,793	36,925
Expenses:		
Selling and administration	21,217	20,244
Interest (note 16)	4,358	3,768
Foreign exchange loss	845	262
Mark-to-market (gain) loss on foreign currency contracts (note 23)	(9,807)	17,013
Mark-to-market gain on interest rate swap contracts (note 14)	(575)	–
Amortization of de-designated hedges (note 14)	587	–
Gain on sale of property, plant and equipment	(1,740)	(2,184)
Facility closing (note 26)	4,746	–
Other income	(522)	(433)
	19,109	38,670
Income (loss) before the undernoted	19,684	(1,745)
Employee profit sharing	886	1,408
Income (loss) before income taxes	18,798	(3,153)
Income taxes (note 12):		
Current	2,024	1,806
Future (reduction)	(1,051)	1,892
	973	3,698
Net income (loss)	$ 17,825	$ (6,851)

POLLARD HOLDINGS LIMITED PARTNERSHIP

Consolidated Statements of Comprehensive Income (Loss)

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Net income (loss)	$ 17,825	$ (6,851)
Other comprehensive income (loss):		
Unrealized (loss) gain on translation of self-sustaining foreign operations	(2,328)	3,092
Unrealized gain (loss) on derivatives designated as cash flow hedges, net of income tax (reduction) of $203 and ($343)	804	(2,290)
Amortization of de-designated hedges, net of income tax of $75 (note 14)	512	–
Other comprehensive (loss) income, net of income tax	(1,012)	802
Comprehensive income (loss)	$ 16,813	$ (6,049)

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(IN THOUSANDS OF DOLLARS)
DECEMBER 31, 2009 AND 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ 3,675	$ –
Accounts receivable	16,361	20,117
Loan to Pollard Equities Limited (note 4)	12,572	16,401
Inventories (note 5)	20,259	20,687
Prepaid expenses and deposits	4,094	2,449
Net investment in leases due within one year	262	1,110
Future income taxes (note 12)	800	1,095
	58,023	61,859
Property, plant and equipment (note 6)	39,085	43,680
Net investment in leases (note 7)	194	678
Goodwill (note 8)	5,432	6,279
Intangible assets (note 9)	907	527
Future income taxes (note 12)	1,313	–
	$ 104,954	$ 113,023

	2009	2008

Liabilities and Partners' Capital (Deficit)

	2009	2008
Current liabilities:		
Bank indebtedness	$ –	$ 13,132
Accounts payable and accrued liabilities	19,482	15,195
Distributions payable to partners (note 10)	299	499
Distributions payable to Pollard Equities Limited (note 4)	13,392	17,768
Income taxes payable	655	425
	33,828	47,019
Long-term debt (note 11)	75,651	58,995
Other long-term liabilities	827	1,391
Foreign currency contracts (note 23)	834	10,641
Interest rate swap contracts (note 23)	1,423	3,005
Future income taxes (note 12)	1,031	846
Partners' capital (deficit):		
Partners' capital (deficit) (note 13)	(5,232)	(6,478)
Accumulated other comprehensive loss (note 14)	(3,408)	(2,396)
	(8,640)	(8,874)
Commitments and contingencies (note 15)		
Subsequent event (note 25)		
	$ 104,954	$ 113,023

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

POLLARD HOLDINGS LIMITED PARTNERSHIP

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, 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	(12)	(6,130)	(13,044)	(3,356)	(22,542)
Partners' capital (deficit), December 31, 2008	(33)	39,920	(37,415)	(8,950)	(6,478)
Net income for the year ended December 31, 2009	9	4,757	10,387	2,672	17,825
Distributions declared (note 13)	(8)	(4,546)	(9,564)	(2,461)	(16,579)
Partners' capital (deficit), December 31, 2009	$ (32)	$ 40,131	$ (36,592)	$ (8,739)	$ (5,232)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash increase (decrease):		
Operating activities:		
Net income (loss)	$ 17,825	$ (6,851)
Items not involving cash:		
Amortization	6,566	6,192
Gain on sale of property, plant and equipment	(1,740)	(2,184)
Unrealized foreign exchange (gain) loss	(3,647)	4,347
Future income taxes (reduction)	(1,051)	1,892
Mark-to-market (gain) loss on foreign currency contracts	(9,807)	17,013
Mark-to-market gain on interest rate swaps	(575)	–
Amortization of de-designated hedges	587	–
Change in non-cash operating working capital (note 17)	5,976	(2,796)
	14,134	17,613
Investing activities:		
Additions to property, plant and equipment	(3,638)	(19,499)
Change in net investment in leases	1,172	876
Proceeds from sale of property, plant and equipment	3,422	7,930
Change in other assets	(412)	157
	544	(10,536)
Financing activities:		
Increase in long-term debt	20,577	9,000
Increase in financing charges	(567)	(58)
Change in other long-term liabilities	(537)	145
Change in loan to Pollard Equities Limited (note 4)	3,829	560
Change in distributions payable to Pollard Equities Limited (note 4)	(4,376)	(560)
Distributions payable to partners (note 10)	(200)	–
Distributions	(16,579)	(22,542)
	2,147	(13,455)
Foreign exchange loss on cash position/bank indebtedness held in foreign currency	(18)	(1,446)
Change in cash position/bank indebtedness	16,807	(7,824)
Bank indebtedness, beginning of year	(13,132)	(5,308)
Cash position (bank indebtedness), end of year	$ 3,675	$ (13,132)
Supplementary cash flow information:		
Interest paid	$ 4,643	$ 3,842
Income taxes paid	1,503	2,506

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)
YEARS ENDED DECEMBER 31, 2009 AND 2008

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) 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.

(c) Leases:

One of Pollard LP's subsidiaries has leasing operations which consist principally of the leasing of Pull Tab Vending Machines ("PTVM") with various private establishments. These leases are classified as sales-type leases. The 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):

(d) Inventories:

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

(e) 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.

(f) Intangibles:

Intangible assets with a finite life are comprised of patents and development costs. These costs are amortized, on a straight-line basis, over their useful lives, generally not exceeding 15 years for patents and the remaining term of the applicable contract for development costs.

(g) 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, 2009 and 2008.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(h) 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 (loss) 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 and loan to Pollard Equities Limited as loans and receivables; and accounts payable and accrued liabilities, distributions payable to partners, distributions payable to Pollard Equities Limited, long-term debt and other long-term liabilities as other financial liabilities. Pollard LP has neither available-for-sale nor held-to-maturity instruments.

Comprehensive income (loss):

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss) and is 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 certain interest rate swap agreements that meet the hedging criteria. 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.

(i) 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):

(j) 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 range from 12 to 13 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.

(k) 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, 2009 and 2008. 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.

(l) 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.

(m) Comparative figures:

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(n) Future changes in accounting policies:

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.

In January, 2009, the CICA issued Section 1582, *Business Combinations*, replacing Section 1581, *Business Combinations*. This new section establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. In addition, Section 1601, *Consolidated Financial Statements* was issued and replaced Section 1600, *Consolidated Financial Statements*. This new section establishes standards for the preparation of consolidated financial statements.

Pollard LP is required to apply Section 1582 prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Section 1582 is the Canadian equivalent to International Financial Reporting Standard IFRS 3, *Business Combinations*. Pollard LP is also required to apply Section 1601 for fiscal years beginning on or after January 1, 2011. Section 1601 is equivalent to a portion of International Financial Reporting Standard IAS 27, *Consolidated and Separate Financial Statements*.

Pollard LP does not expect Sections 1582 and 1601 to have a material impact on its consolidated financial statements.

3. ACCOUNTING POLICY CHANGES:

Effective January 1, 2009, Pollard LP has adopted the Canadian Institute of Chartered Accountants (CICA) Handbook 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 has determined that this new section does not have a material impact on its consolidated financial statements.

In June 2009, the AcSB issued amendments to Section 3862, *Financial Instruments - Disclosures*, to require enhanced disclosures about the relative reliability of the data, or "inputs", that an entity uses in measuring the fair values of its financial instruments. The new requirements are effective for annual financial statements for fiscal years ending after September 30, 2009. The additional disclosures are included in note 22.

(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 $12,572 (2008 - $16,401) and the distributions payable of $13,392 (2008 - $17,768) 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 $820 (2008 - $1,367) relating to distributions declared December 9, 2009, for Unitholders of record at December 31, 2009, payable on January 15, 2010.

5. INVENTORIES:

	2009	2008
Raw materials	$ 5,593	$ 6,081
Work-in-process	753	1,846
Finished goods	13,913	12,760
	$ 20,259	$ 20,687

During 2009, Pollard LP recorded inventory write-downs of $46 representing an increase in the obsolescence reserves, and write-downs of $3 due to changes in foreign exchange rates.

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

6. PROPERTY, PLANT AND EQUIPMENT:

DECEMBER 31, 2009	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Land	$ 1,288	$ –	$ 1,288
Buildings	15,135	5,225	9,910
Leasehold improvements	1,472	720	752
Equipment	106,487	80,758	25,729
Furniture, fixtures and computers	4,126	2,720	1,406
	$ 128,508	$ 89,423	$ 39,085

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

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

7. NET INVESTMENT IN LEASES:

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

	2009	2008
Total minimum lease payments to be received	$ 488	$ 1,919
Unearned income		
(interest rate ranging from 4.43% to 11.35%)	(32)	(131)
	456	1,788
Less net investment in leases due within one year	262	1,110
	$ 194	$ 678

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

2010	$ 262
2011	128
2012	51
2013	47
	$ 488

8. GOODWILL:

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

	2009	2008
Balance, beginning of year	$ 6,279	$ 5,132
Changes in foreign exchange rates	(847)	1,147
Balance, end of year	$ 5,432	$ 6,279

9. INTANGIBLE ASSETS:

	2009	2008
Patents, net of amortization	$ 531	$ 527
Deferred development, net of amortization	376	–
	$ 907	$ 527

10. DISTRIBUTIONS PAYABLE TO PARTNERS:

Pollard LP declared a distribution payable for the month ended December 31, 2009, of $0.0475 per Class A, Class B and Class C LP Units. Distributions of $0.0475 are payable on the Class A LP Units and distributions of $1 are payable on the General Partner Units on January 15, 2010, to Unitholders of record on December 31, 2009. The distribution of $820 (2008 - $1,367) relating to the Class B and Class C LP Units is payable January 15, 2010, to Unitholders of record on December 31, 2009 and is included in distributions payable to Pollard Equities Limited and the distribution of $299 (2008 - $499) relating to Class A LP Units is included in distributions payable to partners.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

11. LONG-TERM DEBT:

	2009	2008
Term bank loan, interest of 2.69% to 8.49% payable monthly, maturing 2012	$ 76,185	$ –
Term bank loan, interest of 4.65% to 6.44% payable monthly, repaid during 2009	–	41,000
Term bank loan US$14,778, interest of 7.20% payable monthly, repaid during 2009	–	18,030
Deferred financing charges, net of amortization	(534)	(35)
	$ 75,651	$ 58,995

Included in the term bank loan balance is a U.S. dollar loan balance of US$20,176 ($21,185 Canadian equivalent).

Effective October 30, 2009, Pollard LP completed a new syndicated credit facility. The credit facility provides loans of up to $70,000 for its Canadian operations and up to $26,250 (US$25,000) for its U.S. subsidiaries. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At December 31, 2009, the outstanding letters of credit drawn under the credit facility were $5,183.

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, 2009, Pollard LP is in compliance with all financial covenants.

Pollard LP's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard LP and its operating subsidiaries. The credit facility can be prepaid without penalties. Under the terms of the agreement, the credit facility is committed for a one year period, renewable October 31, 2010. If the credit facility is not renewed, the loans are repayable two years after the credit facility expiry date. As such, the credit facility has effectively a three year term expiring October 31, 2012, with no principal payments required prior to expiration.

Pollard LP entered into an interest rate swap agreement effectively converting variable rate debt obligations in the amount of $27,000 with underlying current floating rates of 0.50 percent plus applicable credit margin 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 two interest rate swap agreements effectively converting variable rate debt obligations in the amount of $15,517 (US$14,778) with underlying current floating rates of 0.25 percent plus applicable credit margin 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:

	2009	2008
Canada:		
Current income taxes	$ 382	$ 433
United States:		
Current income taxes	1,642	1,373
Future income taxes (reduction)	(1,051)	1,892
	591	3,265
	$ 973	$ 3,698

(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:

	2009	2008
Income taxes at Canadian rates:		
Canadian combined federal and provincial income tax rate	31.0%	32.2%
Income taxes (recovery)	$ 5,839	$ (1,015)
Partnership loss (net income) allocated to limited partners and therefore not subject to tax	(3,548)	1,089
Withholding taxes	382	433
Effect of non-taxable items related to foreign exchange	(1,700)	3,191
Provision for income taxes	$ 973	$ 3,698

(c) Future income taxes:

Significant components of the future income tax assets and liabilities are as follows:

	2009	2008
Future income tax assets - current:		
Inventories	$ 164	$ 209
Accrued expenses and other reserves	553	886
Leasing transactions	83	–
	$ 800	$ 1,095
Future income tax assets - long-term:		
Foreign exchange	$ 1,313	$ –
Future income tax liabilities - long-term:		
Property, plant and equipment	$ (283)	$ (165)
Goodwill	(748)	(666)
Foreign exchange	–	(15)
	$ (1,031)	$ (846)

(d) At December 31, 2009, the tax basis of the limited partnership's assets and liabilities exceeds the carrying value of those assets and liabilities by $25,465 (2008 - $28,796).

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

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, 2009 and 2008, 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, 2009 and 2008.

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.

The following outlines the distributions declared during the year ended December 31, 2009:

	GENERAL PARTNER UNITS	CLASS A LP UNITS	CLASS B LP UNITS	CLASS C LP UNITS	TOTAL
January 7, 2009	$ 1	$ 499	$ 1,087	$ 280	$ 1,867
February 11, 2009	1	507	1,087	280	1,875
March 4, 2009	1	549	1,087	279	1,916
April 8, 2009	1	502	1,087	280	1,870
May 7, 2009	1	312	652	168	1,133
June 10, 2009	1	316	652	168	1,137
July 8, 2009	–	314	652	168	1,134
August 5, 2009	–	301	652	167	1,120
September 9, 2009	1	303	652	167	1,123
October 7, 2009	–	301	652	168	1,121
November 5, 2009	–	343	652	168	1,163
December 9, 2009	1	299	652	168	1,120
	$ 8	$ 4,546	$ 9,564	$ 2,461	$16,579

Of the distributions declared on its Class A LP units during 2009, $167 (2008 - $166) was to fund a portion of the administrative costs of the Trust and the Fund.

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

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.

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 long-term debt and partners' capital but excludes other comprehensive loss. The Board of Directors regularly monitors the levels of debt, 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, 2009, Pollard LP is in compliance with all financial covenants.

During the year ended December 31, 2009, Pollard LP entered into a new bank facility with its senior lenders to increase and change the terms of the credit facility to assist in the financing of the capital expenditures and the general operations of Pollard LP.

On May 6, 2009, Pollard LP changed its distribution policy. Distributions of $0.0792 per Unit per month were declared for the months January through April and distributions of $0.0475 per Unit per month were declared for the months May through December.

Subsequent to year end the distributions were reduced to $0.01 per Unit per month beginning with the distribution declared in February 2010.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

14. ACCUMULATED OTHER COMPREHENSIVE LOSS:

	2009	2008
Translation of financial statements of self-sustaining foreign operations:		
Balance, beginning of year	$ 140	$ (2,952)
Unrealized (loss) gain on translation of financial statements of self-sustaining foreign operations	(2,328)	3,092
Balance, end of year	(2,188)	140
Derivatives designated as cash flow hedges:		
Balance, beginning of year	(2,536)	(246)
Unrealized (loss) gain on derivatives designated as cash flow hedges, net of income tax (reduction) $203 and ($343)	804	(2,290)
Amortization of de-designated hedges, net of income tax of $75	512	–
Balance, end of year	(1,220)	(2,536)
Total accumulated other comprehensive loss	$ (3,408)	$ (2,396)

With the new credit facility established during 2009, two of the three existing interest rate swap agreements no longer met the criteria for hedge accounting. As a result of the de-designation of the hedge accounting a non-cash loss of $1,818 will be amortized into net income over the twelve months ending August 31, 2010. A non-cash loss of $587 was recorded in net income and a corresponding gain, net of future taxes of $75, was recorded in Other Comprehensive Income in the year ended December 31, 2009 due to the de-designation of the hedge accounting. Beginning September 1, 2009, any changes in the fair value of these two interest rate swap agreements will be charged/credited directly to income. For the year ending December 31, 2009, a gain of $575 was recorded in net income.

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:

2010	$ 3,144
2011	2,870
2012	2,824
2013	2,807
2014	2,768
Thereafter	16,268

Pollard LP is contingently liable for outstanding letters of credit in the amount of $5,183 at December 31, 2009 (2008 - $1,221). These letters of credit are part of Pollard LP's credit facility and are secured as disclosed in note 11.

During 2008 Pollard LP entered into a sale leaseback with an affiliate of Equities for land and building in Council Bluffs, Iowa. The property was sold for CDN$4,081 and leased back for ten years at an annual lease rate of approximately US$260. The sale value was determined through independent sources.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

15. COMMITMENTS AND CONTINGENCIES (CONTINUED):

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.

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:

	2009	2008
Interest expense incurred on:		
Long-term debt	$ 3,921	$ 2,939
Other	437	829
	$ 4,358	$ 3,768

17. SUPPLEMENTARY CASH FLOW INFORMATION:

	2009	2008
Change in non-cash operating working capital:		
Accounts receivable	$ 3,059	$ (1,882)
Inventories	(432)	(3,527)
Prepaid expenses and deposits	(1,697)	540
Accounts payable and accrued liabilities	4,654	2,757
Income taxes payable	392	(684)
	$ 5,976	$ (2,796)

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

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, 2009. One of the Canadian plans of Pollard LP requires valuation every year with the last valuation as of December 31, 2008. The other Canadian plan of Pollard LP requires valuation every four years with the last valuation as of January 1, 2008. 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.

Due to the closing of the Kamloops facility (see note 26) a pension curtailment gain of $466 was recognized due to the revaluation of the expected pension obligation.

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

	2009	2008
Benefit plan assets:		
Fair value, beginning of year	$ 14,658	$ 13,833
Actual return on plan assets	2,271	(1,791)
Employer contributions	2,575	2,712
Benefits paid	(768)	(492)
Other	(315)	396
Fair value, end of year	$ 18,421	$ 14,658
Accrued benefit plan obligations:		
Balance, beginning of year	$ 14,711	$ 18,224
Current service cost	1,360	1,851
Interest cost	1,063	1,045
Benefits paid	(768)	(492)
Actuarial loss (gain)	2,985	(6,490)
Pension curtailment gain	(466)	–
Other	(510)	573
Balance, end of year	18,375	14,711
Excess (deficit) of plan assets versus plan obligations	46	(53)
Unamortized net actuarial loss	1,600	18
Net deferred pension asset (accrued benefit plan liability)	$ 1,646	$ (35)
Recognized in the consolidated balance sheets as follows:		
Prepaid expenses and deposits	$ 1,646	$ –
Accounts payable and accrued liabilities	–	(35)
Net accrued benefit plan asset (liability)	$ 1,646	$ (35)

(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:

	2009	2008
Accrued benefit plan obligations	$ 7,068	$ 4,657
Fair value of benefit plan assets	6,182	4,083
Deficit	$ 886	$ 574

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

	2009	2008
Net defined benefit plans cost:		
Current service cost	$ 1,360	$ 1,851
Interest on plan obligations	1,063	1,045
Actual return on plan assets	(2,271)	1,791
Difference between expected return and actual return on plan assets	1,212	(2,691)
Amortization of actuarial gains and losses	47	151
Pension curtailment gain	(466)	–
Net defined benefit plans cost	945	2,147
Defined contribution plans cost	173	187
Net pension plans cost	$ 1,118	$ 2,334

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

	2009	2008
Discount rate	6% to 6.5%	6% to 7.5%
Rate of compensation increase	0% to 3.5%	0% to 3.5%

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

	2009	2008
Discount rate	6% to 7.5%	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 3.5%

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

	2009	2008
Equities	57.5%	48.7%
Bonds	39.8%	31.3%
Cash and cash equivalents	2.7%	20.0%
	100.0%	100.0%

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

19. RELATED PARTY TRANSACTIONS:

During the year, Pollard Equities Limited paid Pollard LP $72 (2008 - $72) for accounting and administration fees.

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, 2009, these reimbursed costs amounted to $167 (2008 - $166).

During the year ended December 31, 2009 Pollard LP paid rent of $1,996 (2008 - $324) to affiliates of Equities.

At December 31, 2009, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent and other expenses of $293. At December 31, 2008, included in accounts payable and accrued liabilities is an amount recoverable from Equities and its affiliates of $456.

During the year ended December 31, 2009, Pollard LP disposed of a surplus office building and land in Winnipeg, Manitoba to an affiliate of Equities for total proceeds of $3,400 resulting in a gain of $1,737. The selling price was based on current fair market value as determined through an independent appraisal.

Included in accounts payable and accrued liabilities is an amount owing of $500 to Equities. According to the terms of the Investment Agreement dated July 27, 2005, Equities agreed to indemnify Pollard LP for all costs relating to certain outstanding litigation at the time of the IPO, including litigation relating to the closure of Imprimerie Spéciale de Banque ("ISB"), a French subsidiary of the predecessor company to Pollard LP which ceased operations as of November 15, 1999. The indemnity was subject to an overriding requirement for Pollard LP to absorb the first $500 of any indemnified costs. The litigation relating to ISB was settled in 2009 by Equities for $1,798 and as such, Pollard LP is required to reimburse $500 to Equities. The $500 liability was originally accrued at the time of the August 5, 2005, IPO as Pollard LP's expected share of the liability related to the ISB litigation.

20. SALES TO MAJOR CUSTOMERS:

For the year ended December 31, 2009, sales to one customer amounted to approximately 12 percent of consolidated sales (2008 - 10 percent).

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:

	2009	2008
Sales:		
Canada	$ 46,533	$ 44,751
U.S.	107,578	92,125
Other	37,737	41,113
Total	$ 191,848	$ 177,989
Property, plant and equipment and goodwill:		
Canada	$ 26,885	$ 30,159
U.S.	17,632	19,800
	$ 44,517	$ 49,959

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 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.

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

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

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

Level 3 - valuation techniques with significant unobservable market inputs

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

As at December 31, 2009, the cash and cash equivalents recorded at fair value are classified as level one and the foreign currency forward contracts and interest rate swap contracts recorded at fair value in the consolidated balance sheet, of $2,257, are classified as level two, of the fair value hierarchy.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

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 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.

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

	2009	2008
Current	$ 12,693	$ 14,834
Past due for 1 to 60 days	3,019	3,780
Past due for more than 60 days	825	1,901
Less: Allowance for doubtful accounts	(176)	(398)
	$ 16,361	$ 20,117

23. FINANCIAL RISK MANAGEMENT (CONTINUED):

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 committed credit facilities including up to $70,000 for its Canadian operations and up to $26,250 (US$25,000) for its U.S. subsidiaries. At December 31, 2009, the unused balance available for drawdown was $14,882.

The 2010 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.

Translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. As at December 31, 2009, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately $13,128. A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in net income of approximately $66.

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 $3,153 for 9 consecutive months from January 2010 to September 2010. The foreign currency contracts are recognized in the balance sheets and measured at fair value, which at December 31, 2009, represented a liability of $834 (2008 - $10,641).

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 $125 for the year ended December 31, 2009, 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. As at December 31, 2009, approximately 56 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 one interest rate swap agreement effectively converting variable rate debt obligations in the amount of $27,000 with underlying current floating rates of 0.50 percent plus applicable credit margin 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 two interest rate swap agreements effectively converting variable rate debt obligations in the amount of $15,517 (US$14,778) with underlying current floating rates of 0.25 percent plus applicable credit margin 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.

The interest rate swap agreements are recognized in the balance sheets and measured at fair value, which at December 31, 2009, represented a liability of $1,423 (2008 - $3,005).

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of $167 for the year ended December 31, 2009.

24. LONG-TERM INCENTIVE PLAN (LTIP):

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, 2009 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. SUBSEQUENT EVENT:

On January 28, 2010, Pollard LP, in conjunction with Fund, announced its intention to restructure, with the ultimate intention of converting the Fund into a publicly traded corporation utilizing various sections in the *Income Tax Act* to effect a tax free transfer for Pollard LP, Fund and the Fund Unitholders. The restructuring is expected to occur effective May 2010.

26. FACILITY CLOSING:

On November 5, 2009, Pollard LP announced the closing of its Kamloops production facility effective February 28, 2010. A facility closing reserve of $4,746 was incurred representing employee severance and related fringe costs. After the facility is effectively closed on February 28, 2010, the cash outlays related to the facility closing accrual will be expended over a period of approximately two years, consistent with the terms of their salary and benefit continuance based on their individual weeks of severance.

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

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CO-CHIEF EXECUTIVE OFFICER

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Shawn Hughes
GENERAL COUNSEL AND VICE PRESIDENT, LEGAL AFFAIRS

Douglas Pollard
VICE PRESIDENT, LOTTERY MANAGEMENT SERVICES

Robert Rose
VICE PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

Don Sawatzky
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Lyle Scrymgeour
VICE PRESIDENT, TECHNICAL

Robert Stewart
VICE PRESIDENT, MANUFACTURING

Jennifer Westbury
VICE PRESIDENT, SALES AND MARKETING

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